

"Why They Can Become So Rich?" Evaluating Economic Intervention Strategies in Post-War Countries

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Abstract. This study examines how government intervention shaped economic growth in four countries after the Second World War: Japan, South Korea, Germany, and Ireland. Setting high-intervention cases against low-intervention ones, it asks how different degrees of state involvement affected industrial development and the allocation of resources. The analysis is comparative and draws on an industrial policy index together with real GDP growth outcomes for the four economies. The results are mixed rather than one-sided. Strong intervention accelerated industrialization in Japan and South Korea, while the more market-oriented strategies of Germany and Ireland produced steadier or more externally driven growth. The evidence points to a close and context-dependent relationship between state intervention and development, and it suggests that the value of any strategy depends on whether policy can adapt as conditions change. The paper adds to the continuing debate over the state's role in growth and offers lessons for both developing and developed economies today.

Keywords: Post-War Economic Development, Government Intervention, Industrial Policy

1. Introduction

After the most destructive conflict in modern history, a striking pattern appeared: several war-damaged economies rebuilt themselves into industrial powers within a few decades. How this rapid recovery happened is the question behind this study. In the post-war years many governments treated industrialization as their central goal, concentrating on heavy industry and higher value-added sectors in pursuit of fast growth. Yet the paths they took differed in important ways. The core question here is whether the degree of government intervention shapes the trajectory of growth by influencing the structure of industry and the allocation of resources. By comparing the post-war choices of Japan, South Korea, Germany, and Ireland, the paper revisits a long-standing problem in the study of development: what role should the state play in supporting economic growth?

This is not only an academic question. It sits at the center of a continuing argument in economics. On one side, neoclassical theory favors limited government and holds that markets, left to themselves, allocate resources more efficiently than the state [1]. On the other, the developmental state tradition stresses that state-led industrialization can drive rapid catch-up growth [2]. By setting high-intervention strategies against low-intervention ones, this study tries to clarify the conditions

under which each level of involvement works. The aim is a more careful account of how state and market interact during development.

The relevance of these cases reaches well beyond scholarship. Developing countries that are still deciding how far the state should steer their economies face the same choices these four nations once faced. Developed economies, meanwhile, are returning to debates over industrial policy and planning as they deal with competitiveness and inequality.

In a period marked by economic uncertainty, climate change, and rapid technological change, the question of how governments can guide development while staying flexible is more pressing than before. By looking at adaptive policy design and the long-run effects of different strategies, this study offers guidance for policymakers facing these pressures. Read through a historical lens, the four cases contribute both to the theory of development and to practical policy choices.

2. Literature review

The relationship between government intervention and economic growth has drawn scholarly attention for decades, and the resulting body of work frames the present study.

Chalmers Johnson's 1982 study of Japan's Ministry of International Trade and Industry (MITI) set the terms for understanding the developmental state and its part in fast growth. Johnson traced MITI's strategic industrial policies and linked targeted intervention to Japan's post-war recovery, which prompted a wave of research on East Asian developmental states [2]. Building on this work, Alice Amsden and Robert Wade examined late industrialization in South Korea and Taiwan. They showed how state guidance over resource allocation, together with performance-based incentives, supported rapid catch-up growth and helped resource-poor countries build globally competitive industries [3, 4].

The record of industrial policy has not gone unquestioned. Anne Krueger argued that government failures, including rent-seeking and information problems, often exceed the market failures that intervention is meant to correct [5]. Dani Rodrik moved the discussion from whether governments should intervene to how intervention should be designed, noting that its effectiveness depends on country and historical context [6]. Takero Doi and Toshihiro Ihori looked at the timing of these effects and found that Japan's public investment helped growth strongly in early stages but had more ambiguous long-run effects [7].

A second strand emphasizes institutions. Peter Hall and David Soskice's varieties-of-capitalism framework showed that different institutional arrangements, including different degrees of state coordination, can each support success by distinct routes [8]. Work by Barry Eichengreen and Albrecht Ritschl on West Germany reinforced the point that moderate intervention can yield durable growth in the right setting [9]. Daron Acemoglu and James Robinson later stressed that inclusive political and economic institutions determine whether growth lasts, so that targeted intervention may raise short-term output while long-run outcomes hinge on institutional inclusiveness [10]. Finally, the exchange between Justin Lin and Ha-Joon Chang over whether industrial policy should follow or defy comparative advantage highlighted the tension between exploiting current advantages and building new capabilities through policy [11].

Taken together, this literature shows that the effect of intervention depends on context, timing, and institutions, and that assessing any strategy requires attention to all three.

3. Research design

3.1. Measuring intervention: the industrial policy index

Because "government intervention" is not directly observable, this study summarizes it in an ordinal industrial policy index that runs from 0 (minimal intervention) to 1 (pervasive intervention). Each country is scored on four dimensions drawn from the developmental-state literature: first, the presence and bindingness of national industrial planning, such as multi-year economic plans and targeted sector programs; second, the extent of state ownership and public enterprise in strategic industries; third, the use of directed or preferential credit, subsidies, and other selective financial instruments; and fourth, trade protection and entry regulation used to favor chosen industries. Each dimension is scored on a simple ordinal scale, and the scores are averaged and normalized to the 0-to-1 range, so that higher values indicate deeper and more directive state involvement.

The scores are assigned by the author from the policy texts, national plans, and historical studies reviewed above, following the indicators of state guidance used by Johnson [2], Amsden [3], and Wade [4], and consistent with Rodrik's argument that intervention should be assessed through its design features rather than its mere presence or absence [6]. The index is a transparent ordinal summary for cross-case comparison rather than a precise cardinal measurement; its values should be read as relative rankings of intervention intensity, not as exact quantities.

3.2. Comparative design and data

The study uses a comparative case design with a most-similar-systems logic: the four countries are chosen because they share several important starting conditions but differ in their intervention strategies, which helps isolate intervention as the dimension of interest [12]. All four suffered serious wartime disruption or prolonged stagnation, received external support in the early post-war years, and passed through broadly comparable early phases of industrialization. Within this design, the analysis proceeds through structured comparison and qualitative reading of policy documents, in line with established case-study methodology [13, 14].

Intervention is measured through the industrial policy index described above. Economic outcomes are measured mainly through real GDP growth, drawn from the Maddison Project Database and from specialized studies of each economy [13], and supplemented by public investment measures, which are included because public capital and public spending have a well-documented relationship with growth [15, 16]. Table 1 summarizes the four cases, pairing each country's intervention level with its recorded growth performance.

Table 1. Summary of the four cases: intervention level and growth outcomes

Country	Period studied	Intervention level (index)	Approximate real GDP growth	Growth pattern and outcome
Japan	1955-1973 (high-growth era)	High (ordinal, about 0.8)	About 9 to 10% per year	Rapid industrialization, then an asset-price bubble and stagnation (about 1% per year in the 1990s)
South Korea	1962-1996	High (ordinal, about 0.9)	About 8% per year	Rapid catch-up growth, then a contraction of around 5% in the 1998 crisis

Table 1. (continued)

Germany	1950s-1970s	Moderate (ordinal, about 0.4)	About 8% in the 1950s, 3 to 4% in the 1960s, about 2% from the 1970s	Slower but steady and durable growth, resilient to later shocks
Ireland	1990s-2000s	Moderate (ordinal, about 0.5)	About 9% per year during 1995-2000	Foreign-investment-led boom (Celtic Tiger), strong growth followed by post-2008 volatility

Growth figures are approximate and drawn from the Maddison Project Database and country-specific studies cited in Section 4. Index values are the author's ordinal estimates.

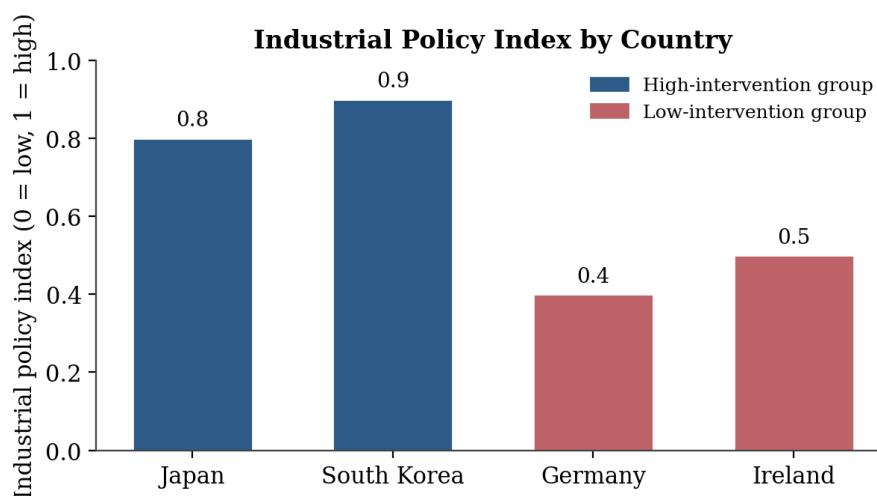


Figure 1. Industrial policy index by country

Index values are the author's ordinal estimates (0 = minimal intervention, 1 = pervasive), following the coding described in Section 3.1.

3.3. Scope and limitations

Several limits follow from this design. First, all four cases are relative success stories: each became substantially richer over the period studied. This is a form of selection on the dependent variable, so the analysis can show how different intervention strategies relate to growth among successful cases, but it cannot by itself establish that intervention caused growth or rule out that other strategies might have succeeded as well [17]. Second, the study rests on four cases and on qualitative comparison rather than statistical estimation, so its conclusions are analytic and illustrative rather than statistically generalizable [14]. Third, the industrial policy index is an author-constructed ordinal measure and carries the subjectivity of any such coding. Fourth, the cases do not share a single time window; Ireland's transformation, in particular, comes later than the others, so the comparison is between strategies and stages of development rather than between strictly simultaneous periods. These limits temper the strength of the causal language used below and point toward the value of broader and more quantitative follow-up work.

4. Policy analysis

4.1. Japan (high-intervention group)

Japan's post-war expansion, running from the mid-1950s to the early 1970s, shows what strong intervention can achieve. As summarized in Table 1, Japan combined a high level of state direction, expressed above all through MITI's guidance of industry [2], with exceptional growth: real output grew by roughly 9 to 10% a year across the high-growth era from 1955 to 1973 [13].

State guidance concentrated resources on heavy industry and rising value-added sectors such as steel, shipbuilding, electronics, and automobiles, and this coincided with very high rates of capital formation; gross fixed investment approached 35% of GDP around 1970 as the economy built out its industrial base [13].

Growth moderated after the 1973 oil shock, easing to about 4% a year through the mid-1970s and the 1980s, still strong but below the earlier peak [13]. The strategy was also not an unbroken success. Sustained heavy intervention and close government-business ties eventually contributed to the asset-price bubble of the late 1980s. When the bubble burst, growth collapsed, and real GDP grew by only about 1% a year on average through the 1990s, the period often called the Lost Decade [18]. This reversal shows the long-term risk of prolonged and intense state direction.

4.2. South Korea (high-intervention group)

South Korea between the early 1960s and the mid-1990s is a second case of intervention-led industrialization. Its state involvement, expressed through a series of ambitious Five-Year Economic Plans, was at least as deep as Japan's, and it coincided with real growth that averaged about 8% a year over more than three decades [19].

This state-directed drive transformed the economy's structure. The share of manufacturing in GDP rose from about 14% in the early 1960s to roughly 30% by the late 1980s, and gross capital formation climbed from around 15% of GDP in the early 1960s to more than 30% by the late 1970s [19]. A defining feature of the strategy was the promotion of chaebols as instruments of rapid industrialization [3]. This lifted output and exports, but it also concentrated the economy in a small number of large conglomerates.

Table 2. Abstract of South Korea's First to Third "Five-Year Economic Plan"

The series Five-Year Plan	The General Target	Key industrial economic policies
The First Five (1962-1966)	• Industrialization • The export-oriented industries as the main focus	• Developing energy industries such as electricity and coal • Focusing on increasing exports and improving international balance of payments • Revitalizing technology
The Second Five (1967-1971)	• Realize modernization of industrial structure • Further achieve economic autonomy	• Constructing heavy industrial systems such as chemical and steel industries, achieving a doubling of industrial output value • Expand export volume, promote import substitution, and further improve international balance of payments • Improve the level of technological production and productivity • Construct public infrastructure such as highways

Table 2. (continued)

The Third Five (1972-1976)	• Accelerate the establishment of an independent economic model • Seeking further economic growth	• Vigorously developing exports and improving international balance of payments • Fully shift towards heavy chemical industry and enhance industrial structure • Increase investment in infrastructure such as electricity, transportation, and communication
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Although this model delivered strong growth, it also built-up weaknesses. The 1997 Asian financial crisis exposed strains in the financial system and the heavy leverage of the chaebols, and in 1998 the economy contracted by around 5% [20]. After sweeping post-crisis reforms, growth resumed and averaged around 4 to 5% a year through the 2000s, below the earlier pace [13]. This trajectory underlines both the strength and the fragility of a debt-financed, concentration-heavy model.

4.3. Germany (low-intervention group)

Germany after 1945 followed a different route through its Social Market Economy, which combined market competition with social protection and a smaller role for direct state planning. Its growth was rapid at first and then moderate but durable: West German output grew by about 8% a year during the 1950s, easing to around 3 to 4% in the 1960s and to roughly 2% from the 1970s [9].

Even with less direct intervention than Japan or South Korea, Germany sustained a strong manufacturing base. Steady public investment in infrastructure and a well-developed vocational training system supported industrial competitiveness without extensive sectoral targeting.

The reliance on markets, combined with social protection and labor involvement in company decisions, produced slower but more stable growth. The approach also aged well. While Japan and South Korea saw growth fall sharply in the 1990s, Germany held a steadier path, and even during the 2008 financial crisis its economy proved comparatively resilient [21].

4.4. Ireland (low-intervention group)

Ireland from the 1980s to the 2000s offers a distinct version of the low-intervention approach. It set out to attract foreign direct investment through low corporate taxes and open trade. Its industrial policy index was moderate, though the character of its intervention shifted in the 1980s and 1990s toward investment promotion rather than direct sectoral control.

A cornerstone of the strategy was a low corporate tax rate, later fixed at 12.5%. Together with investment in education and active promotion by the Industrial Development Authority (IDA), this drew in foreign direct investment and lifted growth, most visibly during the Celtic Tiger years, when annual growth averaged around 9% between 1995 and 2000 [13, 22]. GDP per capita rose from well below the EU average in the 1980s to above it by the early 2000s. The same dependence on foreign investment later left the economy exposed, and real GDP contracted by about 4% in 2008 and a further 5% in 2009 [13].

Taken together, the four cases show a relationship between intervention and development that resists simple rules. Strong intervention can produce rapid growth over the short and medium term, as in Japan and South Korea, but it can also create structural weaknesses. More market-oriented approaches, as in Germany and Ireland, can deliver durable or fast growth but along different and sometimes more externally exposed paths. The main lesson is that the effect of intervention turns not

only on its intensity but on its fit with wider economic conditions, global trends, and a country's stage of development.

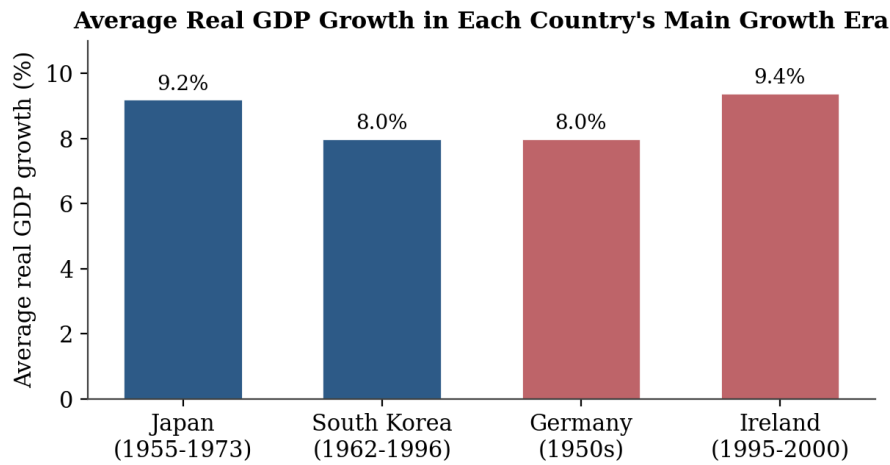


Figure 2. Average real GDP growth in each country's main growth era

Sources: Maddison Project Database and country-specific studies [9, 13, 19].

5. Discussion

The strategies used by Japan, South Korea, Germany, and Ireland all produced significant growth, but each also generated unintended effects. These outcomes show how difficult it is to balance short-term growth against long-term stability.

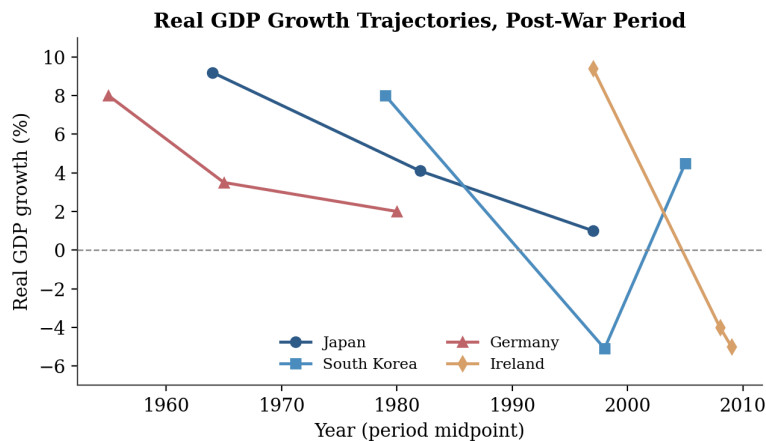


Figure 3. Real GDP growth trajectories, post-war period

Points are period averages except crisis years (South Korea 1998; Ireland 2008-2009), shown as single-year values to mark downturns. Sources: Maddison Project Database and country studies [9, 13, 18-22].

5.1. High-intervention group

In Japan and South Korea, the clearest side effect was the concentration of economic power. Japan's keiretsu networks, which linked firms through cross-shareholdings and long-term ties, supported

coordination during the growth years but later dampened competition and slowed the entry of new firms [23]. South Korea's chaebols played a similar role: Amsden's account of Korean late industrialization shows how the state built rapid growth around these conglomerates, which delivered scale and export capacity but left the economy concentrated in a small number of groups [3].

These economies also became more financially fragile. Hoshi and Kashyap trace how Japan's asset-price bubble of the late 1980s, encouraged in part by the close government-business relationships that intervention fostered, gave way to the prolonged stagnation of the Lost Decade [18]. In South Korea, the debt-financed expansion of the chaebols left the economy exposed when the 1997 Asian financial crisis struck [20].

The inequality record differs between the two cases, and it is worth stating precisely. In Japan, income concentration stayed comparatively low across the post-war decades even as the economy grew quickly; Moriguchi and Saez find that top income shares did not return to their pre-war highs [24]. The main social cost of Japan's model therefore appeared as concentrated corporate power and financial fragility rather than as rising personal income inequality. South Korea followed a different path: Koo reports that inequality widened over time, with the Gini coefficient rising from about 0.26 in the early 1990s to roughly 0.32 by 2010 and the income share of the top 1% reaching around 16.6% by 2012 [25].

5.2. Low-intervention group

Germany and Ireland faced a different set of problems. Germany's export orientation left it dependent on global demand. Dustmann and colleagues note that this kept Germany competitive but exposed it to international swings, with the current account surplus reaching 7.4% of GDP in 2014 [21]. Ireland's dependence on foreign direct investment, secured through low taxes, brought strong growth but also volatility. Barry points out that this tied the economy to the choices of multinational firms and to global conditions, which is why the 2008 crisis hit Ireland so hard [22].

Both countries also faced sector-specific strains. Eichhorst and Tobsch show that Germany's dual education system, well suited to traditional manufacturing, adapted slowly to the digital economy [26]. Ireland's tax policy, though effective at attracting investment, has been criticized for enabling corporate tax avoidance on a global scale [27]. These cases show that both high- and low-intervention strategies can create long-term structural challenges, and that adaptive policymaking matters in either model.

6. Policy recommendations

6.1. Targeted industrial policy

Targeted industrial policy needs safeguards that support strategic sectors without letting intervention run past its usefulness. Two mechanisms deserve attention: sunset clauses and regular reviews.

Sunset clauses set expiry dates for support measures and force periodic reassessment. They address the hard problem of judging which industries are genuinely strategic. Applied to South Korea's Heavy and Chemical Industries drive of the 1970s, such clauses might have prompted earlier adjustment and reduced the inefficiencies that surfaced in the 1980s [28]. Building expiry into policy helps governments avoid propping up industries that have lost their edge.

Independent reviews keep policy relevant. They should include cost-benefit analysis by both government and outside experts. MITI is instructive here: its policies were central to Japan's

recovery, but its influence faded as it adapted too slowly to new conditions [2]. Mandatory reviews of targeted industries every two years could reduce this kind of stagnation. Together, these tools allow support for strategic industries while limiting long-term distortion.

6.2. Adaptive policy framework

Regular review and adjustment of policy is essential. It lets governments tune intervention as conditions change and avoid locking in measures that no longer work.

The value of this approach is clear in East Asia. South Korea shifted its industrial focus over decades, moving from light industry to heavy and chemical industry and then into high-technology sectors, including semiconductors [29]. This progression let it climb the value chain and move from an agrarian base to an industrial one [30]. Singapore adjusted in a similar way, going from labor-intensive manufacturing to high-technology industry and services and then toward a knowledge economy. Its habit of anticipating global trends kept it competitive despite limited resources [31].

These cases show that effective adaptive frameworks combine long-term vision with short-term flexibility. Success, though, depends on state capacity, a willingness to learn from policy experiments, and the ability to override entrenched interests. Any application should also fit a country's particular economic, political, and social setting.

7. Conclusion

The post-war experiences of Japan, South Korea, Germany, and Ireland offer a detailed view of how government intervention relates to growth, and they resist any single verdict.

Strong intervention, as in Japan and South Korea, worked as a powerful engine of rapid industrialization and short-term growth. These countries turned war-damaged economies into industrial powers within a few decades. Yet the same strategies produced later problems: concentration of economic power, financial fragility, and, in South Korea, widening inequality.

The more market-oriented approaches of Germany and Ireland traded the explosive early growth of the high-intervention cases for different profiles. Germany achieved steady and durable growth, while Ireland's openness produced a rapid but more externally driven and volatile boom. Both show that moderate intervention, paired with strong markets and supporting institutions, can deliver durable development and, in Germany's case, resilience against global shocks.

The central lesson is that the effect of intervention depends not only on its intensity but on its fit with a country's stage of development, its institutional capacity, and global conditions. There is no universal formula. What matters is the balance between state guidance and market forces, and the institutional ability to adapt policy as circumstances shift. As the design and its limits make clear, these findings describe how intervention relates to growth across four successful cases rather than proving a single causal rule, and they invite broader and more quantitative testing.

There is one thing that we have to admit is that the policymakers must design strategies that deliver both near-term growth and long-term stability in a landscape shaped by technological change, climate pressures, and shifting geopolitics. The path to lasting prosperity is unlikely to lie in choosing between the state and the market. It lies instead in combining them, drawing on the strengths of each while limiting their weaknesses. That requires close attention to context, a readiness to adapt, and the willingness to make hard choices.

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