

Keynesianism in Japan*

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I. Introduction

This paper surveys the history of Keynesianism in Japan from the first encounters in the 1920s to the present time. Keynes has been very popular in Japan. Hayashida, a book-length review of the Keynes literature in Japan counts 970 Japanese authors with 55 pages of bibliography up until the mid-1980s (Hayashida 1986; cf. Ikeo 2014, 191). They include several introductions of Keynes to the general reader (Ito 1962, Hayasaka 1969, Yoshikawa 1995, Ito 2006), the translations of Keynes's original works,¹ and numerous studies. Japanese historians of economic thought has shown keen interest on Keynes, culminating at the establishment of the Keynes Society Japan in 2011 as a scholarly forum for the Keynes studies in Japan.² Notwithstanding popularity of Keynes, academic economists in Japan today no longer want to call themselves Keynesians. Their outlook is very similar to the American economic academia in which dynamic stochastic general equilibrium theory looms large.

The paper clarifies Japanese characteristics of Keynesianism in comparison to that in other countries. What defines Keynesianism is crucial in explaining its historical reception in Japan: Keynesianism has three aspects, theory, policy and ideas, and all of them have rich meanings. For example, some would define Keynesian policy as a deficit-spending fiscal policy, while others define macroeconomic management of aggregate demand broadly conceived.³ As for ideas, some would associate Keynesianism with more planning and socialism, while others associate with liberalism and the preservation of capitalism (Backhouse and Bateman 2012). This paper argues that precisely this elusive nature of Keynesianism made Keynesian economics popular. The Japanese economists were quite quick on catching up with the new trend, but certainly selective about what to catch up with. The reception of Keynesianism in Japan has been influenced by those who feel sympathy toward Marxism and Developmentalism in its emphasis of the “structural factors” of the economy, critical stance on the market economy, and the role of the state. It is also theory-oriented, although there are several exceptions such as policy-oriented receptions of Keynes at its first encounter and later. Furthermore, Keynesianism has been marginalized in Japan's Great Stagnation period because of Japanese characteristics of Keynesianism.

The subject has been studied in the literature. Hamada 1986 offers a clear exposition of the reception of the *General Theory* (hereafter abbreviated as GT) in Japan until mid-1980s, Hadley 1989 chronicles the influence of the Keynesian ideas on post-WWII Japanese economic policy-making until 1986, Hayasaka 1993 interviews several key persons regarding the reception of Keynesian economics, Ikeo 2014 traces the history before WWII, Dimand and Wakatabe 2011 analyze the introduction as a part of the *Kyoto University Economic Review* (1926-1944), and Wakatabe 2014b contrasts Keynesianism in Japan with

monetarism with special attention to developments in post-WWII period. However, none covers Keynesianism in Japan from its earliest period to the present period. The most standard account of the history of economics in Japan ends just before the Great Stagnation and the Great Recession happened (Morris-Suzuki 1989).

The paper is organized as follows. Section II deals with first encounters with Keynes from the 1910s to 1945. This is a period when Keynes was a contemporary to Japanese economists, and Keynes was known first as a policy advocate and then as a monetary theorist. Section III turns to post-WWII period when Keynesianism was dominant. Japanese Keynesians embraced not only American but also British type. Section IV discusses Keynesianism after the 1990s. Keynesianism has been waning, even though Japan experienced a deflationary recession. The last section concludes the paper.

II. First Encounters with Keynes

John Maynard Keynes was known to Japan before he published his first work, *Indian Currency and Finance* (1913), as a son of John Neville and the editor of the *Economic Journal*. As a contemporary, Keynes was recognized first as a policy advocate and secondly as a monetary theorist. He became famous for his involvement to the return to the gold standard controversy. There was a parallel debate in Japan (Cho 1984, Morris-Suzuki 1989, Chapter 3, Wakatabe 2014a). The majority of the policy-makers, business people, economists and journalists were in favor of the return at the old, prewar parity, while only a handful of economists and journalists were in favor of the return at the new parity. The debate centered on the desirability of a deflationary policy. Tokuzo Fukuda at the Tokyo College of Commerce, confronted Keynes in person at Moscow in 1925: he believed the stagnation of the British economy had more to do with its structure rather than with policy (Fukuda 1930). On the other hand, Keynes was favorably invoked by those minority people such as Tanzan Ishibashi, proprietor and the editor-in-chief of *Toyo keizai shimpo* (*the Oriental Economist*). He was also instrumental in introduction and translations of Keynes's works.

Japan returned to the gold standard at the pre-war parity on January 1930 when the Great Depression hit the world economies. Japan had to abandon the gold standard on December 1931, and after some hesitation, Japan engaged in reflation policy and the recovery ensued. The finance minister Korekiyo Takahashi was often dubbed as Japan's Keynes (Smethurst 2007), but not unlike the American New Deal Policy, his policy was influenced by many sources such as Irving Fisher, R. G. Hawtrey, the Chicago economists and Keynes (Wakatabe 2014a, and Wakatabe forthcoming, chapter 4).

Like other countries, this was the age of pluralism (Morgan and Rutherford 1998). Yet, pluralism in Japan took a different shape than others (Cho 1984, Hayasaka 1984). Even with a political suppression, Marxism appealed to the Japanese intellectuals. After Marxism was purged from academia, there were two contrasting strand of economics, *junsui keizaigaku* (pure economics) and *seiji keizaigaku* (political economy). The former is the western economics such as Walrasian general equilibrium theory and A.

Marshalls, later becoming *kindai keizaigaku* (modern economics). As Japan went to the war phase after the late 1930s, the former was increasingly overwhelmed by the latter which claimed to build new economics firmly based on Japanese characteristics and situations. Another development was the rise of developmentalism during the crisis (Gao 1997). It is more an economic policy idea than a theory. Heavily influenced by German historical school, this idea emphasized the role of state in economic development, which appealed to the Ministry of International Trade and Industry bureaucrats and economists.

Keynes was also respected as a monetary theorist. Saichiro Takashima translated the first three chapters of *Indian Currency and Finance* in 1915, Kanji Okabe and Sanano Uchiyama translated *A Tract on Monetary Reform* (1923) in 1924, and Nisaburo Kito translated *Treatise on Money* (1930) from 1932 to 1934. Japanese academic economists reacted to the *General Theory* quickly. Kito had already known Keynes had prepared a new book on the “Pure Monetary Theory and associated subject” through his correspondences with Keynes himself. This enabled Ichiro Nakayama at the Tokyo College of Commerce (later Hitotsubashi University) to order 40 copies of GT as a textbook for his freshman seminar starting April, 1936. However, the Japanese economists had hard time understanding its core message. Kito thought that the core of the GT was its monetary analysis based on theory of liquidity preference (Kito 1942). Nakayama, coming from general equilibrium analysis, thought the GT was “too much monetary”. Takuma Yasui, an expert on Walras at the Imperial University of Tokyo, thought that the core was the national income analysis.

Yet it is quite misleading to portray this period as one of mere absorption and digest of the GT. Yasuma Takata and Kei Shibata, both at Kyoto Imperial University, attempted to criticize Keynes. Takata thought that Keynes should have abandoned not only the first but also the second postulate of classical economics (Takata 1937). Shibata complained that Keynes assumed a given money wage, which should have been analyzed in relation to other variables (Shibata 1937, 1939). Their efforts to write in English notwithstanding, however, they could not engage in conversations with Keynes.⁴ The Japanese translation was published in December 1941, and the first 7,000 copies were sold quickly, additional 2,000 copies were reissued (Hamada 1986, 451, Hayasaka 1993, 256). However, with the outbreak of the Pacific War in 1941, the Japanese economics academia was cut off from the rest of the world, and the interests in Keynes waned.

Within the policy circle, the young MOF bureaucrats studied and even translated the GT. Their activity was, however, strictly on voluntary basis, exerting no influence on the actual policy developments during the War period.⁵ More notable development was discussions about Keynes’s proposals for post-War new international monetary system. The bureaucrats at the MOF and the Ministry of Foreign Affairs, together with economists and researchers at Yokohama Specie Bank (Bank specialized in foreign exchanges) carefully studied the shape of the coming international monetary system.

III. The Age of Keynesian Economics

After WWII, Japan was occupied by Allied Forces, mainly by Americans, from 1945 to 1952. The occupation had great impacts on the Japanese economy and economics. Economics in Japan became heavily influenced by American economics. Keynesian economics of the American version came to Japan with Klein 1947 (translated into Japanese in 1952), Harris 1947 (1949-1950), Dillard 1948 (1950), and Samuelson 1948 (1953). The Japanese economists who had difficulty in understanding the GT embraced the American Keynesian interpretation. This corresponded with the rise of *kindai keizaigaku* in Japan. With this historical coincidence, the neo-classical synthesis, combination of neo-classical and Keynesian economics became the mainstream non-Marxian economics in Japan.

But the transformation from “interwar pluralism to postwar neoclassicism” (Morgan and Rutherford 1998) did not happen in Japan: pluralism was maintained with the presence of Marxism. The purge of academic collaborators, mostly advocates of *seiji keizaigaku*, during the War time changed the composition of Japanese economists: left-wing Marxian economists came to dominate the academia. This has also influenced the reception of modern economics in Japan. Japan has had a considerable number of post-Keynesian economists who feel sympathy toward British Keynesianism. In this respect, the Influence of Shigeto Tsuru was especially important. His students, Yoshikazu Miyazaki and Mitsuharu Ito, emphasized “structural” problems of the Japanese economy such as a disparity of industrial structure. The Cold War environment naturally led economists to discuss the viability of capitalism. Tsuru and his students also took issues with capitalism, discussing issues such as income disparity, the environmental pollution, showing some sympathy toward Marxism. As Miyazaki and Ito became influential interpreter of Keynes (Ito 1962, Miyazaki and Ito 1964), the British-like Keynesianism came to have a presence.

Turning to the post-WWII economic policy-making, Ishibashi became a finance minister and referred to Keynes in his 1946 speech to overcome the shortage of goods and services during the reconstruction. It was considered as a premature application of Keynesian policy since Japan experienced high inflation, but some defend Ishibashi (Hadley 1989, 298, Iwata 2011). The next notable development was the Income Doubling Plan of Prime Minister Hayato Ikeda in the 1960s. The idea comes from Nakayama, but the main architect was Osamu Shimomura, ex-MOF official turned advisor to Ikeda, whose work was influenced by Harrod. He had a great trust in free market economy and individual initiative, but the government and the Bank of Japan had to maintain appropriate level of aggregate demand by fiscal and monetary policy in order to double national income within ten years. There is a debate as to whether Japan actually implemented Keynesian policy (Noguchi 1983, Hamada 1986). Again, this hinges on the definition of Keynesian policy. If it means deficit-spending fiscal policy, Japan seldom engaged in it even in late 1970s. But if Keynesian policy means the management of aggregate demand, Japan did adopt it.

In this period, the Japanese contributions to economics were well-recognized: Michio Morishima, Fukukane Nikaido, Hirofumi Uzawa, and Takashi Negishi, to name just a few.⁶ The strong Keynesian influence explains the minority status of monetarism in Japan (Wakatabe 2014b). It is true that there were several prominent monetarist economists in Japan. It is also true that the Japanese economy went through

double-digit inflation during the early 1970s. But it was Ryutaro Komiya and Yoshio Suzuki who analyzed the Great Inflation in Japan pointing out the role of overly expansionary monetary policy in generating inflation (Komiya and Suzuki 1977). Komiya and Suzuki did not call themselves monetarist, although they learned a great deal from monetarism. Also, the government and the BOJ suppressed the Great Inflation more quickly than those in other countries: Japan did not experience high inflation after the second oil shock in 1979. In a sense, Japan did not experience monetarist counter-revolution because the Keynesian economists absorbed the essence of monetarist ideas and the policy-makers controlled inflation fairly well.

IV. Keynesian Economics in Japan's Great Stagnation

The Japanese economy went into a series of economic and financial crises from the 1990s to the present, a period commonly known as the Lost Decade or Lost Two Decades. The time of economic crisis is a time of crisis in perceived view. Economists have been still arguing about the causes and remedies of the Great Stagnation, but one thing is certain: Japan's Great Stagnation is a deflationary recession. Despite this, however, the reputation of Keynes, Keynesian economics, and macroeconomic policy has been challenged and diminished (Wakatabe forthcoming).⁷

First, the failures of macroeconomic policy strengthened the perception that macroeconomic policy was ineffective, while in fact these failures showed that macroeconomic policy was effective. The government and the Bank of Japan was too slow to engage in expansionary monetary and fiscal policy and they initiated contractionary policy amidst deflationary recession: the government increased the consumption tax rate in 1997, and the Bank of Japan raised its policy rate in 2000. The perception was partly engineered by bureaucrats. Before the consumption tax hike of 1997, the Ministry of Finance has attempted to undermine the credibility of Keynesian economics, gathering and supporting economists who advocate austerity and non-Keynesian effects.

Secondly, on academic front, although Keynesianism in Japan had fended off monetarism and the rational expectations revolution, the rise of the Real Business Cycle and Dynamic and Stochastic General Equilibrium has succeeded in undermining the intellectual appeal of Keynesianism in Japan. The DSGE framework itself should not mean anti-Keynesian economics since the DSGE can accommodate new Keynesian ideas and Krugman 1998 resurrects the interest in "liquidity trap" within the DSGE framework, but the majority of Japanese academic economists embrace Hayashi and Prescott 2002 which attribute the stagnation to decline in productivity of the Japanese economy.

Thirdly, the self-proclaimed Keynesians in Japan pursued a wide variety of theoretical arguments. They are united in criticisms of the current mainstream economics, but their alternatives somewhat diverge from Keynesianism. Hiroshi Yoshikawa at the University of Tokyo sided with Krugman in criticizing DSGE, but he attacked Krugman's 1998 model for he believed in endogenous money, felt sympathy toward the BIS view, and hoped to relate Keynesian with Schumpeterian ideas (Komine et al. 2013, 518, 529,

Yoshikawa 2000). He were to point out the lack of product innovation as the deeper cause of the long stagnation, advocating demand-inducing structural reforms. Yoshiyasu Ono at Osaka University came up with the “Ono Model” which is based on maximizing rational agents with infinite demand for money at the extreme case. He concludes that the traditional policy mix would not work under his version of “liquidity trap”. Instead, he expects a change in preference due to generational turnover. During the 1990s Mitsuharu Ito began arguing against deficit spending and monetary easing. Based on his bleak growth prospect due to declining population and mounting government debt, he is now more worried about fiscal consolidation and social security rather than about a deflationary recession (Ito 2014, 75-76, 84).⁸

After the financial crisis of 2007-2008, faced with a danger of prolonged stagnation with a fear of deflation, the economists and policy-makers in advanced economies have rediscovered Keynesian insights albeit imperfectly (Bateman and Backhouse 2012), turning their eyes on Japan’s Great Stagnation, the most recent example of a deflationary recession. It is quite ironic that the majority of Japanese economist turned away from Keynesianism at this critical juncture.

V. Concluding Remarks

The Japanese economists responded to Keynes’s works quickly not only through translations and studies but also through policy actions. A rich diversity in Keynesianism appealed to the Japanese economists and policy-makers. As a result Keynesianism in Japan has been also diverse in theory and in policy. Yet the historical coincidence that Japan’s *kindai keizaigaku* was formed when neo-classical synthesis was the mainstream and the Japanese economists’ preference to structural factors made Keynesianism popular and averse to monetarism. When the mainstream shifted from neo-classical synthesis, the majority of the Japanese economists turned away from Keynesianism, but their preference for structural factors remain.

References available upon the request

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¹ *Collected Writings* has been translated from 1977, although the translation has not yet completed.

² The official site of the Society is the following: <http://keynes-society.blog.so-net.ne.jp/>

³ Noguchi 2015 offers a useful survey of Keynesianism after the financial and economic crisis of 2007-2008, arguing that the core of Keynesianism is its “reverse liquidationist” position in that macroeconomic policy should be utilized to stabilize the economy.

⁴ Dudley Dillard, however, thought Shibata’s paper “excellent” (Dillard 1948, 57-58). See Dimand and Wakatabe 2011, 276-278.

⁵ However, Osamu Shimomura was involved in this project. He would later be the architect of the Income Doubling Plan.

⁶ In relation to the Keynesian economics, the most notable Japanese contribution was perhaps Negishi 1979 in its pioneering contribution to disequilibrium economics. See also Backhouse and Boianovsky 2013.

⁷ By 1996, economists began asking the question “Is Keynes Really Dead?” (Kanamaori et al. 1996).

⁸ It is not easy to trace the consequences of these economists on the actual course of policy: however, Yoshikawa and Ono have been influential at several junctures, while Ito remains influential in media discourse.