

Japanese Economists on Imperialism and Total War:

Tanzan Ishibashi and His Peers*

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Abstract:

In order to explore the relationship between war and economics in the era of imperialism and total war, this paper mainly covers Tanzan Ishibashi, a Japanese economic journalist who later became a politician and served as Prime Minister.

Ishibashi's basic thought consisted of the 'principle of independence' and the 'principle of network.' The latter emphasized production by the division of labor of free agents; consumption by transactions between economic agents enabling production; and international peace as a premise of the international division of labor and trade. Therefore, Ishibashi consistently advocated for the 'little Japanism,' which opposed imperialism and bloc economies, aiming for peaceful economic development through international trade.

However, while Ishibashi's arguments regarding lifting the gold embargo and an expansionary fiscal policy led to the restoration of the economy at the national level, they also exacerbated poor relations with China and the United Kingdom and became a factor behind the Sino-Japanese War and the Pacific War. Moreover, military expenditure-based fiscal expansion necessitated a transition to the controlled economy that Ishibashi criticized.

Ishibashi's arguments thus betrayed his ideals. On the other hand, according to his principles, he promoted the institutionalization of economics in wartime by building a personal network, secured freedom of thought and activities through this means, and also used his personal network to create a post-war plan for the world economy based on free trade.

Understanding the gap between Ishibashi's economic thought and reality, and understanding his struggles in trying to cross that gap, are important when thinking about a modern society in which protectionism and chauvinism are on the rise as globalization progresses.

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I Introduction

With the two events of the First World War and the Second World War, the economy became more emphasized as the basis that supported the war, and academic knowledge of economics was also mobilized in order to make effective military use of the economy. In addition, research to explain the causes of war in economic terms became popular. Economics will indeed eventually bring war or peace if its theories influence economic policy, move the real economy, and affect international relations. Thus, in the case of 'war and economics,' it is necessary to think about two directions: 'from war to economics' and 'from economics to war.'

In order to investigate the relationship between such two-way 'war and economics' dynamics in the history of economic thought, it is necessary to consider the economic thought and activity of people who discussed the problem, fulfilled important roles as economists in the war, and influenced actual economic policy. While there are many economists who discussed war, the number of economists whose thought actually influenced economic policy is limited.

As an example of such an economist, I will cover Tanzan Ishibashi (1884–1973) in this paper dealing with 'war and economics' in Japan in modern times. Ishibashi had his own ideas, having digested economic theories such as those of Adam Smith and John Maynard Keynes, and his assertions had a major impact on Japan's economic policy. Ishibashi also played an important role in the development of the verification and normative aspects of Japanese economics by establishing an extensive network in journalism, academia, the business world, and public and political circles, as described later. Furthermore, Ishibashi was not just a journalist; he later became a powerful politician, served as prime minister, and spoke actively about security issues.

In order to draw out the wide range of ideas and activities of Ishibashi, it is necessary to compare him with his peers at the same time. In this paper, I will discuss 'war and economics' by contrasting Ishibashi with Kamekichi Takahashi (1891–1977, economic critic) and Mitsutaro Araki (1894–1951, professor at Tokyo Imperial University).

II Ishibashi's Basic Thought

1. The Development of Society and Economy by Individuals' Division of Labor

In thinking about 'war and economics' with regard to Tanzan Ishibashi, it is necessary first to consider what his basic economic thought was.

Ishibashi held two basic ideas. One is the thought that ‘self-control is best, leading to self-responsibility as to the result,’ i.e. the ‘principle of independence’ (Ueda 2012, 27), and the other is an idea that can be called the ‘principle of network’—that connecting the network leads to the happiness of individuals and society.

The principle of independence derives much from the ideas that Ishibashi acquired from his master, Oudo Tanaka. Tanaka learned from John Dewey at the University of Chicago and studied William James’ philosophy. Tanaka lectured his unique philosophy based on American pragmatism at Waseda University, which strongly influenced Ishibashi. Tanaka’s philosophy was based on individuals and at the same time emphasized mutual restraints and harmony between society and individuals (Jiang 1989).

In the thought of Ishibashi, economics also departs in the first place from individuals. Ishibashi emphasized that humans are the most important economic resource. Production and accumulation are results of human power. Therefore, what is necessary for economic development is to utilize human resources, not physical resources or territories. Ishibashi criticized the opinion that Japan should annex other territories to gain physical resources. ‘There is no iron, no cotton, no wool, no cereals in our country, but this will not depress us a bit. The most worrying thing is that human capital is bad’ (Ishibashi [1915] 2011, 213). Nevertheless, Japan emphasized the expansion of armaments rather than enriching the country by making use of the people, and the magnitude of the ratio of military expenditure and investment of Japan at that time was greater than in countries such as the United Kingdom and Germany. Ishibashi strongly criticized such poor policy (Ishibashi [1915] 2011, 211–12).

Based on this idea, Ishibashi insisted on using expenses for education and industrial development to improve ‘human capital’ rather than extending military expenses. If the Japanese economy develops and capital accumulation progresses in this way, he argued, capital will naturally be invested overseas without acquiring territory.

The capital is *botamochi* [rice cake covered with bean jam], the land is *jubako* [lacquered food box]. If there is no *botamochi* to put in, it will be foolish to collect only *jubako*. If we make a lot of *botamochi*, we can borrow *jubakos* from our neighbors happily. Therefore, the way to enrich the capital is by pacifism and pushing the full power of the people into the study of academic skills and advancement of industry. Build schools instead of barracks and set up factories instead of warships. It costs about 800 million yen for the Army military expenses. If you hypothesize that the first half will be cast for peaceful projects every year, Japanese indus-

tries will completely change for years. (Ishibashi [1921] 2011, 29)

What is the relationship between individuals and society or the economy? Ishibashi was originally influenced by theory of sociocultural evolution, thinking that society and the state would develop naturally through the selfishness of individuals (Ishibashi [1912] 2011, 125–27). Ishibashi during an early period studied economics from books written by Adam Smith, but from the 1920s, while emphasizing Smith's theory of labor and division of labor, he developed his own economic thought. Ishibashi advocated his basic philosophy centered on 'people' in a work in 1927 and repeatedly argued that the cause of poverty in Japan was not because of the lack of natural resources, but because of the lack of human effort and creative ingenuity. Ishibashi pointed out that Smith's theory still considered the extent of land, climate, and territory as preconditions, and insisted that labor was the only resource (Ishibashi [1927] 2011, 305).

Ishibashi, who began to conceive of the division of labor as the sole resource in this domain, stated his own definition of 'economy' on this basis. Ishibashi opposed the production-based definition of economy as 'activity to acquire material wealth.' Ishibashi said: 'The economic activity is to make plans to divide one's own labor and to carry out such as to give the greatest effect for human beings to maintain or develop their lives' (Ishibashi [1934] 2011c, 430–31).

Ishibashi explained that departing from a case where there was only one economic entity, such as Robinson Crusoe, division of labor would be carried out with families, companies, and states. However, in a national economy, unlike a house or a company, 'no one can think about distribution of labor and do it by directing orders under one plan.' Therefore, 'as a result of striving people competing with each other to meet their self-interests, goods will be naturally distributed to promote the welfare of all citizens best' (Ishibashi [1934] 2011c, 434). Ishibashi, who emphasized the natural division of labor by pursuing his own interests in individual economic agents, was consistently critical of socialism and controlled economy.

2. Trade and Consumption to Make Use of Labor

Ishibashi idealized the state in which the activities of people and national economy are activated by effectively consuming labor products through trade. An essay by Ishibashi in 1934 shows his economic thought well (Shinozaki 2006).

Here Ishibashi dealt with a *rakugo* [comic story] '*Hanami zake* [Drinking under the cherry blossoms].' *Hanami zake* proceeds as follows. When the cherry blossoms are in viewing time, two poor persons plan to make money by selling liquor at the cherry blossom viewing place. They purchase liquor, put it in a bar-

rel, carry it with a stick, and head for the cherry-blossom viewpoint with a coin for change. However, one of the two wants to drink liquor on the way, and buys a cup of liquor with the coin and drinks it. Then the other person wants to drink liquor and passes the coin back to the original partner who gave it to him and drinks. While repeating this, they arrive at the cherry-blossom viewing place and try to sell liquor to the cherry blossom viewers, but they have already drunk all the liquor.

As to the content of this *Hanami zake*, Ishibashi stated as follows (Ishibashi [1934] 2011 d). As the currency circulates between the two persons, all the liquor is consumed.¹ 'If we look at it as a phenomenon of a single society (or country or world), it is totally an ideal economic situation, there is no overproduction or impoverishment of farmers because of a bumper harvest that we often suffer in reality in society.' Even though the amount of currency is limited, it is used immediately (because the characters like liquor, they use the received money soon to buy another drink). Therefore, the society (two persons) is actively traded and all existing goods (liquor) are purchased. In this state, members of society can consume a lot, and can obtain great utility.

Ishibashi interpreted *Hanami zake* thus, and lamented that it was ridiculous that in modern economies, even if production was increased, the results would not be consumed and goods would be overproduced. In trying to materialize a happy state like *Hanami zake* within real society, Ishibashi thought that modified capitalism rather than socialist revolution should be adopted. Therefore, Ishibashi insisted that the government should undertake public works projects in the then-current recession to make use of the labor force. On the other hand, Ishibashi said public bonds and taxes should cover the financial resources required for public works implementation, because it was natural for the people who were the beneficiaries to bear the costs. This claim can be seen as arising from Ishibashi's basic idea of the 'principle of independence.'

In the example of *Hanami zake*, the amount of money is not a problem, as only a single coin is on hand. Ishibashi would say that while the amount of money is not a problem, it is important that trade through money is actively conducted among economic agents. When money is used as a lubricant and trade is actively carried out, demand is increased, all the products that are the result of labor are consumed, and no excessive production occurs (of course, in the fable, the liquor is not a product of the two persons). For Ishibashi, money

¹ It is not certain whether this interpretation by Ishibashi of *Hanami zake* is original. In 1919, F. Y. Edgeworth explained the circulation of money using a similar fable (Abe 2003). Ishibashi, who had been reading many English-language economics books, might have known this Edgeworth's fable.

was not the purpose, but the tool to facilitate trade, to force people to consume the results of division of labor, and to expand production through this consumption. However, the ideas of Ishibashi and Keynes were similar in terms of increasing demand and revitalizing the economy, implying that Ishibashi was paying attention to Keynes' theory from an early time (Ikeo 2014).

3. Economic Development and International Peace through the Network

Whether through 'division of labor' in production or 'demand' in trade, the importance of 'the relationships between people' was the basis of Ishibashi's ideas. If social and economic interactions are actively carried out, the social economy will develop, and conversely, if such is not done, the economy will not develop. Such thoughts of Ishibashi's may be called the 'principle of network.'

Ishibashi's 'principle of network' was not simply a result of studying theories of the division of labor such as those of Adam Smith, but also from Ishibashi's own attitude. Ishibashi invited representatives of the left wing, the right wing, and the military who did not agree with him, and opened roundtable discussions frequently on *Toyo Keizai Shimpō* magazine, on which Ishibashi served as Editor-in-Chief. In addition, Ishibashi himself also had close exchanges with those who did not always agree with him on economic policy and foreign policy (Jiang 2014, 88–89). The extensive network that Ishibashi himself built would thus have a major influence on the development of economics in Japan, as will be described later.

From the viewpoint of Ishibashi, who placed great importance on such networks, the wider the range of a network, the better it functions. Therefore, networks must necessarily spread to the world beyond Japan. This is of course the same in the economy. Ishibashi insisted on the international nature of economy (Ishibashi [1934] 2011c). Ishibashi frequently emphasized the importance of the international division of labor by explaining the theory of division of labor of Adam Smith and the comparative production cost theory of David Ricard. This seems to be what he tried to explain when clothing his thought with economics rhetoric.

With such an outlook, Ishibashi was naturally critical of imperialism, bloc economies, and the war limiting and destroying the network. Ishibashi highly appreciated the League of Nations proposal that appeared as a response to the First World War (Ishibashi [1919] 2011), and stated the folly of adhering to territorial requirements when, by abandoning colonies, far more profits could be gained from trade (Ishibashi [1921] 2011). In particular, the latter argument is well known as an aspect of 'little Japanism' as against 'great Japanism' aiming to acquire more colonies. This argument was influenced by the Manchester School's 'little Englandism,' opposed to imperialist policy and for the promotion

of free trade; but the background was Ishibashi's own 'principle of network.' From Ishibashi's viewpoint, with the increasing global tendency for ethnic independence after the First World War, Japan and other countries should not adhere to acquiring territory for 'little greed.' It was self-evident to him that it was better to promote trade with the world and obtain great profits to satisfy 'great greed.'

However, public opinion in Japan and the actual course of Japan greatly differed from Ishibashi's criticisms of imperialism and bloc economies. One reason would be that policies based on the economic thought of Ishibashi led to a result that was significantly different from his intentions.

III Economic Controversy and War

1. The Debate on Lifting the Gold Embargo

Ishibashi played a major role and greatly enhanced his social evaluation in the debate on the lifting the gold embargo in Japan around 1930. The debate and its result are important in conceptualizing how economic policy influenced war and peace. The following description is based on Nakamura (1994) and Makino (2012).

After the outbreak of the First World War, Japan withdrew from the gold standard system, like the other countries. Japan aimed to return to the gold standard after the end of the war, but this was postponed as a response to the Great Kanto Earthquake and the financial crisis. The loss of the link between gold and yen caused the currency exchange rate to fluctuate greatly and lifting the gold embargo was strongly demanded by the business world for stability of the exchange rate. The major political parties agreed on the necessity of lifting the gold embargo and the Osachi Hamaguchi Cabinet that was established in 1929 appointed Junnosuke Inoue as the finance minister and decided to implement lifting the gold embargo.

Public opinion also supported the lifting the gold embargo, but was divided about the time and method. Tanzan Ishibashi, Kamekichi Takahashi, Toshie Obama and Yasuzumi Yamazaki insisted on devaluing the parity, referring to the experience of the United Kingdom returning to the gold standard in 1925 and criticism of this by Keynes. They claimed that a new parity should be introduced, because the old parity showed too much appreciation of the yen. They were called the 'New Parity Quartet.'

However, major banks and the zaibatsu (financial conglomerates) insisted on the early lifting the gold embargo in order to thoroughly rationalize industry. In addition, most academic economists supported lifting the gold embargo at

the old parity. For example, Mitsutaro Araki, an expert in money and finance, supported the lifting the gold embargo at the old parity. Araki thought that the foreign value of money (exchange rate) was more important than the domestic value of money (price) in the age of the international economy.²

The Hamaguchi Cabinet opted for the early lifting the gold embargo at the old parity and formulated an austerity budget. The lifting the gold embargo was then implemented on January 11, 1930.

However, after the lifting the gold embargo, exports drastically decreased due to the increase in yen exchange rates. The decrease of exports and the financial austerity program also caused an unprecedented great depression called the Showa Depression. New Parity Quartet members such as Ishibashi argued for an early re-prohibition of gold exports. Furthermore, at the London Naval Conference on Disarmament held over January to April 1930, while the Depression worsened, the Japanese government agreed to reduce naval vessels from a stance of austerity and international cooperation. Attacks were raised, claiming that this infringed the command of the Emperor.

As criticism against the government increased on both political and economic fronts, the Manchurian Incident broke out in September 1931 and the United Kingdom withdrew from the gold standard system at almost the same time. Finance Minister Inoue adhered to maintaining the gold standard, but the Tsuyoshi Inukai Cabinet was established on December 13 and Finance Minister Korekiyo Takahashi immediately impose the gold embargo. The Japanese economy recovered rapidly with the sharp rise in exports due to the plunge of the yen, and the expansion of fiscal expenditure centered on military and rural relief work expenses implemented through the Bank of Japan's underwriting of government bonds.

The debate relating to lifting the gold embargo was an example in which economics influenced actual economic policy, but the relationship with war was quite complicated.

2. Expanding Public Finance and 'Reform' of Economic Thought

As mentioned earlier, after the re-prohibition of gold exports at the end of 1931, Japan staged a rapid economic recovery due to fiscal expansion. In particular,

2 Araki was influenced by the Austrian school economists and was positive to the gold standard system. On the other hand, Araki sat in on Keynes' lecture on the world monetary situation at the University of Cambridge in 1923. Therefore, Araki was also interested in managed currency system proposed by Keynes. After the withdrawal of the Japanese gold standard system in 1931, Araki still considered the gold standard as ideal, but simultaneously advocated an eclectic proposal that Japan should introduce managed currency system for the stability of exchange for the moment (Makino, Kobori, and Yamakawa 2014).

the increase in military expenses after the Manchurian Incident and the founding of Manchukuo gave rise to fiscal expansion.

Ishibashi thought that expanding military expenditure was not necessarily desirable, but on the other hand, he acknowledged that expansion of military expenses stimulated the economy and helped the nation to escape from the Showa Depression. Therefore, Ishibashi supported expanding fiscal expenditure accompanying the expansion of military expenses. In the background of Ishibashi's argument, there lay a trauma in that the combination of military expense suppression by the London Naval Armament Treaty and fiscal restraint for the lifting of the gold embargo in the Hamaguchi Cabinet triggered the Showa Depression (Ishibashi [1934] 2011a, 326–27).

This fiscal expansion was effective for economic recovery under conditions of low occupancy rates and high unemployment rates. However, there was a risk of malignant inflation in a booming economy. After the recovery of the Japanese economy, Korekiyo Takahashi, who again became the finance minister of the Keisuke Okada Cabinet, strongly insisted on tightening military expenditure in order to restrain fiscal expansion and inflation and return to sound fiscal policy in 1935. However, the Army strongly resisted the policy, and furthermore, Kamekichi Takahashi and Yasuzumi Yamazaki among the New Parity Quartet also criticized Finance Minister Takahashi with the Army from their standpoint of giving priority to the economic stimulus and expansion of production. Ishibashi also expressed concern about the policy to return to sound finance.

Of course, Ishibashi's criticism of sound financial policy was aimed at peaceful economic development. However, Kamekichi Takahashi's criticism of sound financial policy was closely related to the trend of 'reform' of domestic and international relations at the time.

Kamekichi Takahashi was a consistent companion of Ishibashi. However, Kamekichi Takahashi had a different perspective on international relations from Ishibashi. Kamekichi Takahashi argued from an early stage that Japan, with an excessive population, must challenge the United Kingdom and the United States in monopolizing vast territories (Makino 2011). Therefore, Kamekichi Takahashi thought that it was necessary to strengthen Japanese military capability, and that a state capitalistic policy was needed for national power to lead private companies.

Kamekichi Takahashi's claim met with empathy from Army soldiers rebelling against Korekiyo Takahashi's attempts to curb the expansion of military expenses. In the end, Korekiyo Takahashi was assassinated in the February 26 incident of 1936 (an attempted coup by the Army), and the Koki Hirota Cabinet that succeeded the Okada Cabinet accepted a large increase in military budget; here 'sound finance' was abandoned. Kamekichi Takahashi highly approved of

this change (Makino 2017).

As is frequently pointed out with regard to the continuity of the warfare state and the welfare state, 'Things that transcend the economy' such as war and coup d'état were needed to create changes in economic policy and the 'reform' of economic thought.

3. Economic Policy and International Relations

The Manchurian Incident occurred in September 1931 during the Showa Depression. Therefore, many people tend to think that 'the Showa Depression, caused by erroneous economic policy, raised the dissatisfaction of the people and led to the support of the Manchurian Incident, which led to the subsequent war.' In fact, however, Japanese–Chinese relations had deteriorated considerably due to the revival of the national rights recovery movement in China and the increasing antipathy toward China in Japan before the lifting of the gold embargo, as well as frequent armed conflict (Nanjing incident in 1927, Jinan incident in 1928, and Huanggutun incident in 1928). The Manchurian Incident may have occurred irrespective of the Showa Depression and Japanese people may still have supported it (Tsutsui 2015).

After all, the investment in Manchukuo, which was born as a result of the Manchurian Incident, contributed greatly to the recovery of Japan after the gold export re-prohibition (Okura and Teranishi 1994). Japan strengthened economic ties between Japan and Manchukuo by expanding its investment as the currency expanded under Korekiyo Takahashi's previous fiscal policy (Miyata 2014). As Manchukuo became an essential economic sphere for Japan, there was no room for compromise with the Chinese side that sought to regain Manchuria, and Japan and China would advance to the outbreak of the Sino–Japanese War in 1937.

Furthermore, a recent study of diplomatic history shows that the difference between the United Kingdom's and Japan's responses to the Great Depression later worsened relations between the two countries. With world trade contracting under the Great Depression, the United Kingdom aimed for economic recovery by increasing exports through maintaining sound finance and maintaining free trade within the British Empire based on the credit of the pound (Drummond 1981). However, these British policies were not understood by Japan and the United States. They believed that the United Kingdom aimed at forming a Sterling Bloc as an exclusive power sphere (Miyata 2014). Furthermore, Japan expanded exports due to the currency depreciation resulting from the gold export re-prohibition; this saw exports to British India increase dramatically, which caused intense economic friction with the United Kingdom. The United Kingdom strongly criticized Japan for 'dumping exports.' In addition, as

these economic relations with India became stronger, the actual situation of harsh colonial rule by the United Kingdom in India became known in Japan, and the antipathy to the United Kingdom further strengthened from the viewpoint of 'Pan-Asianism' (Matsuura 2010).

Against this background, the business community, especially the industrial world in Japan, showed a strong stance against the United Kingdom. Ishibashi said in a recollection after the war that the industrial world, especially shipping and spinning companies, hated and argued to drive out the United Kingdom (Ishibashi [1964] 1994, 39–40).

The worsening of economic relations with the United Kingdom led to arguments for the construction of the 'Japan–Manchuria Economic Bloc' and even the 'Japan–Manchuria–China Economic Bloc' against the Sterling Bloc. Furthermore, as Japan actually put Manchuria under its influence and gained some profit, the calls to construct Japan's bloc economy were not limited to the Army, but became public opinion, including that of the industrial community.

Kamekichi Takahashi and Yasuzumi Yamazaki among the New Parity Quartet approached the Army as described above and strongly insisted on constructing an exclusive Japanese economic bloc (Jiang 2014, 102). Kamekichi Takahashi thought the transition to the bloc economy was inevitable and criticized the argument of 'a liberalist' to abandon colonies, which assumed the 'little Japanism' of Ishibashi, as unrealistic (Takahashi 1934, 43). Takahashi strongly insisted on the construction of the economic bloc and became an ideologue of the Great East Asia Co-prosperity Sphere during the Pacific War.

Ishibashi was forced to change his stance in accordance with the changes in foreign relations in the 1930s. Ishibashi admitted Manchukuo as an established fact. In addition, Ishibashi thought that it was inevitable for Japan to intervene somehow in China, because China could not fully dominate its own country. This was because Ishibashi thought that China could not gain profit from self-determination if China could not bear responsibility for itself from the standpoint of his own 'principle of independence.' Ishibashi treated Chinese nationalism negatively after the Manchurian Incident, based on these ideas. This perspective of Ishibashi, however, made it impossible for him to understand fully the actual situation of China (Ueda 2012, 40–47).

Nonetheless, Ishibashi adhered to the fundamental idea 'principle of network' and repeatedly criticized bloc economies. Ishibashi said that the reason why the world headed towards bloc economies was simply depression. Cheap Japanese products sold well due to the depression, and these exports were not dumping. 'Every difficulty can be solved only by leading the whole world back to prosperity' (Ishibashi 1933, 9–10). Bloc economies would surely become unnecessary, because domestic products could be sold if the world economy re-

covered.

As I always say, a self-sufficiency economy is a puppet child created by the world recession and a hopeless thing that will not grow long. If we trade widely, we can buy good things cheaply and have plenty of living together. It is difficult to be cramped in a narrow bloc and to endure living in poverty, even if we persevere while we do not have purchasing power.

(Ishibashi [1934] 2011 b, 420)

Ishibashi continued to criticize bloc economies and to appeal for cooperation from the United Kingdom, although his argument was premised on the existence of Manchukuo. Ishibashi argued in September 1936 as follows. If Japan tries to monopolize East Asia, it will not be able to escape conflict with other countries, which will result in the loss of sales channels for Japanese products. It is more profitable for Japan and Western countries to create a world with free trade by abandoning their intention to monopolize territories. In contrast to this, if Japan adopts an 'East Asia monopoly policy,' then 'the profits of east Asia may be obtained by Japan a lot,' but 'the world other than East Asia will be closed to our country' (Ishibashi [1936] 2011 a).

However, such claims from Ishibashi did not lead public opinion. Ishibashi was criticized by one of his readers, who said 'the only enemy of Japan is the United Kingdom' (Ishibashi [1936] 2011 b). After the outbreak of the Sino-Japanese War in 1937, Japan's antipathy to the United Kingdom—which was felt to support China—strengthened and the relationship between Japan and the United Kingdom got worse. In Japan, which had friendly relations with Germany, the anti-British movement intensified when the Second World War broke out in 1939. The relationship between Japan and the United Kingdom became decisively worse when the Japan–Germany–Italy alliance was concluded in 1940. The worsening relationship with the United Kingdom led to the deteriorating relationship between the United States and Japan, causing the Pacific War.

From the viewpoint of 'the recovery of the economy in one country,' Ishibashi and others insisted that the 'right' policy for the problems entailed the lifting the gold embargo and fiscal expansion. In that sense, I do not disregard the preceding studies of the Showa Depression (Smethurst 2007 etc.). However, incorporating the viewpoints of social movements and international relations, Ishibashi's assertion can be said to have resulted in preparing the way for warfare by betraying his basic thought. From this example, we can see it is extremely difficult to judge how economics influences war.

IV Formation of Networks of Economic Knowledge through Total War

As mentioned above, after the February 26 incident in 1936 the Hirota Cabinet accepted a substantial increase in military budget expenditure. As a result, the economy became overheated, and the balance of payments, domestic funds, commodity demand, and the labor market became tight. Ishibashi converted in 1937 and strongly appealed the necessity of raising taxes to prevent inflation. Ishibashi's argument was the application of Keynesian theory to the overheating economy (Ishibashi [1937] 2011c). Ishibashi tried to maintain market mechanisms based on the division of labor by suppressing the amount of currency distribution, rather than suppressing inflation by artificial price control.

However, what actually was done to curb inflation was the implementation of various guidance and control measures by the government that started with export restrictions to maintain the balance of international payments. The imposition of economic controls had become inevitable even before the outbreak of the Sino-Japanese War in 1937. The Cabinet Research Bureau, which had been set up in 1935 to enhance the ability of the Cabinet to formulate comprehensive policies, was first reorganized into the Planning Agency in April 1937, then merged into the Cabinet Resources Bureau in October of the same year to form the new Planning Board (*Kikakuin*) (Makino 2016).

Specialized knowledge on the economy was then required for the government to formulate policies and to implement various guidelines and controls. Academic economists such as Mitsutaro Araki and economic critics such as Ishibashi and Kamekichi Takahashi were therefore mobilized as government committee members. Ishibashi assumed membership of many committees at the Ministry of Finance and the Planning Board during wartime.

The appointment of Ishibashi to these government committees also meant that the social value of *Toyo Keizai Shimpo* and Ishibashi had risen after the debate on the lifting the gold embargo. This also meant that the government highly appreciated Ishibashi's insights, gained from his knowledge of the substance of the economy and his theoretical grasp of economy. So how did Ishibashi increase national economic insight? The main means were a research organization and a club of which Ishibashi was effectively the center.

Collaboration between researchers who are based on a common intellectual foundation is necessary for economists to conduct research on a large scale. Therefore, the 'institutionalization' of economics was promoted even during the wartime period. Numerous books on theoretical economics published in Europe and the United States were translated into the Japanese language, and various

academic societies or institutes to research the economy were established (Makino 2010).

Ishibashi and his peers were greatly involved in the institutionalization of such economics. Ishibashi felt the necessity of thorough research on currency and finance and started a workshop with many economists and practitioners. In 1932, the Keynes Study Group organized around Ishibashi and as a result the translation of Keynes' *General Theory of Employment, Interest and Money* was published in 1941 by *Toyo Keizai Shimpō*. In the same year of 1932, the first Currency System Study Group was organized; in addition to the secretary, Ishibashi, Kamekichi Takahashi, Mitsutaro Araki and Kakujiro Yamazaki (Professor at Tokyo Imperial University and an adviser to Araki) gathered. Although the first Currency System Study Group concluded after about a year, it resumed from 1941.

This Currency System Study Group developed into the Society of Monetary Economics in 1943 (now the Japan Society of Monetary Economics). Theoretical economists, bureaucrats from the Ministry of Finance, executives of the Bank of Japan, banking officials, and others in addition to Ishibashi, Kamekichi Takahashi, Araki, and Yamazaki joined the Society. As can be seen from the fact that the secretariat was placed inside the Toyo Keizai Inc., this was an academic society created under the strong influence of Ishibashi (Society of Monetary Economics, ed. 1984). The society had become a place to discuss issues on finance with a wide range of members, including people who had different opinions on economic policy and ideology from Ishibashi. In particular, Araki, who had a broad network of people, cooperated with Ishibashi's financial and currency research (Makino and Kobori 2014).

Furthermore, *Keizai Kurabu* [the Economic Club] played an unexpected role in Ishibashi's wartime activities. *Keizai Kurabu* is a membership club established by Toyo Keizai Inc. in 1931 that still continues. Many industrialists who valued Ishibashi and *Toyo Keizai Shimpō* became members to seek economic information. Many lecture meetings conducted by practitioners, scholars, and critics were actively held by the club.

At *Keizai Kurabu*, officers of the Army and the Navy were also often found lecturing. For the military, the cooperation of the business sector with the total warfare system was indispensable, so *Keizai Kurabu*, which could interact with leaders of the business community, became an important link between the military and the business world. This was also the case for the business world. The military officers' lectures at *Keizai Kurabu* were valuable information sources that could anticipate the trends of the war, as well as revealing the military's intentions regarding industry and control. For Ishibashi and *Toyo Keizai Shimpō*, cooperating in a network with military officers also created a breakwater to sup-

press interference from the military. Furthermore, the fact that *Keizai Kurabu* was a membership club also had an important meaning in wartime. At public lectures, there would be police officers and military policemen listening in order to monitor inconvenient remarks for the government. However, at lectures held by membership-based *Keizai Kurabu*, police officers and military policemen did not enter, because the audience was limited only to members of the club; therefore, the lecturers and the members were able to talk and discuss quite freely (Asano 2015). In other words, *Keizai Kurabu* played a role as a place to exchange opinions freely and a network connecting the business world, military officers, and intellectuals.

As stated above, Ishibashi became a powerful figure with diverse personal networks linking business people, intellectuals, bureaucrats and even military officers through research organizations and the membership club, creating useful information under wartime. Ishibashi formed his personal network by taking in people of different opinions and positions, such as Mitsutaro Araki, who supported the lifting the gold embargo at the old parity, and Hisatsune Sakomizu, who promoted economic controls as a bureaucrat. From the government's viewpoint, Ishibashi, who was such an influential person, was more likely to be accommodating than to be stubborn and so had been appointed to various government committees as mentioned above. Ishibashi, of course, understood this and was involved with the government in order to secure room for criticism of the authorities at *Toyo Keizai Shimpo* and in *Keizai Kurabu*. In other words, we can say that Ishibashi preserved his freedom in normative terms by being an important person for the government.

Another crucial activity that Ishibashi carried out using his personal network at the end of the Pacific War was the study on the plan for a postwar international order after Japan was defeated.

V International Order for Peace Initiative

Ishibashi began to think about the necessity of 'postwar research' from mid-1943, when Japan's defeat became certain. Ishibashi was especially inspired by the draft of the United Nations proposed at the Allies' Dumbarton Oaks Conference, held from August to October 1944. Ishibashi advised Finance Minister Shotaro Ishiwatari to set up an organization to think about 'after defeat' in the Ministry of Finance, and in the fall of 1944 the 'Wartime Economy Special Research Office' was established in the Ministry of Finance.

Mitsutaro Araki cooperated with Ishibashi's 'after defeat' research as well as monetary and financial researches. There is speculation that Ishibashi and Araki mainly conducted the selection of the members of the Wartime Economy

Special Research Office from among members of the Society of Monetary Economics. Documents of the Wartime Economy Special Research Office remained undiscovered for a long time, but were recently found among the 'Mitsutaro Araki Papers' held at Nagoya University (Makino, Kobori, and Yamakawa 2014, Makino and Kobori 2014).³

The Office began activities in November 1944. Ishibashi suggested studying a 'counterproposal to the United Nations draft at the Dumbarton Oaks Conference' and also 'closed economy: the blockade economy of only the mainland [of Japan] except Korea and Taiwan' at the second meeting. However, according to a draft of the study subjects, the Office was supposed to consider the idea of the international order after the war, not the issue of the territory.

According to the 'Interim Report (draft),' which Araki had compiled around April 1945, all members of the Office agreed on the necessity for the 'wide area economy' after the war. However, it seems that opinion had not been gathered as to what 'wide area economy' meant and why it was necessary. Many members considered the wide area economy as a bloc economy and thought that the world would remain divided into bloc economies even after the war.

Ishibashi's proposal was different from those of other members. Ishibashi believed that the economy develops toward the world economy as mentioned above, therefore Ishibashi recognized the significance of 'wide area economy' only as a transitional situation progressing towards integration with the world economy. Ishibashi claimed the same content before the Pacific War. Ishibashi was considering a plan to establish a world economic organization consisting of permanent international committees for each wide area economy and a single permanent sphere committee in the world to develop resources and improve the lives of people in various countries.

For Ishibashi, the world economy was indispensable for Japan, which should surrender to reduce its territory. According to one of the Office member Ichiro Nakayama, he was worried in discussions at the Office about Japanese territory and colonies being taken up. Nakayama said that Japan should own Korea and Taiwan somehow, but Ishibashi answered as follows:

Mr. Ishibashi at once said 'It is useless, if Japan becomes four islands, we should devise to live on the four islands and depending on finding some way, and we can do it.' During that discussion, he brought up the problem of the benefits and disadvantages of having a territory. Mr. Ishibashi said, 'The benefit of having a big territory is that we can make a drastic division

3 Documents of the Wartime Economy Special Research Office are open to the public [<http://www.nul.nagoya-u.ac.jp/erc/collection/araki.html> or <http://ir.nul.nagoya-u.ac.jp/jspui/>].

of labor in it. On the contrary, the problem of small territory and the insufficiency of division of labor is only the production of food. If this can be overcome, then the cost of having wide territory will be lost. For example, owing Taiwan or Korea costs much and it is a big profit to escape from the expense in the Yalta Agreement [Cairo Declaration, correctly]. If we use that profit or power for foreign trade and use it for domestic development, Japan can live on the four islands. Furthermore, sooner or later, we will be able to live as a great economic nation in the world with confidence.'

(Nakayama 1974, 156)

In other words, if Japanese territory was reduced, Japan would be able to develop by using the maintenance cost of the territory that was no longer needed for foreign trade for the international division of labor and domestic development for self-help. This was the revival of Ishibashi's 'little Japanism.' For that purpose, the 'wide area economy' had to be open to the world, not be a bloc economy. Ishibashi's idea of 'wide area economy leading to the world economy' was an ideal to prevent international warfare and at the same time a realistic condition necessary for Japan's survival. Nakayama gained from the foresight of Ishibashi, saying that the development of the Japanese economy after the war was just as Ishibashi claimed: 'I was already defeated in the discussion and I lost more clearly in the course of subsequent facts' (Nakayama 1974, 157).

Activities of the Wartime Economy Special Research Office were to be discontinued due to the heavy air raids against Tokyo and the change of the Minister of Finance in spring 1945. The Office must have become the Araki Committee of Society of Financial Economics with Mitsutaro Araki as the chairman, which met from May to September 1946. The purpose of this Araki Committee, in which five of the eight members of the Wartime Economy Special Research Office including Ishibashi participated, was to consider the response to the international economic order, which was a problem of 'the future' during wartime as a 'current' issue (Society of Monetary Economics, ed. 1984).

In September 1946 the Committee compiled a report entitled 'The Bretton Woods system and various issues concerning the participation of our country.' The report said that the provision of credits from the International Monetary Fund through participation in the Bretton Woods Agreement and the importation of reconstruction funds from the International Bank for Reconstruction and Development (the World Bank) would be used for settling the balance of international payments until the balance improved. These funds were supposed to play a pump-priming role to promote production by importing means of production and so on, the report said. Therefore, the report proposed that Japan should participate in the Bretton Woods agreement to rebuild the Japanese

economy.

It is unknown how Ishibashi, who was then the Minister of Finance of the Shigeru Yoshida Cabinet, dealt with this report, which was handled by himself. However, Ishibashi highly appreciated the ideal of the IMF that a nation should receive loans from the IMF and increase productivity if the balance of payments registered a deficit (Ishibashi [1964] 1994, 150). Ishibashi's postwar international order plan was realized as the United Nations (including the IMF and the World Bank), which was born due to the bloc economy that caused the Second World War (Makino and Kobori 2014).

VI Conclusion

Tanzan Ishibashi worked on the reconstruction of the postwar Japanese economy as the Minister of Finance in 1946–47. His policy was to resume production by supplying abundant funds to the most important industries (Nakamura 1994). Ishibashi adapted this policy from his experience of the debate on lifting the gold embargo and the study of monetary economics using his personal network before and during the war. On the other hand, Ishibashi thought that this policy was an emergency measure adopted under the condition that Japan had become a 'closed economy,' because Japan was occupied by the Allied Force and was not permitted to trade with foreign countries. Ishibashi repeatedly emphasized the importance of resuming international trade in his replies as the Minister of Finance in the Diet.

Ishibashi returned to the political world in 1951 and took a positive attitude toward rearmament, collective security, and the amendment of the Constitution of Japan declaring the renunciation of war and armaments (Tsutsui 1986). This attitude was based on Ishibashi's basic idea of the 'principle of independence.' Ishibashi thought that Japan must defend its own country and take responsibility for its own independence.

On the other hand, Ishibashi was critical about acting only in the sphere of influence of the United States. During the Cold War, Ishibashi strived to restore diplomatic and economic relations with the Soviet Union and China. This can be understood clearly from the 'principle of network' of Ishibashi, who considered wide area networks desirable. Ishibashi aimed at one world economy by resolving the East–West confrontation embodied by the Cold War.

By focusing on Ishibashi's basic ideas of the 'principle of independence' and 'principle of network,' we can understand the complexity of the relationship between economics and war. Understanding the gap between Ishibashi's economic thought and reality and understanding Ishibashi's struggle in trying to bridge that gap are important when thinking about the modern world in which

protectionism and chauvinism are increasing as globalization progresses.

(Kuniaki Makino: Setsunan University)

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