

Cambridge University Press

978-1-107-02650-6 - Japan's Economic Planning and Mobilization in Wartime, 1930s–1940s:

The Competence of the State

Yoshiro Miwa

Excerpt

[More information](#)

---

## Introduction

### I

#### The Administrative-Command Economy Under Stalin's Dictatorship

The Soviet administrative-command economy was the most important social and economic experiment of the twentieth century. Its failure continues to reverberate throughout those countries in Europe, Asia, and Latin America that adopted it, either forcibly or voluntarily... The former administrative-command economies have had to confront their pasts as they make their transition to market economies. Empirical studies show that the heavier the imprint of the administrative-command system, the more difficult has been the transition. (Gregory, 2004, p. 1)

The confusion-to-collapse process of the administrative-command economies of the countries that were once part of the former Soviet Republic paralleled the development of deregulation in the majority of developed market economies, led by the United States and the United Kingdom.

What we witnessed in the former Soviet republics around 1990 demonstrated that an administrative-command economy will end in failure in the long run. "The opening of the formerly secret Soviet state and party archives in the early 1990s was an event of profound significance" (Gregory, 2001, p. vii). It enabled rapid progress in clarifying and understanding the reality of the mechanism of the Soviet economic regime during the period from the 1930s to the beginning of the 1950s, often referred to as Stalin's command economy. Berliner (2001) concludes: "[T]he archives have confirmed that the sources available to foreign scholars in the past, though not abundant and heavily censored, enabled them to draw a fairly accurate picture

Cambridge University Press

978-1-107-02650-6 - Japan's Economic Planning and Mobilization in Wartime, 1930s–1940s:

The Competence of the State

Yoshiro Miwa

Excerpt

[More information](#)

of the USSR in Stalin's time. . . . [O]ur understanding is now, because of the archives, much more complete, detailed, and nuanced."<sup>1</sup>

The picture of the USSR in Stalin's time confirmed by the archival evidence had not been widely accepted before the archives were opened. Unfortunately, this remains much the case, despite the newly revealed evidence.

The reality of administrative-command economy differs substantially from the one assumed in the economic regime controversy that had flourished since the 1930s. Its operation was by far more difficult than had been supposed. Facing tough realities of operating the economy, the government (or the state) as the planner from the start virtually adopted a decentralized system. A multilayered complex administration hierarchy was formed inside the government, through which its authorities were delegated to lower sub-planners. High-layered planners' control over lower-layered subplanners was neither easy nor necessarily strict. Economic agents such as producers, targets of planners' commands, were left great room for flexibility.<sup>2</sup> Direct transaction between "producers" did not disappear. Administrative commands with detailed specifics of the central government did not cover the whole economy, with which the content of its "plans" was strictly limited. Function and role of "plans" were limited as well.<sup>3</sup>

<sup>1</sup> Gregory and Harrison (2005, p. 724) write: "In terms of the real character of high-level decision making in the Stalinist state, archival documentation has given us completely new knowledge. This regime was indifferent to calculation, preoccupied by the need to punish and deter its enemies, and bent on implementing its decisions through a complex administrative hierarchy of agents motivated by threats and promises."

<sup>2</sup> Spulber (2003, p. xxi) writes, for instance: "After the collapse of Tsarism, the Bolsheviks nationalized all the means of production – creating in fact a *sui generis* state capitalism – instituting a centrally controlled system of employment on the basis of centrally fixed wages. . . . The Bolsheviks, rebaptized as Communists, assumed the whole power, but willy-nilly had to create a vast strata of managers and administrators – the *nomenklatura*. Notwithstanding its theoretical complete dependence on the Communist Party's commands and directives, the *nomenklatura* felt increasingly capable of cheating the system, falsifying the results of its assignments, and finally asserting extensive controls over the activities of their enterprises particularly in the 1980s."

<sup>3</sup> Gregory and Harrison (2005, p. 724) write: "Research in the archives has shown how decision-makers at every level actually allocated resources. They made it up as they went along, using intuition, historical precedent, and common sense. As befits a bureaucracy, there were plenty of formal rules, but the rules were constantly revised or overridden. Those at higher levels made formal rules, only to break them. Those at lower levels, unable to live without rules, relied on customary norms or rules of thumb. The flaws in this planned economy became apparent to its leaders almost immediately. Before the archives, we believed that official proposals for decentralizing economic reform began to circulate after Stalin's death: the first serious reform experiment actually dates back to 1932 and bears a strong resemblance to reform proposals after Stalin's death. But, like all those that followed, it was quickly frustrated."

Cambridge University Press

978-1-107-02650-6 - Japan's Economic Planning and Mobilization in Wartime, 1930s–1940s:

The Competence of the State

Yoshiro Miwa

Excerpt

[More information](#)*Introduction*

3

From approximately 1932 until his death in March 1953, Stalin was a true dictator: he had his way on every matter and was not afraid to abuse and humiliate those on whom he depended most closely (Gregory and Harrison, 2005, p. 724). Coupled with the memory of the “purges” in which he eliminated rivals, challengers, and opponents,<sup>4</sup> until recently the conventional wisdom about the Soviet economy had been widely accepted: First, it was an administrative-command economy under Stalin’s dictatorship; second, it operated efficiently as a “planned economy.” “The prevailing view of Gosplan<sup>5</sup> before the archives exaggerated its role, at least for the Stalin period, Gosplan was not an all-powerful director of resources; the power belonged to the dictator” (Gregory and Harrison, 2005, p. 728).

## Germany and the United States

During Stalin’s dictatorship, and in particular in the first half, public confidence in the function and role of the market was undermined all over the world. Simultaneously, government intervention was strongly demanded and enforced. The conventional wisdom that the government played an active and important role in the market in Germany and the United States as well prevailed for many years in the postwar period. In either country, however, has this view been critically reviewed.

The conventional wisdom about the Germany of this time was that when Hitler came to power in January 1933, during a severe recession, full-scale rearmament began.<sup>6</sup> Its critical review, however, began to appear very early

<sup>4</sup> “The Soviet regime’s brutal treatment of its own personnel, party, state, and military officials during the Great Purges of 1936–9 had no parallel in the history of the Nazi regime” (Rees, 2001, p. 59). It is often called the “Great Terror” (Rees, 2001, p. 57). The “attempts to reform the system were brought to a halt by the purges of 1936–1938. In every government department a large number of senior officials were dismissed, arrested, and often executed. In the State Bank, Mar’yasyn was arrested in July 1936 and subsequently executed. The purges affected its whole staff” (Davies, 2001, p. 75). “1936 saw the beginning of great purges in Russia: practically every old Bolshevik leader was executed or imprisoned, thousands – perhaps millions – of lesser Russians sent off to Siberia. In the following year the purge extended to the armed forces: Tukhachevsky the chief of staff, three out of five marshals, 13 out of 15 army commanders, and many others were shot after a secret trial or none at all” (Taylor, 1964, p. 112). The results of Stalin’s purge of the military that began in May 1937 “were catastrophic. The Soviet Union’s secret police devastated the air force’s officer corps and caused a paralysis that delayed the transition to a new generation of aircraft until 1941” (Murray, 1999, p. 115).

<sup>5</sup> Gosplan was the committee responsible for economic planning in the Soviet Union.

<sup>6</sup> “The Nazi government, it was commonly believed, had for six years concentrated the country’s resources on preparations for war. This was a tacit assumption of the diplomacy of the period, and a point of major emphasis in the voluminous writing on Germany” (Klein, 1959, p. 3).

Cambridge University Press

978-1-107-02650-6 - Japan's Economic Planning and Mobilization in Wartime, 1930s–1940s:  
The Competence of the State

Yoshiro Miwa

Excerpt

[More information](#)

after the war. In fact, Germany actually began full-scale rearmament after its economic recovery, around 1936.<sup>7</sup>

Overy (1994, pp. 16–17) writes: “This process should not be seen in isolation. State intervention and ‘planism’ was on the increase in all European economies. Arguments over the nationalization of industry emerged in Italy, France, and Britain in the 1930s... Nor should this development be seen as a crude ‘dualism,’ state on one side, and industry on the other.” He concludes, “The Nazi regime after 1936 was determined to transform the economy in ways which would serve the drive for empire and conquest.”

The same applies to the United States.<sup>8</sup> The major turning point in the growth of the federal government was the New Deal. “There was an ideological shift – from widespread skepticism about the ability of the central government to improve the functioning of the economy to widespread faith in the competence of the government” (Rockoff, 1998, p. 125). To shed light on the ideological preconditions for the New Deal, Rockoff explores the attitude of economists toward government intervention in the decade preceding the depression, and concludes: “Virtually all of the reforms adopted in the 1930s – minimum wages, social security, unemployment compensation, the Civilian Conservation Corps, and so on – had been championed by economists. When the depression came, moreover, economists played a major role in bringing their reforms into being by writing the legislation, testifying in support of it before Congress, and implementing the new programs... There is no justification at all for viewing the economists in the 1920s as doctrinaire defenders of laissez-faire” (Rockoff, 1998, pp. 125–6, 133).

<sup>7</sup> Taylor (1964) represents the beginning of the critical review of the conventional wisdom about the origin of World War II, including German rearmament in 1936–9 (the first edition was published in 1961). On this point, see Watt (1965). Klein (1959), which became widely known particularly through Taylor (1964), declared: “[e]ven a cursory examination of the official German data recently made available shows that the validity of these propositions is questionable.” This declaration follows the statement (p. 1): “Nearly all the economic and political studies of prewar Germany agreed on three major propositions: (1) that in the period before 1939 Germany had succeeded in building up a military machine whose comparative strength was enormous; (2) that a substantial part of the increase in production from the low level of the depression was channeled into the construction of huge war potential; (3) that all economic considerations were subordinated to the central task of preparing for war.” The study on which Klein (1959) was based was completed during 1946–8, and published as Klein (1948). On his work, see also Overy (1994, p. 18).

<sup>8</sup> The same also applies to the UK. Conventional wisdom about the UK has been critically reviewed and under reconstruction, concerning not only the one for interwar and war period with “disarming,” “appeasement,” and “liberal internationalism,” but also the one for its whole history of the twentieth century with “welfare state,” “declinist,” and “two cultures.” See the introduction in Edgerton (2006), p. 5~ in particular. One historian observes there is a sort of history of the UK that “explains an outcome which never happened... by a cause that is equally imagined” (Hannah, 1995, p. 248).

Cambridge University Press

978-1-107-02650-6 - Japan's Economic Planning and Mobilization in Wartime, 1930s–1940s:

The Competence of the State

Yoshiro Miwa

Excerpt

[More information](#)*Introduction*

5

Upon a careful review, Rockoff (1998, pp. 146–7) concludes:

[O]n the eve of the depression the economics profession (or at least an important segment of it) was ready with an arsenal of reform plans, ranging from minimum wage laws to industrial reserve armies, for the New Deal to use in its war against the depression. The general assumption that lay behind these plans was that markets frequently fail to produce socially desirable results, and that the central government was normally competent to diagnose and correct the problems created by unfettered markets. This assumption, massively reinforced by the depression itself, inevitably structured the debate over subsequent reforms, and constituted one of the most enduring legacies of the depression.

“In the postwar era”, he continues (p. 147): “the evolution of opinion (both professional and public) about the appropriate economic role of the federal government followed the inverse of the path described in the preceding sections. In particular, just as the depression of the 1930s encouraged the public to adopt the enthusiasm for government intervention already prevalent among leading economists, the stagflation of 1970s encouraged the adoption of a new skepticism about government already evident among economists at an earlier date.”

### Conventional Wisdom About Japan

A similar conventional wisdom became dominant in Japan. Here, however, there is very little sign of critical review or reconstruction, even in the twenty-first century.

The conventional view is that from September–October 1937, after the beginning of the War with China in July 1937, Japan's economic system rapidly came under direct state control. “Plan” and “planning” are the key words that characterize this era. This remains the dominant view today, both in Japan and abroad. The eight volumes of *The Japanese Economic History*, by leading Japanese economic historians, were published in 1989, as the former USSR collapsed. Takafusa Nakamura, the editor of the seventh volume, entitled “*Planning*” and “*Democratization*,” which covered the period 1937 to 1954, explained the historical background that prompted the government to put controls into action. Nakamura (1989, p. 9) argued that “because ordinary policy measures were recognized to be ineffective there was no other choice than to adopt direct control.” What is more, he added, “wide support for criticism of the capitalist system and pervasive negativity toward a laissez-faire economy” played a critical role.<sup>9</sup>

<sup>9</sup> Nakamura (1989, p. 9). For more details, see section 3–2.

Cambridge University Press

978-1-107-02650-6 - Japan's Economic Planning and Mobilization in Wartime, 1930s–1940s:

The Competence of the State

Yoshiro Miwa

Excerpt

[More information](#)

Immediately after the end of the Pacific War, under the U.S. occupation, this became the dominant view: the coalition government, led by the Socialist Party, implemented effective plans and planning, and interventionist policies such as *keisha seisan seido* (the Priority Production Scheme, PPS) were highly successful. Under the U.S. occupation, the experience (and success) of New Deal policies in the United States was accepted with enthusiastic support in Japan.<sup>10</sup>

What is peculiar to Japan is the persistence and influence of the conventional wisdom, and the strong support the idea of a socialist planned economy receives (“the praise of socialist planned economy”). While there was some weakening of support in the 1960s at the latest, this belief still remains strong in the twenty-first century. Little has been said in Japan about the reality of the Soviet economy under Stalin’s dictatorship; likewise, critical reevaluation over several decades of the economic policy and rearmament in the Nazi Germany, the U.S. New Deal policies, and the whole history of twentieth-century UK is little known in Japan. The substantial wall of conventional wisdom has effectively impeded the flow of information and the acceptance of alternative views.

The direct focus of this book is on Japan’s economic policies from the second half of the 1930s to the first half of the 1940s, its so-called systematic war preparations, war mobilization, and economic control. I also examine the competence of the state that conditioned them. The dominant view of the effective economic policies of this era characterized by such key words as “plan” and “planning” enforced by the competent Japanese government has indeed faced few serious questions leading to a critical review and reevaluation. As the dominant view, even today it receives wide public support, and its position as the dominant view remains solid.

The conventional wisdom about the effectiveness of plans and planning and the economic policies of wartime Japan are two sides of the same coin, mutually reinforcing each other.

## II

### Three Lessons from the Soviet-Type Administrative-Command Economy

Considerable time has now passed since the collapse of the Soviet Union forced the formerly socialist countries to make the transition from an

<sup>10</sup> See Miwa and Ramseyer (2009a, b), and for details, see Miwa and Ramseyer (2004a, 2005a).

Cambridge University Press

978-1-107-02650-6 - Japan's Economic Planning and Mobilization in Wartime, 1930s–1940s:

The Competence of the State

Yoshiro Miwa

Excerpt

[More information](#)*Introduction*

7

administrative-command economy (ACE) to a market economy. Until the 1960s, many people in Japan – particularly young people – regularly debated such topics as “When would the political balance between conservative and progressive forces be reversed?” “Capitalism or socialism?” “When would the capitalist system collapse?” “What are the ways and measures for promoting smooth transition to socialism?” For this reason, many Japanese who were young at the time may have a strong resistance to this observation and its long-lasting political influence as a bitter reminder.<sup>11</sup>

This book, which reviews the state's actions and economic policies in wartime Japan, and its overall competence, will prompt a similar reaction. The war is for many readers “the past they hate to remember.” However, this period of our history and these phenomena have been shelved for a long time. This book will newly investigate the reality and performance of these policies and undertakes a fundamental review of that era and phenomena.

Three lessons can be drawn from the failure of the former Soviet-type ACE and applied to economic policies in prewar and wartime Japan.

### Lesson 1: An Infeasible Request Beyond the Competence of the State

Reviewing the ACE under Stalin's dictatorship amounts to more than detailing how it ended in failure. The ACE was an economic regime adopted by many countries for a significant period of time. People all over the world became firmly convinced, in the 1930s at least, that the USSR's adoption of the ACE had been a huge success, and that it operated efficiently and effectively (the praise of the socialist planned economy). Many countries, fully or partially, followed suit. In other countries that did not adopt the policy, including Japan, many argued that it should be adopted – indeed, some still do so today.

What was the cause of the failure? Could the collapse have been circumvented by improving the operating mechanism? If the collapse was avoidable, then the failure was specific to the Soviet Union and the result of mismanagement.

<sup>11</sup> This book discusses neither socialist economy and the theory of socialist economic systems nor the “praise of socialist planned economy.” On these issues, readers who read Japanese should see Nakagane (2007, 2010). The former discusses the Chinese economic system, which closes (pp. 76–7) as follows: “If Churchill had lived twelve years longer, he would have said before his death, ‘the greatest misery of the Chinese people was that Mao Tse-tung was born in their country ... and the next one was that he had lived too long.’”



Cambridge University Press

978-1-107-02650-6 - Japan's Economic Planning and Mobilization in Wartime, 1930s–1940s:

The Competence of the State

Yoshiro Miwa

Excerpt

[More information](#)

The first lesson to be drawn from the experience of the ACE under Stalin's dictatorship is that it applies to ACE-type economic systems in general. The cause of the failure of the former Soviet ACE was not any defect or failure in management. Enforcing an efficient and effective socialist planned economy is an infeasible request beyond the competence of the state.

### Lesson 2: A Clear View of the Details

The failure of the ACE system was brought to light in the 1990s, after the opening of the formerly secret Soviet state and party archives. From the time of its adoption, the ACE system had consistently failed, even during Stalin's dictatorship. Even before its full adoption, the people concerned should have predicted the difficulties they would face with the system. However, the problems did not become evident immediately. The process from the detection of the problems to the adoption of countermeasures must have been long and complicated.

So what policy measures were adopted before the failure became evident to everyone? What was the consequence of individual policy measures that were adopted? What lessons did people draw from them?

From the initial stage of its adoption, a significant number of people clearly understood that it would be impossible to operate a full-scale ACE system effectively and efficiently. For this reason, from the start the ACE system actually adopted differed from the idealized ACE that most presume, in which an organization or institution such as Gosplan formulates the central plan that covers the whole economy, on the basis of which the government controls and operates the whole economy. Moreover, the system initially adopted had been continuously revised as needed.

Lesson 2 is twofold. First, the ACE system actually adopted had been from the start substantially different from the widely accepted idealized one. It had been continuously revised in response to difficulties and troubles. Second, to understand adequately the working mechanism and performance, it is of critical importance to look straight at the specific details of ACE system in action, including plans and planning.

The disregard and neglect of this lesson mean that the public has paid a high cost by leaving huge wastage unchecked for a long time. The conventional wisdom had support from a wide spectrum of public opinion, perpetuating a myth that substantially deviates from the reality of the Soviet-type ACE under Stalin's dictatorship. Under the Soviet system, from the beginning, the function and role of plans was limited, and features of a decentralized system were adopted.



Cambridge University Press

978-1-107-02650-6 - Japan's Economic Planning and Mobilization in Wartime, 1930s–1940s:

The Competence of the State

Yoshiro Miwa

Excerpt

[More information](#)

### Lesson 3: Misunderstandings Are Frequently Adopted as Conventional Wisdom

In the first half of the 1930s, the declaration that the USSR's first Five-Year Plan had achieved a remarkable success was widely accepted throughout the world. In many countries, it had an enormous influence both at the time of and even after the war.

In Japan, its influence became stronger after the end of the Pacific War. In the second half of the 1940s, the praise of socialist planned economy, together with success stories about plans and planning, became widely accepted and is still maintained today. If we call a view that deviates substantially from reality a bubble, both the conventional wisdom that the ACE system operated effectively and efficiently and belief in the effectiveness of a socialist planned economy are bubbles on a magnificent scale.<sup>12</sup>

Why did this misunderstanding about the alleged success of the ACE – which was not actually adopted – gain currency and wide acceptance? Why did it have such wide support for so long? It should make us wonder how many similar cases might have existed around us.<sup>13</sup>

## III

### The Competence of the State

The (ultimate) focus of my investigation is “the competence of the state” (Stigler, 1965). In some ways, this book is an extension of my *State Competence and Economic Growth in Japan* (Miwa, 2004). As George Stigler pointed out in his 1964 presidential address to the American Economic Association (Stigler, 1965, p. 4), Adam Smith distrusted not the competence of the state but its motives: The legislature is directed less often by an extended view of the common good than by “the clamorous importunity of partial interests” (1776, p. 437). What Stigler (1965, p. 4) considers “to be a

<sup>12</sup> Miwa and Ramseyer (2001, p. 431) wrote: “with its long lifetime, strength and depth of support, and vital force expected to continue for some time in the future, the ‘keiretsu’ bubble is the very foundation of a group of the conventional wisdom about Japan. Comparing with this, ‘mainbank’ bubble is at most a mini-bubble, ‘a baby tortoise on the back of her mother.’” See also Miwa and Ramseyer (2002c, e, and 2006).

<sup>13</sup> As Stigler (1988, pp. 111–12) wrote, once widely accepted and established, the dominant view “is guaranteed a measure of immortality. Its decline in popularity is more often due to changing interests than to contrary evidence, no matter how powerful that evidence may be.” The fourth question (for the reader) may be, “How large is the cost to have supported the conventional wisdom which is a misunderstanding, and to continue to support it further?”

Cambridge University Press

978-1-107-02650-6 - Japan's Economic Planning and Mobilization in Wartime, 1930s–1940s:

The Competence of the State

Yoshiro Miwa

Excerpt

[More information](#)

more important weakness in Smith's position. however – his undocumented assumption that the state was efficient in achieving mistaken ends – was not only accepted, but emphatically reaffirmed by his followers.”

Smith's intellectual heirs did little to advance this state other than to repeat his claims endlessly. It was Stigler who noted that we lacked a usable theory of social and political control of economic activity. Both by exhortation and example, he urged us to study state intervention in economic activity empirically. To do all this when so many scholars and voters seem to support “big government” took extraordinary intellectual courage, but this was courage typical of Stigler.<sup>14</sup>

### The Competence of the Japanese State: War Preparations and Mobilization

Like my previous work, Miwa (2004), which placed the ultimate focus on the competence of the state, this book focuses directly on the behavior and function of the state related to its competence.

In Part I of Miwa (2004), I investigated the reality of the state's function and role in promoting the machine tool industry that formed the basis of the wartime economy, and evaluated its performance. This new book investigates the reality of the state's function and role – that is, policies as a whole, called “plans,” “preparations,” “mobilization,” and “control,” in relation to wars (and national defense) during this era, often expressed as systematic war preparation, war mobilization, and economic control – and evaluates its performance. Unfortunately, because of Japan's defeat in war, and in particular the “postwar processing,” including the dismantling of the military, it became extremely difficult to conduct this kind of ex-post investigation and evaluation.

Concerning the selection of examination objects, I wrote in Miwa (2004, p. xix):

If ever there were circumstances that would have given regulators the resources they needed to implement national policy, they were there in the early years of the

<sup>14</sup> Unfortunately, the state lacks many of the incentives to avoid inefficient (or simply infeasible) projects that individuals and firms face. Myriad empirical questions follow. When can the state competently fill a public order? How does a given agency behave when it receives an order that it cannot competently fill? Will it refuse to supply it or try to dissuade legislators from making demands? When might an agency pretend to fill an order that it understands to be impossible but later report as a success on the basis that most people have long forgotten the order? Will the public in fact have forgotten? When will it remember? More broadly, when and how will voters monitor the state? For more detail on this issue, see Miwa (2004, pp. xvi–xviii).