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# THE GOOD OCCUPATION? LAW IN THE ALLIED OCCUPATION OF JAPAN

YOSHIRO MIWA  
J. MARK RAMSEYER\*

They left Japan in shambles. By the time they surrendered in 1945, Japan's military leaders had slashed industrial production to 1930 levels.<sup>1</sup> Not so with the American occupiers. By the time they left in 1952, they had rebuilt the economy and grown it by fifty percent.<sup>2</sup> By 1960 the economy had tripled, and by 1970 tripled once more.<sup>3</sup>

For Japan's spectacular economic recovery, the American-run Allied Occupation had apparently set the stage. The Americans had occupied, and the economy had boomed. The Americans had ruled, and Japan had thrived. At least during the Occupation's early years, the Americans had apparently planned and run a "Good Occupation."

Or so it is often said. In fact, the Americans did nothing of the sort. When they arrived in 1945, they brought few economic plans. Rather than invent a new plan, they simply helped incumbent bureaucrats keep the legal controls they had manipulated—disastrously—throughout the War. Coming from the New Deal, many Americans brought an instinctive aversion to competitive market policies. After rehabilitating the Marxist leaders and intellectuals, the Americans let them use the legal apparatus to ideological ends. With a Socialist Premier, Japanese voters let them try.

By 1948, the voters had had enough. Under the legal controls, miners did not mine. Firms did not produce. Farmers sold, if they sold at all, only on the black market. With inflation out of control and production stuck at desultory levels, conservatives struck back. They installed the quintessentially capitalist Shigeru Yoshida as Prime Minister; Yoshida promptly shut down the planning apparatus, and Japanese voters ratified

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1. YOSHIO ANDO, *KINDAI NIHON KEIZAISHI YORAN* [OUTLINE OF EARLY MODERN JAPANESE ECONOMIC HISTORY] 2-3 (2d ed. 1987).

2. *Id.*

3. *Id.*

the change. Inflation stopped, the economy rebounded, and Washington politicians forced their control-inclined agents in Tokyo to acquiesce. After June 1950 (*after* it had already started to recover), the economy enjoyed a procurement bonus from the Korean War.<sup>4</sup>

## I. OCCUPATION HISTORIOGRAPHY

### A. *The Debate*

In the half century since its close, General Douglas MacArthur's occupation of Japan (called "SCAP," for Supreme Commander for the Allied Powers) has begotten a thriving historiography. To historian and U.S. Ambassador to Japan Edwin O. Reischauer, MacArthur was "one of the great names in Japanese history, surpassed by few in Japan's long annals."<sup>5</sup> If MacArthur was the right leader, for Reischauer he had the right staff besides: "General MacArthur's staff of experts in Tokyo and on the Military Government teams throughout Japan turned in a performance which was uniformly good and sometimes brilliant."<sup>6</sup>

Scholars since have been less kind. To historian John Dower, for example, the Occupation begot a "bourgeois-democratic 'revolution'" that one could properly understand only through "the dialectic between domestic configurations and the structure of post-surrender Japan's global involvement."<sup>7</sup> Within that global order, "the great legacy" of the Occupation was the Japanese "acquiescence to the American imperium."<sup>8</sup> Within that global imperium, one could properly understand the Occupation only through the "problems of capitalism, imperialism, ideology and class."<sup>9</sup> And those problems one could properly understand only by considering "the role of . . . the petroleum cartels; key banks . . . ; investment firms . . . ; the Rockefeller interests; agricultural and textile lobbies; etc."<sup>10</sup>

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4. We omit from this article several important related issues: *zaibatsu* dissolution, deconcentration, the purges, the reparation plans, and land reform. On these issues, see Yoshiro Miwa & J. Mark Ramseyer, *The Good Occupation* (Harvard Law & Econ. Discussion Paper No. 514, 2005), available at <http://www.papers.ssrn.com/abstract=729463>.

5. EDWIN O. REISCHAUER, *THE UNITED STATES AND JAPAN*, 224 (rev. ed., 1961).

6. *Id.* at 228.

7. John W. Dower, *Recent Japan in Historical Revisionism: Occupied Japan as History and Occupation History as Politics*, 34 *J. ASIAN STUD.* 485, 486 (1975).

8. *Id.* at 487.

9. *Id.* at 490.

10. *Id.* at 491 n.3.

### B. Occupation Planning

Yet even to their critics, the Americans had at least planned the Occupation. “Planning for the occupation of Japan actually began in the immediate aftermath of Pearl Harbor,” writes Dower.<sup>11</sup> “Due in good part to the impressive activities of a small State Department group led by Hugh Borton and George Blakeslee,” he explains, “planning for postsurrender Japan at the lower levels of the bureaucracy was in fact well advanced when the war ended.”<sup>12</sup>

And to the Occupation’s early years, continue many historians, Americans brought an “idealistic vision of ‘economic democracy.’”<sup>13</sup> Consistent both “with the lessons of successful wartime planning, and with the history of developing economies more generally[,] the government was assigned a major role in setting priorities and guiding reconstruction.”<sup>14</sup> Effuses Dower, the Occupation’s success owed itself precisely to the planner’s zeal: “What made the occupation of Japan a success was two years or so of genuine reformist idealism before U.S. policy became consumed by the Cold War . . . .”<sup>15</sup>

Rather than implement their plans directly, Occupation planners worked through the Japanese government. More specifically, they implemented their plans through (and entrusted even the details of plan design to) the Japanese bureaucrats who had run the economy during the War. Those planners, in turn, operated what they called a “priority production scheme” (*keisha seisan seido* (“PPS”)) that—ostensibly—routed crucial economic resources (like coal) to critical sectors (like steel).<sup>16</sup>

Although Liberal Party leader Shigeru Yoshida (Prime Minister from May 1946 through May 1947) fought economic planning, his Japan Socialist Party (“JSP”) successor did not. Upon taking power in the spring of 1947, Socialist Prime Minister Tetsu Katayama promptly implemented PPS with full force. “There can be no question that priority production

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11. John W. Dower, Op-Ed, *Lessons from Japan About War’s Aftermath*, N.Y. TIMES, Oct. 27, 2002, § 4, at 13; see also John W. Dower, Editorial, *Bush’s Comparison of Iraq with Postwar Japan Ignores the Facts*, LOS ANGELES TIMES, Dec. 8, 2003, at B11.

12. JOHN W. DOWER, JAPAN IN WAR AND PEACE: SELECTED ESSAYS 165 (1993).

13. John W. Dower, *Occupations and Empires: Why Iraq Is Not Japan*, ASIA PAC. J.: JAPAN FOCUS, available at <http://japanfocus.org> (follow “All Articles” hyperlink; then search “Dower” in the author field).

14. *Id.*

15. John W. Dower, *A Warning from History: Don’t Expect Democracy in Iraq*, BOSTON REV., Feb./Mar. 2003.

16. DAVID FLATH, THE JAPANESE ECONOMY 82 (2000).

achieved results,”<sup>17</sup> declares political scientist Chalmers Johnson. According to sociologist Bai Gao, “[i]mplementation of the priority production program was largely successful in promoting productivity in key industries.”<sup>18</sup>

### C. *The Reverse Course*

Then, everything changed. Between 1947 and 1949, write most historians, the Occupation dramatically shifted course.<sup>19</sup> In the U.S. mid-term elections of 1946, the Republicans captured both the House and the Senate. Stridently, they pressured President Truman to restrain his New Deal economic planners in Tokyo. He did, and despite the Democratic resurgence in 1948 sent Detroit banker Joseph Dodge to Tokyo to put the Japanese economy in order.<sup>20</sup>

To most scholars, the Japanese economy presented little disorder for Dodge to fix. The PPS had worked, after all, and at worst had created some inflation. Nevertheless, Dodge mandated draconian austerity. In the process, write most scholars, he did stop inflation.<sup>21</sup> Unfortunately, he imposed a cure far worse than the disease: he “succeeded in reining in inflation,” claims Dower, “at costs that Japanese across the political spectrum found increasingly unpalatable.”<sup>22</sup>

Through Dodge Washington bet the Japanese economy and lost, in other words, or would have lost but for the Korean War. Once the war began in mid-1950, Washington started to order massive amounts of supplies from Japanese firms. Declares historian Howard Schonberger: “Only the unexpected outbreak of the Korean War rescued the American position in Japan from the political and economic morass left in the wake of the Dodge Plan.”<sup>23</sup>

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17. CHALMERS JOHNSON, *MITI AND THE JAPANESE MIRACLE: THE GROWTH OF INDUSTRIAL POLICY, 1925–1975*, at 185 (1982).

18. BAI GAO, *ECONOMIC IDEOLOGY AND JAPANESE INDUSTRIAL POLICY: DEVELOPMENTALISM FROM 1931 TO 1965*, at 169 (1997).

19. *See, e.g.*, FLATH, *supra* note 16, at 83.

20. *Id.*

21. *Id.* at 83–84. Flath correctly notes that the inflation had slowed before Dodge arrived. *Id.* at 84–85.

22. JOHN W. DOWER, *EMBRACING DEFEAT: JAPAN IN THE WAKE OF WORLD WAR II* 541 (1999).

23. HOWARD B. SCHONBERGER, *AFTERMATH OF WAR: AMERICANS AND THE REMAKING OF JAPAN, 1945–1952*, at 225 (1989).

## II. DID MACARTHUR PLAN THE OCCUPATION?

This account misleads at several levels. Most basically, Washington brought no economic plans. It claimed not even to care whether the Japanese economy recovered. According to the November 1945 Basic Directive for Post-Surrender, Washington wanted MacArthur instead “to foster conditions which will give the greatest possible assurance that Japan will not again become a menace to the peace and security of the world and will permit her eventual admission as a responsible and peaceful member of the family of nations.”<sup>24</sup> MacArthur’s ultimate objective, in short, was not to rehabilitate. It was to prevent: to ensure that Japan would not again threaten the rest of the world.

Still, readers might properly ask whether economic recovery would not help Japan rejoin the “family of nations”? Might Truman’s staff have wanted MacArthur to facilitate that recovery in order to reintegrate Japan? If they did want it, they did not mention it in the details that followed. Only in the Basic Directive’s second level of detail did Truman’s staff even discuss the Japanese economy. There, they listed the economic goals they expected MacArthur to pursue.<sup>25</sup> Yet “rebuilding” was not among them. Instead, they ordered him “[t]o destroy the economic ability of Japan to create or support any armaments dangerous to international peace,” and “[t]o encourage the development within Japan of economic ways and institutions of a type that will contribute to the growth of peaceful and democratic forces in Japan.”<sup>26</sup>

Again, readers sympathetic to the early Occupation might ask whether the goals are not ambiguous. The first goal is brutal by any measure, as any even moderately prosperous country will have the “economic ability” to “create or support” a munitions industry. But the second? Might Truman’s staff have thought economic recovery would “contribute to the growth of peaceful and democratic forces”?

Here, too, the details eliminate the ambiguity. In further instructions, Truman’s staff ordered MacArthur to implement “the reduction or elimination of certain branches of Japanese production, such as iron, steel, chemicals, non-ferrous metals, aluminum, magnesium, synthetic rubber, synthetic oil, machine tools, radio and electrical equipment, automotive

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24. JOINT CHIEFS OF STAFF BASIC DIRECTIVE FOR POST-SURRENDER MILITARY GOVERNMENT IN JAPAN PROPER, Directive 1380/15, Nov. 3, 1945, *reprinted in* POLITICAL REORIENTATION OF JAPAN: SEPTEMBER 1945 TO SEPTEMBER 1948, GOVERNMENT SECTION, SUPREME COMMANDER FOR THE ALLIED POWERS 429 (1950) [hereinafter JOINT CHIEFS OF STAFF].

25. *Id.* at 433–36.

26. *Id.* at 433.

vehicles, merchant ships, heavy machines, and important parts thereof.”<sup>27</sup> Further, they instructed him to “insure that all laboratories, research institutes, and similar technological organizations are closed immediately except those you deem necessary to the purposes of the occupation.”<sup>28</sup>

MacArthur did not care about rebuilding the economy. He did not care, because Truman had ordered him not to care: “You will not assume any responsibility for the economic rehabilitation of Japan or the strengthening of the Japanese economy.”<sup>29</sup> Rebuilding the Japanese economy was simply not his job.

### III. DID THE PLANNING WORK?

#### A. *The Personnel*

To claim not to care whether people have enough to eat is one thing. To govern them successfully while they starve is another, and few governments can rule while feigning total indifference. To jump-start the Japanese economy, SCAP and the Japanese government turned to legal controls. The former included a large cohort of committed New Dealers, while the latter included the bureaucrats who had tried to control the wartime economy.

As an organization, SCAP took no specific position on economic planning. Like most large bureaucracies, on most issues it had many positions. Maneuvering as he was for the Republican presidential nomination, MacArthur himself did not push planning. Neither, however, did he understand economics well enough or monitor his staff closely enough to oppose it consistently. Even Washington did not take a consistent line. Although Truman himself did not try to plan or control the U.S. economy, in November 1945 the Joint Chiefs of Staff told the Japanese government that it could “establish and administer any controls over economic activities that are appropriate or necessary.”<sup>30</sup>

The bureaucrats in the Japanese government were men of legal controls. During the war, they had implemented many of their controls through industry-specific “control associations.”<sup>31</sup> Given the military role

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27. *Id.* at 434.

28. *Id.*

29. *Id.* at 433.

30. JOINT CHIEFS OF STAFF, *supra* note 24, at 435.

31. See THEODORE COHEN, REMAKING JAPAN: THE AMERICAN OCCUPATION AS NEW DEAL 328 (Herbert Passin ed., 1987). The ineffectiveness of the wartime controls is discussed at length in YOSHIRO MIWA, KEIKAKU'ITEKI SENSOJUNBI, GUNJU DOIN, KEIZAI TOSEI: ZOKU “SEIFU NO NORIYOKU”

of the associations, in mid-1946 SCAP ordered them disbanded.<sup>32</sup> Many, however, promptly regrouped. The association in the coal industry did not even wait for SCAP to dissolve it. Instead, anticipating the SCAP decree, it dissolved in May 1946 on its own.<sup>33</sup> The next day, it duly re-emerged as the Coal Mining Association.<sup>34</sup>

Crucial to the implementation of the legal controls lay the informal alliance between SCAP's Economic and Scientific Section ("ESS") and the Japanese government's Economic Stabilization Board, *keizai antei honbu* ("ESB").<sup>35</sup> Within SCAP, ESS contained some of its more determined New Deal civilians.<sup>36</sup> Those New Dealers had originally pushed the Japanese government to form the ESB.<sup>37</sup> The Cabinet complied in March 1946, SCAP approved the new organization in May, and the ESB began operations in August.<sup>38</sup>

Although the government initially created the ESB under a one-year term, in May 1947 it extended that term and strengthened it.<sup>39</sup> Again, it did so under pressure from the ESS. Formally, the pressure came as a letter from MacArthur to Yoshida.<sup>40</sup> Yoshida had long opposed legal controls over the economy, but the letter declared it "the responsibility of the Japanese Government to maintain a firm control over wages and prices and to initiate and maintain a strict rationing program for essential commodities."<sup>41</sup> Toward that end, it ordered the government "through the Economic Stabilization Board which was created for this purpose, [to] take early and vigorous steps to develop and implement the integrated series of economic and financial controls which the current situation demands."<sup>42</sup>

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[WARTIME PLANNING, MOBILIZATION, AND ECONOMIC CONTROL IN JAPAN: FURTHER STUDIES IN "THE COMPETENCE OF THE STATE"] (2008). The notion that the Japanese government planned the later postwar recovery is a myth, as we discuss in YOSHIRO MIWA & J. MARK RAMSEYER, *THE FABLE OF THE KEIRETSU: URBAN LEGENDS OF THE JAPANESE ECONOMY* (2006).

32. *Id.* at 328–29.

33. Yoshiro Miwa & J. Mark Ramseyer, *Keizai kisei no yukosei: "Keisha seisan" seisaku no shinwa* [*The Effectiveness of Economic Controls: The Myth of the "Keisha Seisan" Policy*] (pts. 1 & 2), 70(2) *KEIZAIGAKU RONSHU* 2, 70(3) *KEIZAIGAKU RONSHU* 60, 66 (2004).

34. *Id.*

35. *Id.* at 63.

36. *Id.* at 65.

37. *Id.*

38. *Id.* at 63.

39. Chokurei [Imperial Order] No. 193 of 1947.

40. Letter from Douglas MacArthur to Yoshida Shigeru (Mar. 22, 1947), in *SUPREME COMMANDER FOR THE ALLIED POWERS, SUMMATION NO. OE NON-MILITARY ACTIVITIES*, No. 18 (1947).

41. *Id.*

42. *Id.*



That a Republican presidential hopeful would sign such a letter illustrates the agency slack at SCAP. In fact, MacArthur had not written the letter at all; Marxist economist Shigeto Tsuru had. In time, Tsuru would make a name for himself as a scholar and eventually university president. During the Occupation, he allied himself with the New Dealers in SCAP. As Tsuru later recalled, one day ESS Chief William F. Marquat called in sick. Marquat opposed strong controls but his stand-in, statistics Section Chief Ross, did not. With Marquat out, Ross and Tsuru discussed what to do. Ross suggested that Tsuru simply draft whatever letter he wanted. Tsuru did, Ross took it to MacArthur for his signature, and MacArthur sent it to Yoshida.<sup>43</sup>

The New Dealers at SCAP wanted the ESB because it helped them circumvent their more conservative superiors. In the ESB, the ESS had a counterpart with which it could deal directly. In effect, by working together the control-oriented bureaucrats at the ESS and ESB could cut out the more market-oriented men for whom they nominally worked. Indeed, to facilitate this collusion, SCAP New Dealers created a post in the renewed ESB expressly for Tsuru. Over the Board as a whole they placed a coordinating committee, and for Tsuru they created the position of Deputy Chair.<sup>44</sup>

## B. *The Economic Planning*

### 1. *The Socialist Government*

The economic controls did not work. By most accounts, the PPS ran from the last quarter of fiscal year 1946 (January–March 1947) through late in calendar year 1948.<sup>45</sup> The PPS was not implemented in full force, though, until Katayama formed a Socialist coalition cabinet in the spring of 1947. Katayama himself stayed in power through the winter of 1948.

43. Takehisa Hayashi, *Sogo kaidai "Keizai ante honbu ni tsuite"* [General Review: "Regarding the Economic Stabilization Board"], in SOGO KENKYU KAIHATSU KIKO SENGO KEIZAI SEISAKU KENKYU KAI, KEIZAI ANTEI HONBU: SENGO KEIZAI SEISAKU SHI SHIRYO [THE ECONOMIC STABILIZATION BOARD: MATERIALS ON POST-WAR ECONOMIC POLICY HISTORY] 20 (1994).

44. *Id.* at 22.

45. The statutory and regulatory provisions behind the program are complex, and we detail them in Miwa & Ramseyer, *supra* note 33, especially at 22. On December 27, 1946, the Cabinet passed a plan for production for the next quarter and decided to organize a special fund for allocating capital preferentially to crucial industries. As this was not formally known as PPS, some ambiguity in the exact timing of the program is unavoidable. See 17 TSUSHO SANGYO SHO, SHOKO SEISAKU SHI: TEKKO GYO [HISTORY OF COMMERCIAL AND INDUSTRIAL POLICY: THE IRON AND STEEL INDUSTRY] 456 (1970).

He lost control in February, and power passed in March to the Democratic Party (formerly Progressive Party) head, Hitoshi Ashida. In turn, Ashida lost control to Yoshida that October. Once in office, Yoshida promptly began to dismantle Katayama's controls. He accelerated the de-control after winning the January 1949 election, and by September 1949 had eliminated the PPS entirely.

Long before its electoral victory, the JSP had planned to nationalize key industries. It had made "the realization of a socialist planned economy" key to its fall 1945 platform.<sup>46</sup> Toward that end, it had declared it would work to "nationalize the steel industry, the coal industry, the artificial fertilizer industry, the electrical power industry, and other basic industries."<sup>47</sup> Indeed, it continued, it would "nationalize the banking, trust, and insurance industries" as well.<sup>48</sup> Already in 1946 it had introduced legislation to nationalize the coal industry. Now the time had come to proceed apace. At the heart of its basic program lay economic controls, and at the heart of those controls lay PPS.

## 2. PPS

For both the planners themselves and the later historians, coal was key to a PPS. As the energy source for perhaps half of industrial production, coal was central to the Japanese recovery. When the War ended, coal production shut down as well. In the early months of 1945, Japanese mines still produced at mid-1930s levels.<sup>49</sup> By December they extracted only a quarter of the 1935–1937 monthly average, and by June of 1946 still extracted less than half.<sup>50</sup> To recover, Japan badly needed more coal.

### a. Prices and Subsidies

To increase that coal production, the PPS could have let prices rise, of course. Had it merely left coal alone, demand would have raised prices. Those higher market prices would then have induced mines to dig what users could cost-effectively use. That tactic, however, the government refused to use. Instead, it tried to increase production while keeping prices low.

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46. NIHON SHAKAITO, SHIRYO NIHON SHAKAITO YONJUNENSHI [MATERIALS: A FORTY-YEAR HISTORY OF THE JAPAN SOCIALIST PARTY] 7, 71, 84 (1986).

47. *Id.* at 74, 84.

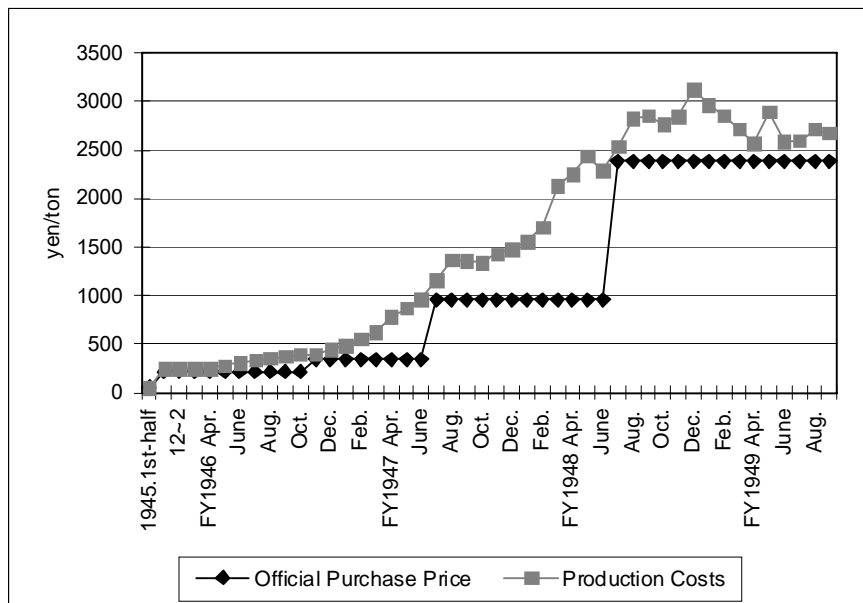
48. *Id.* at 74.

49. Miwa & Ramseyer, *supra* note 33, at 24–29.

50. *Id.* at 67, 99.

In effect, the government wanted firms to mine coal for prices below what it cost to mine it. On Figure 1, we plot authorized PPS prices against production costs. Consistently, prices fell short of costs. To be sure, we take the production costs from the mining industry association, which had every incentive to exaggerate. Even if accurate, moreover, the figures give average rather than marginal costs. Notwithstanding these limitations, Figure 1 suggests a basic point: under the authorized price regime, firms had little incentive to extract their coal.

FIGURE 1: PRODUCTION COSTS AND OFFICIAL SALES PRICE OF COAL, 1945–1949<sup>51</sup>



Although the government had promised to compensate firms for the gap between the authorized price and production costs, it did not do so. Rather than compensate full losses it paid only part, and rather than pay promptly it delayed. Given the hyper-inflation, that delay cut the actual scope of the compensation further still. From April through July 5, 1947,

51. TOMOYOSHI NEZU, SEKITAN KOKKA TOSEI SHI [A HISTORY OF THE NATIONAL CONTROLS OVER COAL] 878, tab. 330 (1958).

mining firms claimed losses of 3.94 billion yen.<sup>52</sup> Of this amount, the government eventually compensated 82.5% (3.25 billion yen).<sup>53</sup> Of that 82.5%, it did not pay 69% (2.23 billion yen) until late March 1948.<sup>54</sup>

In the interim, the government loaned firms their expected compensation payments (*fukkin yushi*),<sup>55</sup> but these loans would not have induced the firms to mine more. The question is obviously overdetermined. Firms will not dig coal if production costs exceed the sales price and they will not dig even if the buyer loans the sales price in advance. Even if the sales price had been right, the firms would have used the loans to dig coal only if that earned them the highest returns. Whether subsidized or not, loans are fungible. If non-mining projects pay higher returns than mining, firms will shift the loans toward those other projects.

*b. Shortages and Black Markets*

The PPS did not so much cause rationing as shortages. To buy PPS-controlled goods on the official market, a would-be buyer needed government coupons. Through those coupons, he obtained the right to buy a specified amount at the specified price. Yet if the coupon gave him the right to buy, it did not give him the ability to buy, for it did not mean he could find anyone willing to sell.

In most industries, the government set the official price substantially below the market-clearing price. Set the legal price below that market price, and shortages necessarily ensue. At the legal PPS price, in many sectors buyers simply could not locate many suppliers willing to sell. A firm that wanted steel could expect a half-year delay. During the fourth quarter of fiscal year 1947 (January–March 1948), would-be buyers held unfilled orders for 308,000 tons. Of those orders, suppliers would supply only 120,000 tons.<sup>56</sup>

Rather than sell at legal (low) prices, producers sold at market (high) prices illegally. As inspectors fanned out across the country, they reported sixty thousand economic crimes per month.<sup>57</sup> For this massive policing effort, the Socialists counted on the U.S. military. Reports Occupation

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52. *Id.* at 890.

53. *Id.*

54. *Id.*

55. NEZU, *supra* note 51, at 862, 890 & tab. 340.

56. MINORU SHIBA, KEIZAI TOSEI NO JITTAI KARA MITA KEIZAIHAN CHOSA NO YOTEI [THE SECRET OF THE INVESTIGATION OF ECONOMIC CRIMES, SEEN FROM THE REALITY OF ECONOMIC CONTROLS] 171 (1948).

57. COHEN, *supra* note 31, at 313.

official Theodore Cohen, “Eighth Army Military Government teams in the field were deployed all over the country to check the price of fresh fish . . . .”<sup>58</sup> The scope of the putative policing, of course, mostly just reflects the enormity of the problem. Under the JSP’s ESS controls, consumers and firms that needed controlled goods had little choice: buy them illegally. During 1947, cement producers bought ten to twenty percent of their coal on the black market. Paper pulp firms obtained eleven percent through the black market. Bicycle makers bought forty-five percent of their coke on the black market, and cotton weaving factories obtained half of their coke there.<sup>59</sup>

### c. Production

If the pretext behind the PPS was to increase production, it was a goal the program did not meet. Under PPS, firms produced only 73% of the pig iron planned in fiscal year 1947. They produced 86% of the steel planned, 72% of the ammonium sulfate, 92% of the soda ash, 67% of the cement, and 69% of the cotton thread.<sup>60</sup> The government set a monthly target of 2.5 million metric tons of coal against the actual amounts produced. Yet firms mined only slightly more than two million tons a month through most of the year. Not until December did they finally break 2.5 million tons.<sup>61</sup>

Only after the government abandoned the JSP’s policies did production boom. After Katayama’s cabinet collapsed in February 1948, Ashida continued some but not all of Katayama’s controls (the JSP remained in his coalition, but many of the strongest advocates of control left with Katayama). Under the Ashida cabinet, production still remained stuck at 2.5 to 2.9 million monthly tons.<sup>62</sup>

58. *Id.*

59. Kokumin keizai kenkyu kyokai, Dai 2 kai shuyo kigyo seisan jittai chosa hokoku sho [Second Report of the Investigation into the Production of Major Firms] (1948). In fact, the black market had also thrived during the war, as discussed in detail in Yoshiro Miwa, “*Busshi doin keikaku*,” “*seisanryoku kakuju keikaku (seisaku)*,” *keizai tousei (2)* [*Materials-Mobilization Plans*,” “*Production-Capacity-Expansion Plans (Policies)*,” and *Economic Controls in Wartime Japan (2)*], 73 KEIZAIGAKU RONSHU, 48 (2008).

60. 3 TSUSHO SANGYO SHO, TSUSHO SANGYO SEISAKU SHI, DAI IKKI [HISTORY OF INTERNATIONAL TRADE AND INDUSTRY POLICY, FIRST PERIOD] 85 (1992) (Japan).

61. 3 TOYO KEIZAI SHIMPO SHA, SHOWA SANGYO SHI: TOKEI HEN [SHOWA INDUSTRIAL HISTORY: STATISTICS] 247–48 (1950). Although production did continue to climb thereafter, the increases primarily reflected the increase in mining personnel. In November 1946 monthly production per worker stood at 5.8 metric tons. It remained below that range until October 1947, and even in December 1947 remained at 5.9 tons. *Id.* at 251.

62. *Id.* at 247–48.

Urging the government to abandon these controls,<sup>63</sup> Yoshida assembled a strongly non-interventionist cabinet in October. Under his administration, coal production proceeded apace. Yoshida pulled the controls from the lowest grade coal in 1948, and the output immediately hit three million tons. In March 1949 it broke 3.5 million tons.<sup>64</sup> By July of 1950, Yoshida had dropped all controls over the coal industry, and production for the year hit thirty-eight million tons.<sup>65</sup> By 1955 it soared to forty-two million tons.<sup>66</sup>

#### IV. DID DODGE STOP INFLATION? DID HE WRECK THE ECONOMY?

##### A. *Inflation*

Although historians routinely claim that Detroit banker Joseph Dodge (a) stopped inflation, but (b) stopped it by plunging Japan into a depression averted only by the Korean War, basic chronology suggests otherwise. Consider the claim that he halted inflation. On Figure 2, we plot monthly black-market price changes (by percentage) from October 1946 to January 1951. The message: by July 1948, monthly inflation had dropped close to zero. Although Dodge did not announce the “Dodge Line” until March 7, 1949, inflation stopped almost immediately after Katayama’s JSP-coalition cabinet collapsed in early 1948.<sup>67</sup>

The Japanese government stopped the inflation by lifting the legal controls over the economy. After Katayama’s cabinet collapsed in February, Ashida began removing controls. Yoshida replaced Ashida in October, accelerated the de-control, and swept the January 1949 elections. With a strong popular mandate and a majority of Diet seats, Yoshida had the power within Japan to abandon the controls. What he lacked until the Dodge Line was the power to stop the pressure for controls from the ESS. Through Dodge, he obtained that power to stare down the ESS.

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63. NEZU, *supra* note 51, at 788.

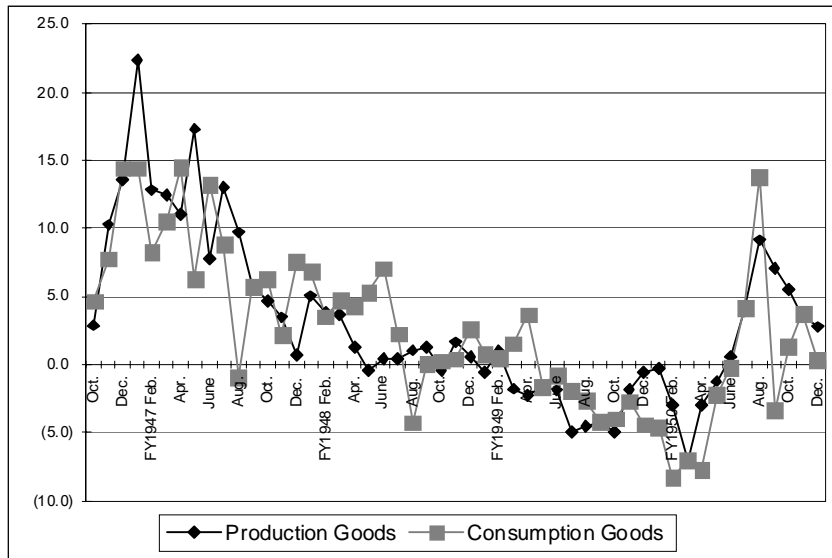
64. TOYO KEIZAI, *supra* note 61, at 247–48.

65. ANDO, *supra* note 1, at 13.

66. *Id.*

67. A point rightly noted by FLATH, *supra* note 16, at 84–85, and NAKAMURA TAKAFUSA, SHOWA KEIZAI SHI, translated in LECTURES ON MODERN JAPANESE ECONOMIC HISTORY 1926–1994, at 162–63 (1986).

FIGURE 2: BLACK-MARKET PRICE INDEX: PERCENTAGE CHANGE FROM PREVIOUS MONTH<sup>68</sup>



Note: Prices are for Tokyo.

### B. The Korean War

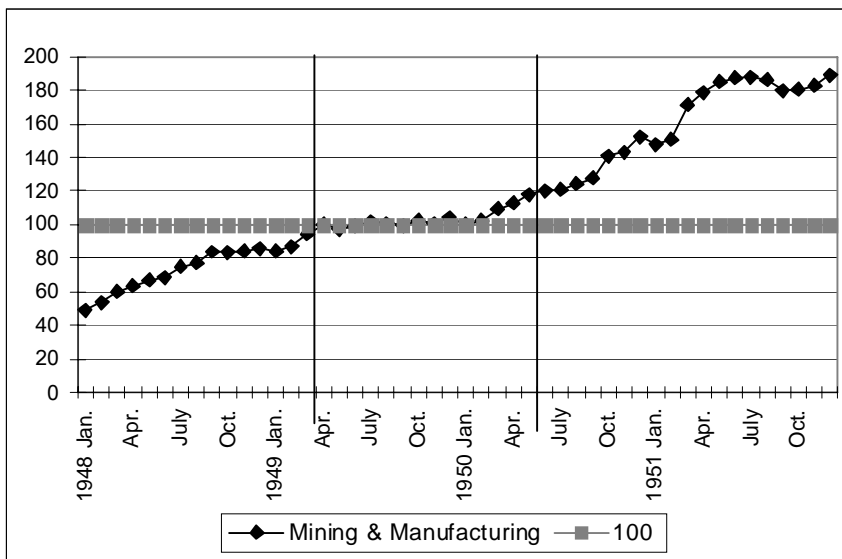
If Dodge did not end the inflation, then neither did the Korean War save the economy from disaster, for by mid-1950 there was no disaster from which to save it. Yoshida had dismantled the controls, and Dodge (by holding the ESS at bay) had given him the latitude to do so. Where Katayama's Socialists and the bureaucrats at the ESS and the ESB had crippled the economy, Yoshida and Dodge had replaced their controls with straightforward, non-interventionist fiscal and economic policies. Together, they placed the economy on the stable legal infrastructure entrepreneurs needed to engineer a recovery. Together, they began that recovery before the war even started.

Again, simple chronology tells the story. On Figure 3, we plot monthly mining and manufacturing output from 1948 through 1951. Dodge announced his policies in March (the first vertical line) of 1949. For

68. 19 OKURASHO ZAISEISHISHITSU, SHOWA ZAISEI SHI—SHUSEN KARA KOWA MADE [JAPANESE FINANCE HISTORY: FROM THE END OF THE WAR TO THE PEACE TREATY] 60–61, 64–65 (1978).

expositional simplicity we index April 1949 production at 100. Note that the Korean War began in June 1950 (the second vertical line).

FIGURE 3: INDEXED PRODUCTION: MINING AND MANUFACTURING  
(INDEXED AT 100 FOR APRIL 1949)<sup>69</sup>



The Figure suggests two points relevant here. First, although production stagnated for several months after Dodge left in May 1949, it did not decline. Instead, it plateaued. Second, by early 1950 production again began to grow. By June 1950, it stood twenty percent above its level a year before. Although the Korean War then conferred a munitions boom, the boom merely continued (at roughly the same pace) the growth that had already begun.

69. OKURA SHO ZAISEI SHI SHITSU, SHOWA ZAISEI SHI—SHUSEN KARA KOWA MADE, DAI 19 KAN [JAPANESE FINANCE HISTORY—FROM THE END OF THE WAR TO THE PEACE TREATY, vol. 19] (1978).



## V. CONCLUSIONS

In the early postwar chaos, command-and-control bureaucrats took control of the Japanese government. To help them implement their policies, New Deal bureaucrats in SCAP manipulated their own organization as necessary. Once the Socialists took control in 1947, the government turned to wide-ranging legal controls over prices, wages, and distribution.

Disaster ensued. The regulation stymied production, caused shortages, and generated black markets. Controls had not worked during the war (and would not later work in the 1960s and 70s).<sup>70</sup> As the economy slid in the 1940s, Japanese voters threw out the Socialists and elected a center-right government. These politicians then promptly shut down the controls. Belatedly realizing what their officers in Tokyo had been doing, Washington intervened to let Japanese voters create the capitalist framework they wanted. The economy rebounded, and the recovery followed.

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70. On the wartime controls, see MIWA, *supra* note 31; on the myth of government controls in the 1960s and 1970s, see MIWA & RAMSEYER, *supra* note 31.