A Brief History of Monetary Policy in Post-war Japan

—Credit Squeezing and Foreign Exchange Policy—

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Preface

There were ten credit squeezings\(^1\) in post-war Japan since 1952\(^2\) and up to 2001, five of which (1953-54, 1961, 1963-64, 1973, 1989 squeezes) would be characterized by remarkable delays in their start. Of the five occasions, two (1973 and 1989) brought about great disaster to the common people due to the delayed start of credit squeeze. This paper inquires, mainly, into the following problems.

I Why was the starting of the five squeezings delayed?
II What was brought about by the delay?
Let us call the above task ‘Task A’.

Now, the common view or understanding concerning Japanese monetary policy during the high-growth period is not adequate at all. With regard to this the present paper will show some points which should not be overlooked. Let us call this task ‘Task B’

(1) Credit Squeezing in High-growth Period

Common view on the monetary squeezes in the high-growth period is roughly as follows;
(a) Special features of monetary squeezes in the high-growth period can be lumped together.
(b) As the government pursued high-growth to extremes, the start of squeezing by the Bank tended to be delayed, so that its reaction, i.e. a recession, was severe.
(c) Squeezes were carried out under strict exchange control, so that international capital movement was almost wholly shut out.
(d) The most powerful implement for squeezing was credit rationing.

Such an understanding, except the above (d), needs considerable amendments and supplements. We will throw light on these below. The implication of this paper in the research of monetary history will be shown at the end of this paper.

① 1953-54, 1957 and 1959 Squeezes
Generally, the high-growth period is deemed to have started from around 1955. In order to

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1) Squeezes were carried out in 1953-54, 1957, 1959, 1961, 1963-64, 1967-68, 1969, 1973, 1979-80, 1989. By the way each squeeze is named, roughly, after the year when the Bank Rate was raised.
2) 1952 was the year when Japan was sanctioned its independence after 7 years' occupation.
survey all squeezes in post-war Japan, however, let us examine the 1953-54 tightening first.

The 1953-54 squeezing is called 'the Revival of Monetary Policy' in Japanese economic history. But the squeezing still retained a qualitative or discretionary character\(^3\) to a considerable extent. The Bank Rate was still boxed in by the framework of 'penal rate scheme' (Koh-ritsu Teki-yoh Seido)\(^4\) and above all, amendments to the privileged foreign-trade bills system played a great role on this occasion.\(^5\) Besides, 'window guidance' (Mado-guchi Kisei: WG, hereafter) which was the successor of 'Regulations on Loan' (Yuh-shi Kisei) during the GHQ occupation period, came on stage officially for the first time.\(^6\)

Deficits of international balance of payments (B/P, hereafter) had started from around June 1952 and the trend took root firmly from November 1952. The start of squeezing took place by the enforcement of WG in September 1953 and by the tightening of penal rate scheme (October). Then followed the stripping of various import bills of their former privileges, which brought about a remarkable decrease of imports and the improvement of B/P conditions.

Paying attention to the fact that squeezing began in September 1953, which was eleven months after the taking hold of B/P deficit, we can say the start of squeezing was rather late. The delay was due to two factors. The first was that because of the excess export during the Korean War, foreign currency reserves had amounted to an exceptionally high levels and N. Ichimada, the Governor of the Bank, could be optimistic at first. The second was that Ichimada was, as a Governor of the Bank, an unconventional person who attached greatest importance to the achievement of high economic growth. He deemed the lowering of interest rates indispensable to the revival of Japanese economy, so that he was trying to avoid raising the level of interest rates as far as possible.

During and after this squeezing, however, it is not observed that the delayed start of the squeeze produced any serious effect on the real economy. Indeed prices fell immediately and remarkably, production and imports declining sharply as well, but revival of business was also prompt.\(^7\) The basic reason of the prompt recovery was that the Japanese economy was in the stage of restoration and approach run for high-growth, having experienced major reforms of economic structure such as 'agrarian reform' and dissolution of financial cliques.

In 1957 the second squeezing after the Independence (1952) was carried out. The reason was that B/P began to show large deficits from January of this year. Before the start of credit

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3) The Bank considers that in this squeeze a 'quantitative monetary policy' was restored. (Hundred Years of The Bank of Japan, vol. 6, 1986, p.443)
4) 'Penal rate scheme' is a deformed type of the Bank Rate system. Here the Bank lends money to city banks, to a certain amount, at a minimum rate, which is the Bank Rate in a narrower sense. The Bank charges sometimes the first and sometimes the second higher rate according to the sum borrowed, when a city bank borrows beyond the above certain level. These higher rates are the Bank Rates in a wider sense.
5) Prior to that time, both import finance and export finance were given favorable treatment, but the accent was put on the former. With this occasion as a turning point, the favorable treatment to import was stopped in principle and authorities' policy shifted to the promotion of exports.
6) The formal name is 'regulation on the increased sum of lending', whereby the Bank imposes some quantitative restriction on the increased part of lending by city banks on a quarterly basis.
7) As early as in the third quarter of 1954, the indices of producers' shipments and of the mining & manufacturing products reached the bottom. (TOYOEIZAI DATA BANK, 1966, pp.80-88)
tightening (March; raising the Bank Rate by 0.365%, i.e. 1 Rin in the then used Japanese system) there were severe conflicts between the Bank (the governor, M. Yamagiwa) and the government (the minister of finance, H. Ikeda who was known as a typical high-growth promoter). But consequently the government approved the raising of the Bank Rate in March and May each by 0.365%. The start does not seem to be late taking the fact into account that B/P deficits had begun in January. Further severe credit rationing was carried out through WG and the Bank's curb on lending to city banks. Call rates jumped to as high as 22.6% in June. In spite of the fact that the minister of finance was a typical admirer of economic-growth, he approved the raising of the Bank Rate relatively early, the reason of which is, presumably, that he was not able to resist the fact that foreign currency reserves were decreasing day by day.

As the start of tightening was rather early and as the squeezing was carried out severely mainly by means of credit rationing, business became sluggish immediately after the beginning of squeeze but recovery was quick at the same time. The business cycle hit bottom in the first half of 1958 and then turned upward.

From September to December 1959 the third squeeze was enforced, which was then called the 'preventive squeeze'. The implement used in September was the raising of the reserve ratio of the 'reserve deposit system' (Junbi Yokin Seido). The ratio was raised to prevent the further increase of banks' lending which had turned upward remarkably after May. The Bank decided on the raising of the Bank Rate in December because, even after the raising of reserve deposit ratio, wholesale price index showed clear upward movement and the surplus of current account seemed to decrease. As will be seen later, 'foreign currency reserve piling-up policy' was introduced in the latter half of the 1960's under the Satoh Cabinet. In the light of this event it is suggestive that the then minister of finance, the very same Satoh, was not against the Bank's plan to tighten financial markets in earlier stages of a business boom.

Throughout the period mentioned above foreign exchange control was strictly observed. When foreign currency reserves decreased remarkably, therefore, both the government and the Bank could do nothing but tighten financial markets, while making all possible efforts to ask for loans from overseas official institutions. In the case of the 1953-54 squeeze, foreign currency reserves were abundant by accident, so that the start of squeeze was delayed by the standard of the beginning of B/P deficits. But in the case of the 1957 squeeze, it became something like a 'rule-observing squeeze', i.e. when foreign currency reserve began to decrease, the Bank was forced to tighten money market in a short time and the government, even with H. Ikeda as minister of finance, could not stop it. The 1959 squeeze was one which anticipated this logic.

But circumstances would change after the Ikeda Cabinet took office.

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8) Established in 1957 and enforced in 1959 for the first time.
9) Before that time the government adhered to high growth until foreign currency reserves were almost exhausted and when it thus fell down to the barely tolerable minimum level, the government approved the Bank to start a squeeze. This time such a policy was abandoned and the new policy was aimed at beginning credit squeeze in anticipation to accumulate foreign currency reserves.
1961 and 1963-64 Squeezes

In January 1961 the balance of current account began to run into deficit and was to remain so until July 1962, so that deficits continued for 18 months. Not only was the duration exceptionally long but also the extent of deficits was huge as will be shown below briefly. Nevertheless the Bank Rate was raised no more than 0.365% each toward the end of July and September. The Bank had considered the raising necessary in May but the government’s position for high-economic growth was uncompromising. Further with regard to the extent of the raising, the Bank had intended raising by 0.73% in the case of September, in particular. But the Bank’s relatively circumspect position was rejected by the Ikeda Cabinet. Instead a slight raise of the ratio of reserve deposit system and some tightening of the penal-rate scheme was approved, which was called the ‘troika system’ at the time, but it was widely recognized then that the troika was less powerful than a further raising of the Bank Rate.

Foreign currency reserves at the end of December 1960 had been at the level of around 1,800 million (m., hereafter) dollars. The accumulated deficit on current balance of payment was 250m. dollars at the end of March 1961, 1,080m. dollars at the end of December, and 1,340m. dollars at the end of June 1962. Comparing these figures with the above foreign currency reserve (1,800m. dollars at the end of 1960), it would not have been strange even if Japan had gone bankrupt.

If so, why was the government able to reject the Bank’s request to tighten money market earlier and to some greater extent? It was because the government had carried out several relaxations of the exchange control on the inflow of foreign short-term capital, in 1960, i.e. before the beginning of the B/P deficit. This was done mainly because Japan came to be expected around that time, by Western countries, to join OECD and to shift to an Article 8 country under IMF. Japan itself began to hope so, too. As a result of the relaxation, inflow of short-term foreign capital took place in large quantities as shown below. Let us compare the taken-in foreign short-term capital with the current deficit of the corresponding periods in Table 1-1.

The deregulation at this time was carried out not merely because it was necessary for the government to join OECD and to shift to IMF Article 8 country. It was carried out partly because the government intended to make up the current balance deficit. This is clear from the fact that in the next squeezing of 1963-64, regulations on short-term capital inflow were instead tightened. Further the statement below by a then high official of MOF explains the situation eloquently.

“The capital account surplus is, mainly, due to the enlarged usance and the reception of free-yen deposits. As long as the margin between internal and external interest rates exists and as long as our foreign currency fund remains deposited with foreign banks, we do not have to worry about its withdrawal abroad. Further it would be possible even to increase it by our deliberate policy. It would be too hasty to be anxious about the balance of payments as a whole, even if the current balance fell into deficit. Taking our economic power, which is now greatly strengthened and the present level of foreign currency reserve

10) The extension of trade usance, establishment of non-residents’ free yen accounts along with yen bills of exchange, abolition of the regulations on banks’ spot exchange balance, etc.
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Table 1-1 Deficit on Current Account and Short-term Money Taken in by Japanese Banks

<table>
<thead>
<tr>
<th>Current account deficits</th>
<th>Foreign short-term money taken in by Japanese banks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Euro dollar</td>
</tr>
<tr>
<td>2nd half 1960</td>
<td>254</td>
</tr>
<tr>
<td>1st half 1961</td>
<td>-553</td>
</tr>
<tr>
<td>2nd half 1961</td>
<td>-464</td>
</tr>
<tr>
<td>1st half 1962</td>
<td>-361</td>
</tr>
<tr>
<td>2nd half 1962</td>
<td>365</td>
</tr>
</tbody>
</table>


Into account, we need not make a racket at once. Our task on economic policy at the moment is, to double our national income and to strengthen our international competitiveness, as thus far. Foreign exchange administration should support the above task, with all our might, and should avoid, by any means, checking the task from the exchange policy side.”


To sum up the government, in this 1961 squeeze, let a large quantity of foreign short-term money flow in by relaxing foreign exchange controls, through which it managed to make up the huge deficit on the current balance of payment. Without this relaxation, even the Ikeda Cabinet could not have helped adopting a ‘rule-observing squeeze’; i.e. when the foreign currency reserve began to decrease it would have approved the Bank’s proposal to tighten financial markets.

From January 1963, the current balance began to run into deficit again and lasted for 18 months, until July 1964. The accumulated sum of current deficit for 18 months amounted to 1,184m. dollars. The foreign currency reserve in the end of December 1962 was no more than 1,840m. dollars. In this case, too, the Bank became anxious about the future and proposed the government to tighten financial markets, which the latter rejected again. In the end the squeeze started as late as in December 1963 by means of a raise of reserve ratio of reserve deposit system. The Bank Rate, which was regarded as the symbol of a full-scale squeeze, was raised by 0.73% as late as March 1964.

Again why was the government able to suppress the Bank’s proposal toward tightening for so long a time? It was because the government, this time, in a different manner from the 1961 case, relaxed several regulations on long-term capital inflow11 mainly in the very year 1963, which let various kinds of foreign long-term capital flow in. Let us look at the Table 1-2.

11) Relaxation of the examination standard by the Committee on Foreign Fund, liberalization of the remittance of principal money on shares, introduction of medium-term loans in foreign currency, etc.
Table 1–2 Influx of Foreign Long-term Capital and Foreign Currency Reserves Outstanding

<table>
<thead>
<tr>
<th></th>
<th>long-term capital influx (A)</th>
<th>FCR at the end of year (B)</th>
<th>A/B (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956</td>
<td>103</td>
<td>941</td>
<td>10.9</td>
</tr>
<tr>
<td>57</td>
<td>93</td>
<td>524</td>
<td>17.7</td>
</tr>
<tr>
<td>58</td>
<td>141</td>
<td>861</td>
<td>16.4</td>
</tr>
<tr>
<td>59</td>
<td>174</td>
<td>1.322</td>
<td>13.2</td>
</tr>
<tr>
<td>1960</td>
<td>117</td>
<td>1.824</td>
<td>6.4</td>
</tr>
<tr>
<td>61</td>
<td>301</td>
<td>1.486</td>
<td>20.3</td>
</tr>
<tr>
<td>62</td>
<td>481</td>
<td>1.841</td>
<td>26.1</td>
</tr>
<tr>
<td>63</td>
<td>765</td>
<td>1.878</td>
<td>40.7</td>
</tr>
<tr>
<td>64</td>
<td>558</td>
<td>1.999</td>
<td>27.9</td>
</tr>
<tr>
<td>65</td>
<td>31</td>
<td>2.107</td>
<td>1.5</td>
</tr>
</tbody>
</table>

(Source) Hundred Years of the Bank of Japan, Supplementary Volume, 1986, pp. 338, 346-347

FRC = foreign currency reserves

Because of this measure, the international balance of capital account as a whole managed to produce a huge surplus, in spite of the fact that, during the process, regulations on the inflow of foreign short-term money became rigid in contrast to 1961 squeeze.

Consequently, notwithstanding the huge deficit on current account, the deficit on the total balance of payment was kept within a relatively low level. Making full use of this situation, the government was able to avoid a crisis in foreign currency reserves and to postpone the commencement of a credit squeeze.

The two squeezes in the Ikeda Cabinet period typically reveal the attitude of a growth-seeking government toward monetary policy. It was of a coercive character, in that periods of low interest rate were maintained as long as possible so as to attain the accumulation of real capital (factories, machines, raw materials, etc.) as rapidly as possible. Thus the government rejected the Bank’s request to begin a credit squeeze far earlier. As a result, Japanese foreign currency reserves remained at the minimum level, because in those days a boom was preceded by an increase of imports. It was a line which sought real capital accumulation to extremes at the cost of foreign currency reserves.

Though the start of a credit squeeze was remarkably delayed in the two cases, the reaction, i.e. recession, was not very severe. The number of the unemployed did not rise at all and recovery of demand was rather prompt. The Japanese economy was still in the stage of rapid growth in spite of the term ‘structural depression’ which then circulated in the business and academic worlds. The delayed start of the squeeze did not have serious evil effects on the real economy. In this sense the monetary policy, combined with a unique exchange control policy, in the period of the Ikeda Cabinet can be regarded as ‘successful’. Rather ill effects of the

12) For example, see TOYOKEIZAI DATA BANK 1965, pp. 165, 179, 209.
coercive growth-policy in this period revealed itself several years later, taking the form of the eruption of environmental pollution, over-crowding & depopulation, etc.

3 1967 and 1969 squeezes

In November 1964 the government changed. E. Satoh succeeded H. Ikeda as prime minister. Policies toward foreign exchange and foreign currency reserves changed considerably. In accordance with this, the style of monetary policy was to change remarkably, too.

The Satoh government put forward ‘foreign currency reserve piling-up policy’ in ‘The Plan for Developing Economy and Society’ published in March 1967. The policy meant that Japan should part from the extreme high-growth policy and seek stable growth, while preventing the decrease of foreign currency reserves carefully to accumulate proper reserves suitable for the now strengthened economic power. The statement below by a then high-official of MOF eloquently explains the intention of this policy.

“In the post-war period — our country imported capital goods, raw materials, fuels and overseas industrial techniques to such a maximum extent that foreign currency, as the proceeds of exports, and borrowed foreign fund could barely afford. The goal was the restoration of domestic productive capacity, rationalization, modernization, and the realization of large scale production. — As a result, while the international competitiveness has been remarkably improved, foreign currency reserves have remained poor. They have been sacrificed. — It is desirable, at present, to restore the 2,000m. dollar level. And hence in order to accumulate foreign currency reserves toward the 3,000m. dollar level as the goal for the time being, it is also desirable that a policy for stable growth, which circumstances could accommodate, be carried out.”

(K.Wada, Fai-nan-su (Finance), p.8, June 1968)

As the result of the change of foreign currency reserve policy, the friction between the Bank and the government, which had appeared every time in cases of credit squeeze, faded away.

In January 1967 began a deficit on current account, but it turned to surplus in February, became neutral in March and April, turned again into deficit in May and June, and was reversed to surplus in July, August and September. But the governor of the Bank, M. Usami, who had succeeded Yamagiwa in December 1964, decided to tighten financial markets as early as in July and asked for the government’s approval. The government agreed with the Bank and from the beginning of September the Bank Rate was raised by 0.365%, and in January 1968 another raise by 0.365% was carried out.

In consequence, the inflow of foreign short-term fund increased due to the raised interest rate, which prevented foreign currency reserves from falling far below the 2,000m. dollar level. The deficit on current account in the last quarter of 1967 and the first quarter of 1968 (about 275m. dollars in total) was thus made up in this manner.

In September 1969 again an anticipatory credit squeeze was seen. This squeeze is known in the economic history of post-war Japan as ‘the first squeeze under current account surplus’. The Bank Rate was raised by 0.42% on the 1 September,\(^3\) but the current account had marked
a deficit only in January the same year, which was likely to be of a seasonal character. The year as a whole marked a large surplus on current account. The reason why the Bank raised the Rate in spite of the favorable balance was that the growth-rate of the wholesale price index compared with the previous year continued to exceed 2.0%, especially from June. The rate went beyond 3.0% in August. A rate of WPI growth above 2.0% was exceptionally high in post-war history. At that time there was a vigorous controversy concerning the Yes or No toward the enforcement of tightening. But the Bank decided to raise the Rate by 0.42% from September in August. The government co-operated with the Bank this time as well.

But already by then the Bank and the government were faced with a dilemma. The ‘foreign currency reserve piling-up policy’ had been adopted only two years before and 3,000m. dollars as a goal for the moment had been attained at the beginning of 1969. To a further piling-up, however, there had appeared a serious obstacle around that time. Japan’s current account had turned to surplus in 1968. In accordance with this, foreign currency reserves increased rapidly in 1968 and 1969. The reserve was no more than 2,000m. dollars at the end of 1967, whereas it amounted to about 2,900m. dollars at the end of 1968, and about 3,500m. dollars at the end of 1969. Western countries noticed the rapid strengthening of the economic competitiveness of Japan and demands for yen-revaluation began to gain power. Foreign currency reserves were deemed the symbol of Japanese strengthened balance of payments.

In Japan not only the government and the Bank but also government officials, the business world, about half of the academic world, and most labor unions were against the revaluation. A grand choir of anti-revaluation was heard everywhere. The objection was based on the logic that a revaluation would damage the export competitiveness and hence drive the Japanese economy into a serious depression.

As explained above, it was only two years and half, at the start of 1969 squeeze, since the adoption of ‘foreign currency reserve piling-up policy’. The government and the Bank, however, according to the above logic, were forced to change the attitude toward foreign currency reserves and turned to a policy to suppress its increase. Thus the two bodies, hand in hand, did their best to prevent the inflow of foreign short-term capital, which could take place due to the raising of Japanese interest rates, by means of tightening the exchange control. Promotion of the so-called yen shift and strengthening of the Regulation on the Oversold Actual Position, for example, were the concrete manifestations of their efforts. In consequence, foreign currency reserves increased by no more than 600m. dollars throughout 1969, though the current account gained surplus by 1,960m. dollars and the total balance of payments produced 2,280m. dollar surplus. This was because the greater part of the current surplus flowed

13) From this time on the announcing form of the Bank Rate became Western style, i.e. by percentage.
14) In the academic quarter, several discussions for yen revaluation were heard. See Hundred Years of the Bank of Japan, vol. 6, 1986, pp. 315-316
15) Formerly domestic firms raised money necessary for international trade by borrowing from foreign banks, which prevented foreign currency reserves from decreasing. Now they came to borrow from Japanese banks. This shift to the reliance upon domestic banks was called yen shift, which meant the cutting down of foreign currency reserves.
16) A kind of regulation on banks’ exchange balance. Introduced in February 1968. In February 1970 the regulation became more strict not to permit the oversold actual position in principle.
out due to the above strengthening of the exchange control.

4 Intermediate Summing Up

The style of monetary policy in the high-growth period was transfigured step by step roughly by five years notches. The driving power of the transformation was the changing manner of the foreign exchange control & foreign currency reserve policy by the government. The squeeze of 1957 was, in the end, a rule-observing one. When it became clear that foreign currency reserves had decreased, not only the Bank but the government was forced to tighten financial markets at once.

The two squeezes in the first half of the 1960’s were, however, not rule-observing but discretionary. That is to say the decrease of foreign currency reserves was covered through relaxation of exchange controls and thus the government managed to postpone the start of squeezing. But underlying conditions were common to the 1957 squeeze. The common problem was the deficit of current account and the consequent decrease of foreign currency reserves.

By contrast, with regard to the two squeezes in the latter half of 1960’s, underlying conditions themselves had changed. Accumulation of real capital had progressed remarkably and the international competitiveness of heavy & chemical industries had been greatly strengthened. Current balance of payments was changing from deficit to surplus basis. In 1967 foreign currency reserves were still precious but after only two years it became more of an obstacle. The choice, ‘Growth or Stability of prices (=securing foreign currency reserves),’ itself had disappeared, so that the friction between the government and the Bank faded away as well. The squeezes in the latter half of 1960’s were thus carried out in anticipation, under the co-operation of the two bodies, in order to attain a favorable balance of payments in 1967, and to suppress the rise of prices in 1969.

The analysis above tells us eloquently that the common view hitherto concerning the monetary policy in the high-growth period is quite insufficient. With regard to this see the concluding remarks at the end.

(2) The 1973 Squeeze: The So-called Excess-liquidity Inflation

The 1973 squeeze, which was started with the 0.5% raise of the Bank Rate in April 1973, was the eighth one since the Independence. It was the fourth squeeze out of the five which were delayed remarkably, and the first which brought about a major disaster to the common people.

1 Causes of the Excess-liquidity Inflation

1. Nixon Shock

As explained above, the Bank and the government were against yen-revaluation. Facing the Nixon Shock, the Bank, complying with the wishes of the government, was led into the so-called ‘failure for two weeks’, following the government’s intention. As a result, foreign currency reserve increased by 4,600m. dollars in a single month (from 7,900m. at the end of July to 12,500m. dollars at the end of August).\textsuperscript{17} Even after it became unavoidable to revalue the yen due to the Nixon Shock, the government and the Bank continued selling yen &
buying dollars to reduce the extent of revaluation, which brought about a considerable increase in foreign currency reserves after August.

Under the fixed-exchange system, an increase of foreign currency reserves results in the same amount increase of yen issue. Banks appropriated those yen funds to corporate loans and to their own investments in shares and real properties, which became the first factor to prepare the ground for the excess liquidity inflation (ELI, hereafter).

The second factor which produced the ELI was the continuation of the huge surplus on the total balance of payments. The surplus was, of course, due to the favorable current balance since 1968.

2. After the Smithsonian Agreement: Arguments for 'Coordinated Inflation' and the Sixth Cut of the Bank Rate

After the par was revalued (to 308 yen for 1 dollar) on 18th December by the Smithsonian Agreement, the Bank cut its Rate by 0.5% for fear of a recession due to the revaluation. In addition, it continued yen selling and dollar buying even after the Smithonian Agreement lest the yen should be revalued again. So far there was no big difference between the government and the Bank. The problem was the sixth cut of the Bank Rate (by 0.5% to 4.25%) in June 1972. Toward April 1972 the argument that additional relaxation would not be of use was dominant inside the Bank. But in the government the opinion was dominant that they should adopt a further expansionary policies from both fiscal and monetary sides to adjust the imbalance of current account and to prevent the yen from being revalued again. They dared to say that it would be necessary to tolerate an inflation to some extent ('coordinated inflation', main advocates being Prime Minister K. Tanaka, and the Minister of International Trade and Finance, Y. Nakasone). This argument also intended to prevent a recession which might be brought about by the yen revaluation after the Nixon Shock. T. Sasaki, the Governor of the Bank, was overcome by this argument and decided on the sixth cut in May. The cut was enforced from 24 June in the end.

The credit relaxation of this time had begun from October in 1970, when the world as a whole was in a slight stagflation. After that there had been four cuts before the Smithsonian Agreement. Then the fifth and sixth cuts above were carried out. These cuts, i.e. credit relaxations, were the third factor of the ELI.

② The Delay in the Start of Squeezing

As is shown in Table 2-1, the annual growth rate of bank lending had soared up to an unprecedented level as early as in the 1st quarter of 1971. The Nikkei 225 average began to rise steeply from the 1st quarter of 1972 and doubled for that year. But as described above, the government was very strongly committed to an expansionary stance, so much so that it was blinded to the extraordinary monetary phenomena that were unfolding. As a result, the Bank was compelled to cut the Bank Rate once again in June 1972.

The reason the Bank could not argue vigorously for the switch-over to a credit squeeze is

18) Hundred Years of the Bank of Japan, vol. 6, 1986, p.379
19) TOYOKEIZAI DATA BANK 1976, p.134
that prices had not shown a remarkable rise up to the end of September. The government was primarily opposed to implementing a credit squeeze because it regarded a coordinated inflation to be necessary. Accordingly, the government feared that a credit squeeze and the subsequent rise in interest rates would exacerbate the foreign reserve situation by generating an influx of short-term funds from abroad.\textsuperscript{20}

Now WPI had been, indeed, stable up to September 1972, but began to rise sharply from October and showed an extraordinary figure, an annual growth rate of 5.9\%, in December (Table 2-2). Taking this abnormal figure together with other unprecedented rises such as of share prices, bank lendings, and money supplies into account, a drastic credit squeeze should have been started by the end of 1972 at the latest. But actually the government suppressed the changeover to the squeeze for fear of a second revaluation.

Entering 1973, however, speculative attacks on the yen and the mark became fierce and Japan was driven to closing the exchange market, and this time shifted to the floating exchange system taking the lead ahead of the European countries. With the shift to the floating system, the obstacle to a credit squeeze was removed. Besides, West Germany had raised the Bank Rate four times since October 1972. (2\% in all, from 3\% to 5\%) The U.S. also had raised the Bank Rate to 5.5\% on 26 February. As the level of interest-rates in America and Europe had become a little higher than that of Japan, the anxiety that foreign short-term funds, after the shift to the float, might flow in massively to promote a renewed yen revaluation was eased. Furthermore, the current account had begun to mark continuous deficits after the beginning of 1973. Circumstances for the start of a tightening was prepared.

The attitude of the government had also changed facing the reality of the unavoidable shift to the float. In March, Prime Minister Tanaka admitted the excesses of current expansionary policies and accepted the start of a squeeze to be necessary. Thus the Bank decided to raise its Rate by 0.75\% to 5\% as late as at the end of March, which was enforced from 2nd April. The development of the squeeze thereafter is as follows.

\textbf{[The Development of the 1973 Credit Squeeze]}

2nd quarter 1973 April 0.75\% raise of the Bank Rate (to 5.0\%)
the raise of maximum rate by about 0.5\% for deposits controlled
by the Law for a Temporary Coordination of Interest Rates

Table 2-2 Prices around the Period of Excess-liquidity Inflation

<table>
<thead>
<tr>
<th>Month</th>
<th>1971 WPI</th>
<th>CPI</th>
<th>1972 WPI</th>
<th>CPI</th>
<th>1973 WPI</th>
<th>CPI</th>
<th>1974 WPI</th>
<th>CPI</th>
<th>1975 WPI</th>
<th>CPI</th>
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<td>17.1</td>
<td>21.9</td>
<td>0.9</td>
<td>7.6</td>
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</table>


/LTCIR, 1947/

May  0.5% raise of the Bank Rate (to 5.5%)
June a raise of the reserve ratio of reserve deposit system (by 0.25 ~ 0.5%)

3rd quarter 1973 July 0.5% raise of the Bank Rate (to 6%)
the raise of maximum rate by about 0.5% for deposits controlled by LTCIR

August 1% raise of the Bank Rate (to 7%)
September a raise of reserve ratio of reserve deposit system
October the raise of maximum rate by 0.25% for deposits controlled by LTCIR

4th quarter 1973 November several relaxations of exchange control concerning the influx of foreign short-term fund
December 2% raise of the Bank Rate (to 9%)

〈window guidance〉

2nd quarter 1973 instruction to reduce the increased part of lending by 16% compared with the previous year
3rd quarter 1973 instruction to reduce the increased part of lending by 24.4% compared with the previous year
4th quarter 1973 instruction to reduce the increased part of lending by 40% compared with the previous year

But owing to the delayed start and the slow development, the squeeze did not manage to control the steep price rise for a considerable period.
(3) Results of the Delayed Start of Squeezing

In this case, the delayed start of the squeeze produced an abnormal rise of general prices and of asset prices, as well, for about two and half years. The counter-fall of asset prices, however, proved to be rather mild (by 10.4% in 1974, and 0.8% in 1975 and that was all) in contrast to the sharp and lasting decline after the collapse of the Bubble in the 1990's. General prices did not fall at all in nominal terms at least, either. The rate of unemployment jumped to 1.9% in 1975 from 1.4% in the previous year. But judging from the fact that the unemployment rate has thereafter remained above 2%, this increase in unemployment can be seen to be of a secular structural character.22 In short, the reaction to expansionary economic policies during the ELI period was far less severer compared with the reaction of the present time, i.e. the post-Bubble depression. The year 1974 experienced a typical stagflation. We did not have any deflation, however, at that time. Was the ELI not a great mistake, then?

Yes, it was a great mistake. Indeed the life of the common people did not suffer, in flow terms from the high inflation, because wages rose as quickly as consumer prices.23 But the inflation in this period made a direct hit on people's savings. At the end of 1972, the average sum of savings per household was about 2,060 thousand yen.24 The annual rates of consumer price rise were 11.7% in 1973, 23.2% in 1974, 11.7% in 1975, whereas the rate of interest, in the case of 1 year time deposits, was 5.25% at the end of 1972, 6.25% at the end of 1973, 7.75% at the end of 1974.25 The savings of a household must have lost its real value by 22% to 1,610 thousand yen.26 If we replace the situation with that of the present day, as the average savings per household is about 14,000 thousand yen,27 a household would lose about 3,080 thousand yen in nominal terms. Thus it was the greatest disaster to the common people that their savings were plundered through the rapid inflation which was largely due to the delayed start of the squeeze.

We have one more credit squeeze before the Bubble. It took place in 1979-1980 due to the second Oil Crisis. But let us leave it out for the reason of space.

(3) The Appearance and Development of the Bubble and the 1989 Squeeze

Common factors regarded hitherto as the contributors to the Bubble formation are as follows. (a) The first main factor is Japan's deregulation of finance. There are two sides to the deregulation. One is the domestic side (deregulation of interest-rates, approval and appearance of new financial goods), and the other is the international side (abolition of the Regulation on

---

23) The growth-rate of wages was 23.4% in 1973, 26.2% in 1974, 11.5% in 1975. (The Bank of Japan, Economic Statistics Annual, 1992, p.20) Compare these figures with those of consumer prices in corresponding years, below.
24) TOYOKEIZAI DATA BANK 1976, p.248
26) 2,060 thousand yen × (1.0325 × 1.0625 × 1.0775) / (1.117 × 1.232 × 1.117) = 1,610 thousand yen
27) TOYOKEIZAI DATA BANK 2000
the Oversold Actual Position [ROAP, hereafter. Called Yen-ten Kisei in Japanese], thriving external investments due to deregulations, development of euro-yen market, etc.).

(b) The second main factor is that, as a consequence of the change-over of the U.S. policy after the Plaza Accord (PA, hereafter), Japan was forced to carry out a so-called 'harmonious interest-rates policy', which resulted in long-lasting cheap money.

Of the above two, no one would raise an objection to (b). But with regard to (a), especially to its international side, though many have pointed to it as a cause of the Bubble, no one has succeeded in analyzing how, and which part of, the deregulation was concerned with the Bubble formation.\(^{29}\)

The biggest issue which has been overlooked in the discussions hitherto is 'how should we explain the co-existing development of the rapid yen revaluation and the Bubble?' As for the strong yen at that time, the question raising above has not been clear at all, which seems to have something to do with the difficulty in understanding the fact that the strong yen co-existed with the deficits on the total balance of payments during the period.\(^{28}\) The answer, therefore, has not been given, of course. The key to solve the problem is the massive take-in of foreign short-term funds by banks and its appropriation to domestic lendings through impact-loans (ILs, hereafter). Paying attention to this point, we will explain the process of the Bubble formation and development, below. This task will lead to improve the defect of researches so far concerning the factor (a) referred to above. In the course of this task, let us show that it would be more suitable to regard the start of the Bubble formation as from 1985, while the common view regards it as from 1986.

1. The Influx of Foreign Short-term Fund and the Rise of Asset Prices

1. The Deregulation of Impact Loans

Under the New Foreign Exchange Law of 1980, short-term ILs by Japanese banks were approved, paving the way toward the full-scale usage of IL started. Until the abolition of the ROAP, however, the usage of ILs was still not so free and its use did not increase very much.

2. The Abolition of the Regulation on the Oversold Actual Position (June 1984)

By the abolition of the ROAP (June 1984), banks became so free that they only had to observe a regulation on the overall position. Thus it became easier for them to take in foreign short-term funds and lend them to domestic firms by means of ILs. Accordingly, after 1984, they began to take in foreign short-term funds vigorously and lent them out through ILs. (Table 3-1, Table 3-2)

Business was recovering from the bottom of 1982 and share prices also began to rise. Banks purchased shares in bulk, riding on the waves, which took the initiative in forming the Bubble (Table 3-3, Table 3-4).

A considerable part of the funds thus invested can be judged to have come from abroad.

28) The best study with regard to the influence of international side of deregulation on the Bubble was conducted by Y.Miyazaki. But his analysis still fails to clarify the relation between the two, i.e. the Bubble and the international side of deregulation. (Y. Miyazaki, The Compound Depression, Chuh-koh Shin-sho, 1993)

29) That is to say, there were thriving long-term external investments, then, which more than offset the surplus on the current account, so that the total balance of payments was marking deficits.
A Brief History of Monetary Policy in Post-war Japan

Table 3 - 1 The Trend of Balance of Payments: 1980 - 90

<table>
<thead>
<tr>
<th></th>
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<td>-208</td>
<td>-72</td>
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Table 3 - 2 The Trend of Impact Loans (100 m. dollars)

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<tr>
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<th>Sums Executed</th>
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<td>82</td>
<td>2,062</td>
<td>274</td>
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<td>83</td>
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<td>367</td>
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<td>84</td>
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<td>85</td>
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<tr>
<td>87</td>
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<tr>
<td>88</td>
<td>17,225</td>
<td>n. a.</td>
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<tr>
<td>89</td>
<td>15,894</td>
<td>n. a.</td>
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(Details left out in the Table)

- Figures are the total of short-term and long-term ILs.
- Both executed and outstanding sums are total of Japanese and foreign banks. (Japanese banks account for by far the greater proportion of both short-term and long-term loans after 1984.)
- Short-term ILs account for the major part of both the executed and outstanding sums.


Banks themselves converted some part of the taken-in foreign funds into yen, investing the latter directly in shares or partly in Specified Money Trusts (Tokkin) & Fund Trusts (Fantor), which were under the management of trust banks. They also lent out part of the dollar funds to general domestic firms, which converted the borrowed dollar into yen, i.e. selling the dollar to the very bank from which they borrowed, and invested the yen funds thus acquired in asset markets.

The massive influx of foreign short-term funds from the latter half of 1984 and its influx into domestic asset markets are one of the main factors that produced the Bubble of land and share prices. We can safely say that the Bubble began to be formed as early as in 1985. Prices of shares and land already showed an extraordinary rise in 1985.\(^{30}\)

30) The price of the land for business activities in six largest cities already showed a rise of 15.8% from September 1984 to September 1985, while the rise of share prices during the same period was 19.2%, both of which were quite extraordinary figures in the post-war economic history.
Table 3–3  Total Market Capitalization of All Stock Exchanges in Japan and its Ratio to GNP: 1972–86

<table>
<thead>
<tr>
<th>Year</th>
<th>(A) (10 billion yen)</th>
<th>(B) (10 billion yen)</th>
<th>B/A (%)</th>
<th>Year</th>
<th>(A) (10 billion yen)</th>
<th>(B) (10 billion yen)</th>
<th>B/A (%)</th>
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<td>4,955</td>
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<td>14,817</td>
<td>4,478</td>
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<td>83</td>
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<td>13,123</td>
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<td>16,642</td>
<td>5,492</td>
<td>33.0</td>
<td>84</td>
<td>29,845</td>
<td>16,750</td>
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<td>77</td>
<td>18,553</td>
<td>5,362</td>
<td>28.9</td>
<td>85</td>
<td>31,744</td>
<td>19,622</td>
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* A = GNP, B = total market capitalization of all stock exchanges in Japan at year-end

Table 3–4  Purchasers of Shares in the Bubble Period

<table>
<thead>
<tr>
<th>Year</th>
<th>Sums sold and purchased by general security companies</th>
<th>Breakdown of the commissioned dealings</th>
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<td>21</td>
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<td>345</td>
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<td>89</td>
<td>111</td>
<td>493</td>
</tr>
<tr>
<td>1990</td>
<td>38</td>
<td>-44</td>
</tr>
</tbody>
</table>

The total of the Tokyo, Osaka, and Nagoya Stock Exchanges.
*Smaller ones, i.e. non-general companies.

3. Plaza Accord

When expectations of a stronger yen mounted after the Plaza Accord, the rapid rise of asset prices due to the above mechanism was accelerated in one stroke. Borrowing by dollars became advantageous because of expectations of a stronger yen (the possibility of earning exchange profits). And when the converted money (yen, now) was invested in asset markets, where prices were rising sharply, investors could expect double gains (exchange profits and capital gains). As a result, both the taking-in of foreign short-term funds by banks and ILs prospered. Let us confirm the hugeness of the ILs at the time, giving a glance at Table 3-2 again. And through the very influx of short-term dollar, the strong yen (the weak dollar) progressed rapidly in the interbank spot market. In short, the strong yen (the weak dollar) and the rise of asset prices were nothing other than two sides of the same coin. Banks lent
the taken-in dollars to firms by means of ILs. The firms sold the dollars to banks again. Such was the unique mechanism of ILs. Then these dollars were sold to institutional investors, such as life insurance companies, which were buying overseas government bonds. That is to say, the strong yen (the weak dollar) preceded, and then the dollar, which became excessive in the interbank spot market, was sold out cheaply to insurance companies and the like. Consequently the total balance of payments did not show ex-post surpluses. Insurance companies were bound with the so-called ‘Principle of Income Gain Dividend’31, so that they were forced to continue the investment into the U.S. bond market.

The Louvre Agreement (LA, hereafter) in February 1987 failed to wipe out market expectations of a weaker dollar in spite of its subjective intention. Influx of foreign short-term money continued and the above mechanism as well.

② The So-called ‘Co-operative Cuts of Interest-rates’

While the co-operative international economic policy after the Plaza Accord produced, on one hand, the above explained expectation for a weaker dollar, which led to banks' taking-in of foreign short-term funds and investing them, directly or indirectly, in asset markets, it brought about a series of Japan’s interest-rate cuts from January 1986 to February 1987 (five times, in all), on the other hand. These cuts, i.e. credit relaxations, were another main cause of the Bubble. This has been fully discussed, however, in prior researches, so that we can leave it out.

③ The Delayed Start of the Squeeze

As the reasons why the start of the credit squeeze was delayed have also been made clear before now, let us only enumerate a few crucial points.

Firstly the government again (Recall the period of the excess liquidity inflation !) feared a depression owing to a stronger yen, so that until the LA, at least, it took the initiative in continuing the credit relaxation.32 Even after Louvre, the government was anxious about a recession and announced highly expansionary supplementary budget at the end of May 1987. Such was the government’s attitude. Given this interpretation of the economic situation, an anticipatory shift to a squeeze could not be expected. In short, the government was too anxious about a ‘depression for strong-yen’, which led not only to the unnecessary lowering of interest rates in November 1986 and February 1987, undertaken in the face of the Bank’s opposition, but also to the hesitation in starting a squeeze.33

Secondly Japan hesitated in shifting to a tight-money policy in order to co-operate with the U.S. Prior to the LA, the government regarded it as necessary to support the U.S. economy and prevent the dollar from plunging, whereas, after the LA, the government wanted simply to prevent the dollar from plunging.

31) An administrative guidance ruled that insurance companies could not pay dividends to their customers from their capital gains, but from their income gains only.
32) The Bank had shifted clearly to an opposing attitude toward an additional cut after the summer 1986.
33) Main person who embodied this excessive fear was the Minister of Finance, Miyazawa, who had taken office in July 1986.
Finally not only inside the government but also inside the Bank, an asset inflation, severe as it was, had not been recognized as a condition for starting a credit squeeze.

These factors in total affected the Bank, which was not able to take the plunge readily to tighten financial markets. Business had already started to recover, at the beginning of 1987, from the slight recession due to the strong yen in 1986 and completely recovered in the latter half of 1987. At the latest, Japan should have shifted to squeezing in July or August 1988, when West Germany raised its Bank Rate. If Japan had started squeezing at that time (summer 1988), the index of land prices (the average of all areas in the six largest cities) still remained at 68.7 compared with 100 at the peak in March 1990. The index of share prices was also as low as 73.3 compared to 100 at the peak in December 1989. If only a credit squeeze had started then, the damage from the Bubble collapse would have been lightened considerably.

4. Results of the Delayed Squeeze: the So-called 'Aftereffect of the Bubble'

The aftereffect of the Bubble and its collapse is, in a word, a long-lasting and considerably serious depression, the core of which is the problem of bad debts. The delayed squeeze made the Bubble swell larger, so that the major part of the financial dealings contracted in that period cannot be settled and are frozen, as it were, still now. Probably the present depression since 1991 includes structural factors which could not be solved without the passage of considerable time. But no one would raise objections to the fact that the bad debt problem due to the Bubble and its collapse has made the depression far more serious.

As space forbids, we have to leave out the details about the outstanding sum of bad debts at present. But as is widely known, they will not decrease as a whole so easily, in spite of the huge annual amortization, because the decline of land prices, and the decline of share prices, together with the general recession, are the causes and results of one another. On the contrary, it tends, rather, to increase, because new bad debts are appearing day by day. It is also a serious problem that no one is able to grasp easily the accurate sum of the bad debts outstanding.

(4) Conclusion

<As to 'Task A'>

The common basis for the five squeezes examined above, which were delayed remarkably, is the government's extreme inclination toward economic growth, in other words a distaste or fear of a depression. In order to maintain the growth, it was deemed necessary to break external bottle-necks, so that great attention was paid to, and efforts were made for, exchange policies (exchange control policies and exchange rate policies). In the 1953-54 squeeze, however, the exchange control policy was not amended, because it was only three years since the Foreign Exchange and Foreign Trade Control Law was enacted and the squeeze was the first and groping one after the Independence.

34) TOYKEIZAI DATA BANK, 1995, pp. 213, 399
In the two squeezes under the Ikeda Cabinet, the government relaxed the exchange control at its disposal, thus preventing the foreign currency reserves from drying up. It managed to continue cheap money for a long time, in this manner, to retain coercively the then progressing high-growth. In the ELI period, an exchange rate policy was pursued to extremes that a revaluation of yen should be avoided at any cost, so that the period of cheap money was maintained for a long time. Again during the Bubble period, the cut of interest rates, ranging over five times, was carried out in order to lighten the depressive effect of strong yen and to avoid further revaluations, as well, on the pretext of 'international co-operation'. Even after the Louvre Agreement, cheap money was retained for a long time for fear of a strong yen and a weak dollar.

In accordance with these coercive exchange policies, the starts of credit squeezes were extremely delayed. The manner of exchange policy prescribed the style of monetary policy (when to start and the strength of squeezes, in particular).

In spite of the very coercive policy toward high-growth, however, the recession as a reaction was not severe in the Ikeda Cabinet period, because the growth potential of the Japanese economy was still dynamic. Inflation was not so rapid, either, because the growth at the time was of an import-intensive type. Results of the delayed squeeze revealed themselves mainly in the form of external diseconomies, i.e. environmental pollution. In the process of the ELI, they took the form of plundering the savings of the common people. After the Bubble, they took the form of bad debts and the long-lasting depression.

The adherence to economic growth and the results of delayed squeeze thereby has revealed itself in various forms, but has given uniformly bad results. The current arguments for promoting 'quantitative relaxation', which seem to target the Bank, include the factors which should pertain to the examinations shown in this paper and the factors which are entirely independent from our present examination. What moral can we draw from this present paper, as we face the ongoing implementation of so-called 'quantitative credit relaxation'? The memorandum at the end of this paper briefly deals with this question.

<As to 'Task B'>

It is well known that monetary policy until the end of the high-growth period (approximately until 1970) was bound by the conditions of the B/P. When the B/P ran into deficits, the Bank was compelled to tighten financial markets. In such a case, the Bank Rate was used as the definitive signal of the Bank's intention toward squeezing, while actual squeezing was performed by credit rationing, such as WG and the Bank's curb on its lendings to city banks.

The common view, however, has been content only to mention the above facts and has lacked the following understandings.

35) The representative person is Y. Suzuki. See, for example, his Monetary Policy in Japan, Iwanami Shinsho, 1993, pp. 25-26. Also see Study of Contemporary Japanese Finance, Toyo Keizai Shinpo-Sha, 1974, pp. 271-273. Y. Koh-sai also describes that ' Macro economic policies in those days were carried out according to a kind of 'rule' rather than on a discretionary basis.' He carefully adds, however, the phrase 'as to the major part of the high-growth period' to the above description. (See Y. Koh-sai, Economic Policies in the High-growth Period, in Economic History of Japan, vol.8, edited by Y.Yasuba and T. Inoki, Iwanami Sho-ten, 1989, p. 220)
1 The style of monetary squeezes (timing for starting and the strength, in particular) in the high-growth period was not uniform at all. It experienced clear transfigurations at intervals of roughly five years.\(^{36}\)

2 Recessions as reactions to the preceding growth also underwent phased changes. Roughly speaking, it became milder every five years as well. Further, throughout the whole period (1955-1970), recessions were rather milder than are generally believed.

3 The transfigurations were due to the phased changes of MOF's exchange control and foreign currency reserve policy. Throughout the period, exchange controls were generally strict, but the government, to cope with the B/P conditions, relaxed the anti-influx control at its disposal in the first half of 1960's, and reversed it toward a strict control, again. The Bank's style of squeezing was defined by these changes.

The common view, including *Hundred Years of the Bank of Japan* (1986, six volumes), has not noticed the phased changes of monetary policy. Accordingly the question of what brought about the phased changes has not been raised.

In short, when we study monetary policy in post-war Japan, it is not sufficient only to observe the relations between the movements of the B/P and monetary policy. It is important to put the trend of MOF's exchange control and foreign currency reserves policy in sight as the determining medium of the style of monetary policy.

*<Drawing a moral? As to the So-called 'Quantitative Credit Relaxation' (QCR): a memorandum>*

– with regard to its 'Exchange Intervention Version' (EIV), in particular –

- Development of Affairs
  - 1999.2.12 adoption of Zero Interest-rate Policy
  - 2000.8.11 its removal
  - 2001.2. 9 a cut of the Bank Rate \((0.5\% \rightarrow 0.35\%)\)
  - 2001.2.28 a cut of the Bank Rate \((0.35\% \rightarrow 0.25\%)\)
  - 2001.3.19 increase of the outstanding current deposit with the Bank \((to \ about \ five \ trillion \ yen)\)
    reduction of the guide-line on call rate \((overnight)\) without collateral to near zero \((from \ the \ previous \ 0.15\%), \ which \ meant \ de \ facto \ return \ to \ the \ Zero Interest-rate Policy\)
  - 2001.8.14 increase of the outstanding current deposit with the Bank \((to \ about \ six \ trillion \ yen)\)

- Achievements Hitherto

Lending from banks have not increased. In the first place, ineffectiveness of monetary policy as business-stimulating instrument has been widely approved from old time, which the failure of the quantitative credit relaxation clearly proved this time. Borrowing demand from well performing firms are still weak and firms which knock at the doors of banks are either

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\(^{36}\) *Hundred Years of The Bank of Japan*, (Volume 6) explains the concrete aspects of each squeeze in detail. But it seems to lack the awareness of the problem of the phased changes in monetary policy. Accordingly it fails to clarify what brought about the phased changes.
in difficulty of finance or those whose safety the banks cannot judge with ease. Moreover there are signs that banks have lost self-confidence in their ability to inspect firms' repaying capacity, when lending, because land as collateral lost its dignity.

But the QCR of this time played an important role as a price keeping means for the government bonds.

- EIV of the QCR and the Two Cases Examined in This Paper

With the ineffectiveness of the above QCR as the background, an argument that the Bank should vigorously intervene in the exchange market to depreciate the yen and to supply abundant money into money market has come on stage. (EIV of the QCR)

The EIV of the QCR and the policies in the two occasions (excess-liquidity inflation and the Bubble) which we examined in this paper have a point in common. There was a pressure on the Bank to ease money market and to make yen weaker for the purpose of stimulating business. A different point is that in the two occasions the aim of the credit relaxation was the prevention of depression, while that of the current EIV of QCR is to escape from long-lasting depression.

But an EIV of QCR, even if it were carried out, will not succeed. Both an EIV of QCR and the past anti-yen-appreciation policy are (were) overconfident in (or too anxious about) the working of exchange rate onto the real economy. In addition, there are possibilities that it may induce trade frictions with Asian countries and vicious inflation after a considerable time lag, which will lead to the collapse of government bonds market through the rise of interest rates.
A Brief History of Monetary Policy in Post-war Japan

—Credit Squeezing and Foreign Exchange Policy—

Atsushi ICHINOSE

There were ten credit squeezings in post-war Japan since 1952 up to 2001, five of which could be characterized by remarkable delays in their start. Of the five occasions, two (1973 and 1989 squeezes) brought about great disaster to the common people due to the delayed start of credit squeeze. The former case resulted in the depreciation of the deposits of the common people, whereas the latter case brought about long-lasting and serious depreciation intertwined with the emergence of colossal sums of non-performing loans. All of the five cases of the delayed response were due to the government’s attitude toward exchange-control and exchange-rate policy. In both cases of the 1973 and 1989 squeezes, the government’s exchange-rate stance against a stronger yen led to the delayed start of tightening.

At the present time (autumn 2001), an exchange-rate policy is asserted by some economists, which favors the lowering of the yen to a certain level. This is no more than a subspecies of the so-called 'quantitative credit relaxation policy'. In light of past experiences, the prospect of a policy favoring a weaker yen (against a stronger yen) is not encouraging.