
FINAL EXAMS

Below are the questions I asked on the final exams in the Economic Development of Japan from 1999 to 2004. They are arranged chronologically. Model answers have been omitted because of limited space. Each exam consisted of five required questions and lasted 60 minutes with books closed. I invite interested readers to try. (The average points ranged from 65 to 82 out of 100, depending on the year.)

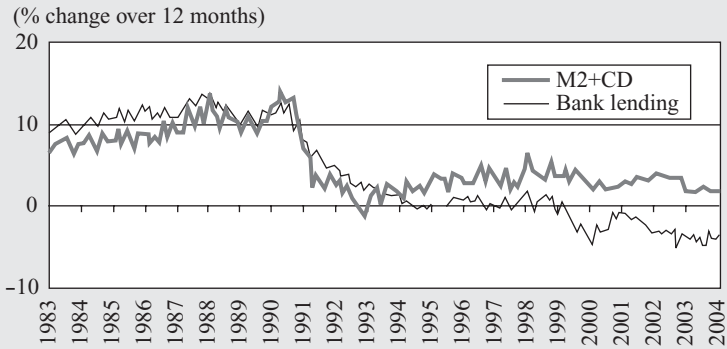
- Q1 Describe Dr. Tadao Umesao's view on history regarding why Japan became the first non-Western country to industrialize.
- Q2 List political, economic and social conditions existing in the Edo period (by the early 19th century) which later contributed to Japan's rapid industrialization.
- Q3 Discuss the development of agriculture in the Edo period (1603-1867) and how it later helped Japan to catch up with the West.
- Q4 Discuss the formation process of a *nationally unified market* during the Edo period.
- Q5 What was the most important economic goal of the Meiji government (1868-1912)? List policies adopted for that purpose. Approximately when was this goal (more or less) achieved?
- Q6 From 1881 to the mid 1880s, Finance Minister Masayoshi Matsukata implemented a policy initiative called "Matsukata Deflation." What were the contents of this policy, and what were its consequences?
- Q7 Discuss the development, private initiative and official support of Japan's modern textile industry during the Meiji period (1868-1912).
- Q8 What was the role of Eiichi Shibusawa (1840-1931) in Japan's industrialization?
- Q9 Explain the growth of the cotton industry during the Meiji period using the following two terms: "parallel development" and "import substitution."

- Q10 How did Meiji Japan (1868-1912) import Western technology? Did foreign direct investment (FDI) play an important role? How about foreign advisors?
- Q11 Describe the structure of Japan's international trade during the Meiji period (1868-1912).
- Q12 Explain the "Postwar Management" policy adopted after the Japan-China War (1894-95) and also after the Japan-Russia War (1904-05).
- Q13 How were savings mobilized for industrialization during the Meiji period? Did foreign savings (FDI, commercial loans, etc.) play an important role?
- Q14 How did World War I (1914-18) affect the Japanese economy? Discuss its major impacts on industrial growth and financial health.
- Q15 Explain the differences in domestic and foreign policy orientation between the Seiyukai Party and the Minsei Party during 1918-1936. [Before 1927, the Minsei Party was called the Kenseikai Party. For the purpose of answering this question, ignore the name change and use the term "Minsei Party" throughout.]
- Q16 Describe the background, immediate cause(s), and consequence(s) of the 1927 banking crisis.
- Q17 Compare the general economic condition of the 1920s and that of the 1990s. Are there any similarities in the causes of the economic weakness or in how the government responded to it?
- Q18 From the viewpoint of economic planning versus the free market, how did Japan's economic system change during the 1930s and 1940s? Explain its evolution using the following (and other) terms: "Planning Board," "priority production system," and "Dodge Line stabilization."
- Q19 During the war years of 1937-45, what kinds of changes were introduced in the Japanese economic system compared with earlier years? And what was the main *economic* reason for the collapse of Japan's war economy in 1945?

- Q20** In 1947, under the occupation by the Allied Powers, Japan started to implement a land reform. What was its effect on (i) reducing the number of absentee landlords; and (ii) improving agricultural productivity?
- Q21** Immediately after World War II, Japan suffered a triple-digit inflation. Discuss the alternative anti-inflation strategies proposed during 1946-47. Which strategy was finally adopted?
- Q22** What is the meaning of the “rationalization” policy adopted in the 1950s? Why was this policy needed?
- Q23** Describe how the coal industry contributed (or did not contribute) to Japan’s economic recovery and high growth during 1947-1960s.
- Q24** During the postwar high-growth era (late 1950s-60s), how was Japan’s macroeconomic policy conducted, and in what kind of international economic environment? Do today’s developing and transitional economies have a similar environment?
- Q25** Discuss Japan’s monetary policy during the 1950s-60s, with particular attention to the exchange rate regime, balance of payments and price stability.
- Q26** Explain Japan’s exchange rate regime during the high growth period (mid 1950s-1960s).
- Q27** Briefly discuss Japan’s import tariff policy during the entire industrialization period (1860s-1960s). Can we say that Japan achieved industrialization under free trade?
- Q28** Discuss Japan’s macroeconomic problems in the 1990s with particular attention to the banking sector and fiscal and monetary policies.
- Q29** Discuss the effectiveness and limitations of the Bank of Japan’s monetary policy during the last decade (from the early 1990s to the present).
- Q30** Read the electronic news below [next page]. Explain why money supply and bank lending are stagnant in Japan today. Also discuss the Bank of Japan (BOJ)’s policy addressing this problem.

Money Supply Growth in 2003 Slowest in Decade

Despite the continued policy of quantitative monetary expansion, money in circulation is not growing. According to a Bank of Japan report on Jan.13, money supply grew only 1.7% in 2003 compared to 3.3% in the previous year. This is the lowest monetary growth in ten years. Bank lending also recorded negative growth for the seventh year in a row. It is certain that future monetary policy must cope with the problem of stagnant money... The broad liquidity measure (covering “M2+CD,” postal savings, investment trusts, government bonds, etc.) also grew only 1.1% in 2003, the slowest since 1981 when comparable statistics became available. (Nikkei Net, 11:12 am, January 13, 2004; translated by K. Ohno)



QUESTIONS ASKED BY STUDENTS

Here are some questions raised by students in the classroom followed by my answers. Some questions were quite difficult and they compelled me to do some additional research before answering. I am not entirely confident that all my answers were appropriate. But I list them nonetheless since questions raised by foreign students often throw new light on old questions which are too familiar to the Japanese. The majority of questions are centered on the Edo and Meiji periods. This is partly because my students had many questions about these periods, and partly because I had little time to properly record and answer questions for later periods due to my uneven work schedule. I apologize for that.

1. What was the system of land ownership in the Edo period? Were farmers permitted to own land?

Under the political system of the Edo period, the Shogun gave land to daimyos to govern in exchange for their loyalty. Farmers were considered to be part of the land and were not allowed to move; and no land sale or rental was permitted. Under such a system, which was a kind of feudalism, the modern concept of land ownership is difficult to apply. However, Prof. Keiichi Tanaka says that the prohibition on transferring land was ineffective and farmers actually bought and sold land without any punishment. I am sure such practice did exist but how common it was remains an open question. Officially, all land directly or indirectly (through hans' rule) belonged to the Shogun. But within each han, the daimyo had the right to govern and tax his land. Moreover, each village had autonomy as long as it paid rice taxes. Under such circumstances, it is difficult to say precisely who owned the land.

2. Why could the bakufu suppress military uprisings by hans?

Tokugawa Ieyasu, the first shogun, was very clever. A number of institutions installed at the beginning of the Edo period made revolt against the central government virtually impossible. For example:

- A heavy financial burden was imposed on daimyos through obligatory biannual commuting to Edo, public works, and *ad hoc* taxation.
- Daimyo's wives and children were required to always reside in Edo as potential hostages.
- Strict restrictions were imposed on travel, shipbuilding, construction of castles and bridges, and so on.
- Powerful hans were placed away from Edo, and friendly hans were given militarily important locations.
- Han locations were often reshuffled and mutual inspection and restraints were

forced on daimyos.

- Any sign of disobedience from a daimyo led to the end of his family.

3. Why was only the Dutch language used for Western studies in the Edo period?

Because the Netherlands was the only Western country that the bakufu granted the right to trade with Japan (the other permitted trading partner was China). For this reason, all technical and medical books imported from the West were in Dutch. Studying the Dutch language was equivalent to learning Western technology.

Among the Western countries, the bakufu allowed only the Netherlands to trade with Japan because the Dutch were Protestant. Catholic countries such as Spain and Portugal sent aggressive religious missions to convert the Japanese to Christianity, which the bakufu disliked. Meanwhile, the Dutch were more interested in commerce than in religious activity. The Dutch themselves seem to have informed the bakufu that the Spaniards and the Portuguese were trying to invade Japan or exploit gold and silver mines in Japan.

4. Although the Edo society was a conservative class society, was there any mobility among the classes through marriage or any other means?

Officially and in principle, no class mobility was allowed. The distinction between the ruling class (samurai) and others was especially strict. But unofficially, there were exceptional cases of poor, lordless samurai becoming farmers or rich merchants with merits upgraded to samurai, and so on. However, there are no comprehensive statistics on the frequency of such cases at the national level. At the least, we can say that the Edo system did not have any explicit rules for inter-class transition, and that social stability depended significantly on formal class immobility.

Incidentally, the Edo society was based on a paternal lineage system in which the first son inherited the family name and assets. This first-son principle still survives in modern Japan, at least psychologically and especially in rural areas and in conservative families, although all sons and daughters now have equal legal rights.

Q5. Was dissatisfaction with unequal land distribution one of the main reasons for farmers' uprising?

This was not the main reason. From the mid 17th century onwards, the main reasons for farmers' revolts included protestation against (i) a heavy tax burden, (ii) corrupt officials; (iii) han's policy; and (iv) bakufu's policy. The typical actions during

uprisings included direct appeal to the government (which was illegal), collective abandonment of land and moving to another area, and attacks on the residences of targeted officials. Toward the end of the Edo period, as the number of poor and landless farmers increased, there were also many uprisings against rich merchants and farmers. Their houses were often attacked and destroyed.

6. Was Japan linguistically unified in the Edo period?

We can say yes by the standard of developing countries today. Although there were different dialects and local nuances in pronunciation, which made oral communication across different regions quite difficult, these were all variations of the same Japanese language. Moreover, written language was uniform across all regions. The important thing is that, through the use of one language, the Japanese national identity had already been firmly established. In fact, this was true much before the Edo period. To put it in another way, linguistic differences did not cause social division or ethnic conflict in Japan. However, there were some ethnic minorities who were not integrated into the Japanese society. For example, the Ainu (indigenous) people in Hokkaido and the Okinawa people spoke different languages and had separate cultures. There were also some people who lived in the mountains and did not mingle with the Japanese majority. These people were considered foreign, not Japanese.

7. What is Confucianism?

There were many ancient Chinese philosophers, but the most famous ones are Confucius (551-479 BC) and Lao-tse (6th century BC? His existence is not proven). Their ideas are called Confucianism and Taoism, respectively. Confucius taught virtue and discipline in social life, including how to perform rituals and ceremonies, respect parents and serve your lord, and how kings should rule. By contrast, Lao-tse emphasized natural experience and alignment with the universe; he discussed achieving things without effort, feeling the mystery of being, knowing the world without leaving the house, and so forth. These two saints had an enormous impact on East Asian societies such as China, Korea, Japan and Vietnam for the past 2,500 years.

Confucius hoped to become an advisor to a truly wise king, but he never found one. All his life, he traveled with his disciples and taught them through dialogue. This method is similar to that of Buddha, Socrates and Jesus. The disciples wrote down his words in *Lun-yu* (*Rongo* in Japanese) which became a best-selling textbook in the next two millennia. My favorite line from *Lun-yu* goes as follows: “You shall always remember the age of your parents. One, for celebrating. Two, for fearing.” Confucianism was introduced in Japan in the 4-5th century AD, but it remained

unpopular until the Edo bakufu reactivated it as an official doctrine. Its teachings were suitable for maintaining social order in a class society.

8. Tell us more about the outcast class in the Edo period.

There were two types of outcast people in the Edo period: *hinin* (meaning non-human) and *eta* (meaning unclean). These discriminatory words existed from long ago, but the bakufu institutionalized them at the bottom of the society by giving them organization and social roles.

The *hinin* were beggars who lived in designated districts in urban areas. They were organized and policed by managers who were internally elected or officially appointed. However, there were also unorganized *hinin* as well. There was some mobility between the *hinin* and non-*hinin* people. For example, the latter could become beggars through poverty.

The *eta* were people whose profession was to process dead animals such as horses and cattle, and supply raw materials for the leather industry. They were also forced to work in criminal execution. These were considered unclean jobs. However, many *eta* people were engaged in other professions including farming. The *eta* were also organized by managers at the han level.

Discrimination against these people continued even after the Edo period. To eliminate such discrimination, *Zenkoku Suiheisha* (the National Level Society) was created in 1922 and *Buraku Kaiho Domei* (the League for Liberating Discriminated People) was organized in 1955. Legally, of course, the present constitution guarantees equal rights to all. But the movement for eradicating social discrimination continues even today.

9. By the early Meiji period, why did Japan already feel that it no longer faced the risk of being colonized?

When Japan was forced by the West to open its ports (1853-54), the possibility of colonization was real. But by Meiji Restoration (1868), Japan no longer worried much about military invasion by Western powers. Instead, the national goal of catching up fast with the West emerged. What happened during these fifteen years? It is difficult to answer succinctly, but the following factors might have been at play:

- Despite social confusion, national unity and “ownership” (policy autonomy) were preserved, a devastating civil war was avoided (the internal war was short and small-scale), and the state machinery remained intact after the change of government.

- Japan was importing and absorbing Western technology very rapidly, and military and economic capabilities were being enhanced.
- Seeing this, Westerners were mainly interested in securing commercial interests rather than using military might to occupy Japan. At any rate, Japan was too far from their home to mobilize large-scale forces, and Americans were busy with their own Civil War.
- There was a rivalry among the Westerners in Japan, especially between the British and the French, which prevented the dominance of any single foreign group. This benefited the Japanese government by giving it a relatively free hand in designing policies.

10. How many foreign advisors were employed? Even though their salaries were high, can we say that their productivity was also high?

During the Meiji period, officially and privately employed foreigners numbered in the hundreds in any year. But their composition changed over time. In the first ten years of Meiji (1868-77), most foreign advisors were hired by the government and numbered between 300 and 600. Subsequently, the number of officially contracted foreigners declined sharply while the number of privately-hired ones increased. Nearly half of those hired privately were teachers and professors at academic institutions (many were English teachers at private universities). By nationality, the British dominated, followed by the French and the German. There were also a large number of Americans and most of them were professors and teachers. There were very few American engineers.

According to *Kobusho Enkaku Hokoku* (Report on the Outline of the Ministry of Industry compiled in 1931), in early Meiji (around 1872), the Yokosuka Shipyard employed 28 foreigners (all French), the Railroad Agency had 80 (mostly British), the National Mint had 20 (mostly British), and the Ikuno Mine had 15 (all French). These four state-run organizations alone accounted for 143 foreigners. But not all were top-level advisors with advanced technology. Many were factory operators, accountants, secretaries, and doctors.

It is reasonable to believe that these foreigners were worth the money. But it is difficult to statistically measure their labor productivity since their task was to create entirely new industries. Without the British help, Japan could not have laid its first railroad. Does this mean their productivity was infinite? Can we separately measure the contribution of any new industry to GDP growth when the economy is propelled by many other influences? The return on foreign advisors also depended on how quickly the Japanese could take over the new enterprise. Had the Japanese never

learned, these industries would have forever depended on foreign hands, which would be very, very costly. In reality, this did not happen.

11. In what respect was the Meiji Constitution ambiguous?

Here are some translated excerpts from the Constitution of the Empire of Japan (1889). Underlined parts were controversial or subject to different interpretations.

Article 1. The Empire of Japan shall be reigned over and governed by a line of Emperors unbroken for ages eternal.

Article 3. The Emperor is sacred and inviolable.

Article 4. The Emperor is the head of the Empire, combining in Himself the rights of sovereignty, and exercises them, according to the provisions of the present Constitution.

Article 5. The Emperor exercises the legislative power with the consent of the Imperial Diet [parliament].

Article 55. The respective Ministers of State shall give their advice to the Emperor, and be responsible for it.

Article 3 may look like a deification of the Emperor which is unique to Japan, but it is in fact a direct copy from a typical European constitution. This line was inserted at the advice of Karl Friedrich Hermann Roesler, a German legal advisor to the Meiji government. It means the ministers, and not the Emperor, bear the responsibility for the consequences of any policy.

The intention of the original drafters of the Meiji Constitution, especially Hirobumi Ito, was to place the Emperor within the state mechanism and under the constitution, as Article 4 makes it clear. But conservative members of the Privy Council, a body created to review the constitution draft, demanded that the underlined part in Article 4 be deleted, which Ito opposed. He argued successfully that the constitutional government would be quite meaningless if the Emperor were placed outside its framework. However, later in the 1930s, Ito's interpretation and its development, which was then called *Tenno Kikan Setsu* (The Organ Theory of the Emperor), were rejected by the military and the rightwing groups. As a result, the Emperor was elevated above the state and the constitution.

Article 5 says that the parliament must give "consent" to the Emperor's legislative decision. In the Japanese original, the term *shonin* (approve) was first proposed but it was replaced by a weaker term, *kyosan* (humbly support).

The problem with Article 55 was that it was unclear whether individual ministers or the cabinet as a whole were to advise the Emperor, especially on military matters. If a joint cabinet decision was required, the Minister of Army or the Minister of Navy must discuss the issue with other ministers, especially the Ministers of Finance and Foreign Affairs. This would certainly put a damper on any proposed military action for fiscal or diplomatic reasons. If not, he could advise the Emperor directly and independently.

This constitution also said little about the precise relationship between the legislative and administrative powers. This permitted the adoption of a party cabinet (a government formed by the political party having the most parliamentary seats) as well as *chozen naikaku* (a government of appointed generals and bureaucrats that included no elected officials).

12. In the world history, kings and emperors usually did not last very long. Political upheavals could easily end their rule, bringing in another dynasty or empire. Why has Japan's imperial family lasted so long?

According to the oldest official record of Japanese history (*Kojiki*, or Ancient Chronicle, 712), Japanese islands were created and inhabited by a group of gods who descended from heaven, and their progeny became the imperial family. In the Meiji period, the government determined that the transformation from god to human in the imperial family occurred on February 11, 660 BC, when Jimmu, the first human emperor, came to power. In 1940, the war government celebrated the 2,600th anniversary of this event. Apart from the legend, however, we do not know the exact date or circumstances of the rise of the imperial family, which may have occurred around 7th century AD.

During the war years between the 1930s and 1945, it was taught that the Japanese imperial family was an unbroken divine lineage from time immemorial. This bestowed superiority on the Japanese people who were ruled by such an auspicious family. But even counting from the 7th century, it must be admitted that the continuation of the same ruling family for more than thirteen centuries is very unique in history (some argue that the imperial family is not really of one lineage because of the family feud in the 14th century; but we are mainly interested in its political, not genetic, continuity). The emperor had real political power in the 8th century, but his power declined quickly in the subsequent centuries. Why has the Japanese monarchy never been abolished?

The first samurai leader who came to power as a military general was appointed by the imperial family in 1192. This approval procedure was a political convenience,

and it was followed by all subsequent samurai governments. For military leaders who were challenged by other competitors and needed to legitimize their assumption of power, the use of imperial authority was extremely useful. There was no need to topple the emperor who resided in Kyoto, composed poems and performed rituals, and who was militarily impotent. Once the tradition began in which a new political leader had to be formally appointed and legitimized by the emperor, it became firmly entrenched. The political cost of ousting the emperor was far greater than the cost of operating under his nominal authority. The Meiji government reactivated this political practice when it wanted to consolidate power.

Another important factor is that Japan was never invaded or occupied by foreigners (except by the Americans during 1945-52). This means that the imperial family was not wiped out by an external force. Although the Americans considered the possibility of trying and executing the emperor as a war criminal, they finally decided not to, being afraid of nationwide riots that these actions might trigger. We may say that the same political considerations were at play.

13. Why were Japanese trading houses (*sogo shosha*), such as Mitsui Bussan, so active from the Meiji period? No other developing countries seem to have such companies even today.

I don't know exactly why. One possible reason is the development of domestic commerce and the rise of a rich merchant class during the Edo period. But the continuity from Edo merchants to Meiji trading houses is not proven. The Mitsui and the Sumitomo were influential families during the Edo period, but the Mitsubishi, Suzuki, Nichimen and other business groups emerged during the Meiji period or later.

14. China also adopted an open-door policy in the 1860s but could not build modern industries due to the lack of funds. How did Meiji Japan mobilize investment capital?

There were super businessmen like Eiichi Shibusawa and Tomoatsu Godai who introduced the Western system of joint stock companies and encouraged their rich friends to invest in stocks. Shibusawa also used his First "National" Bank (which was private) to finance working capital. These prominent business leaders contributed to the creation of a large number of joint stock companies. In addition, expansion of demand for silk, tea and rice and an increase in the price of these commodities enriched rural Japan, which permitted self-financing of industries by large farmers, landlords and merchants. From the late 1880s, Japan experienced a series of "company booms" during which many joint stock companies in textile and railway operation were formed. It should be noted that this was a result of mobilization of

domestic savings. There was very little foreign participation in establishing these companies.

According to Prof. Juro Teranishi (chapter 6), savings mobilization within the private business sector, including self-financing, seemed to have played the largest role. Moreover, resource transfer from agriculture to industry through the fiscal system (i.e. the land tax) cannot be ignored. While Prof. Teranishi's dataset does not include years before 1900, savings mobilization through the land tax must have been significant in the early Meiji period.

15. Import substitution failed in many countries. Why did Meiji Japan succeed in the import substitution in the cotton textile industry?

Discipline imposed by a low uniform tariff of 5 percent may have been a factor. This made high protection impossible and forced manufacturers to improve competitiveness. In addition, high capacity to absorb new technology, the existence of innovative business leaders, the growing number of technical engineers, and appropriate official support were important. But simply listing these factors cannot explain why they emerged in Meiji Japan. A government that can effectively manage commercial rents and stimulate industries, as well as a very dynamic private sector, are not the features commonly seen in the developing countries today. For a possible explanation of these strengths of Meiji Japan, see the Umesao hypothesis in chapter 1.

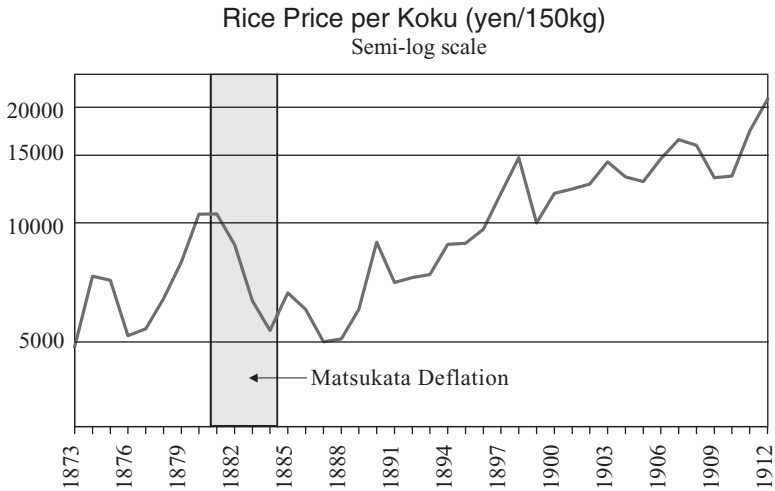
16. Is it correct to say that wars with China (1894-95) and with Russia (1904-05) promoted Japan's industrialization?

As explained in chapter 6, these two wars had the effect of increasing the economic size of the government. After each war, the government became very aggressive in industrial promotion and infrastructure building. Meanwhile, military spending was not held back even after the wars. Clearly, this demand expansion stimulated domestic businesses in the short run. Whether it also contributed to the long-term sound economic development of Japan is an open question. On the one hand, it is hard to deny that a big government was a plus for rapid industrialization. On the other hand, fiscal activism caused macroeconomic instabilities such as balance-of-payment pressure and the loss of gold reserves.

17. Please tell us about inflation in the Meiji period.

Japan's prewar overall price index is available only from 1901. But we can use the price of rice as a proxy to study the general trends in the earlier periods, as below.

Inflation and monetary confusion, which began in the period of opening ports not shown here, were terminated by Finance Minister Masayoshi Matsukata's deliberate deflation policy. While this was the longest (three years) and proportionately largest deflation in the Meiji period, we can also detect other smaller and shorter (usually one year) deflation episodes as well. Throughout Meiji, the general trend in the rice price was upward. From 1873 to 1912, the average annual increase was 4 percent.



Source: Management and Coordination Agency, *Historical Statistics of Japan*, Vol. 4, 1988.

18. Who were the members of the Privy Council which rejected the proposed imperial edict at the time of the banking crisis in 1927?

The Privy Council (*Sumitsuin* in Japanese) was originally established to deliberate on the draft of the Meiji Constitution in 1888. After the constitution was promulgated, it became a permanent advisory body to the emperor. The members were chosen from a group of *genkun* (old politicians who had merits in establishing the Meiji government) and “experienced” statesmen. The members were generally conservative and disliked the government run by political parties. They also supported a strong military stance against China and criticized the Shidehara diplomacy which tried to restrain military intervention in China.

On April 14, 1927, the government submitted the imperial edict, which permitted the Bank of Japan to rescue the Bank of Taiwan to contain the banking crisis, to the Privy Council for review. The Council's deliberation committee pointed out several “inconsistencies” in the draft edict and advised that it be rejected. The edict was subsequently voted down in the general session of the Privy Council.

One of the characteristics of Japan's prewar politics was the multiplicity and ambiguity of authority for making important decisions, which included the power to start and end a war. The constitution clearly stipulated that the sovereignty rested with the emperor, but he was not responsible for policy consequences; the responsibility was borne by his advisors, not himself. The government, either the entire cabinet or individual ministers (see question 11 above), were to advise the emperor on policy matters. The military often believed that it had the exclusive right to make military decisions and advise the emperor on military issues. The Privy Council also advised the emperor. In addition, as democracy grew, elected officials and political parties also claimed authority in making decisions. This decentralization of power in Japan was in sharp contrast to the case of Nazi Germany, where Hitler alone had supreme authority.

19. What happened to the Bank of Taiwan after its closure in April 1927? Was it liquidated?

No. The Bank of Taiwan survived. As discussed in chapter 8, the government passed the law to cover the loss up to 2 million yen incurred by the Bank of Japan. Taxpayers' money was injected into the Bank of Japan by as early as June 1928 in order to cancel the bad bills held by the Bank of Taiwan. This money, in the main, was used to repay the Bank of Taiwan's interbank "call" loans to other commercial banks. As a consequence, the entire financial market was greatly eased.

The Bank of Taiwan even expanded its business during the wartime, extending loans to China and Southeast Asia. After the war defeat, it was finally abolished by the order of the US occupation forces.

20. When the bubble economy was forming in the late 1980s, were Japanese people and policy makers aware of it?

I don't think they were clearly aware that this was a bubble. Although many people felt that something strange was going on, few analysts warned that the situation was only temporary and very dangerous. At that time, the bubble was called the "Heisei Boom." The Ministry of Finance tried to prop up the stock market whenever it started to fall. The Bank of Japan should perhaps bear the main responsibility for fueling the asset and land markets, but it was politically difficult to tighten the monetary policy and end the good times that everyone was enjoying. While asset prices were soaring, consumer prices remained stable.

21. Has Japan ever been a socialist economy?

Japan has never been a socialist economy in the ownership sense. That is to say, in any period, production was mainly undertaken by individuals, families or private firms. The government did not organize farmers and workers into collective units in any significant way. Even during the war economy of 1937-45, the government chose to control and direct private companies toward the war effort without nationalizing them.

But in the sense of economic management, the above-mentioned wartime was a period of rigid planning based on physical inputs and outputs. The period of recovery from the war (1945-49) was also characterized by official planning and directives, although the black market prospered simultaneously. In this sense, from 1937 to 1949, Japan was a planned economy although the ownership remained private. This clearly shows the separability of ownership and the allocative mechanism.

During the high-growth era of the 1950s-60s, the Japanese government was guiding the private sector in a milder form, which was neither the free market nor socialist planning.

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About the Author

Kenichi Ohno is Professor of Economics at the National Graduate Institute for Policy Studies (GRIPS), Tokyo, and the research director of the Vietnam Development Forum (VDF), Hanoi. He is the author and editor of several books on international and development economics, including *Development Economics of East Asia* (Yuhikaku, 1997, with Kojiro Sakurai), *Dollar and Yen* (MIT Press, 1997, with Ronald I. McKinnon), *Japanese Views on Economic Development* (Routledge, 1998, with Izumi Ohno), and *Globalization of Developing Countries* (Toyo Keizai Shimposha, 2000).

