JAPAN'S ECONOMIC PLANNING AND MOBILIZATION IN WARTIME, 1930s–1940s

Most economists, political scientists, and historians believe that the Japanese government's economic conduct of war from the 1930s in China through the end of World War II was largely efficient, if not ultimately effective. Yoshiro Miwa has long argued that this perspective is mistaken. Following Nobel Laureate George Stigler's distinction between state competence and its aims, Miwa contends that the Japanese government did not have the competence and institutional means to direct resources to the extent that many analysts claim. His painstaking research in historical materials, which include government archives, allows him to document the gaps between military objectives and those of economic planning, structure, and mobilization as the Japanese government prepared itself for the conflict. He finds that the government – despite its reputation for industrial planning – was ill prepared and draws from this study sophisticated lessons about the ability of governments to plan their economies.

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The Competence of the State

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Preface

I. The Competence of the State

Several years ago, I published a study of state competence based on data from late-twentieth-century Japan (*State Competence and Economic Growth in Japan*, Routledge Curzon, 2004). In it, I explored how well the Japanese government had planned and implemented growth-promoting policies – and found the government to have been largely ineffective. In work with J. Mark Ramseyer (*The Fable of the Keiretsu*, University of Chicago Press, 2006), I next asked whether the government would even have had the power to enforce such policies – and found it did not. In this book, I extend these studies to the 1930s and early 1940s. More specifically, I ask how competently the Japanese government planned and executed its wars against China and the United States.

In examining state competence, I draw on a literature begun by George Stigler in the 1960s. Adam Smith had expressed an abiding mistrust of government two centuries earlier, of course (Smith, 1776, p. 437). But as Stigler noted, Smith did not mistrust the government's ability (Stigler, 1965). Instead, he mistrusted its goals. Smith brought to his mistrust, explained Stigler, an undocumented and fundamentally unwarranted confidence in the competence of the state. Smith assumed that governments could implement their policies efficiently and effectively, however inappropriate they might generally be. And in making that assumption, Stigler concluded, Smith made his most fundamental mistake.

For all their vastly increased technical sophistication, Smith's followers, who include most professional economists today, retain his fundamental faith in state competence. Crucially, however, they adduce no evidence that governments can effectively plan or control economic activity. Sharing little

skepticism about governmental ability, they continue to expect the best of governmental intervention.

Granted, economists expect less of government today than they did a half-century ago. The collapse of the Soviet empire caused nothing if not an increase in academic skepticism toward government control. Economists pushed, successfully, the deregulation that one sees today in the advanced market economies. Expect too much of government, most economists now realize, and people can suffer. Even this, however, is not a uniformly held consensus. Some scholars still attribute the Soviet collapse to specific government missteps. The Soviet empire did not fail because of any inherent government inability to plan and direct economic ability, they suggest. It collapsed because the Soviet state made a series of specific policy errors.

I do not advocate a libertarian agenda, and I do not write this book as a partisan polemic. The smooth operation of the modern economy entails government intervention at a wide variety of levels. To choose the appropriate foci for government policy, however, one needs to understand accurately what governments can and cannot do. That understanding requires an empirical basis. And those empirics demand the careful study of when, how, and to what effect governments have intervened in the past. As one step in that broader empirical project, this book supplies a case study that contributes to a fuller understanding of government competence.

For Japan, World War II began with the invasion of North China in the 1930s and continued into the next decade with the war against the United States. That war offers an intriguing "laboratory" to study Japanese governmental competence. After all, governments direct wars. They decide whether to prepare for them, when to initiate them, how to execute them, and the terms on which to end them. Toward that end, the public sometimes grants them as much power as it can feasibly grant. And in Japan during World War II, the public did grant the state that maximum power.

What is more, many scholars assume that the Japanese government brought to the war an extraordinary ability to plan the economy. The economy had grown rapidly in the decades leading up to the war, and historians routinely attribute that growth to planning. Bureaucrats pursued the vision captured by the contemporaneous motto, "rich nation, strong army," historians argue, and the national growth reflected the success with which they did so.

The Japanese economy also grew rapidly in the 1960s, of course, and social scientists attribute that growth to government plans as well. Just as bureaucrats grew the prewar economy to realize a rich nation and a strong army, they grew the postwar economy through all-encompassing "industrial

policy." If this is true, then the government that entered the War with China and exited the war with the United States was a government with extraordinarily solid competence.

Although the past literature on other countries has sometimes mirrored this story, modern scholars have begun to question it. More specifically, they have begun to reevaluate the role that the 1930s governments played in Germany, the USSR, the UK, and the United States. Through this book, I extend this inquiry into Japan. Just as scholars of prewar governments in the West have begun to challenge assumptions of state competence, I do the same for the East.

Scholars of the wartime Japanese government conventionally begin with accounts of its strength. At least initially, according to this account, the government enjoyed widespread popular support. To execute the war, it arrogated to itself extraordinary powers. With that support and power, it planned for the war. Once the war began, it executed it according to its plans. It supplied its military machine by intervening in the economy and mobilizing its resources. And throughout the war it maintained close control over both the economy and the hostilities themselves.

Other than the government's own self-serving accounts, however, these scholars advance virtually no evidence for these claims. Nor, I find, could they have done so. The bureaucrats may have planned, but they did not implement most of the plans they made. When they did implement a plan, it seldom worked as anticipated. What the conventional account misses is the way wars rarely develop as governments anticipate. Once the fighting begins, events proceed in a fashion so unanticipated that the surprises swamp the preparations. The country that wins a war is rarely the one that plans most elaborately. It is usually the one that responds to the vicissitudes most sensibly and expeditiously.

In this book, I show that the Japanese government did not plan. It did not plan seriously for war with China. It had not bothered to collect the information it needed to mobilize the country. Once the war began, it did not exploit the resources it had. It had no real hope that the war would end, and if it did end it had no real idea how to structure events thereafter. It could see no credible reason for the war. It could identify no effective way to wage the war. Any plans it had made in advance it did not implement. In truth, it made its choices on an ad hoc basis, and the war itself quickly became a dead-end, a drifting war of attrition.

If the government did not plan for the War with China, neither did it plan for the war with the United States. Not having planned for the war, it mobilized its resources no more effectively than it had against the Chinese.

It had opened a second front that no one in the leadership thought it could win. With little information and no plans, it could not raise the supplies it needed. And with no plans, it faced unbalanced supplies, bottlenecks, and shortages.

The Japanese government did no better in Manchuria. From time to time, scholars have argued that its puppet regime in Manchukuo successfully implemented a planned economy. They argue that it built a massive manufacturing base for the Japanese military. In fact, once again the government implemented no substantial plans. The few supplies it produced in Manchukuo had little effect on the war it waged.

Indeed, government leaders could not even induce their Army and Navy to cooperate. The two military branches had long competed for control. Once the wars began, the chronic competition became an open dispute.

This leadership vacuum appears in the turnover within the government. Consider the period from July 1937 (when the War with China began) to December 1941 (Pearl Harbor). By the end of this period, the Army Central Command was on its sixth Strategy Section Chief, fifth Strategy Division Chief, and sixth Deputy Central Command. The Army was on its fourth Minister, its fifth Deputy Minister, seventh Military Bureau Chief, third Military (*gunji*) Section Chief, and fifth Military (*gunmu*) Section Chief. Indeed, the country itself was on its seventh Prime Minister (though Fumimaro Konoe held the post on three of those occasions).

Aircraft and strategic bombing played a crucial role in this war, and here too the Japanese government played an ineffective role. To build that air power, the Navy needed to develop and produce a wide variety of aircraft and equipment. It needed new technology. It needed raw materials. It fell to the government to foster that development and production. Yet this was a role in which the government failed.

That the government planned for the war incompetently casts doubt on the accounts of the decades before and after the war as well. Historians may claim that it structured the prewar growth to promote a policy of "rich nation, strong army." Social scientists may claim it structured postwar growth through industrial policy. But if – with vastly more authority and power than at any time before or since – it could not coherently prepare for war, then perhaps it did not plan much for peace either.

II. Myth of the Competent Japanese State

The preceding pages may surprise some readers, particularly if they are familiar with the dominant view about Japan during World War II, its

wartime economy, or its postwar recovery and high growth, which was established immediately after the war, under the Allied (or U.S.) occupation. This view remains the conventional wisdom even today, after more than half a century. It is symbolized in the enthusiasm and excitement both in Japan and abroad over John W. Dower's *Embracing Defeat: Japan in the Wake of World War II* (1999).[1]

The War with China began in July 1937. Despite the forecast of most Japanese leaders, it escalated rapidly to a full-scale, protracted war. With most soldiers on the Chinese front, the Army was trapped in a situation that seriously jeopardized the defense of the national border with the USSR. Even when Japan reached the limit of its war mobilization capacity in the autumn of 1938, the end of the war was nowhere in sight. Japan found itself in a long, drawn-out war of attrition from which it could not extricate itself and which rapidly drained its resources. Within a few years, Japan, by now economically exhausted, began the Pacific War against the United States and the UK.

Because of success stories about "democratization" under the Allied occupation after World War II, readers may be surprised to learn that Japan had become a democracy before the war. The conventional wisdom is that the Japanese government was competent enough to plan and enforce effective policies for postwar recovery and high growth. Yet that same bureaucracy – indeed, almost all the same bureaucrats – implemented the "war mobilization" with "wartime control" efforts.

This book is not a study of Japanese military history. It is a study of state competence. I am interested in the history of the war only to the extent that it enables us to understand what a government can and cannot do. Neither do I study the Japanese government of the time as a unique historical phenomenon: I study it to inform the debate on the competence and role of the state. As always, in order to be useful in informing policy, a study needs to have internal validity as well as external validity.

Many believe that the government, or the state, led not only the recovery and subsequent high growth in postwar Japan but also the remarkable economic development of prewar Japan. Implicitly, they believe that the Japanese government was competent enough to accomplish this. Although this apparently competent government led the country into a war of aggression that ended in a crushing defeat and chaos, the conventional wisdom asserts that it then led the country back to immediate recovery and high

[1] On this point, see Miwa and Ramseyer (2009a, pp. 364–6). For more details, see Miwa and Ramseyer (2005a, 2009a, 2009b).

growth. This is part of the package that development economists have urged the governments of developing countries to adopt. At the same time, however, seeing the ongoing stagnation in the Japanese economy, some economists now protest confusion over where the competent government has gone.

The more strongly readers believe stories of Japan's economic success, the harder they may find it to read this book to the end. Perhaps they are interested in Japan's success because it occurred outside of the West, outside of the formerly European colonies, outside of the Christian zone, and in a place quite remote from Western Europe. Perhaps they are interested in it because it was not accomplished by white Europeans. I wrote in the first of my books to be published in English (Miwa, 1996, p. 29): "Since the thirteenth century, when the description of Cipango or Zipangu in Marco Polo's book *Il Millione* set a definite goal for Columbus in his journey, Japan has been a rich source of imagination and myth, particularly for Westerners. Even today Japan still remains full of misunderstanding and mythification. I hope that this volume will push us in the direction of a fuller, more proper understanding of the Japanese economy."

III. Source Materials

This is a long book, and it is written to be read from beginning to end. For various reasons, however, many readers may find it hard to proceed smoothly through Part II on the government's plans and policies and then read the study of the Navy Air Force in Part III. The Introduction and Part I are written for them.

I based this book both on a monograph I published in Japanese (Miwa, 2008) and a companion paper (Miwa, 2007). The English-language audience obviously brings a different set of interests and approaches the topic from a different intellectual environment. Accordingly, neither this book nor its title is a straight translation of those earlier publications. Instead, I draw on discussions in the Japanese monograph that will most strongly interest the audience in the West.

Some readers may wonder why the book includes so much detail. I take this approach primarily because this book investigates state competence (rather than motives), for which it is necessary and appropriate to conduct detailed empirical studies. Three other factors argue for this level of detail: first, most issues under study are based on materials that were confidential during wartime and are unknown even today, primarily because of the predominance of the conventional wisdom; second, the conventional wisdom

about Japanese wartime control, assuming an outstandingly competent state, was established and widely accepted when state planning and control were believed to be effective and efficient; and third, this conventional wisdom about Japanese wartime control and postwar economic growth has been very persistent. Many readers will recognize that most literature advocating the conventional wisdom, such as Ando (1972), Nakamura (1989), Calder (1993), and Oishi (1994), rarely refers to detailed factual evidence. Instead, the authors rely heavily on a few principal stories.

Most source materials I use in this book are written in Japanese and have rarely been referred to in the past literature, particularly the English-language literature. Since the war, a large amount of source material has been translated into English. Obviously, however, it is only a selected part of that material. More importantly, the material translated reflects a bias consistent with the conventional wisdom that became established immediately after the war. Unfortunately, even many Japanese historians and political scientists have never referred to those materials.

In wartime Japan, most key information was kept confidential behind the wall of military secrecy. When the war was over, the (military) government ordered all military documents to be burned before the Allied occupation began. The Allied Powers, including the United States, the UK, and the USSR, eagerly amassed scattered materials and information and translated them into English. Obviously only a selected portion of that material has been published; more importantly, what has been translated and published reflects a bias consistent with the conventional wisdom that became established immediately after the war. One reason why I include many references and quotations is to provide basic materials in English, otherwise not a few would be frustrated with scarce materials available in English to think over the issues by themselves.

Readers may become skeptical to find so many references provided by former military personnel. This book is neither a war history nor a history of operations. Instead, focusing on systematic war preparations, war mobilization, and economic control, it pays major attention to central policies and decision making. As a result, most materials referred to here, such as Boeicho, *senshi-sosho* (Library of War History), and NAFHistory (*The History of the Japanese Navy Air Force*), are drawn from information and memoirs of key individuals, from those published for private circulation during the occupation period to those published in the 1990s. All have been subjected to careful cross-checking to establish their consistency and reliability.

Japan recovered independence in 1952, after which the Japanese government amassed the scattered war-related materials and information, notably

establishing Senshi-shitsu (the War History Chamber) in Boei kenshujo (the National Institute for Defense Studies) of Boeicho (the Japanese Defense Agency). In the 1960s and 1970s, it published "*senshi-sosho* (Library of War History)" in 102 volumes, each averaging 600 pages, a collection of materials on a variety of topics related to the War with China and the Pacific War. *Senshi-sosho* is not an official war history; it devotes more space to the Army than to the Navy, and only a little space to the Navy Air Force. For this reason, particularly in Part III on the Navy Air Force, I rely heavily on *The History of the Japanese Navy Air Force* (1969), published in 4 volumes, each averaging 1,000 pages, written by a group of former Naval Air Force personnel.

IV. Acknowledgments

Some readers may think it strange that an empirical (micro-)economist, specializing in the fields of industrial organization, regulation, and law and economics, should have written this book. Those who know the other books and research papers I have written, mostly in collaboration with Professor J. Mark Ramseyer, on prewar Japan and postwar government policies, will realize that I am finally tackling the one big issue I have left untouched. I may be an economist, but "if economists told stories about the economy they would be historians" (McCloskey, 1990, p. 40) – so I am a historian.[2]

I already had an interest in the function and role of the government and its policies in the mid-1960s, when I was a first-year undergraduate at the University of Tokyo. Professor Takafusa Nakamura showed specific evidence that was sharply critical of the dominant view about the Japanese economy from the second half of the 1920s to the 1930s. For me, this was the beginning of recognizing both the danger of easy acceptance of dominant views and the importance of evidence-based verification. It was also the beginning of my interest in the Japanese economy of the 1930s.

In Professor Ryutaro Komiya's class in the Economics Department, I learned that the effectiveness of a government's actions, especially its economic policies, should be confirmed by careful investigation: this set and defined the direction, content, and style of my academic life since my graduate student days. Because of this foundation, Stigler's (1965) basic message that it is more important to focus on "the competence of the state" than its "motives" resonated strongly with me.

[2] For more details, see subsection 1–2–1 of Miwa (2008). Also, for my commentary and evaluation of existing literature on relevant issues by "historians" and "economic historians," see subsection 2–5–2.

In 1998, after a long period of communication and cooperation, I began a ten-year joint research project with Professor J. Mark Ramseyer of Harvard Law School. This was a very fertile experience producing more than thirty articles and five books in English and Japanese. This book started as part of the joint work, but by mutual consent, after a certain point, I continued to develop it on my own. I obviously owe much to Professor Ramseyer's inspiration, from problem setting to development and conclusion. As an English editor, he made a tremendous contribution to the substance, style, and readability of this book.

Professor Leslie Hannah, now at the London School of Economics and Political Science, was a colleague in the Department of Economics at the University of Tokyo for three years until the spring of 2007. From him I learned a great deal, particularly about the conditions in Europe during the first half of the twentieth century. In various chapters of this book, readers will find evidence of a close encounter with his logical and transparent problem setting, breadth of vision, and wide knowledge.

A long time has elapsed since the original idea for this book began to grow. Over that period, many friends in many institutions have shared their ideas with me, both in conversation and through their comments on my drafts. Those who were particularly generous with their time and thoughts include Fumio Akiyoshi, Yoshitaka Fukui, Arnold D. Harvey, Shigeo Hirano, Hideki Kanda, Yoshitsugu Kanemoto, Motonari Kurasawa, Katsuji Nakagane, Hiroshi Ohashi, and Kazuo Wada. Above all, Professor Daniel F. Spulber of Northwestern University encouraged and supported me to write this book in English, and from him I received many helpful substantive and stylistic comments.

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Only half jokingly, I am often asked, "How do you ever begin to think of those problems, and develop and finalize all your papers and books?" I can only respond by referring to the dedication to my father in Miwa and Ramseyer (2006): "*To the memory of Shizuo Miwa – someone who behaves as I do never could have been raised without a dad like him.*"

Last, but by no means least, I thank my wife, Kazuko, for her understanding and forgiveness through the many evenings and weekends lost while writing this book. It is to her that I affectionately dedicate this book.

Abbreviations

AAF	Army Air Force
ACCom	Army Central Command
ACCommander	Army Central Commander
ACE	administrative-command economy
AM	Army Ministry
BNDP	Basic National Defense Policy
Boeicho	The Japanese Defense Agency
BOO	Basic Outline of Operations
CAC	Combined Air Corps
FY	fiscal year
FYOP	fiscal year operation plan
GM	general mobilization
GOCO	government-owned, company-operated
IH	Imperial Headquarters
IH-AD	Imperial Headquarters–Army Division
IH-ND	Imperial Headquarters–Navy Division
JSW	Japan Steel Works
KIAss Order	Imperial Order for Key Industry Associations
KICAct	Key Industries Control Act or the Act for the Control of Key Industries
MAP	Ministry of Aircraft Production
MCE	manufacturing capacity expansion
METI	Ministry of Economy, Trade, and Industry
MHI	The Manchurian Heavy Industries
MIM	Munitions Industry Mobilization
MIMAct	Munitions Industry Mobilization Act
MITI	Ministry of International Trade and Industry
MMPlan(s)	Materials Mobilization Plan(s)

NAF	Navy Air Force
NAFHistory	*The History of the Japanese Navy Air Force*
NCCom	Navy Central Command
NCCommander	Navy Central Commander
NGMAct	National General Mobilization Act
NM	Navy Ministry
NSC	National Strength Council (*kokusei-in*)
OR	Office of Resources
PCE	production capacity expansion
PCECmt	Production Capacity Expansion Committee
PCEPlan(s)	Production Capacity Expansion Plan(s)
PCEPolicies	Production Capacity Expansion Policies
PPS	Priority Production Scheme
SMR	South Manchurian Railways Company
"Special Aid" Act	Act on special aid for the weapons manufacturing business
TFCAct	Temporary Funds Coordination Act
TIEGAct	Temporary Import-Export Grading Act
TOMC	Temporary Office for Materials Coordination
WM	War Mobilization