

Notes

Preface

1. The entire volume of this government-sponsored project is available on the Internet, although it is written in Japanese (<http://www.esri.go.jp/jp/prj/sbubble/menu.html>). Hamada, Kashyap, and Weinstein (2011) is a coproduct of the project but is independent of the Japanese version. See also Cargill and Sakamoto (2010), Garside (2012), and the works cited in the following chapters for the literature.

Chapter 1

1. It is telling that Japanization was used in a positive manner in the late 1980s, against the background of the ascendance of the Japanese management style as one that should be imitated by other countries. For example, *Collins Dictionary of Business* (HarperCollins 2006) defines it as “the adoption by organizations elsewhere of work organization and employment practices usually found in large Japanese companies.”
2. Posen (2003a) seems to be among the first to use the term Japanization in its relationship to other developed countries’ policy.
3. For more recent examples, see the exchanges on the Internet among Avent (2012a, 2012b), DeLong (2012), Noah (2012), and Modeled Behavior (2012).
4. This growth performance partially reflects the surge in consumption before the consumption tax hike, effective as of April 2014, but the investment was also robust.
5. This has been shared by Fingleton (2012) and Krugman (2012). Fingleton even tried to argue that Japan was not a failure but a success story, but his reasons are problematic because he cited the “low” unemployment rate, the appreciated yen, and the current account surplus as the good signs of the Japanese economy. Examining Japan’s GDP per working population among those aged from 15 to 64, Krugman modified his perception. Yet he maintained that “there were two long periods of depressed output relative to trend, one in the mid-1990s, and another, much worse, between 1997 and 2007.” His explanation

- remained the same as before: Japan has been trapped in a “liquidity trap.” See Chapter 2.
6. The output gap may be underestimated when one uses the Hodrik-Prescott filtering method. See Krugman (2012c).
 7. This may offer another reason for a central bank to aim at an inflation target of 2 percent.
 8. The latest figure was released in July 2014: <http://www.mhlw.go.jp/toukei/saikin/hw/k-tyosa/k-tyosa13/dl/03.pdf>.
 9. There are no reliable data on female prostitution in Japan, yet based on his own fieldwork research and interviews of around one hundred female prostitutes, Ogiue (2012) found that 43 percent of interviewees become a prostitute to pay for the costs of living and 31 percent of them become a prostitute to pay for credit card debts. Some cases of mental illness have been reported, but the majority of them became prostitutes out of poverty.
 10. OECD, Income Distribution and Poverty, OECD StatExtracts. <http://stats.oecd.org/Index.aspx?DataSetCode=IDD>
 11. The number for 1990 is available in the following: <http://www1.mhlw.go.jp/toukei/ksk/htm/ksk030.html>.
 12. According to the *Syotoku Saibumpai Chosa* (Survey on Income Redistribution) conducted by the Ministry of Health, Labor and Welfare, the Gini coefficient (at disposable income, posttax, and transfer) is 0.3814 in 1998 and 0.3791 in 2010. http://www.mhlw.go.jp/file/04-Houdouhappyou-12605000-Seisakutoukatsukan-Seisakuhyoukakanshitsu/h23hou_1.pdf.
 13. See, for example, Quiggin (2012) and Mirowski (2013).
 14. Furner and Supple (1990) classified knowledge into “professional, or disciplinary, knowledge; informed opinion, or practical knowledge; and cultural beliefs and values regarding the economic order” (Furner and Supple 1990, 12). These categories do not correspond one-to-one with the three A–C categories listed in this section, since economists have not only professional knowledge but also other informed opinions or cultural beliefs.
 15. Or they may bring in new ideas. The process for new ideas is still an unexplored issue. Rodrik (2014) referred to Leighton and López (2012), emphasizing the role of political or policy entrepreneurship. Like economic entrepreneurs, political or policy entrepreneurs seek out opportunities to influence policy for their own benefits. These benefits may involve not only personal gains, material or otherwise, but also public gains or psychological satisfaction from the sense of achieving public gains.
 16. The elasticities approach is based on the concept that the balance of payments would respond to the exchange rate, depending on the elasticities, i.e., the responsiveness of the demand for changes in prices, of a wide variety of goods. It supposes that the balance of payments would decrease when the exchange rate for that country appreciates, given a certain condition.
 17. I explored this theme in my 2009 book (Wakatabe 2009), which examined the Great Depression, the Great Inflation, Japan’s Great Stagnation, and the current Great Recession.

Chapter 2

1. For other accounts of the Japanese economy since the 1980s, see Kuroda (2005), Cargill and Sakamoto (2008), Naikakufu Keizaishakai Kenkyusyo (2009), and Garside 2012.
2. It is not easy to trace the first usage of the term “Ushinawareta Junen (Lost Decade)” in the media discourse. The term became widely used around 1998, near the end of 1990s, but in 1995, one anonymous columnist at *Nikkei Kinyu Shimbun* had already that the 1990s could be the “Lost Decade” unless the problems of the banking sector were dealt with (“Ushinawareta 10 nen ha Gomen [No Thank You for the “Lost Decade,]” *Nikkei Kinyu Shimbun*, December 4, 1995).
3. On the Plaza Accord, see Volker and Gyohten (1992), Funabashi (1989), Kondo (1999), and Takita and Kashima Heiwa Kenkyujyo (2006). Takehiko Kondo was a deputy vice minister of finance for international affairs at that time. Takita used primary sources provided by ex-Ministry of Finance (MOF) officials, including *Ousetsu Roku* (Records of Meetings) written by Makoto Utusmi, who was at the Japanese Embassy in Washington, DC, from 1983 to 1986.
4. The effect of the Louvre Accord was limited because it did not stop the appreciation of the yen, which had increased from \$1 = ¥153 in February 1987 to \$1 = ¥125 at the end of 1987 (Kuroda 2005, 86–87).
5. The use of some cases is questionable. One municipality, Kuroishi City, Aomori prefecture, made a golden *Kokeshi* (Japanese doll). See Komine (2010), 1, 237. Another municipality, Tsuna Machi, Hyogo prefecture, purchased and displayed a gold ingot worth \$100 million. Takeshita himself defended his policy that those “projects” generated a lot of tourists revenues (Takeshita 1991, 223).
6. Yasuda Kaijiyo Insurance Company bought Gogh’s Sunflower at ¥5.3 billion. Other purchase, all in 1989, included a Renoir (¥540 million), a Modigliani (¥1.1 billion), and a Picasso (¥7.5 billion) (Naikakufu Keizaishakai Sogo Kenkyusho 2011, 1, 347–348).
7. Criminal cases committed by the so-called *Jiageya* (landshark) who pressured small landowners to sell their lands were reported widely. The Japanese movie *Marusa no Onna 2* (A taxing woman’s return), directed by Juzo Itami and released in Japan in 1988, vividly portrayed the atmosphere of this period.
8. One such incident was called the Recruit Affair, named after a personnel company Recruit: whose president Kosei Ezoe gave unlisted shares of Recruit Cosmos, Recruit’s subsidiary company, to politicians, bureaucrats, and journalists from 1984 to 1985. Share of Recruit Cosmos went open to the public, in the end realizing profits worth of ¥600 million to those who received stock. It was reported by the media in 1988.
9. As we see in Chapter 3, this perception was shared by economists such as Yukio Noguchi (Noguchi 1992).
10. Yoshio Nakamura, Miyazawa’s cabinet secretary in 1992, testified that Miyazawa constantly read the *Financial Times* (Matsushima and Takenaka 2011, 448, 453–454).

11. Hayashi and Prescott (2002) attribute one of the causes of the Great Stagnation to this law.
12. The book was the joint work of eminent scholars at that time: it has now been revealed that the economics part was virtually written by Motoshige Ito and Heizo Takanaka. See Mikuriya and Serizawa (2014).
13. There is no English version of the Hiraiwa report.
14. Originally, those who drafted the report included an increase in public works and countercyclical measures, but those measures were deleted faced with the resistance from the MOF (Naikakufu Keizaishakai Sogo Kenkyusho 2011, 514).
15. Another blow to the MOF was the entertainment scandal reported in 1995: high-ranking MOF officials were entertained by two credit unions.
16. According to Kume's (2002, 2009) study, which analyzed the newspaper coverage of *Jusen* problem, the public's reaction was an emotional one.
17. Strangely, there was no explicit comparison with other central banks in *Chuo Ginko Kenkyukai* (Research Taskforce on Central Bank), the meeting privately commissioned by the prime minister to deliberate the revision of the BOJ. However, on its seventh meeting, on October 17, 1996, many members of the taskforce voiced concerns over the BOJ putting too much emphasis on price stability, thereby jeopardizing economic growth. Therefore, the latter half of Article 2 was added as follows: "Currency and monetary control by the Bank of Japan shall be aimed at achieving price stability, thereby contributing to the sound development of the national economy" (Mabuchi 1998, 277).
18. On the contrary, Hayami believed otherwise. Kunio Okina recalled an exchange between Hayami and the BOJ staff. When a staff member explained the desirability of the depreciation of the yen for the Japanese economy, Hayami angrily replied: "I know the logic, but I want you, as a central banker, to have a faith that the appreciation would strengthen the economy" (Okina 2011, 210n3).
19. This is the only option available to the government to protest the BOJ's decision under the new law.
20. According to Okina, when the question of the direct purchase was discussed, Hayami shot back: "this is not a matter of theory, but a matter of belief" (Okina 2011, 210n3). Incidentally, Hayami was a devout Christian of the Protestant stripe.
21. The internationalization was initiated around the time that the BOJ celebrated its 100th year of founding, in 1982. John B. Taylor of Stanford University and Allan Meltzer of Carnegie-Mellon University were academic consultants of the Institute for Monetary Studies, having attended several conferences held by the BOJ. Both of them recommended a more expansionary monetary policy for the BOJ. Meltzer (2001) made the following policy recommendation: "The main policy conclusion calls on the Bank of Japan to pursue a more expansive policy to end deflation. This policy would depreciate the yen, but it would end the deflation that is costly to Japan and its neighbors." Taylor 2001 concluded that both an interest policy rate rule and quantity theory "approaches suggest that monetary policy has been the key factor in generating the different inflationary experiences."

22. Under deflation, the nonbank corporate sector had accumulated free cash flows. With the onset of inflationary expectations, firms would not need loans to finance their investment. Therefore, the increase in bank loans is not necessary during deflation. During the Great Depression, bank loans increased three or four years after deflation ended (Iwata 2004). This shows the BOJ's preoccupation with the banking sector.
23. Adachi (2013) rebutted these four points. For example, one could argue that the price level targeting of 1930s Sweden to combat deflation was a precursor to inflation targeting (Berg and Jonung [1999]; cf., for a different interpretation, Straumann and Woitek [2009]). Also, in the early 1990s, New Zealand, a pioneer inflation targeter, tried to reflate the economy when there was a fear of deflation.
24. He was a former CEO of Tomen General Oil Company, but he was unique among Japanese CEOs of his generation in that he had a formal training in economics, with master of arts in economics from Harvard University. He is also well connected to many powerful politicians, such as Koizumi and Abe. For his activity as a board member, see his own vivid memoir Nakahara and Fujii (2006).
25. He consulted Fumio Hayashi, Yuji Shimanaka, John B. Taylor, Bennett T. McCallum, and Milton Friedman.
26. Nakahara corresponded with Milton Friedman on several occasions. On March 28, 2001, he reported the start of the QE as the "Copernican turnaround of the Bank of Japan's monetary policy from the 120-year old interest rate targeting to reserve targeting cum inflation targeting." Friedman replied to Nakahara on April 2, congratulating him (Milton Friedman Papers, File 157, Hoover Institution, Stanford University). Friedman diagnosed that a "decade of inept monetary policy by the Bank of Japan deserves much of the blame for the current parlous state of the Japanese economy," proposing the increase in base money by open market operations to revive the Japanese economy in 1998 (Friedman 1997).
27. His career was unique for a Japanese academician: he first worked for the Japan Development Bank, a government financial corporation, and then moved to academia. When he went to Harvard in 1981, he befriended important American economists, including Larry Summers and Jeffrey Sachs, later becoming a visiting associate professor at Harvard in 1989. Reputedly, it was during his first exposure to the American policymaking process that he set his mind to becoming a policy entrepreneur.
28. The Council's Secretariat is under the supervision of the minister of state for economic and fiscal policy. Consulting with four members of the council, Takenaka could virtually determine the agenda.
29. Keiichi Ohmura, professor of finance at Waseda University and then at the Cabinet Office, remarked that "I have been doing this job for about one year and seven months, but there are many things that surprised me. Put it simply, we have reached the consensus as to the current status including the bad loans problem and so on just recently. Therefore, naturally, there was no consensus as to what to do beforehand. This time, with the change in the minister, there emerged a consensus" (Hamada et al. 2003, 267).

30. The transcript was not made public until ten years later; therefore, his advocacy for inflation targeting was not known among the general public.
31. Takenaka was advised by Yoichi Takahashi, one of his most trusted advisors. Takahashi, career Ministry of Finance bureaucrat, studied at Princeton from 1998–2001, where he frequently attended Ben Bernanke’s workshop and learned that inflation-indexed bonds are used in the United States.
32. Hamada and Noguchi (2005) analyzed the opinions of three major newspapers, Yomiuri, Asahi, and Mainichi. Asahi and Mainichi did not take deflation seriously, and Mainichi even accepted the “good deflation” doctrine. However, Asahi became more concerned with deflation as the attention to deflation became apparent.
33. Fukui graduated from the Faculty of Law of the University of Tokyo in 1957, having been selected and groomed as the “prince” of the BOJ. He was supposed to succeed Matsushita in 1998, yet he had to resign from the BOJ, taking responsibility for the scandals of his subordinates.
34. According to Watanabe and Yabu (2011), “roughly 60 percent of the funds supplied to the market through yen-selling foreign exchange interventions were offset (i.e., sterilized) by monetary operations by the Bank of Japan, while the remaining 40 percent were not offset. Moreover, the funds that were not offset remained in the market for some time. This result contrasts with the situation before this period, when 100 percent of the funds of foreign exchange interventions were offset, showing that the extent to which interventions were not sterilized during January 2003 to March 2004 was quite considerable” (Wanatabe and Yabu 2011, 18).
35. Hoshi and Kayshap argued that this was not effective (Hoshi and Kayshap 2011, 2012).
36. For an account that is sympathetic toward the “Rising Tide” faction, see Takahashi (2007, 221–230; 2008). He was a close advisor to Takenaka and Nakagawa during the debate. For an account that is sympathetic toward the “Fiscal Hawks” faction, see Shimizu (2007).
37. Hidenao Nakagawa, then the secretary general of the LDP, and Shinzo Abe, then the cabinet secretary, voiced their concern. However, Kaoru Yosano, then the minister for economic and fiscal affairs, who could have protested officially, was sympathetic toward the BOJ.
38. The evaluation of the QE varies, but Honda argued that the QE was effective in raising investment and production through Tobin’s q channel. See Honda (2014). Using structural vector autoregression, Hayashi and Koeda (2014) show that the QE can increase inflation and production.
39. Rumor has it that on one occasion he said that “every reform we had to do has been carried out by this person, so I have nothing left to do,” pointing to Heizo Takenaka.
40. This is not informative since the Japanese use more cash than other nations do, so the money-GDP ratio has been historically high in Japan.
41. Instead, however, they tried to set up *Kokka Senryaku Kyoku* (Bureau of National Strategy), but they did not legislate it.

42. Kazuo Mizuno, a well-known business economist who wrote a book titled *Hyakumen Defure* (Deflation for one hundred years [Mizuno 2003]), was appointed as deputy director general for economic research at the Cabinet Office in September 2010 and councillor at the Cabinet Secretariat in November 2011. He was a growth and deflation pessimist who believed that Japan could not grow anymore and could not end deflation.
43. Yoshiyasu Ono, economist and close advisor to Kan, was appointed as *Naikakufu Sanyo* (advisor to the Cabinet Office) in February 2010 and then as *Sogo Keizai Shakai Kennkyu-sho Shocho* (president of the Economic and Social Research Institute, the Cabinet Office) in October 2010.
44. See the memoranda written by Chairman: <http://www.cas.go.jp/jp/fukkou/pdf/kousou1/gityou.pdf>.
45. Popular commentators such as Kazuyo Katsuma and Tsukasa Jonen contributed to this.
46. The DPJ had a fairly large number of members in the National Diet who voiced concerns about deflation, but they failed to influence those in the upper echelon of the party who decided policy.
47. The implications of this for other central banks, such as the European Central Bank, is discussed in Chapter 6.
48. Governor Shirakawa's testimony before the Budget Committee in the Lower House of National Diet on February 2, 2012.
49. The break-even inflation rate in Japan jumped from a negative range to a positive range after February 14, 2012.
50. On the political process of the consumption tax hike, see Ito (2013) and Shimizu (2013).
51. Yamamoto studied economics at the University of Tokyo under the supervision of Ryutaro Komiya, and has known Kikuo Iwata for a long time. After having worked at the MOF, he became a member of the House of Representatives from 1993. He has been advocating reflation policy and the revision of the BOJ law to make inflation targeting the BOJ's mandate early on. See Yamamoto 2010.
52. *Nihon Keizai Shimbun*, April 14, 2013.
53. Volker and Gyohten 1992 did not reveal his concern about the domestic economy upon the Plaza Accord. Also, he said he did not believe in the effect of foreign currency intervention, and did not know the Mundell-Fleming model (Naikakufu Keizai Shakai Kenkyusho 2001, 3, 517).
54. Judging from his memoirs, one cannot get a sense that Takeshita understood basic economic principles. He recalled that he "learned" economic policy, industrial policy to be exact, and the importance of seeing politics from the economy, when he was an undersecretary of the MITI in 1963 (Takeshita 1991, 28). He was the chief cabinet secretary of the Sato administration in the 1970s when Richard Nixon announced the suspension of the gold convertibility of the dollar. He confessed that "Frankly speaking, we including Prime Minister Sato did not understand the international currency problem" (1991, 68). When Kakuei Tanaka took power, he was appointed as the deputy secretary-general of the LDP. He observed that inflation during the Tanaka administration was caused

- by expansionary public works and the Oil Shock: there was no reference to monetary policy (88–89). As a finance minister in the Ohira administration, he worked for fiscal consolidation. Later as prime minister, he tackled to introduce consumption tax. He toyed with an idea of restricting private property rights regarding land in order to deal with the land issue (176).
55. During World War II, Miyazawa attended Osamu Shimomura's lectures on Keynes's general theory in the MOF (Mikuriya and Nakamura 2005, 188). Later Shimomura became a member of the brain trust of Hayato Ikeda and the architect of the *Shotoku Baizo Keikaku* (National Income Doubling Plan).
 56. Koichi Kato, a LDP politician and Miyazawa's most trusted aide at that time, recalled Miyazawa's confrontation with Takeshita in one meeting at the LDP around 1985: Miyazawa abused Takeshita to his face in front of a large number of people. Miyazawa said, "Did you know what you have done?" The criticism was so severe that many who were present thought that Miyazawa's career was over (Naikakufu Keizaishakai Kenkyusho 2011, 3, 433).
 57. As a person who experienced postwar high inflation, Miyazawa was fearful of inflation.
 58. This does not mean that there was no contemporary critic; on the contrary, there were many. See, for example, Noguchi and Tanaka (2001).

Chapter 3

1. It was modeled after *The Economist* in the United Kingdom, but there has been no relationship between the two.
2. Fujimaki (2002) listed 16 economists.
3. Thus he has been much vilified. While Takenaka was a minister, several powerful LDP politicians often demanded that he resign the job.
4. I owe this insight to Posen (2003).
5. He was born in 1932, and he received his doctorate in economics from the University of Tokyo in 1962. He spent most of his career at the Economic Planning Agency, until his retirement in 1992. After his retirement, he was the director of the now defunct Research Institute of Long Term Credit BOJ until 1998.
6. Born in 1943, Miyao graduated from Keio University, receiving PhD from the MIT. After taking several positions at the University of Toronto, the University of California, and the University of South California, he became a professor at Tsukuba University in 1985. As an expert on urban economics, he commented first on urban and land issues in Japan and then moved to the broader issue of Japan's Stagnation.
7. Atsumi (2006) listed 15 different definitions of structural reforms during the Koizumi administration era.
8. "The etymology of structural adjustment appears to await scientific study" (Fisher 1995, 21).
9. As a radical student activist, he wrote several articles and a book on State monopoly capitalism, and translated Leon Trotsky's works into Japanese. While he was

at Harvard, he befriended with radical economists including Samuel Bowles and Herbert Gintis.

10. When he was asked by Takenaka to join the expert team for the nonperforming loan issue, the so-called Takenaka Project Team, in October 2002, he declined the offer, referring to the impossibility of reform (Takenaka 2006, 59). Takenaka did not name the person in question, but it was believed to be Ikeo (Ono 2005, 45).
11. He specifically referred to Ito et al. (1988).
12. The effectiveness of Japan's industrial policy has been questioned in the literature. See Beason and Weinstein (1996), Miwa (2004), and Okita (2010, chap. 7) for a comprehensive survey. Nakatani was doubtful about the efficacy of industrial policy (Nakatani 1996, 129–130).
13. Although the opponents referred to the movement of unemployment rate in the United States, they did not seem to understand that the unemployment rate is affected by macroeconomic policy.
14. He eventually received his PhD in economics from Osaka University. He wrote a book on his term as a government minister (Takenaka 2006). The award-winning Sasaki (2013) offers a highly critical—perhaps too critical—account of Takenaka's life and work.
15. His first work, Takenaka (1984), which was based on his thesis, was about the economics of research and development and other investment decision making using the rational expectation approach to investment.
16. Nakasone suggested it on August 9, 1972. “Yen Saikirisage wo Fusegu tame ni wa Chosei Infure mo” (We may need adjustment inflation to prevent yen's reappreciation) *Asahi Shimbun*, Tokyo, August 10, 1972, 9).
17. The *Asahi Shimbun* quickly criticized Nakasone's “*Chosei Infure Ron*” in its editorial titled “Chosei Infure Yonin Ron ni Hantaisuru” (We oppose the adjustment inflation argument) (*Asahi Shimbun*, Tokyo, August 13, 1972, 5).
18. For example, Kazuhide Uekusa, a very popular business economist during the period, had to sell a demand-side policy as a supply-side one. See Uekusa (1998).
19. At the same time, Hoshi supported an expansionary monetary policy using inflation targeting (Arai and Hoshi 2004).
20. As a friend of Heizo Takenaka, Sachs assured Takenaka of the appropriateness of “structural reform” policy when he visited Japan in May 2001 (Takenaka 2006, 252).
21. For the concept of the liquidity trap in the history of macroeconomic thought, see Boianovsky (2004).
22. When he met Takenaka himself, Takenaka explained his policy as a “supply-side” one in that structural reform would stimulate demand by strengthening the growth prospect. Krugman retorted: “Well, maybe. But the plan does seem like a leap in the dark—radical measures taken because they might work, not because there is solid reason to believe that they will work” (Krugman 2001).
23. Bernanke would be later to be reminded of his words compared with his action. See Sumner (2010). Krugman (2012a) and Ball (2012) argued that Ben Bernanke changed his mind; Krugman said that Bernanke was assimilated by the

- Fed Borg, named after a popular enemy that appeared on the television series *Star Trek*.
24. See Bernanke and Gertler (1989, 1990, and 1999). Also Nobuhiro Kiyotaki at Princeton University and John Moore at the London School of Economics have developed their models in a similar vein (Kiyotaki and Moore 1997). It is likely that Kiyotaki, a son of banker in Osaka, came up with the model from his observation of the Japanese economy after the burst of bubble.
 25. The entire discussion is available in Japanese: <http://warp.ndl.go.jp/info:ndljp/pid/1022127/www.mof.go.jp/singikai/kanzegaita/giziroku/gaic150416.htm>
 26. During his speech, he jokingly said that because he proposed using government money, he would be stripped of his PhD.
 27. For an overview of the debate on “inflation targeting” in Japan, see Fujiki (2004) and Noguchi (2014).
 28. The dissemination of the Krugman proposal among the general public owed much to the development of the Internet. Hiroo Yamagata, who is a prolific writer, a consultant at the Nomura Research Institute, a critic, a translator, and a public intellectual, translated Krugman (1998b) immediately after it was uploaded to Krugman’s homepage. He also translated Krugman (1998a) and Svensson (2003) into Japanese.
 29. More business economists supported fiscal policy, but they were very skeptical about the effectiveness of monetary policy and inflation targeting at the same time. That was the case for Kazuhide Uekusa and Richard Koo, both of whom were at the Nomura Research Institute, the largest private think tank in Japan.
 30. For his model in detail, see Aoki and Yoshikawa (2002). His model should be called Robertsonian rather than Keynesian since Dennis H. Robertson thought demand saturation was the cause of the Great Depression (Robertson 1937).
 31. The joint appeal was published in an article in *Nikkei Shimbun* (Ito and Yoshikawa 2003). The article listed four specific proposals including monetary expansion with an inflation target, depreciation of the yen, resolution of the bad loans problem, and fiscal policy inducing structural reforms. Judging from its content, the article was probably written by Takatoshi Ito. Other cosigners included Motoshige Ito, Masahiro Okuno, Kiyohiko Nishimura, Tatsuo Hatta, Yoshio Higuchi, Mitsuhiro Fukao, and Naohiro Yashiro.
 32. Of course, in a real world, there would be no infinite supply of money to begin with. Therefore, it is impossible to verify Ono’s policy implications.
 33. For a different interpretation of the Swedish experience, see Straumann and Woiteck (2009), who claimed that Sweden adopted exchange rate targeting. Regardless of the interpretation, it is important that Sweden did whatever it thought necessary to end deflation. See Chapter 4 as well.
 34. Tachibanaki (1998) claimed Japan became more unequal, judging from growing Gini coefficient. Ohtake (2005) argued that about 60 percent of the increased Gini coefficient could be explained by the aging of the population. However, it was later shown that as the unemployment of the youth increased, the income disparity among the youth increased.

35. The reality was different since postredistribution income inequality during the Koizumi-Takenaka period stayed the same or declined, but the data available at that time showed a growing inequality trend before the Koizumi-Takenaka period. See Chapter 1.
36. In the case of Anglo-American economic discourse, Hayek looms large. See Wapshot (2011).
37. Another economist who became known to the public during the period was Irving Fisher. His 1933 paper has been frequently cited and referred to as the earliest theory of debt deflation induced by deleveraging. It was cited by those who advocated fiscal policy, including Richard Koo, who referred to him but curiously downplayed Fisher's main proposal of monetary policy. Also, Fisher's remark that the "stock market reached a permanently high plateau" in 1929 and the eventual financial loss due to the crash did not help uphold his reputation.
38. This part is drawn on Wakatabe (2014a).
39. The term had already been used in the prewar period, and it was reputedly influenced by Oskar Lange (Lange 1935), who in turn was inspired by Kei Shibata (Shibata 1933). See also Bronfenbrenner (1956), and Dimand and Wakatabe (2011).
40. The division between two economics was so visible that the history of the Department of Economics at the University of Tokyo, in its commemoration of the 50th year of its founding, had two separate roundtable retrospective discussions, one for Marxian economics oriented majority, and the other for the minority "Modern Economics" (Tokyo Daigaku Keizaigakubu 1976).
41. Martin Bronfenbrenner described it as "schizophrenia," since modern economists taught the merits of free trade in classroom, while the same supported protectionist measures in a government committee. The effectiveness of industrial policy in Japan has been questioned in the recent literature. See, e.g., Beason and Weinstein (1996).
42. This critical remark against structural reforms should not be taken as a negation of deregulation, privatization, or political and economic reforms in general: as is discussed fully in Chapter 5, the Japanese economy needs market-oriented reforms in many fields. But we do need growth policy *and* stabilization policy: the latter is necessary in the time of recessions and is also prerequisite to growth policy; if reforms entail costs, it is better to ease these costs.

Chapter 4

1. This was the title of the British Academy conference held on April 16–17 in London. The conference papers were published first in volume 26 of the *Oxford Review of Economic Policy* and then in book form (Crafts and Fearon 2013).
2. He analyzed and learned from the Great Depression as early as 2001 (Iwata 2001). Iwata (2004) is a product of a joint study project headed by Iwata, whose gist is translated into English in Iwata et al. (2008). Wakatabe (2014b) is a part of this project.

3. Temin (1976) criticized Friedman and Schwartz (1963), arguing that at the initial phase, the Great Depression was caused by a sudden decrease in autonomous spending, while money did not play an active role from 1929 to 1931.
4. The literature is voluminous. Other classics include Eichengreen and Sachs (1985), Temin (1989), Eichengreen (1992), Bernanke (2000a), and James (2001). For more popular accounts, see Hall and Ferguson (1998) and Ahmad (2009).
5. The classic paper is Sargent (1982).
6. The simplest theoretical discussion using the IS-LM framework of the Great Depression with a comparison of the spending hypothesis (Keynesian), the money hypothesis (Monetarist), and the deflationary expectations hypothesis may be found in Mankiw (2009).
7. De Long (1990) listed Joseph A. Schumpeter, Lionel Robbins, Friedrich A. von Hayek, and Seymour Harris among the proponents. One version is the business cycle model in which misplaced overconfidence in the rate of return by an entrepreneur leads to investment boom, which turns into depression as the true rate of return is revealed. With the advancement of real business cycle theory or dynamic macroeconomics, there has been a revival in liquidationism of this sort. As for the empirical evidence, or lack thereof, see Cabarello and Hammour (2000). For the contrary view regarding Hayek and Robbins, see White (2008).
8. Takenaka (2014) characterized the era from 1918 to 1932 as a “developing democracy.”
9. Literally translated, *Kin Kaikin* means the lifting of embargo on the exportation of gold. In the literature, see Wakatabe (2014b) and the literature cited there.
10. See Irwin (2011a) for Cassel’s contributions.
11. See Ikeo (2014, 60–62), for the background.
12. When the so-called Young committee, headed by American Owen D. Young, who was involved in the Dawes Plan, convened in February 1929, it proposed to restrict the member states of the newly established Bank for International Settlements to countries with stable currency. Japan was allowed to join it as an exception, but this requirement shook the Japanese policymakers. Japan needed to borrow the pounds sterling equivalent of ¥230 million from Anglo-American bankers, which was the amount of the outstanding debt that Japan incurred in the Russo-Japanese War of 1904 to 1905. Yet Anglo-American bankers demanded the stabilization of the yen. The Zaigai Seika had declined precipitously from ¥1.3 billion and ¥34 million in the end of 1919 to ¥91 million in March 1929 and ¥83 million in June 1929 (Ito 1989, 212–213).
13. The appointment of Inoue was taken as a surprise since he expressed his skepticism toward the prewar parity return. Yet, he was never opposed to the prewar return in principle; therefore, he could have thought that Japan could return to the gold standard with careful preparation.
14. Some argue that Hamaguchi and Inoue decided on the prewar parity since it required changing the law to implement the new parity. But as the fact that they held a general election and won shows, they could have changed the law if they wanted to change it.
15. Katsuta welcomed a panic; therefore, his concern with a panic is not consistent. At other place, he said that the prewar return was not a cause for the depression: “the

- return may have accompanied the recession, but it did not result in the recession. The return induces an outflow of species, which in turn dampen the prices, and the recession came” (Katsuta 1930b, 29). But this is also not consistent since if the outflow was the cause of the recession, he should have welcomed the return at the new parity.
16. Baron Takuma Dan, president of the Mitsui holding corporation and friend of Inoue's, was assassinated by a terrorist on March 5, 1932.
 17. Three of the *Shin Kaikin-ha*, Kamekichi Takahashi, Yamazaki, and Obama, were involved in this statement, which was drafted by Takahashi, although it was further revised by others (Ando 1965, vol. I, 94).
 18. The *Takahashi Zaisei* period was interrupted for a short interval, from July 8, 1934, to November 27, 1934, when Sadanobu Fujii was appointed.
 19. There is no reliable data on the unemployment rate. One estimate shows it was 5.3 percent in January 1931 and that it peaked at 7.2 percent in July 1932. This was calculated from *Nihon Keizai Tokei Nenkan* from Toyo Keizai Shimposha by Seiji Adachi.
 20. The first usage is probably “‘Reflation’ or Bankruptcy” in *The Economist*, February 13, 1932. It also turned up in the *Hansard* of the British House of Commons on April 20, 1932.
 21. Fisher proposed the desirable price level target aiming at the price level of mid-1920s in the United States, and *The Economist* proposed the target aiming at the price level in 1928.
 22. On another occasion, he analyzed the cases in which a rate of change of nominal income was not the same as the inflation rate (Iahibashi 1970–72, 8, 179–184).
 23. It is an exaggeration to say that Ishibashi or other Shin Kaikin-ha affected the policymaking process, yet Korekiyo Takahashi, extremely well-read and versatile in English, referred to “Mr. Fisher and the workshop at the University of Chicago,” “Keynes,” the “Macmillan committee report,” and “Hawtrey” in the speech he gave in April 1933 (Takahashi 1936, 559, 567–568, 570). By the “workshop at the University of Chicago,” he probably meant the Harris Foundation Conferences held at the University of Chicago in 1931 and 1932, which Fisher attended.
 24. Smethurst (2009) argued that Takahashi appreciated the market economy, acknowledging its defects at the same time. For example, Takahashi understood that the disparity of income and wealth was the major problem and contemplated some remedies: “since his days as Hara’s finance minister following World War I, [he] advocated the creation of a system to create a fairly equal distribution of wealth between capitalists and workers. He decried the widening gap between rich and poor in interwar Japan” (Smethurst 2009, 305).

Chapter 5

1. It is the name that Hidenao Nakagawa, a strong supporter of Abe, used back in 2006. Nakagawa used it in the Lower House meeting of the National Diet on October 2, 2006. http://kokkai.ndl.go.jp/cgi-bin/KENSAKU/swk_dispdoc.cgi?SESSION=9564&SAVED_RID=1&PAGE=0&POS=0&TOTAL=0&SRV_ID=9&DOC_ID=2453&DPAGE=1&DTOTAL=397&DPOS=1&SORT_DIR=0&SORT_TYPE=0&MODE=1&DMY=11669

2. This includes the impact of a consumption tax increase introduced in April.
3. Robert Feldman quoted in Jonathan Sobel, “Abenomics: Off Target,” *Financial Times*, August 25, 2014.
4. Amari, born in 1949, is an LDP politician with a close relationship with the Ministry of Economy, Industry, and Trade, one of “*Shoko Zoku*,” lobbyist-politicians: he served as the minister of the Ministry of Economy, Industry, and Trade from 2006 to 2008.
5. According to the old legend, the warlord Motonari Mori (1497–1571) once asked his three sons to break an arrow. They broke it easily. Then he asked them to break the three arrows bundled together. His sons could not break them. He taught his sons the virtue of sticking together to survive the warlord period. The house of Mori survived the warlord and Edo periods, becoming a powerhouse for leading the Meiji restoration in 1868. Abe comes from the Yamaguchi region where the house of Mori ruled during the Edo period.
6. The clause was inserted to accommodate the demand from some DPJ politicians who were afraid of the negative impacts of the tax hike.
7. The official name of the meeting is *Kongo no Keizai Zaisei Dokonado ni Kannsuru Shuchu Tenken Kaigo* (Meeting for Intensive Examination of the Future Economic and Fiscal Conditions). All presentations and summaries are available on the following site: <http://www5.cao.go.jp/keizai-shimon/kaigi/special/tenken/index.html>
8. Strumthal 1944 is the classic account of the reactions of the left-wing forces during the Great Depression and the lessons they learnt. Although the book was translated in Japanese, the lessons were not learnt.
9. As we chronicle in Chapter 2, political struggle delayed the appointment of Governor Shirakawa one month later than was usual: his term became effective as of April 2008.
10. The figures are all in a purchasing power parity basis. See <http://www.quandl.com/economics/gdp-as-share-of-world-gdp-at-ppp-by-country>.
11. Edward Wong, “China Announces 12.2% Increase in Military Budget,” *New York Times*, March 5, 2014.
12. On another occasion, Krugman said: “I have no stake in Abe’s success politically, and no sense of whether he knows what he’s doing. But the case for a coordinated fiscal-monetary push seems overwhelming given the intellectual framework all of us, I think, more or less share” (Krugman 2013c).
13. Hamada’s expertise on international monetary economics also matters greatly. Contrary to the beggar-thy-neighbor argument, he argued that under the flexible exchange rate system, an expansionary monetary policy by two countries could be mutually beneficial.
14. A similar diagram is drawn by Goushi Kataoka, an economist at Mitsubishi UFJ Research and Consulting (Kataoka 2013, 211).
15. Hiroyuki Maeda “Economistuto ga erabu Keizaitosyo besuto 10” (Economists pick top ten economics and business books of the year), *Nikkei Shimbun*, December 29, 2013.
16. On March 5, 2013, upon the Iwata confirmation hearing, Keisuke Tsumura, a DPJ Diet member, questioned Iwata about what Iwata would do if the BOJ fails

- to achieve the 2 percent target within two years. Tsumura has worked for the BOJ.
17. As of July 2014, Japan has a trade deficit. McCullum (2003) did predict the development of a current account when Japan reflatates.
 18. See also Ito (2013) and Eichengreen (2013). Eichengreen (2013) argued that emerging market countries could engage in contractionary fiscal policy to offset the effect of advanced countries' expansionary monetary policy.
 19. Abenomics would lower the risk premium on Japan's government bond.
 20. Bernanke (2003) concluded: "one could make an economic case that the balance sheet of the central bank should be of marginal relevance at best to the determination of monetary policy." The remaining issue is the institutional structure to assure the transfer of profit and loss between the government in a narrow sense, and the BOJ. For this, Bernanke (2003) has offered a solution in the form of the "bond-conversion."
 21. As Iida recognizes, it is not straightforward to delineate the Mundell-Fleming effect from data. The usual explanation that emphasizes a change in the interest rate in the Mundell-Fleming effect is a theoretical expediency. In reality, fiscal policy is transacted in an incremental way: a small increase in fiscal expansion would cause a slight upward pressure on the interest rate, which in turn would lead to a slight appreciation of the currency. In this case, there is no discernable increase in interest rate, yet the Mundell-Fleming effect is at work.
 22. In reality there have been changes in the tax system in Japan. A report by the Cabinet Office estimates the elasticity for tax revenues, corrected for changes in the tax system, as follows: 1.47 for 1981–1990, 0.38 for 1991–2000, and 3.1 for 2000–2009. The averages are 1.61 for 1981–2009 and 1.69 for 1991–2009. See Naikakufu (2011).
 23. For economists' consensus on economic growth, see Weil (2013).
 24. The full list is accessible at http://www.kantei.go.jp/jp/singi/keizaisaisei/pdf/en_saikou_jpn_hon.pdf and http://www.kantei.go.jp/jp/singi/keizaisaisei/pdf/en_saikou_jpn.pdf.
 25. The numbers depend on assumptions. Petri and Plummer (2012) concluded that the benefits would be around ¥9 billion, assuming that both Japan and South Korea join the TPP, and all nontariff barriers are abolished. Todo (2013) estimated that the growth rate would increase by 1.5 percent, including the indirect effects on growth by knowledge creation.
 26. As for his other comment on "structural imbalances," the coexistence of financial surpluses of firms and the low shares of household disposable income and consumption, it is important to note that this phenomenon began in 1997 when deflation started. Firms tend to hold huge free cash flows under deflation. It may not be so "structural" after all.
 27. However, this conclusion is tentative, and the correlation is not strong.
 28. See the following: <http://www.pewglobal.org/2007/10/04/chapter-1-views-of-global-change/>. Young people do not seem to possess a positive image about Japan: according to a survey by Lifelink, a nongovernmental organization focused on youth suicide, among 200 undergraduate and graduate students who are looking for a job, 69 percent said that "the honest people lose in Japan" and 65 percent

said that “the Japanese society does nothing when one needs help.” The survey showed a growing support for a lifetime employment system among the youth, not because they want to stay in a company until their retirement but because they believe it is the safest way for survival. This survey may be biased in its sample. For the survey, see <http://www.lifelink.or.jp/hp/Library/201310shukatsu.pdf>.

29. According to an opinion survey conducted jointly by *Nihon Keizai Shimbun* and TV Tokyo in the late June 2014, after the revised version of the JRS was announced, 46 percent of the respondents said they rate the reform highly, while 29 percent said they do not. *Nihon Keizai Shimbun*, June 29, 2014.

Chapter 6

1. Muramatsu and Okuno (2002); Iwata and Harada (2002); Iwata and Miyagawa (2003); Hamada et al. (2004); Ito, Patrick and Weinstein (2005); Hayashi (2006, 2007); ESRI (2009, 2011); Kataoka (2010); Hamada et al. (2011); and Garside (2012).
2. This does not mean that one should embrace bubbles in a more positive manner than is considered. However, if innovative activity is driven by psychological “biases” such as euphoria and overconfidence rather than by rational calculation, one could take another perspective on bubbles. On the basis of insights from the American economy during the 1990s, Ricardo Cabarelo and his colleagues at Massachusetts Institute of Technology analyzed “speculative growth” in which asset boom and rapid economic growth could happen concurrently (Cabarelo et al. 2006).
3. Reinhart and Rogoff (2009) suggested that financial liberalization such as freer international capital mobility after the 1980 has contributed to the recurrent banking crises all over the world: “In eighteen of the twenty-six banking crises . . . the financial sector had been liberalized within the preceding five years, usually less. In the 1980s and 1990s, most liberalization episodes were associated with financial crises of varying severity” (Reinhart and Rogoff 2009, 155). However, these recurring crises might have something to do with the development of financial markets. Hirano and Yanagawa (2010) argued that there would be no bubble in the least developed and the most developed stages of financial development, while there would be bubbles in the middle stage. In both the least- and most-developed stage, the nominal interest rate would exceed the nominal growth rate, but in the middle stage, the nominal growth rate could exceed the nominal interest rate. Therefore, as a country develops financially, there would be more bubbles. They argued that this corresponds to the recent situation of emerging and developed economies.
4. Ogawa (2003) argued that there was a credit crunch for medium and small size firms. As Sakuragawa and Sakuragawa (2009) pointed out, one cannot discern the presence of the credit crunch in macroeconomic data in most of the 1990s, but there is a possibility that a credit crunch and zombie lending happened at the same time.

5. Inoue and Okimoto (2008) was first published as chapter 7 of Hayashi (2007).
6. http://www.igmchicago.org/igm-economic-experts-panel/poll-results?SurveyID=SV_bvjcAG4fti8BdBj. Among them, Barry Eichengreen of University of California Berkeley, Anil Kashyap of Chicago, and Maurice Obstfeld of University of California Berkeley said that they “strongly agree” with a certainty of 10 out of 10.
7. However, proponents of the structural view tend to downplay or neglect this important macroeconomic dimension of dealing with the banking crisis. See Katz (2008).
8. See also Ergungor and Cherny (2009): they stress four principles of effective crisis resolution, transparency of asset losses up-front and honest communication about the extent of public intervention, politically and financially independent receivership, maintenance of market discipline, and restoration of credit flows.
9. According to Kato (1994), “the ministry’s special education and training systems are designed not only to help bureaucrats study academic disciplines to enable them to qualify as policy specialists, but also to nurture the same attitudes about policy-making. Obtaining an economic education while working in the administration does not make them strict interpreters of economic theory. The bureaucrats often emphasize the importance of common sense rather than theoretical consistency or elegance. They have a deep suspicion of neoclassical economic theory, which tends to regard the financial behavior of the government sector as a function of the market economy. They claim they nurture their own sense that guides their decisions through their experiences in public financial management and knowledge gained from their experience within the organization” (Kato 1994, 58).
10. For another example, see Amyx (2004). She emphasized the institutional inertia that has been strengthened by network-based regulation and policy authorities, especially the MOF.
11. This was first suggested by Posen (2003).
12. Scott Sumner of Bentley University thought that the BOJ has been “successful” in its commitment to “price stability”: one has to remember that the BOJ has achieved a zero or slightly deflationary CPI increase rate throughout the period (Sumner 2009). In this sense, the BOJ had a deflation target, and it has worked well.
13. DeLong (1997) noted that the American policymakers’ preoccupation with the Great Depression prevented them from pursuing a more effective macroeconomic policy to deal with the Great Inflation of the 1970s.
14. http://www.telegraph.co.uk/finance/comment/ambroseevans_pritchard/10814728/ECB-is-delighted-by-the-splendid-prospect-of-deflation.html
15. The historical museum of Bundesbank in Frankfurt features a history of hyperinflation and an interactive computer game in which an increased money supply could lead to hyperinflation (*Economist* 2008).

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