Janet Hunter

Introduction: special section: "regime change in public finance: the case of interwar Japan"

Article (Published version)
(Refereed)

Original citation:
Hunter, Janet (2015) *Introduction: special section: "regime change in public finance: the case of interwar Japan".* Asiatische Studien - Études Asiatiques, 69 (2). pp. 419-422. ISSN 0004-4717

DOI: 10.1515/asia-2015-0024

Special Section: "Regime Change in Public Finance: The Case of Interwar Japan"

Janet Hunter

Introduction

DOI 10.1515/asia-2015-0024

The global financial and economic turmoil of the early twenty-first century has stimulated a renewed interest in earlier world financial crises, in particular the Great Depression that followed the Wall Street Crash of October 1929. The three meticulously researched papers that appear here are significant additions to this literature, shedding new light on Japanese financial, monetary and fiscal policy in the interwar years. As might be expected, they are diverse in their specific focus of analysis, but in all cases they are far more than just specialist studies of Japanese policy in one particular period, illuminating though that would be. They help us to locate Japan in a global and international context; to understand the extent to which Japan was increasingly an international player whose policies mattered to others; and encourage us to think about how a greater understanding of Japan not only contributes to global history, but can also stimulate both cross-temporal and cross-country comparative history. While the specific time periods on which the authors focus also vary, the three papers share an ability and willingness to consider that time period in a longer term context – back to the Meiji period and the late nineteenth century, and forward through the high growth period to the 1990s – in appropriate recognition of the importance of the ongoing historical dynamic without which any analysis of institutional change is likely to be rendered meaningless. What also becomes clear is the extent to which monetary, financial and fiscal policies are integral parts of a broader policy package of mutually reinforcing and conflicting components.

Andrea Revelant's paper focusses on Japan's efforts at fiscal reform, particularly in the 1930s. The tax burden in Japan was historically low and very unevenly distributed, and the authorities were faced with the dilemma of how to increase government revenue (and stabilise public finance) without damaging the

Janet Hunter, Department of Economic History, The London School of Economics and Political Science, Houghton Street, London WC2A 2AE, UK. E-mail: j.e.hunter@lse.ac.uk

economy, while at the same time addressing the distributional issue and not further overburdening the rural sector or the growing middle class. As Revelant shows, attempts to undertake a radical structural reform of taxation foundered on an ongoing desire to foster the growth and competitiveness of the industrial and urban sector, at least until the growing pressures of war after 1937 eventually pushed for larger government in conjunction with economic growth. Despite this, however, the wartime years failed to mark a complete discontinuity in fiscal policy, with elements of the same dilemma persisting through postwar decades, albeit masked to a certain extent by rural subsidies and high rates of national growth.

As with fiscal structures, the interwar monetary regime that is the focus of Steve Bryan's paper also owed a great deal to the pre-First World War decades, with Japan initially joining the British-dominated international gold standard in 1897. As Bryan argues, however, there were fundamental changes in gold standard practice and discourse after its suspension during the war years. As the industrialised countries in the early 1920s pondered whether or not to return to gold, and, if so, at what parity, they did so in a new context, in which strict rules replaced the ability to exercise discretion, and national objectives were increasingly subjected to international constraints. Above all, the interwar gold standard regime replaced the expansionism and free trade associated with the pre-World War I system with an emphasis on contraction and protectionism. Given the price rises of the war years, Japan could either have allowed the exchange rate to depreciate or try and bring down its prices, and Bryan argues that the stated desire to return to gold at the prewar par, achieved to disastrous effect in January 1930, was ultimately a search for affirmation overseas, supported at home only by financial institutions, the national media and a relatively small number of well-off Japanese, to the detriment of the broad mass of Japanese citizens.

Mark Metzler's paper, which also focusses primarily on the years up to 1932, takes further the binary conflict between positive and negative fiscal and monetary policy, between expansionism and contractionism, identified in the other two papers. Metzler argues that analysis of Japanese policy-making in the period 1913–1932 shows that apart from broad policy swings of the kind associated with crisis, war and revolution, it is possible to identify shorter-term policy swings in line with changes in party politics and cabinets, that is, policy swings within a single policy regime that are not just characterised by opportunistic opposition, but are based on a consistent set of policy differences. Budgetary expenditure was a core area of debate between different political strands, and these debates were in turn reflected in other areas, including monetary and exchange rate policy, fiscal policy, social and industrial policy, and even diplomatic and military policy. Like Bryan, Metzler identifies the extent to which international influences tended to reinforce the "negative" or "contractionary" policy set, something also found in the binary “reformist vs. conservative” frame of mind that contributed to the faltering of radical proposals for tax reform in the 1930s described by Revelant.

Together, therefore, these papers are more than the sum of their parts. They do a great deal to help us understand better the swings and tensions within Japanese economic policymaking in the interwar years, and how they may be located in a longer term historical dynamic and in international and comparative context. Metzler goes as far as comparing the policy swings of the 1920s with those of the 1990s. We are, of course, left with many remaining questions, as the authors themselves would be the first to acknowledge. What remains particularly unclear, perhaps, is the nature of the fundamental motivations underlying the various policy prescriptions that were put forward. There is abundant evidence of the importance of vested interests, the chance of economic or political gain, and genuinely held beliefs. Financial interests, for example were often at odds with industrial ones, but involvement in international trade and monetary flows might change that configuration of interests. Much remains to be done to understand how the overall policy package identified by Metzler came together, and could be sustained in the face of fluctuating circumstances. Moreover, economic decisions, as we know, are influenced by perceptions and not just reality, and game theory can perhaps take us only so far in understanding why particular policies are advocated or adopted. Bryan does venture into this area, suggesting that when it came to determining an appropriate parity for returning the yen to gold, the bottom line was that any suggestion that the exchange rate might be allowed to depreciate was identified with moral fallibility, and, above all, seen as an indicator of Japan’s lack of international prestige. And this is where a tension between perception and reality that dominates this period of Japan’s history becomes apparent, as the desire for international status and prestige was in many respects at odds with Japan’s economic status in the interwar years. As Revelant emphasizes, it was far more difficult to address the issues of fiscal reform given that Japan was still a relatively low income country with a large rural population and an ongoing need to sustain urban and industrial development, particularly in the years prior to 1932, when the exchange rate policy had only served to exacerbate the effects of the international depression. This still “developing economy” status underlay many of the tensions in Japan’s economic and financial policy through much of the interwar period, and severely constrained the ability of all Japanese policymakers to act in ways that both they, and their international counterparts, might regard as desirable. None of the authors here comment specifically on the mismatch between Japan’s weak economic fundamentals and her ambition for international respectability, status and power, something which was to shape the course of the Pacific War, but Metzler's analysis of earlier policy shifts could, perhaps, be usefully continued through the 1930s to shed further light on this area. Whatever the case, these three carefully researched and innovative papers take forward our understanding of this crucial period for the international economy, and Japan's role within it, and lay down new research agendas for the future.