

Martin Bronfenbrenner (1914-1997) in Japan, 1949-1952

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1. Martin Bronfenbrenner 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in academic journals were a series of papers on "economic Japanology", lecture manuscripts for specific audiences unpublished at the time of his death, and his autobiography, which explores the background of his publications on Japan and his related social activities. By using both published and unpublished materials, this paper aims to examine how he managed to communicate with Japanese economists when he visited Japan (three times) during the period immediately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. 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. 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' (1987), in which he talked about some of his experiences in the 1940s and the early 1940s. 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 U.S. in 1991, he donated to Duke University his library of books, reprints, memorial collections written mainly in Japanese, and

manuscripts of his lectures. He was elected a distinguished fellow of the American Economic Association (AEA) for 1997. Bronfenbrenner (1983: 50) described his own principal contributions: ‘Assisted in keeping general economics alive and making Japanological economics respectable’.

2. In 1934, Bronfenbrenner entered the Graduate School of Economics, the University of Chicago. He 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). He 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 completed his 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. He was a general equilibrium economist, like J.R. Hicks and Don 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. It is noteworthy that Oskar Lange, another general equilibrium theorist, suggested that Bronfenbrenner to look up Kei Shibata’s review article (1937) of Keynes’ *General Theory* (1936). Bronfenbrenner received his Ph.D. from the University of Chicago in June 1939. Paul Douglas hired Bronfenbrenner as one of his assistants in statistical studies for estimating the coefficients in Cobb-Douglas production functions. In this way Bronfenbrenner gained the

skills necessary for collecting research data and gained knowledge of real institutions such as trade unions.

In the late fall of 1942, Bronfenbrenner decided to volunteer to serve his country before being drafted and realized that only the Japanese language was open to him. After receiving intensive language training, he participated in three translation projects in Oahu, Hawaii, and came to Japan for the first time in the fall of 1945. Yukichi Kurimura (1899-1983) was the first Japanese modern economist who Bronfenbrenner encountered in Kyushu. At their first meeting, Kurimura was writing a Cobb-Douglas production function on the blackboard in front of his students in his office.

3. By reading Bronfenbrenner's published and unpublished writings, it is possible to ascertain what the Americans were thinking about the policy for economic 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.

Although he did not add his signature to the *Shoup 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 Carl S. Shoup asking him to join the mission in Japan and stay on in Tokyo after its departure. Prior to arriving at Haneda Airport, he shared with the mission

members his ideas on the basics for tax reform such as “Simplicity, Equity, and Fairness”. The four volumes of the *Shoup Report* were nearly completed around the time when Bronfenbrenner landed at Haneda Airport. In writing the tax reform recommendation report, the Americans 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 report, 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, 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).

As Bronfenbrenner 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 (Bronfenbrener’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.

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, namely ‘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 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).

4. One of Bronfenbrener’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 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 examined the real economy with reference to a knowledge of economics. 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 reflationaly 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.

Selected References

The Martin Bronfenbrenner Papers, The Arthur I. Bloomfield Papers, The Don Patinkin Papers, Special Collections Library, Duke University; The Jacob Viner Papers, Princeton University, Mudd Manuscript Library

Martin Bronfenbrenner on the Website of Duke University, Department of Economics. <http://econ.duke.edu/about/history/individuals/martin-bronfenbrenner>