

THE AMERICAN ECONOMIST MARTIN
BRONFENBRENNER (1914-1997)
AND THE RECONSTRUCTION OF THE JAPANESE
ECONOMY (1947-1952)

(A VERSION FOR PRESENTATION IN EAST ASIA)

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Abstract of

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Martin Bronfenbrenner (1914-1997) was an American economist who was conversant with Japanese counterparts and well informed in Japan's economics and economy. This paper aims to examine how he managed to communicate with Japanese economists when he visited Japan (three times) during the period immediately after the conclusion of the Pacific War (1941-1945). It also discusses his caustic criticism of the monetary expansion policy started by Japanese Finance Minister Tanzan Ishibashi to bolster up the national reconstruction strategy. It also sheds light on his other activities in Japan and East Asia as a liaison to the Shoup Tax Reform Mission (1949-1950) and a consultant to an UN organization in Bangkok (1951-1952). It will conclude that one of Bronfenbrenner's first and most important missions in post-WWII Japan was to meet several Japanese modern economists and try to communicate with them on economic issues based on a common knowledge of economics. By sharing his experience in Japan, many economists received new insight of economic knowledge and actual policy implementation by conducting their missions for the recovery and reconstruction of a national economy.

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Introduction

Martin Bronfenbrenner (1914-1997) was an American economist who was conversant with Japanese counterparts and well informed in Japan's economics and economy. Among his many publications in academic journals were a series of papers on "economic Japanology", lecture manuscripts for specific audiences unpublished at the time of his death, and his autobiography, which explores the background of his publications on Japan and his related social activities. By using both published and unpublished materials, this paper aims to examine how he managed to communicate with Japanese economists when he visited Japan (three times) during the period immediately after the conclusion of the Pacific War (1941-1945). It also discusses his caustic criticism of the monetary expansion policy started by Japanese Finance Minister Tanzan Ishibashi to bolster up the national reconstruction strategy based on the so-called priority production system, which itself was based on the so-called Austrian idea of a roundabout method of production (for the increment of productivity). It also sheds light on Bronfenbrenner's other activities in Japan and East Asia as a liaison to the Shoup Tax Reform Mission (1949-1950) and a consultant to an UN organization in Bangkok (1951-1952).

After 1952, Bronfenbrenner continued his travels in East Asia and helped a number of Japanese economists conducting research in U.S. universities and participating in a conference of the Econometric Society. He stayed at Kobe University during 1963-1964 and Kyoto University in 1980, visited Taipei to give lectures in 1979, and gave a series of lectures on "Economic Doctrines" at Nankai University, Tianjin, in 1982. Because of his appointment at the newly established Graduate School of International Politics, Economics and Communication of Aoyama Gakuin University in Tokyo in 1984, *American Eastern Economic Journal* decided to publish 'A Conversation with Martin Bronfenbrenner' (1987a), in which he talked about some of his experiences in the 1940s and the early 1950s—how he had learned Japanese during WWII and what he had done in Japan after the end of the Pacific Campaign. After 1984 he resumed intensive communications with his old Japanese friends and, in response to frequent requests, collated his recollections of WWII and the period following and published a selection of them.

Returning to the USA in 1991, he occasionally taught freshmen an introductory course in economics at Duke University because he believed that this was how an economist should

live. He donated to Duke University his library of books, reprints, memorial collections written mainly in Japanese such as Shibata (1987), and manuscripts of his lectures. He was elected a distinguished fellow of the American Economic Association (AEA) for 1997 (AEA 1998). After his passing, Craufurd Goodwin wrote his obituary (1998) for the British *Economic Journal*. A roundtable session in memory of Bronfenbrenner was organized at the annual meeting of the History of Economics Society at Montreal, Canada, in 1998 (Bronfenbrenner et al., 1999). His former Japanese colleague, Hiroshi Ohta, contributed his fond memories of Bronfenbrenner to the special 1999 issue of *Duke Economic Journal*, which consisted mostly of essays written for the memorial gathering held at Duke University. Bronfenbrenner (1983, 50) described his own principal contributions: 'Assisted in keeping general economics alive and making Japanological economics respectable'. However, enough has not yet been published on his contributions in these fields or his intellectual connection with Japan.

The first of the following sections looks at the twentieth-century economist paper project at U.S. universities. The next examines Bronfenbrenner's training as a professional economist and his intellectual relationship with the economists at the University of Chicago as well as his own humorous description of his graduate student life (as a would-be financial journalist). His Japanese-related activities are then traced in chronological order, starting with his training as a language officer and his first communication with a Japanese economist at Kyushu University in 1945. He started to pay attention to Ishibashi's monetary policy prior to his second visit to Japan. During 1949-1950, he stayed in Tokyo as a tax economist of the Economic and Scientific Section (ESS) and the Finance and Public Finance Section under the Supreme Commander for the Allied Powers (SCAP)¹ as well as a liaison to the Shoup Tax Mission and Japan's Ministry of Finance. He also participated in regular seminars at Hitotsubashi University. In November 1949, he and the ESS staff visited Ryukyu (Okinawa) to monitor its economy. During 1951-1952, he joined the Economic Commission for Asia and the

¹ SCAP stood for the Supreme Commander for the Allied Powers and referred to General MacArthur himself and to the staff of his Tokyo Headquarters. Japanese usually referred to SCAP as GHQ.

Far East (ECAFE), an umbrella organization of the United Nations (UN) in Bangkok, Thailand, which would expand to become the Economic and Social Commission for Asia and the Pacific (ESCAP). In the summer of 1952, he visited Kyoto and gave a series of lectures thereby establishing intellectual ties with many Japanese economists. Finally, we will draw some conclusions.

The Twentieth-Century Economist Paper Project

In the 1990s, Duke University, a major center of research into the history of political economy, started the “Twentieth-century Economist Project” by calling for papers and manuscripts written by economists who had made significant contributions to the development of economic science (Weintraub et al., 1998). At the beginning, historians of economics were amazed by the papers, manuscripts and correspondences donated by economic theorists who mostly worked for universities and served on the editorial boards of scientific journals. They were afforded a behind-the-scenes glimpse of the creation of cutting-edge economic theory in the age of scientific journals, so different from that in the age of books and/or monographs, as described below (Ikeo, 1993). Historians of economics were fascinated to read a wide variety of documents included in the K.J. Arrow Papers, the Georgescu-Roegan Papers, the Don Patinkin Papers, etc. These distinguished donors were all well-known to the international forum of economists thanks to their scientific contributions to the field of economics.

Duke University also began to receive other types of papers from professional economists working at the Federal Reserve Bank and in other areas of the American public sector. Whilst such economists are well known in the USA because of their obligation to author important statements regarding U.S. monetary policy when necessary, they are relatively less known outside of the USA. The Arthur I. Bloomfield Papers are such an example. The donor was a research economist at the Federal Reserve Bank of New York, who had headed several official missions to East Asia and assisted local authorities in the shaping of new foreign exchange regimes and banking institutions. His mission concerning the constitution of a new central bank in South Korea (established in June 1950) was regarded as his most successful

mission by Michele Alacevich and Pier Francesco Asso (2009). The Arthur I. Bloomfield Papers include the manuscripts of lectures to limited audiences and his official correspondence (carbon copies of all the outgoing letters from the NY Fed and some incoming letters). For example, in his letter of 29 November 1951, Bloomfield cheerfully informs Bronfenbrenner that he plans to meet him and his Japanese wife in a couple of months in Bangkok.

The research in this paper also draws heavily on papers submitted by the economists who had taught Bronfenbrenner at the Graduate School of Economics, the University of Chicago, and had corresponded with him after he left Chicago. For example, the Jacob Viner Papers (Princeton University), which became available to researchers outside of the university in December 2006, included his correspondences with Bronfenbrenner and many distinguished economists and former students, as well as a part of the materials used in a number of governmental meetings on U.S. monetary and commercial policies held in the 1930s.

The Duke University library received Bronfenbrenner's unfinished autobiography (1997) from his family and added it to the Martin Bronfenbrenner Papers preserved in its Special Collections section. His autobiography includes a formerly-untold story about how he spent his student life at the University of Chicago in the 1930s and what he thought when he observed Japan's economy and policy during the occupation period of 1945-1952. Thanks to these unpublished materials, we can firmly discuss issues which hitherto were implied in published articles and books but were too indefinite to handle scholarly.

Simultaneously, in order to understand how Bronfenbrenner managed to communicate with Japanese economists right after his first meeting with one in 1945, we should consider the development of a new economic science that makes more use of mathematics and statistics in research as well as the beginning of the age of periodicals with its smooth distribution of internationally-oriented economics journals by surface mail starting around 1930. In retrospect, the year 1930 was especially important for the conscious internationalization of the economics profession not only in Japan but also in many countries, especially in Europe and North America. As discussed in previous publications (Ikeo, 1993; 1996c), economists swiftly laid a foundation for the formation of their world community after 1930. For economists in Japan and throughout the world, periodicals and journals became more important than published books

as a means of professional communication and exchange of new ideas and analytical results. Japanese economists emphasized the impact of the three internationally-oriented economics journals, namely *Econometrica* (1933), *Review of Economic Studies* (1933), and *Zeitschrift für Nationalökonomie* (1930). Under their influence, several young Japanese economists were encouraged to become involved in theoretical and mathematical economics rather than alternative non-mathematical approaches. The tendency was not restricted to Japanese economists but also true for the internationally-oriented economists such as Henry Schultz, who supervised Martin Bronfenbrenner's thesis at the University of Chicago. There has been an apparent tendency among these scholars to favor the theorizing and modeling of economic ideas and statistical studies of economic issues rather than the descriptive, historical approach to economics.

The Training at the University of Chicago

Martin Bronfenbrenner was born in Pittsburgh, U.S.A., in December 1914. In 1934, he received his A.B. in Political Science and Economics from Washington University (St. Louis) and entered the Graduate School of Economics, the University of Chicago. It is worth noting that the university decided to give the talented 20-year-old a Hillman Fellowship grant and then the University Fellowship for his graduate study of economics. At Chicago, this very brilliant young scholar was taught by outstanding professors such as Frank Knight (1861-1933), Henry Simons (1899-1946), Henry Schultz (1893-1938), Jacob Viner (1892-1970), and Paul Douglas (1892-1976).

Bronfenbrenner also met many promising students who would eventually become more distinguished economists than their professors. Bronfenbrenner (1987; 1997) listed among his Chicago fellow-students four future Nobel Prize winners (Milton Friedman, Paul Samuelson, Herbert Simon, and George Stigler), one future Chairman of the Council of Economic Advisers (Herbert Stein), one future President of the University of Rochester and Assistant Secretary of State for Economic Affairs (Allen Wallis), and two future high officials of the future United Nations secretariat (Sune Carlson and Jacob Mosak). Bronfenbrenner was most dazzled by

Samuelson. Bronfenbrenner (1997, 7-11)² said, ‘Overworked by the brilliance of the undergraduate Samuelson, I had been reassured by Douglas that “You needn’t be a Samuelson to get along in Economics” — the best academic advice that I have ever received’. Bronfenbrenner, full of elitist pride, confidently lived a different professional life from theirs as a general economist with a bird’s-eye view of how economies and economics would work and how real institutions would matter in making economic policies.

The vivid memories and somewhat sarcastic expressions in Bronfenbrenner’s autobiography (1997) are worth quoting to describe his graduate student life, his intellectual ties with the economists at Chicago, and the pre-history of the so-called Chicago School of economics.³

First, based on Bronfenbrenner’s publications (1962; 1997), we should emphasize that the “Chicago School” did not exist before he left the university in 1937 (to be discussed later). There were economists with diverse research interests and ideas at the university. Yet he found an early sign of the “Chicago School” in Simons’s lectures. In his first fall at Chicago, Bronfenbrenner (1997, 7-3) took Simon’s course, what he called the introduction to “formal” economic theory:

More than any other member of the “Chicago School” of economics – a term I never heard at Chicago! — Simon was in love with a competitive-market model of the economy ...The self-regulation market mechanism was a good thing itself. When monopolies interfered, society should break them up and pay the costs of “inefficiency” — scale economies or even innovation foregone.

If price and output levels fluctuated too much under a gold standard or a fractional-reserve banking system, substitute a managed currency and impose hundred-percent reserve requirement on the banks! If the market’s distributional results were what he called

² Bronfenbrenner’s biography (1997) was paginated chapter by chapter. Therefore, (7-11) means chapter 7 and its page 11.

³ Historical studies on the Chicago School includes Emmett ed. (2002; 2010) and Mirowski and Plehwe eds (2009).

“unlovely,” remedy them by personal-income tax reforms simply because of their unloveliness. If incentives to invest in either physical or human capital were reduced by his reforms, if employment, production, and growth should suffer – these were only minor costs of justice and virtue.

Outsiders like the author could imagine how Simon gave brilliant students his conversational lectures also by looking at his course syllabus “Economics 201” (1932) and his papers included in Emmett ed. (2002). Simon’s “laissez-faire” thinking and rhetoric mesmerized Bronfenbrenner and other students, and gradually revived in the American academia after the period (a couple of decades long) ruled by “Keynesian revolutionary” ideas was passed.

In the winter semester, Bronfenbrenner registered for Jacob Viner’s course in international economics. Viner used the materials which were to become his masterpiece *Studies in the Theory of International Trade* (1937) while he attended governmental committees on economic and financial policies in Washington during the time when he had no classes. It seems that thanks to taking Viner’s course, Bronfenbrenner could fix the Ryukyuan yen in 1949 and then managed to join ECAFE (ESCAP) in Bangkok, Thailand, during the period 1951-52.

Bronfenbrenner (1997, 7-3, 4) took Henry Schultz’s course and commented on the professor,

Henry Schultz ... was ... a quiet member of the Department’s New Deal minority. Professionally, he was its major empiricist, interested in the econometric problems of what demand and supply curves actually looked like, and how they shifted over time. His lectures were largely in the “general equilibrium” tradition, singularly clear, meticulously prepared, and supplemented by blackboard math and diagrams beautifully written or beautifully drawn.

Schultz was well known in Japan as the author of *Statistical Laws of Demand and Supply, with Special Application to Sugar* (1928) and scientific papers published in the *Zeitschrift für Nationalökonomie* and *Journal of Political Economy* (Schultz 1927). Schultz wrote his signature on

the title page of his 1928 book and sent it to Eiichi Sugimoto (1901-52)⁴, which is now located in the library of Hitotsubashi University. Bronfenbrenner and the Japanese economists of his generation came to share the economic research tradition of Walrasian general equilibrium approach and the interest in theory of money and it later helped him share economic knowledge with Japanese economists during his stay in Japan in the post-WWII period.

Bronfenbrenner completed his 391-page dissertation thesis entitled “Monetary Theory and General Equilibrium”, under the strong influence of his supervisor before Schultz’s sudden death at 46 in 1938. As suggested in the title, his thesis was a vast survey of his contemporary analytical achievements in general equilibrium approach and the theory of money. His list of references includes books in French including Léon Walras’s *Elements d’économie politique pure* (1874-77) and its definitive edition (1924), Italian writings by Luigi Amoroso and Vilfredo Pareto, German articles including Hicks (1932), and Kei Shibata’s critical review article (1937) on J.M. Keynes’s *General Theory of Employment, Interest and Money* (1936).⁵ Oskar Lange, another

⁴ E. Sugimoto, associate professor of the Tokyo University of Commerce, was sent to Germany by the Japanese government to study economics in 1929 and 1930. After studying the German language for more than four months, he entered the University of Berlin. During the fall semester of 1929-30, he attended lectures by W. Sombart, F.v. Gottl-Ottlilienfeld, E. F. Wagemann, and Lorenz as well as the seminar run by Wagemann. He attended the Research Institute for Business Cycles, whose president was Wagemann. During the spring semester in 1930, he attended lectures by Wagemann and Bortkiewicz (Tanese 1953). Sugimoto published his *Study on the Law of Demand for Rice* (1935, in Japanese) with reference to Schultz’s *Statistical Laws of Demand and Supply, with Special Application to Sugar* (1928), H. L. Moore’s *Synthetic Economics* (1929), W. S. Jevons, F. Y. Edgeworth, E. W. Gilboy, etc. (Ikeo 2011b).

⁵ Lange replaced Schultz teaching economic theory and mathematical economics. He had a socialist inclination in the debate over economic calculations in a socialist economy and published his *On the Economic Theory of Socialism* (1938). He was at the University of Chicago during 1939-45. He was interested in reading Shibata’s papers which appeared in *Kyoto University Economic Review* in the 1930s. Lange was the first Western economist who paid attention to Shibata. Lange in his ‘Marxian economics and modern economic theory’ (1935) had referred to Shibata’s ‘Marx’s analysis of capitalism and the general equilibrium theory of the Lausanne School’ (1934). Lange basically called Walrasian general equilibrium theory “modern

general equilibrium theorist and the author of *Price Flexibility and Employment* (1945), moved Chicago from Boston in 1938 and suggested that he look up Shibata (1937) (Bronfenbrenner 1987b). Bronfenbrenner's thesis was written prior to the publication of J.R. Hicks's masterpiece *Value and Capital* (1939) although he referred to several of Hicks's journal articles. Later he helped Don Patinkin, who obtained a Ph.D. degree from the University of Chicago around 1947, to write the manuscript of *Money, Interest and Prices* (Patinkin, 1956). He was a general equilibrium economist, like Hicks and Patinkin, in favor of expressing a coordination of various economic activities via responding price signals in a market economy by using discrete models with metaphor of a series of theoretical "weeks" in analysis of market coordination of individually made economic decisions in consumption and production. Although he received his Ph.D. from the University of Chicago in June 1939, he felt that, without his mentor, he had become an orphan in the community of economists.

Paul Douglas hired Bronfenbrenner as one of his assistants in statistical studies for estimating the coefficients in Cobb-Douglas production functions (Biddle, 2011). In this way Bronfenbrenner gained the skills necessary for collecting research data and gained knowledge of real institutions such as trade unions. Douglas had three fields of specialization, namely Labor Economics, Income Distribution, and Comparative Economic Systems. Bronfenbrenner had taken Douglas's course in Comparative Economic Systems, which dealt largely with Marxism, in the spring of his first graduate year and found an overlap with the Comparative Political Systems course he had taken at Washington University. Douglas's *Theory of Wages* (1934) was basically a theoretical study of the labor share of the income distribution rather than a factual study of labor market (Bronfenbrenner 1997, 7-4).

It is also important to note that the Keynesian revolution arrived in Chicago and the rest of the USA right after the publication of Keynes's *General Theory* in January 1936. Bronfenbrenner (1997, 7-9) explored the Chicago economists' response to Keynes (1936) and, in

economic theory". Lange served as the first ambassador of socialist Poland (Polish People of Republic) to the USA during 1945-46, and as the first delegate of Poland to the UN Security Council during 1946-47. (See Emmett ed. 2010; Walter D. Fisher, 1966; Kowalik 1987)

spite of reading Shibata's critical review, his own conversion to Keynesian came after 1939 (he re-converted in two decades):

My graduate-school years spanned the "Keynesian revolution" in macroeconomics – the economic theory of income and employment. When I came to Chicago in 1934, Keynes was known to specialists, but "Keynesianism" meant nothing at all. By the time I took my degree (June 1939), Colonel McCormick of the *Chicago Tribune* had called Keynes "the Englishman who rules America" and "Keynesianism" was a label to conjure with – even among those with no idea of what Keynes had said, what he meant, or how his name should be pronounced.

Copies of Keynes's *General Theory of Employment Interest and Money* accompanied into Chicago the followers that bloomed in the Spring of 1936. Having already completed course work in that general area but not the comprehensive examination covering it, my immediate reaction was that I had best hurry up and pass that examination before my examiners could hold me responsible for the contents of "Keynes's new book."

The Pacific Campaign of WWII started in December 1941. Bronfenbrenner decided to volunteer to serve his country before being drafted (Bronfenbrenner 1987; 1997). It seemed to him in the late fall of 1942 that there were two options open to him: to be a weather officer (meteorologist) or language officer. After scrutinizing these options more closely, Bronfenbrenner realized that only the Japanese language was open to him. Bronfenbrenner enrolled in the Naval Training School in Oriental Languages (NavTraSch OrLang), which was located on the University of Colorado campus at Boulder and registered for a fifteen-month intensive course. He was confident with his own language ability (this was why took up Japanese) and Japanese became his third language, with his second being French, and his fourth and fifth were German and Italian (personal communication with Teruko on 18 March 2009). He graduated from the language school around May 1944, three months behind schedule because of a minor illness. A few months later, he was in Oahu, Hawaii, where he discovered 'the island nearly half Japanese, but with small Caucasian and smaller Chinese communities dominating the island's economy thanks largely to fortunate marriages of their ancestors with the *alii* aristocracy of the 19th century Hawaiian kingdom' (12-1). There he began his work in further language acquisition.

Bronfenbrenner participated in three translation projects and received frequent assignments to the Iroquois Point camp for prisoner-of-war (POW) interrogation. Although he had not been trained as *kaiwa* (conversation) specialist in Boulder, before leaving Pearl Harbor he had acquired more self-confidence than his skills would support. His interrogation experience was told in Bronfenbrenner (1987) and cited in the announcement of the election of him as a distinguished fellow of AEA for 1997 (AEA 1998). Therefore, it is well known by American economists.

Bronfenbrenner was eager to keep in contact with economists and went to the University of Hawaii campus in the Manoa Rain Forest. Professor Cameron, the Chairman of the Economics Department, was interested in income distribution issues by justifying income inequality because it provided for private charity by increasing scope. He wanted Bronfenbrenner to teach a regular course in Comparative Economic Systems at Hawaii, including Marxism⁶. Although Bronfenbrenner was all set to begin classes in February, the Navy abruptly forbade regularly-scheduled outside activities by its personnel.

First Visit to Kyushu in 1945

The Japanese Emperor's message of the acceptance of unconditional surrender was recorded on disk in a studio on August 14. It was ciphered and wired from Tokyo to military bases inside and outside of Japan shortly before noon on August 15. It was then broadcast by radio throughout mainland Japan and the military fronts. The same contents were deciphered around the time of the conclusion of the radio broadcast at each base. It was the end of the war in East Asia. The people in charge of the bases and private correspondents were informed around

⁶ These unused class materials might be useful later in writing Part XI "Comparative Economic Systems" in Bronfenbrenner, W. Sichel (microeconomist), and W. Gardner (macroeconomist)'s *Economics* (1990). Sichel said, 'I think Martin did a wonderful job some of the chapters for which he took the lead. Even after we "wrote them down," they were still, by far, the best in the industry. An outstanding one was his Comparative Economic Systems chapter (Bronfenbrenner, et. al, 1990, pp.923-947)' (Bronfenbrenner et al. 1999, 510).

August 10 that a very important message from Tokyo would become public on August 15 (Ikeo 2008). On September 2, Mamoru Shigemitsu, the Ambassador of Japan, signed the official documents of surrender on the battleship Missouri in Tokyo Bay.

The Allied Powers, led by General Douglas MacArthur, occupied Japan from September 1945 until April 1952. The occupation period was longer than necessary for disarmament, economic relief, and the establishment of democracy in Japan because of the onset of the Cold War in 1947. The Americans or their Allies destroyed facilities capable of making nuclear weapons, and worked painstakingly to calculate how much effort and money they needed to allow Japan to stand on its own and to be incorporated into an international community based on free trade.⁷ They also monitored the postwar settlements in East Asia (Far East) and Southeast Asia, conducted a comparative study of the nations in these regions to get a better understanding of them, and tried to promote intra-regional trade (Ikeo 1996). (This concern would lead to the establishment of ECAFE and later ESCAP.)

Bronfenbrenner came to Japan for the first time in the fall of 1945. Like many younger soldiers and officers he arrived in Sasebo, Nagasaki Prefecture, Kyushu (the second largest island of Japan, after Honshu). Nagasaki is the most western prefecture in Japan, the closest to Korea and China. Even now it takes more than two hours by plane from Tokyo to Nagasaki. Nagasaki is a little closer to Beijing and Pyongyang than to Tokyo. Bronfenbrenner's attitude to Japanese intellectuals was probably more cautious and polite than any other non-Japanese. It can be said that he was looking at the human aspects of the Japanese people.

It seems that the American side made a request to the Japanese side to find a Japanese economist in the Kyushu area who could communicate with a Chicago-trained economist. Yukichi Kurimura (1899-1983) was the economist chosen and became the first Japanese modern economist who Bronfenbrenner encountered in Kyushu. Kurimura, a former student of Yasuma

⁷ According to James Abegglen (1926-2007), who arrived as a member of the U.S. Marine Corps in Sasebo, what they were doing was field work similar to anthropologists' research methods (personal communication with Abegglen, 2000). Anthropologists tend to understand the value in a targeted non-Western or uncivilized society.

Takata, who Bronfenbrenner would later call the Japanese Marshall, had published books including *Theory of Monopolistic Prices* (1939) and *Theory of Price* (1941). After meeting Bronfenbrenner, Kurimura published *Money and Prices* (1949), *Production and Distribution* (1949), and *Econometrics* (1949)⁸ when printing companies returned to normal business. Bronfenbrenner visited Kyushu University in Fukuoka. Kurimura was the only Japanese economist that Bronfenbrenner met in 1945. Both modern economists maintained vivid memories of that first dramatic encounter in a chaotic environment. Let us see an observation from Bronfenbrenner (1997, 13-11):

On my first day off I went there still in full regalia—loaded gun and all—in search of an economist with whom I might talk. A janitor led me from the main gate through dark corridors of dark buildings, windows being still blackened out as air-raid defenses. Eventually we reached an office where a starved-looking professor, perhaps 15 years older than myself, was conducting a seminar for two starved-looking students. Everyone’s clothes were patched, and *the room should have been heated but wasn’t* [italics by the author]. When I appeared, the professor thought my mission might be his arrest, and he was visibly shaken. But on his rickety blackboard was written what looked like a Cobb-Douglas production function⁹, and I immediately established my credentials as a student and former assistant of Professor Douglas at Chicago. The professor was Kurimura Yukichi [sic], who turned out to be almost the sole non-Marxist in the Kyushu Faculty of Economics as reconstructed under the Occupation. We became friends on the spot, took walks together all over Fukuoka, and discussed the prospects for Japanese economic recovery in pessimistic tones. Later we met from time to time, mainly in Japan

⁸ At the time the word “econometrics” was translated into a couple of Japanese such as “keizai sokuteigaku”, “ekonometorikkusu”, and “keiryō keizaigaku” which is the current preferred term.

⁹ Bronfenbrenner usually expressed the Cobb-Douglas function as follows,

$$P = bL^kC^j$$

P , L , and C represent product, labor, and capital (or index numbers of these quantities), while b , k , and j are determined by the statistical method of least squares.

but also in America, until shortly before Professor Kurimura's death in 1983. His talents, incidentally, extended well beyond economics into botany, calligraphy, architectural design, and university administration.

Later Kurimura (1954) expressed his good impression mutually shared by Bronfenbrenner but he insisted that it was warm enough to do without heating. Their long-time friendship started the moment when they recognized each other as modern economists in the sense of Oskar Lange's terminology. A number of Japanese modern economists, who were doing similar research and teaching as Kurimura, could be found in Kobe, Kyoto, Yokohama, Tokyo, and Sendai, whereas Marxist economists, who had been opposed to the war, were rehabilitated in Japanese academia and gained the power. The Americans found Fukuoka the most comfortable place to stay in Kyushu Island. However, it was decided that Bronfenbrenner was scheduled to return to the USA in December 1945. He was transported to Tokyo from Kyushu by slow train stopping at each station for nearly 36 hours. He viewed the scenes of one bombed and burnt city after another. His train passed both Hiroshima and Kyoto in the middle of the night. He left Japan on a clear crisp December morning, aboard the aircraft carrier Lexington, bound for San Francisco with no stop at Pearl Harbor. He landed at Alameda, on the Oakland side of San Francisco Bay (Bronfenbrenner 1997, 13-15, 16).

The Purge of Finance Minister Tanzan Ishibashi and the Dodge Line (1947-1949)

By reading Bronfenbrenner's published and unpublished writings, it is possible to ascertain what the Americans were thinking about the policy for the reconstruction of Japan's economy during the occupation period. Bronfenbrenner's second visit to Japan was brought about by his involvement in the Shoup Tax Mission in 1949 and on this occasion he was stationed mostly in the capital city Tokyo. He acted as a tax economist of the Economic and Scientific Section (ESS) and the Finance and Public Finance Section under the Supreme Commander for the Allied Powers (SCAP) as well as a liaison to the Shoup Tax Mission and Japan's Ministry of Finance. Prior to his arrival in Japan, he obtained enough information about Japan's economic conditions to grasp the characteristics of Finance Minister Ishibashi's monetary policy, the nature of the

Dodge Line, and his own role of liaison to the Shoup Mission (1949-1950), the SCAP, and Japan's Ministry of Finance. There are several necessary conditions for a market economy to work efficiently for the allocation of economic resources in a real economy. The implementation of the deflationary Dodge Line was a pre-requisite for the tax reform tasks of the Shoup Mission.

In May 1947, Finance Minister Ishibashi was purged from his public position by SCAP because SCAP believed that his monetary policy was causing the current hyper-inflation and disturbing its occupation policy for the reconstruction of Japan's economy. Ishibashi was very familiar with John Maynard Keynes's public activities such as the publication of *The Economic Consequences of Peace* (1919) and *General Theory* (1936). Prior to 1936, in 1931 (December 14 and 15), Ishibashi discussed "The fallacy of economizing consumption" in his radio talk 'Consuming economy and producing economy' and clearly explained the paradox of savings, which would be recognized as an important building block the of Keynesian "revolutionary" idea (Ishibashi 1970-72, vol. 8, 498-9; Ikeo 1997: 2006). Therefore, he confidently described himself as a Keynesian in 1946 when he was appointed finance minister. The Keynesian part of his inaugural address, which was often quoted, went as follows:

The most important objective of fiscal, economic policy is the attainment of full employment of all existing productive resources. / Lord Keynes once defined genuine inflation as the inflation that would occur from excessive demand under the full utilization of capital. / We need not worry so much about the government budget deficit or monetary expansion. (Ishibashi 1970-72, in Japanese, vol. 13: 188-9, 191, 192; translation based on Hamada 1986, 453).

Although the post-war Japanese economy was suffering from a serious inflation, Ishibashi stuck to his own belief in Keynesian policy measures and tried to keep increasing money supply by issuing national bonds through the Reconstruction Finance Corporation (*Fukko Kinnyu Kinko*), which was established literally for lending money to those who needed it for economic recovery based on the governmental recovery plan. The bonds were purchased by the Bank of Japan during the period when Ishibashi was Finance Minister. Ishibashi believed that he was implementing Keynesian policy for the reconstruction of the Japanese economy. However, this

policy was vehemently criticized by several Japanese economists such as Hiromi Arisawa, who thought that a policy of stimulating production capability was the first priority for the war-torn economy. Moreover, SCAP regarded the Reconstruction Finance Corporation as the biggest obstacle to the economic recovery process of Japan. After Ishibashi was removed from public service, Japan's economic policy was changed toward the belt-tightening direction and this direction was reinforced by the so-called Dodge Line.

It is worth examining Bronfenbrenner's criticism of Ishibashi's Keynesianism in his 'Four positions on Japanese finance' (1950a, 285):

If the present Japanese government and the dominant Liberal party were operating without consultation with SCAP on economic matters, many believe that there would be a reversion to policies associated with the name of Tanzan Ishibashi. Mr. Ishibashi, former editor of the influential *Oriental Economist* [an English magazine], was for a time economic spokesman for Japanese big business. He held the key post of finance minister in the first Yoshida Cabinet during the period of most rapid Japanese postwar inflation but was removed in 1947 under charges of obstructing SCAP policies. The *Oriental Economist* remains the most effective English-language proponent of his views. / His Keynesianism . . . is of a fundamentalist variety which takes literally the view that *no* monetary expansion should be considered inflationary so long as production and employment are increasing along with prices. His critics call him an inflationist—more specifically, a profit inflationist [Italics in original].

As a matter of fact, Ishibashi was purged for reasons not connected directly with his macroeconomic policy but with his leadership of public opinion as the managing editor of the weekly magazine *Toyo Keizai Shimpo* (the Japanese-language equivalent of the *Oriental Economist*, which made Ishibashi well known among the Japan watchers in Western countries). Japanese political scientists like Hiroshi Matsuda (1996) put his focus on the purge of Ishibashi not only by scrutinizing relating official documents but also by traveling to the USA to get direct hearings from some former ESCAP officials, and he could find no good reason enough to remove the Finance Minister.

Bronfenbrenner kept his keen interest in inflation theory and later co-authored with F.D. Holzman 'Survey of inflation theory' (1963), which established their reputation in the field. Reading the manuscript of the financial history of Japan during the occupation period (1945-52) edited by Japan's Ministry of Finance (MOF), Bronfenbrenner (1975) confessed that "inflation theorizing" was never monolithic among the economists within SCAP and some Japanese related to SCAP, and he counted at least six different theories. (1) "Ishibashi" Keynesianism; (2) "Vulgar" Marxism; (3) "OPA" direct control; (4) "Sound finance" fiscalism; (5) "Banking school" monetarism; (6) "Old Chicago School" price flexibility. Bronfenbrenner discussed these theoretical positions in the same order.

Let us make a brief summary. (1) He repeated his criticism of Ishibashi's Keynesian views and stated that Ishibashi tried to apply Keynes's macroeconomics not to a depressed economy but to economic recovery without considering any inflation during a post-war period. (2) Marxist economists maintained that the prices went up because firms passed the rises in wages on to the prices of products. (3) The US Office of Price Administration (OPA) was in operation during the war and ended in the latter half of 1946. A substantial number of its former officers found positions in Japan. Sincere devotees of OPA doctrine believed that the way to control the price level was to control those individual prices most important in ordinary people's market basket¹⁰. (4) According to "sound finance" fiscalism, deficit financing in the government (public expenditure in excess of tax receipts) was regarded as the main cause of hyper-inflation. The idea was most supported within SCAP and became the basis for deflationary Dodge Line. (5) "Banking school" monetarism, which was a combination of

¹⁰ John Kenneth Galbraith (1908-2006), a former head of OPA, visited Japan for the first time in the fall of 1945 as one of the leaders of the U.S. Strategic Bombing Survey Team (Pacific). He reunited and established firm friendship with Shigeto Tsuru, who was trained at Harvard in the 1930s, although he was busy looking over Japan and its neighbors from airplane. Galbraith made his second visit to Japan as the US Ambassador to India in 1963. In 1968 he participated in the Symposium on Asian Development, held in Japan. Japanese intellectuals learned the American attitude toward Asia from the summary and a series of commentaries which appeared in a newspaper. The newspaper anticipated that major changes might occur in US foreign policy toward two Chinas in the new future. He continued to observe the changes in Japan and its economy by making visits in 1977, 1982, 1985, etc. (see Ikee 2003).

monetarist doctrine and tight-money policy, became the second basis of the disinflationary program for post-war Japan. It stated that a reduction in money supply was necessary for curbing inflation. (6) "Old Chicago School" price flexibility gave a description of Bronfenbrenner's position. The "old" Chicago monetarists he had in mind were Henry Simon and Lloyd Mints rather than "new" monetarists (Milton Friedman and his disciples). He meant a direct concern with price level as such, rather than with money supply and its growth rate. Firms would then be able to make rational decisions by acting on price flexibility, namely a smooth operation of the price mechanism. It can be said that, by resorting to (4), (5), (6), SCAP economists were primarily concerned with price stability and expected to see a natural economic recovery occur in the private sector.

After Ishibashi was removed from public service, Japan's economic policy was changed in the belt-tightening direction especially by Josef M. Dodge of the Detroit Bank (later Director of the Budget in the Eisenhower administration), who was sent to Japan to suppress the postwar hyper-inflation. The Nine-Part Interim Directive on Stabilisation (11 December 1948), which has been called the Dodge Line, directed Japan's government to adopt measures designed to:

- a. Achieve a true balance in the consolidated budget as at the earliest possible date by stringent curtailment of expenditures and maximum expansion in total Government revenues, including such new revenue measures as may be necessary and appropriate.
- b. Accelerate and strengthen the program of tax collection and insure prompt, wide-spread and vigorous criminal prosecution of tax evaders.
- c. Assure rigorous limitation of credit expansion to projects contributing to economic recovery of Japan.
- d. Establish an effective program to achieve wage stability.
- e. Strengthen and, if necessary, expand the coverage of existing price control programs.

- f. Improve the operation of foreign trade controls and tighten existing foreign exchange controls, to the extent that such measures can appropriately be delegated to Japanese agencies.
- g. Improve the law effectiveness of the present allocation and rationing system, particularly to the end of maximizing exports.
- h. Increase production of all essential indigenous raw materials and manufactured products.
- i. Improve efficiency of the food collection program.

Japan's Ministry of Finance (MOF) (1976, chapter 3) gave a detailed description of the Dodge Line process, and said, 'It was their threat of finalizing aid that forced the Japanese reluctantly accept the implementation of Dodge's Nine Part Directives' (p.395). Bronfenbrenner did not go this far. After the implementation of the directive, the prices of commodities in the black markets began to decline and finally the price level was stabilized, but it was accompanied by formidable social instability including massive unemployment.

The Shoup Mission in Tokyo, 1949-1950

Neither the American nor the Japanese side ever thought that the introduction of several temporary taxation measures to control rampant inflation was sufficient to attain the target of economic reconstruction. They agreed with each other that Japan had to reestablish a robust taxation system with strong authority to secure tax revenue for the achievement of "more sound finance". Based on a natural and mutual agreement between SCAP and the Japanese side, General Douglas MacArthur made Harold Moss, an ESS official, fly to New York to meet Carl S. Shoup, specialist in public finance, at Columbia University, requesting him to form a tax mission to reform the entire Japanese tax system both at central and local levels. Thus Shoup became the chairman of a new Mission with the economist Howard R. Bowen, William Warren, Stanley Surrey, William Vickrey, and Bronfenbrenner. Rolland Hartfield (Director of Tax Research, State of Minnesota) and Jerome B. Cohen (specialist in Japanese economic

institutions) also joined the Mission¹¹. They arrived in Tokyo in the spring of 1949 and the four volumes of the *Shoup Report* were nearly completed around the time when Bronfenbrenner landed at Haneda Airport.

Although he did not add his signature to the report, Bronfenbrenner acted as if he had been a formal member of the Shoup Mission because, out of blue, he had received a letter directly from Shoup asking him to join the mission in Japan and stay on in Tokyo after its departure. Thus he officially became a tax economist in the Public Finance Division of the Economic and Scientific Section of SCAP, his appointment to last for two years. He acted both as a revenue estimator by visiting various scenes of tax estimation and as *liaison* between the Shoup Mission, which was back in the USA, the Public Finance Division of SCAP, and Japan's Ministry of Finance. Prior to arriving in Japan, he shared with the mission members the ideas on the basic principles of taxation such as "Fairness (Equity), Economic Efficiency, and Administrative Feasibility"¹². He was delighted to get a chance to improve his Japanese and to visit Japan for a second time (Bronfenbrenner 1997, 14-17).

¹¹ The formal members of the tax mission, and their professional connections, were as follows: Carl S. Shoup, School of Business and Graduate Faculty of Political Science, Columbia University, (Director of the Tax Mission); Howard R. Bowen, College of Commerce and Business Administration, University of Illinois; Jerome B. Cohen, Department of Economics, College of the City of New York; Rolland F. Hatfield, Director of Tax Research, Department of Taxation, St. Paul, Minnesota; Stanley S. Surrey, School of Jurisprudence, University of California, Berkeley, California; William Vickrey, Graduate Faculty of Political Science, Columbia University; and William C. Warren, School of Law, Columbia University. (Forward to the Report on Japanese Taxation by the Shoup Mission, 1949)

¹² It was articulated very clearly later by Shoup. With regard to the new Japanese version of their tax report, Shoup (1985: 5) said, 'The members of the tax Mission hoped that their work would prove useful over a span of time as well as at the moment. For that reason, the basic principles of taxation were emphasized, notably fairness (equity), economic efficiency, and administrative feasibility. The fact that a new translation is now deemed worthwhile indicates this emphasis was proper'. We certainly know that only Bronfenbrenner could examine the quality of the new Japanese translation compared with the quick work done in 1949.

In Japan, the mission members, full of research enthusiasm, were all excited by the challenge of tax reform and believed that they were trying to implement an ideal tax system on the clean slate of a non-Western country. Bronfenbrenner (1957, 237) tells us of their excitement:

The Shoup tax reform is interesting, then, as a case study of the accomplishments of a Western tax mission in a short period under (nearly) ideal conditions. It is interesting more particularly to Americans as a case study of an Occupation-sponsored, economic reform in Japan.

In writing a tax reform recommendation report, they were very cautious of not proposing an unworkable idea not worth the paper it was written on. They referred to the currently existing U.S. tax system and imagined being able to reform it and establish a new, ideal one. Then they recommended that Japan establish the best tax system that they could imagine as reform missionaries.

Right after the release of the *Shoup Report*, which was not regarded as a report by the Japanese side but as a tax reform recommendation, in August 1949, Japanese tax officials (including MOF bureaucrats), business leaders, and public finance specialists (including tax law specialists and economists) read it carefully and put it through a series of examinations and discussions. Later the Japanese official assessments of the recommendation and its implementation were made public by the release of MOF (1997; 1990; 1997), and recent scholarly studies were conducted by Hiromitsu Ishi (2001; 2008) and the special issue 'The significance and problems of the Shoup Recommendations: examinations after 50 years' of *Japanese Tax Law Review* (2000)¹³. The related historical materials, such as official documents, the timely commentaries released by stakeholders and the articles carried in newspapers and

¹³ Included papers (in Japanese) were: Hiroshi Kaneko's 'Historical significance of the Shoup Recommendations', Shigeki Morinobu's 'Japanese tax system after comprehensive tax reform and the Shoup Recommendations', Konosuke Kimura's 'Legal relationships on the fiscal administrative proceeding: The Shoup recommendations as a starting point', and Shibuya Masahiro's 'Individual income tax in the Shoup Report: Focusing on capital gains'.

magazines, were collected in Yukihiro Fukuda et al. eds (1985) and Ichiro Inoue ed. (1988). Shoup (1988), Bronfenbrenner (1950b; 1967ab), and Bronfenbrenner and Kogiku (1957) may be included in the assessments by the American side.

Let us see the fundamental substantive points of the recommendations summarized by Bronfenbrenner (1997, 15-3).

1. Retention of a direct rather than an indirect tax system, with a high degree of income tax progression. This represents a break with Japan's prewar tax tradition, but continues previous Occupation policies, and is based on contemporary (1940s) American practice.
2. Introduction of numerous refinements, both substantive and administrative, designed to reduce evasion and avoidance, and at the same time to increase progressivity. Many of these had been developed by Professor William Vickrey (a Mission member) and adapted from Vickrey's *Agenda for Progressive Taxation*.
3. A shift in tax receipts from the central to the local government bodies to give the latter more revenue sources independent of Tokyo as the financial basis for local autonomy.
4. Revaluation of individual and corporate assets to take account of wartime and postwar inflation, and permit realistic provision for depreciation reserves and eventual replacement of capital.

In reality, Japan's Yoshida Cabinet and the ruling Liberal Party considered the Shoup proposals "too theoretical," namely too complex for practical administration in Japan, although they shared American Occupation's interest in tax reform. As Bronfenbrenner (1997, 15-3) knew, the Japanese side would have preferred greater encouragement for saving and investment, and less concern with effects upon the distribution of income and wealth. Somehow or other, the Shoup Recommendation was almost entirely implemented in both the 1949 supplementary budget and the 1950 budget (Bronfenbrenner's activities will be mentioned below). However, right after the Occupation was concluded in April 1945, Japan's government was given back the real power for its economic policies and began to abolish parts of the "reforms" enforced by the visitors from outside during the Occupation. The government began to utilize tax measures for the implementation of the policy targets such as "Increase in Savings, Capital Accumulations, and

Industrial Development”, which was not in accord with American practice and was strongly reproved by the Shoup Mission. Therefore, the post-war Japanese tax system was sometimes regarded as a detachment process from the Shoup Tax Recommendations.

With regard to the summary of the aftermath of the Shoup tax reform and the following modifications, *The Japanese Tax System* (2001) authored by Hiromitsu Ishi, the public finance specialist who for a long time led the discussion of tax policy in Japan, gave a lucid explanation from the Japanese side. Referring to Bronfenbrenner (1950) and Bronfenbrenner and Kogiku (1957), Ishi (2001, 29-30) stated:

From the beginning, ... some of the Shoup tax plans were criticized as being too theoretical to be carried out, given the state of socio-economic development in postwar Japan. No doubt, the Mission thought of tax reform primarily in terms of US practice and experience. This was apparent in such matters as the treatment of capital gains taxation or the emphasis on ‘local autonomy’. Accordingly, modifications to the Shoup tax system were implemented shortly after 1950.

Two tendencies emerged from these modifications. One was the revival of the old system: equity was sacrificed for the convenience of incentives and administration. The other was the reduction of the tax burden of firms, especially big businesses. The goal of this trend was to give priority to the restoration of the postwar economy and the promotion of capital accumulation. ...

The most symbolic modification of the Shoup system occurred with the repeal of full taxation on capital gains from sales of securities in 1953. / The net worth and accession taxes were abolished in 1953 because of inadequate revenues. *The value added tax was not even brought into operation ...* [Italics added by the author]

When the Japanese government departed from the Shoup system, its departure was not in the direction of further experimentation, but towards a return to prewar traditions and practices which it considered particularly suitable to the Japanese economic situation. Thus, the tax innovations advocated in the Shoup Report were disregarded.

We need to pay attention to the argument of the value-added tax (VAT) system. As emphasized in Bronfenbrenner (1950; 1997), the Shoup Mission confidently recommended the introduction of value-added tax (VAT) at local level. In fact, Bronfenbrenner (1950, 298) shed light on the importance of value-added sales tax and defined it as “a system of sales taxation to be applied at each stage of production on the part of the product’s value which originates at that specific stage”. VAT was supposed to become the principal independent revenue source for the Japanese prefectures (*ken, do* and *fu*), which are usually smaller than American states and rather larger than the average American county. As mentioned in the above quotation from Ishi (2001), although Japan’s Local Tax Law of 1950 represented its first detailed overall application of a VAT system, the effective date of the new law was postponed twice to 1952 and then it was abolished due to the endless controversy over the characteristics and viability of VAT in Japan. Later Bronfenbrenner (1963, 296) pointed out that the Japanese term “*fuka-kachi*” was created by translating “value-added” because there was no corresponding term in the Japanese dictionary. Japanese local officials simply lacked the authority of experience in collecting taxes at various production stages. The owners of mom-and-pop stores did not make it a rule to keep books (personal communication with Bronfenbrenner c. 1987).

Bronfenbrenner (1997, 15-5) wrote about the political results of the Shoup proposal:

The proposed value-added tax (VAT) was a greater failure. It passed the Diet in 1950, with its application postponed to 1951. The postponement was later repeated in 1951. When the Occupation ended in 1952, the prefectural VAT of the Shoup Mission was quietly forgotten. After its widespread adoption in Europe VAT has received renewed attention in Japan, but only at the national level. A form of it was adopted in 1989.

If the VAT system had been adopted, Japan’s current public deficit and the stock of national bonds might have been much smaller than the present amount (even before the major earthquakes hit the Tohoku and Kanto regions of Japan on 11 March 2011).

On weekdays except Wednesdays, Bronfenbrenner assumed a job as a revenue estimator with the help of Taro Yamane, who was born in New York and a graduate of Hitotsubashi University in Economics, Tokyo. Yamane knew both languages and gave

Bronfenbrenner great help. He would later obtain his Ph.D. at Wisconsin University and become known as the author of standard textbooks in mathematics and statistics for economists (Yamane 1962; 1967)¹⁴. Returning to Japan, he was appointed as professor at Aoyama Gakuin University, and was responsible for recruiting Bronfenbrenner as an English-speaking professor to teach international economics, just before his passing in 1979.

The Dodge Line and the Tax Reform

The understanding and evaluations of the projects executed during the Occupation might differ between the people in power during occupation and the people in the occupied country. Bronfenbrenner discussed this kind of problem in his paper strangely titled 'Balm for the Visiting Economist' (1963) by pointing out the perception gaps of post-war reforms conducted during the occupation period between the outside visitors drafting reforms and the domestic officials implementing the reforms. Bronfenbrenner (1963, 295) said:

Ranking high among SCAP's weakness was its early loss of the sympathy of all substantial groups of Japanese intellectuals. ... In the Economic and Scientific Section of SCAP there was pervasive underestimate and mistrust of the Japanese academic and civil service counterparts of the top Occupationaries.

Therefore, it is very interesting to see the visitor's understanding of the close relationship of two missions, namely the disinflationary Dodge Line and the Shoup Tax Reform Mission. Bronfenbrenner (1950) believed that the problems of Japanese financial reconstruction involved

¹⁴ American historian of economics E. Roy Weintraub (1991) has referred to Taro Yamane's textbook on mathematical economics (1962). Yamane also published a textbook on statistics for economists (1967). Japanese students like young Takashi Negishi read textbooks in mathematics for economics written by the mathematician (Hibino 1949), which had been printed multiple times. Young Negishi saw Hibino attending an annual meeting of the Japanese Economic Association at the receptionist desk one time (personal communication with Negishi).

issues which transcend American interest in Japan and are worthy of consideration in a broader setting. It is worth quoting from Bronfenbrenner (1997, 15-2,3):

It is never easy, even for an Occupation independent of popular votes, to stop a major inflation in its tracks by methods short of Nazi or Stalinist dictatorship. SCAP in 1949 was in the position of doing precisely that, after three years or more of feckless piddling with the inflation problem, by the combined efforts of its own Finance and Public Finance Divisions and a number of outside consultants. The most important of these latter were Joseph Dodge, a Detroit banker of orthodox leanings ([former US Secretary of the Treasurer] Andrew Mellon model), Ralph Young of the Federal Reserve [of New York], and of course Professor Shoup himself.

Then Bronfenbrenner discussed the following four points of SCAP's famous (or infamous) Nine-Part Interim Directive on Stabilisation (the price stability and eventual self-sufficiency) in Japan. They were closely related to his assignment. Bronfenbrenner (1997, 15-2) summarized:

1. The Restraint on public expenditures, with the exception (in practice) of "Termination of War Expenditures" (logistical support of the Occupation itself).
2. The Restraint on the growth of the currency component of the money supply (although the bank-deposit component remained quite free to expand).
3. The Drastic increase in tax collections from both direct and indirect taxes, and at both national and local levels.
4. A balanced, or some would say an over-balanced or surplus, in the Central Government budget, including both the general account and the myriad of special accounts (some of them secret) in which deficits had previously been concealed.

Bronfenbrenner felt compassion for ordinary Japanese people, who hoped for "Tax Reduction" from the bottom of their hearts. However, it was somewhat different from the target of the Shoup Mission, which aimed to reform the entire tax system to increase tax revenue for the government. Bronfenbrenner (1997, 15-2) lamented:

As far as the Japanese were concerned, the Mission merely shifted the total around from one tax to another, one income bracket to another, or one government unit to another, without reducing its total. (For some people that was enough to condemn it!)

Therefore, Bronfenbrenner realized that the reduction of public expenditure by conducting the Dodge Line was really necessary for the balance of the public budget.

Fixing the Ryukyuan Yen in Okinawa, November 1949

In August 1947, private firms resumed trade with the rest of the world under governmental control like foreign exchange control. In April 1949, the Japanese Yen became convertible into foreign currencies by fixing the single exchange rate at \$1=360Yen, instead of complex, multiple rates set for various trade items. This was the first, important step forward in introducing foreign capital into a war-torn country like the Japan of the day. The Japanese economy started to make a recovery by increasing private trade and it was realized by both SCAP and the Japanese side that international trade in the private sector was critically important for an economic recovery.

In November 1949 Bronfenbrenner (Public Finance Section) and other SCAP economists (Economic and Scientific Section) were sent to Okinawa for 10 days on a SCAP Mission to produce for the Ryukyu Islands the same speed of monetary and fiscal disinflation that Japan was achieving (Bronfenbrenner 1997, 15-8). Okinawa is the largest island of Okinawa Prefecture, which was called the Ryukyus at the time. Their mission chief, a Wisconsin trained Ph.D., was supposed to report to SCAP on reasons why the recovery of the Ryukyus was lagging behind that of the Japanese mainland, and needed to report on the extent to which the disinflationary *perestroika* of the "Dodge Line" might be applied there (Bronfenbrenner 1990).

Landed in Okinawa, they were confronted with the economic conditions of the area. It specialized in sub-tropical agriculture and had no industrial base worth mentioning. Bronfenbrenner's main target was supposed to be the Ryukyuan tax system but he realized that the problem of the exchange rate of the Ryukyuan yen with both the U.S. Dollar and the Japanese yen was the most urgent and serious. Because no one else was willing to fix an

exchange rate for the Ryukyuan yen, he spent most of his time on that problem. By using the rudimentary price statistics for around ten key commodities, he compared the “weighted average of these prices” between Okinawa and the mainland and decided that one Ryukyuan yen had the approximate purchasing power of three Japanese yen. Referring to an elementary purchasing-power parity theory of foreign exchange rates, he suggested that the U.S. dollar should equal 120 Ryukyuan yen, since the price of the dollar was set at 360 yen in April of the year. His suggested exchange rate for Ryukyuan yen was adopted by SCAP and the rate was used until 1958, when the Ryukyuan yen was abolished and the islands adopted U.S. currency for the few remaining years of American rule. Bronfennbrenner (1997, 15-9) proudly said:

I am thus one of the few international (or other) economists to have set an exchange rate by himself, more or less successfully.

The doctrine of purchasing power parity worked in deciding the exchange rates. His experience in Okinawa was made public for the first time in his ‘An airport economist in the Ryukyus (November 1949)’ (1990) and a detailed description was given in his autobiography (1997).

It is worth mentioning the two economic problems in Okinawa summarized by Bronfenbrenner (1997, 15-8,9). First, wages on U.S. projects were much lower than in the mainland. This problem was resolved to some degree by revaluating the Ryukyuan yen to the triple value. Second, although the Ryukyuan balance of payments with the USA was strongly positive due to American employment of native labor, the dollar balances were simply accumulating in the Ryukyuan account in Washington D.C. The second problem remained unresolved although most of his mission members felt it strange that Ryukyuan balances in Washington were not spent for consumer goods, especially for clothing and building materials in short supply. Their stay in Okinawa was too short to deal with all the problems which the region was suffering since the occupation period.

Wednesday Meetings at Hitotsubashi University, 1949-1950

It is noteworthy that Shigeto Tsuru played a pivotal role in creating intellectual connections between the Americans and the Japanese. He served as a high-level consultant to SCAP and

worked for the Economic Stabilization Board (ESB) of Japan's government. Tsuru published the Japanese summary of this Tax Mission with finance bureaucrats including Keiichiro Hirata. Moreover, Tsuru and economic bureaucrats including Saburo Okita co-authored the first white paper on the Japanese economy in 1947. Okita and many other government officials were trained as economists through doing jobs in ESB. Later Okita was sent to the Economic Commission for Asia and the Far East (ECAFE) in Bangkok and met Bronfenbrenner.

In addition to technical tax work, Bronfenbrenner himself did his best to keep up with the development of economic science. It is partly because he was always fond of economic research prepared to challenge 'Milton Friedman's well-meant warning that "all that Japanese stuff" might ruin me as an economist' (Bronfenbrenner 1997, 14-17). With regard to the seminar, Bronfenbrenner (1997: 15-5,6) explained how he came into touch with Tsuru:

As part of my preparation for return to Japan, I had established contact with Professor Tsuru Shigeto [sic], who was at that time the Japanese economist best known in America. He had earned a Harvard doctorate; he spoke and wrote fluent English; I had read some of his publications, and had heard him praised by mutual friends as long ago from his student days in 1935. Now we began to correspond, and Professor Tsuru offered me the opportunity to join him in conducting a graduate seminar on Western macro-economics at Hitotsubashi University. I accepted with alacrity, after ascertaining that the seminar was held on Wednesday afternoon, when we were off duty.

Their mutual friends included Oskar Lange and Abba Lerner, who had a socialist inclination in the debate over economic calculations in a socialist economy and who had moved to Chicago from Boston in the 1930s. Bronfenbrenner (1997, 15-6) recalled that, thanks to their connection with Tsuru, he enjoyed driving from the metropolitan area to the Kunitachi campus of Hitotsubashi University in the western suburb of Tokyo once a week.

I came to look forward to those Wednesday afternoons on the Hitotsubashi campus ... especially after buying a little British Austin, which I names *Akaji-Zaisei* or "Deficit Finance" and drove merrily back and forth between Kunitachi and downtown Tokyo. In addition to Tsuru, who was then working on a Marx-Keynes synthesis, the seminar

included several young Hitotsubashi professors and students who would later achieve prominence in Japanese economic circle.

The seminar was formally arranged by President Ichiro Nakayama of Hitotsubashi University, student of Tokuzo Fukuda at Hitotsubashi and J.A. Schumpeter at Bonn. The teachers Bronfenbrenner recalled best from Hitotsubashi were, apart from Tsuru, Kiyoshi Kojima (international economist, specialized in the Asian-Pacific economy), Miyoei Shinohara (a development economist, who published many books and papers on the Japanese economy and industries, and its policies), Isamu Yamada (an econometrician, who later would become the first Japanese to really communicate with active economists in the USA). The Hitotsubashi seminars on Wednesday afternoon attracted those economists who lived out of Tokyo as well. A number of Japanese economists visited Kunitachi or Tokyo to meet Bronfenbrenner for their research or to discuss travel plans to the USA.

However, a number of incidents forced Bronfenbrenner return to the USA earlier than the original plan of a two-year stay in Japan. He waited for some original members of the Shoup Mission to revisit Tokyo. After meeting them, he left Japan from Haneda Airport while Teruko, his future wife, saw him off on 12 August 1950. In March 1951, Isamu Yamada was invited to the Cowles Commission at Chicago because William B. Simpson, who was on the Council of the Econometric Society, visited Japan in the spring of 1947. Yamada managed to communicate with many economists in the United States until June 1951 and established a close tie with members of the Econometric Society (Ikeo 2011). Yamada carried a private message for Martin from Teruko and later helped Teruko travel to Wisconsin. In September 1951, the Treaty of Peace with Japan was signed in San Francisco to bring Japan formally back to the international community (to be enacted in April 1952).

ECAFE in Bangkok, 1951-1952

Returning to the USA, Martin Bronfenbrenner resumed teaching economics at Wisconsin. However, he searched for an opportunity to visit Japan and stay somewhere in East Asia. In 1951, he helped Yang Shu-chin, a Chinese student in International Economics at Wisconsin, get

a position with the Economic Commission for Asia and the Far East (ECAFE, later ESCAP). ECAFE was established in 1947 as the regional development arm of the United Nations (UN) in order to seek to overcome some of the region's greatest challenges including regional trade. Its initial history was a little complicated but confirmed on the occasion of its 60th anniversary in 2007 (ESCAP 2007). It was established in 1947 in Shanghai, China, to assist in post-war economic reconstruction, and moved its headquarters to Bangkok in January 1949. ECAFE would later be enlarged and reorganized to focus on a wider coverage of the economic and social activities in a wider region and renamed the Economic and Social Commission for Asia and the Pacific (ESCAP). Palamadai S. Lokanathan, Indian economist, was appointed the First Executive Secretary of ECAFE to head the Shanghai headquarters. Shu-chin wrote his doctoral dissertation on the complex Thai system of multiple currencies. Then, thanks to the efforts of Shu-chin and his wife Nancy, Bronfenbrenner was able to find a position as ECAFE consultant in 1951 (Bronfenbrenner 1997, 16-4).

When Bronfenbrenner joined ECAFE, its community was small but professional, and subdivided into three groups. The largest of these was Indian and the second in size and standing was Chinese. Bronfenbrenner belong to the smallest Anglo-American group, but he was proud of the group because they had the closest ties to the Thai Government and international business. Bronfenbrenner's job was to study the developing trade relations between Japan and the "ECAFE region" of South and Southeast Asia. He also noted that these relations could barely be called embryonic in 1951-52 although it was to become more important around 1960 (Bronfenbrenner 1997, 17-3).

As mentioned, Bronfenbrenner came to know Saburo Okita, who was appointed a chief economic analyst for ECAFE during 1952-53. He spoke English fluently and represented "the able Japanese bureaucracy" for a long time although Bronfenbrenner's following statement reflected his later image of the older Okita instead of the younger in Bangkok (Bronfenbrenner 1997, 17-7).

The most eminent visitor was Dr. Okita Saburo [sic] of the Japanese Economic Stabilization Board, a planner of the future Japanese "miracle" and later foreign Minister of his country. Shu-chin himself, with his new Wisconsin doctorate, was the best member of a regular staff

top-heavy with Chinese refugee bankers and retired civil servants whose methodology seemed to be the accumulation of as many numbers with as little explanation as possible.

Japanese data being so shaky, my job was shifted to the editorial revision which became rewriting of large sections of ECAFE's Annual Report for the previous year (1951). Here my U.S. Treasury experience helped me; each member Government had veto rights over any reference to its country, so I did my best to avoid both outright lies and the whole truth. ... In those days the main criterion of good economic policy was still the minimization of inflation; growthmanship was only a distant second.

ECAFE raised the economists who could make a professional study of this region and communicate with the economists in other regions. For example, ECAFE-related economists participated in the first Roundtable Conference which was organized and held in Gamagori, Japan, in April 1960, and hosted by the International Economic Association (IEA, headquartered in Paris) and leading Japanese economists. Papers such as 'Supply of entrepreneurs and technologists with special reference to India' by Lokanathan (National Council of Applied Economic Research, New Dehli), 'Capital supply and economic growth: Sources of savings' by Shu-chin Yang (ECAFE), and 'Choice of techniques: Japan's experience and its implications' by Okita (Economic Planning Agency, Tokyo) were presented and later included in the Proceedings *Economic Development with special attention to East Asia* (Berrill ed. 1964).

A Series of Lectures in Kyoto, the summer of 1952

Bronfenbrenner arranged to spend the summer of 1952 in Japan after leaving Bangkok when his term expired. He planned to stay at Doshisha University in Kyoto, one of the former capitals of Japan. The city is famous for its important, traditional Shinto shrines, solemn Buddhist temples, and many other historic, fine-looking buildings and houses. This was why it had escaped bombing during the Pacific campaign and attracted Bronfenbrenner in 1952. His Doshisha connection was a labor economist, Shichiro Matsui, who was a prewar Wisconsin Ph.D., a labor adviser to SCAP, and had visited Madison in 1948. Matsui arranged for Bronfenbrenner to give

a series of lectures on various economic-theoretical topics for economists at Doshisha University and Kyoto University.

Bronfenbrenner wrote on the Doshisha seminar and his first meeting with Yasuma Takata, the Japanese Marshall as described in Bronfenbrenner (1981). Takata's *New Lectures in Economics* (five volumes in Japanese, 1929-32) constituted a survey of what was happening to economics on the research frontier in the rest of the world, including the discussion of both general equilibrium theory in the manner of Walras and partial equilibrium theory in the manner of Marshall. After that, many good studies of economics became available in Japanese. If they had been written in German or English, some of them would have caught the eyes of specialists abroad.

The intellectual connections with Bronfenbrenner continued afterwards. For example, in 1952, he and Robert H. Strotz, the organizer, helped Takuma Yasui participate in the Chicago meeting of the Econometric Society, which was to be held on December 27-29, and Strotz encouraged him to present a paper. Their correspondence remains in the Yasui Library of Saitama University near Tokyo (Ikeo 2006). Yasui was sent there by the Science Council of Japan (*Nihon Gakujutsu Kaigi*) and gave his 'Nonlinear self-excited oscillations and business cycles' in the session "Macro-dynamic Models of Economic Fluctuations" on the 27th. Yasui became the first Japanese economist to present a paper at a meeting of the Econometric Society (Ikeo 2009).

Some Conclusions

One of Bronfenbrenner's first and most important missions in post-WWII Japan was to meet several Japanese modern economists and try to communicate with them on economic issues based on a common knowledge of economics. Many Japanese economists still remember his activities in Japan and some of them told the author not to forget that he stayed at Kobe University during 1963-64 and Kyoto University (Research Center of Southeast Asia) in 1980. At one time or another, he met almost all Japanese modern economists (in the terminology of Oskar Lange). In professional economics journals Bronfenbrenner published not only articles on inflation and distribution theory but also on Japan's economy and economics. He was active in

both the academic world of traditional theoretical research, and the real world of economic policy-making exemplified in exchange rate adjustments and implementations of tax reform recommendations. He also conducted empirical studies as an application of economic theory using economic data and statistical analysis with reference to knowledge of institutions (such as trade unions) changing over time. He was proud of being a general economist, as he called himself (Bronfenbrenner 1983), although the general trend was the subdivision of economics into more specific fields and increasing specialization within those fields.

It is worth reevaluating Bronfenbrenner's observation of the Japanese economy and his analysis of American economic recovery policies as they afford a glimpse of how the situation in Japan appeared to those on the outside. The American occupationaries came to realize that a broader perspective was really needed for making policies for a national economy to make a recovery from a devastating situation. Bronfenbrenner closely analyzed Japan's monetary policy, the enforcement of reflationary policy, the implementation of the Shoup tax reform recommendation and its aftermath. He also realized that the establishment of a unified exchange rate promoted external trade and domestic economic recovery. He managed to fix the Ryukyuan Yen by referring to the doctrine of purchasing power parity. He contributed to human resource development, which was necessary for smooth expansion of regional trade in the headquarters of ECAFE, Bangkok. The Americans might get new insight of economic knowledge and actual policy implementation by conducting their missions for the recovery and reconstruction of a national economy.

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