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C O L U M B I A U N I V E R S I T Y I N T H E C I T Y O F N E W Y O R K

Turning Japanese? Lessons from Japan's Lost Decade to the Current Crisis*

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Abstract: As the world economic crisis continues, people are turning to the Japanese example. Japan has experienced the burst of the Bubble economy, financial crisis, and more than a decade-long deflation and stagnation known as the Lost Decade. Some commentators are even suggesting the Japanization of the Western countries. The paper focuses mainly on the economic controversies and debates during the Great Stagnation from the mid-1980s to the early 2000s along with a brief description of the Japanese economy characterized by a series of macroeconomic policy mistakes. It is true that there are some distinct differences between Japan and the other countries including their academic economics culture and initial policy responses to the financial crisis. However, there are certain similarities: the discussions became more and more divisive and heated as the crisis continued; economists turned to more “structural causes” of the stagnation, as the crisis prolonged; the effectiveness of macroeconomic policy became increasingly questioned and the old ideas such as liquidationist thinking has returned. It is in the confusions and mistakes that one can see the clear case for lessons to be learned from the Japan's Lost Decade.

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I. Introduction

As the world economic crisis continues, people are turning to the Japanese example. Japan has experienced the burst of the Bubble economy, financial crisis, more than a decade-long deflation and stagnation. The Japanese episode, known as the Great Stagnation, has received much attention during the 1990s and the 2000s, but the onset of the current crisis invigorated a renewed interest in it. Some commentators are even worrying about the Japanization of the Western countries. The prime example was the lead article of July 30-August 5 2011 issue of the *Economist*: aptly entitled “Turning Japanese”: it featured U.S. president Barack Obama and German Chancellor Angela Merkel wearing Japanese kimonos. The image the newspaper tried to convey was the sense that the U.S. and European political leaders were marred with the same problems as the Japanese counterparts: lack of leadership, incoherent policy initiatives, and the resultant prolonged stagnation. Paul Krugman, the most vocal critic of macroeconomic policy all over the world, several times remarked that he should apologize to the Japanese since the Americans were not doing better than them. His so-called apology is a mere rhetoric for this master debater, but his reference to Japan is more substantial.¹

What happened in the Great Stagnation, what caused it, and what one can learn from it? These are all important questions, but the paper focuses mainly on the economic controversies and debates during the Great Stagnation. Since any policy is related to—though not necessarily based on—some kind of ideas, it requires an investigation into the relationship between ideas and policy in order to better understand the policy-making process. David Laidler 2003 argued that every economic agent has a “model” about how the economy works, as the rational expectation or behavioral economics show us, and policy policymakers must also have models, however crude or unsystematic they are. Therefore, the historians of economic thought can shed a light on the policy making process by examining the models which policymakers have. Hamada and Noguchi 2005 argued that policymakers of two deflationary episodes in Japan, the Great Depression era and the 1990s, were largely misled by “misconceived ideas,” erroneous understanding of the economy. Moreover, a cross-country comparison between economic ideas in Japan and that in the West would reveal not only similarities and differences in policy responses but also those between ideas. As Fourcade 2009 argued, economic ideas have been situated in cultural, institutional, and historical settings in the United States, Great Britain and France. One may pursue a similar line

¹ As more recent examples, see the exchanges on the Net among Avent 2012 a,b, DeLong 2012, Noah 2012, Modeled Behavior 2012.

of research in its comparison between economics in Japan and the Western countries, highlighting cultural and institutional characteristics of the Japanese economics academia (Wakatabe 2011b).

Yet one may discern similarities across countries as well as differences. During the debate, there have been several points of contention; macroeconomic stabilization has been advocated, criticized, dismissed, and resurrected, while liquidationist thinking—inflationary boom should be followed by deflationary recession so that the best remedy to recession is to “let things run the natural course,” non-intervention policy—returned to the policy discussion (DeLong 1990); with deflation and deflationary expectations, the role of monetary policy became the center of discussion, while the profession was divided on its efficacy; as the recession became prolonged, a great deal of economists turned their eyes on the “structural factors,” proposing a wide variety of remedies in the name of “structural reforms,” while these “structural factors” explanations changed over the course. Furthermore, during the crisis, the whole discussions became heated and emotionally charged.

This paper examines the debates on the Great Stagnation by the Japanese economists from the late 1980s to the early 2000s. The rest of the paper is organized as follows. Section II chronicles the history of the Japanese economy from 1985 to 2004. It shows that the Great Stagnation started with one macroeconomic mistake and continued with a series of such mistakes. Section III examines the economic controversies and debates during the Great Stagnation. the changing foci of debates from the early debate on the Bubble economy and its aftermath, preoccupation with bad loan problem and debt deleveraging, the rise and fall of the ‘structural reform’ as a remedy, to the ongoing debate over deflation and monetary policy. Section IV pays special attention to a wide variety of diverse intellectual backgrounds of economics in Japan, strong Marxian, developmentalist, and Keynesian influences and relative lack of monetarist one. Section V contrasts debate in Japan and the current debate in a wider world, drawing lessons from the Great Stagnation to the current crisis. The last section concludes with some discussion of the political economy of economic debates during crises.

II. Japan’s Twenty Years’ Crisis: An Overview

Although the years of stagnation of the Japanese economy during the 1990s has been known for the Lost Decade of Japan, it is more appropriate to consider the

whole episode as the “Twenty-Years’ Crisis”: it started with the year 1985 as the turning point of Japanese macroeconomic policy, and end with the year 2004 when the recovery took hold. This perspective clarifies that the underlying cause of the macroeconomic malaise is the repeated series of mistakes in macroeconomic policy.²

On September 22, 1985, policymakers of five advanced economies gathered at the Plaza Hotel in New York to reach an agreement on the possible movement of currencies. The agreement, later to be known as the Plaza Accord, prompted Japanese and West Germany governments to appreciate their currencies against the U.S. dollar. The U.S. dollar had been appreciated since the economic policy under the Reagan administration implemented a tight monetary policy combined with expansionary fiscal policy. After the Accord, the Japanese Yen appreciated rapidly from $\$1=240$ to $\$1=200$ in 1985. Fearing about the depressing effect of the Yen appreciation on the economy, however, Japanese policymakers changed their stance, engaging in expansionary macroeconomic policy by lowering the official discount rate and increasing government spending.

Japanese policymakers agreed with the Plaza Accord, since at that time the trade disputes with the U.S. were a major political issue, and also they felt proud at being asked by the Americans to cooperate with them on monetary issues. There was a series of mistakes in policy. First, targeting the exchange rate distorted internal balance. Secondly, the subsequent expansionary policy led to the increased asset prices, known to be the “Bubble”. Thirdly, it did not help to resolve the trade disputes with the U.S: the issue became more political.

The government pushed for expansionary fiscal policy based on “Naijyu Kakudai Ron (Increased Domestic Demand Argument)”. It argued that Japan, along with the U.S., and West Germany, was responsible for expanding their domestic demand to correct international imbalance. The landmark policy paper was what was popularly known Maekawa report³: the government report of a committee headed by former BOJ Governor Haruo Maekawa advocated the expansion of domestic demand for Japan as the solution to trade surplus problem.

The BOJ lowered the official discount rate until February 1987, keeping it to 2.5% until May 1989. Fiscal consolidation was also suspended. The unemployment rate increased to 3 %, the highest figure since the statistics was collected, engendering a fear of recession. Subsequently, asset prices including land and stock prices went up

² For other accounts of the Japanese economy since the 1980s, see Cargill and Sakamoto 2008. Garside 2012 traces the history from the rapid growth era to the 1990s.

³ See the full text in Okimoto and Rohlen 1988, pp.252-256.

considerably. There was a voice of concern among the government about this asset price increase, but their concern had less to do with public perception of wrongdoings related to heated economy, than to do with macroeconomic control. The government and the BOJ shifted to prick the “Bubble” by raising the official discount rate from 2.5 % in May 1989 to 6 % in August 1990, which was kept until July 1991. On the other hand, 3 % consumption tax was introduced in April 1989. Asset prices plunged, aggravating the balance sheet of the banks, setting deleveraging of the private non-financial corporate sector. This marked the beginning of the “Furyo Saiken Mondai (Bad Loan problem)”.

Kiichi Miyazawa, who became a Prime Minister on November 1991, was a clever politician with more insights into the working of the economy than any other politicians. He foresaw the coming crisis on August 1992 when the Nikkei index plunged into 15,000 yen. He toyed with the idea of shutting down the Tokyo Stock Exchange for one day, telling the public about the critical situation of the financial sector, and injecting the public money to clear up the bad loan problem. But he was dissuaded by the Ministry of Finance to pursue the plan (Nihon Keizai Shinbunsha 2001). Later the injection of public money into the financial sector became politicized, and delayed until the last minutes. His other policy initiatives were, however, questionable. His cabinet promoted Japan aiming at “Seikatsu Taikoku (Great Livable Country)”: in order to increase the domestic demand, the Reduction of Working Hours Promotion Law was enacted in 1992, which aimed to reduce the working hours to 1800 hours per year.⁴

This was also the turbulent period in Japanese politics: with the defection of a large number of the member led by Ichiro Ozawa, the Liberal Democratic Party lost its dominant position in the election of August 1993. The coalition government was formed without the LDP and the Communist Party of Japan. The political reform became the focus of the national discussion, culminating in the introduction of the electoral reform in 1994. In the meantime, the appreciation of the Yen accelerated. The recession in Japan increased the trade surplus against the U.S., which President Bill Clinton, who took office in 1993, criticized: he demanded the appreciation of the Yen. Also the Fed under Alan Greenspan engaged in an expansionary monetary policy from 1993 to 1994. The appreciation coincided with the onset of deflation in Japan. On April 19, 1995, the Yen was exchanged at 1\$=79.75Yen, the highest value at that time. Haruhiko Kuroda, then at the International Finance Bureau of the Ministry of Finance, later recalled that “there were no more serious macroeconomic issues than the appreciation and deflation”

⁴ Hayashi and Prescott 2002 attributed one of the causes of the Great Stagnation to this law.

(Kuroda 2005, 156).

On January 1996, Ryutaro Hashimoto of the LDP, became the Prime Minister of Japan. He advocated the “Kozo Kaikaku (Structural Reform)” of the Japanese political and economic system: the economy had somehow recovered due to the increase in government expenditure, yet Hashimoto implemented drastic fiscal consolidation as a part of the “Kozo Kaikaku”: the Fiscal Structural Reform Act was enacted on November 1997, and the consumption tax was raised from 3 % to 5 % on April 1997.

The crisis of the Japanese economy worsened in 1997: along with the Asian currency crisis on July, the financial crisis erupted on November, and several small banks and major stockbrokerages went bankrupt including the Yamaichi Securities which was once rescued in 1965. Deflation took hold, the so-called balance-sheet recession deepened, and the unemployment rate increased drastically from 3.5% to 5%. Any obstacle to the injection of the public money to the financial sector disappeared, and the next Prime Minister Keizo Obuchi, successor of Hashimoto who resigned due to an election loss, pursued more expansionary fiscal policy to revamp the economy. Without any contingent clause, the Fiscal Structural Reform Act was suspended and later abolished.

The BOJ gained formal independence on April, 1998. It was not fought back by the BOJ; it was by accident. In the early 1998, the corruption of the MOF was reported and scandalized. Due to the public outcry, the MOF was divided and its power became curtailed: the Banking Bureau of the MOF was transferred to the newly set-up Financial Service Agency, and the old BOJ Law of 1942 was revised. Unlike the Bank of England whose independence was articulated as instrumental as opposed to goal, which is further specified in inflation targeting framework set by the government, the exact nature of the BOJ independence was not specified (Mabuchi 1997). Although the Article I of the new Act specifies the purpose of the BOJ to achieve and maintain the “price stability,” there was no discussion about the definition. Also even though the Article IV of the Act requires the cooperation between the government and the BOJ, it does not specify the exact mechanism through which that cooperation is ensured. Furthermore, the position of the BOJ Governor is protected more firmly under the new law than under the old: the government cannot replace the governor except for special reasons including personal bankruptcy or mental unfitness.

The first Governor under the new BOJ law was Masaru Hayami, ex-BOJ veteran; he was already in his 70s when he took the position. His economic ideas were influenced by his personal experiences: He entered the BOJ in 1947, in the midst of post-War high inflation, and worked mainly in the International Department which

deals with currency matters. Therefore, he detested any hint of inflation and depreciation of the Yen, and talked very fondly about *The Strong Yen, The Strong Economy* (Hayami 2005): the exact meaning was elusive, but it was meant to be “higher yen”, so that he tended to downplay the detrimental effects of the appreciation of the Yen on the Japanese economy, and even welcome deflation.⁵ On the other hand, he liked to express a Schumpeterian belief in that only innovation-induced structural reforms could help boost the economy.

During the 1990s, the policy interest rate changed from the official discount rate to the overnight call rate. The overnight call rate had already become below 1 % by 1995, and the BOJ lowered the rate to zero in February, 1999. This was the beginning of the “Zero Kinnri Seisaku (Zero Interest Rate Policy: ZIRP)”. The BOJ had an uneasy time with the ZIRP. The IT boom from 1999 to 2000 brought some recovery to the economy. Having judged the economy was already turning the corner, in August 2000, the BOJ decided to raise the call rate: the government exercised the right within the law to protest the BOJ’s decision, requesting the BOJ to postpone the decision. The BOJ rejected the request and raised the call rate. The economy went into downturn subsequently in late 2000, and as a result the BOJ had to resume the ZIRP soon after. It was against this context that the BOJ introduced the “Ryoteki Kanwa Seisaku (Quantitative Easing, QE)” on March 19, 2001. Its target was changed from the overnight call rate to the size of the demand deposits of the BOJ; it conducted open market operations of longer-term government bonds with the announcement that the policy should be continued until the changes in CPI become stabilized above zero percent. However, upon its introduction, the BOJ revealed its “internal rule” in that the BOJ prohibits itself from purchasing the long-term government bonds above the amount of its amount of BOJ notes. The BOJ argued that the rule was necessary to defend itself from political pressure to finance fiscal deficits and debt, echoing their “lesson from history” that the direct purchase of government bonds in pre-War era turned to high inflation.⁶

In April 2001, a maverick LDP politician Junichiro Koizumi became the Prime Minister of Japan. Heizo Takenaka, a professor of economics at Keio University, and

⁵ On the contrary, Hayami believed otherwise. Kunio Okina recalled an exchange between Hayami and the BOJ staff. When the staff explained the desirability of the depreciation of 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).

⁶ 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). Hayami was a devout Christian of Protestant stripe.

self-conscious policy promoter, was appointed as his minister for economic and fiscal affairs.⁷ The Koizumi-Takenaka team elevated Structural Reform as its main economic policy. Although the precise meaning was unclear, it was popular among the economists and the general public alike. Takenaka has a chimera-like personality. His first set of specific policy proposals reflected supply-side thinking: he argued that the long period of low growth should not be due to the temporary lack of demand; instead it should be attributed to supply-side problems. Thus, he advocated deregulation, privatization, and the cuts in public spending (Takanaka 2006, 15-16, 251). His primary attention was, however, focused on the “bad loan problem”. His initial approach was proclaimed to be tougher one toward the financial sector to allow a bankruptcy of bank, yet when the Resona Bank, one of major banks went bankrupt in May 2003, he injected the public money into it, thereby shifting the policy objective.

On the other hand, by 2002 Takenaka had become aware of the danger of deflation. While his first approach to tackle deflation was to link the bad loan problem with deflation, he began to recognize the importance of monetary policy, and advocating inflation targeting in particular. As Hamada and Noguchi 2005 documents, the media coverage of deflation increased (Fig.4), even surpassing that of “Kozo Kaikaku” (Fig.5).

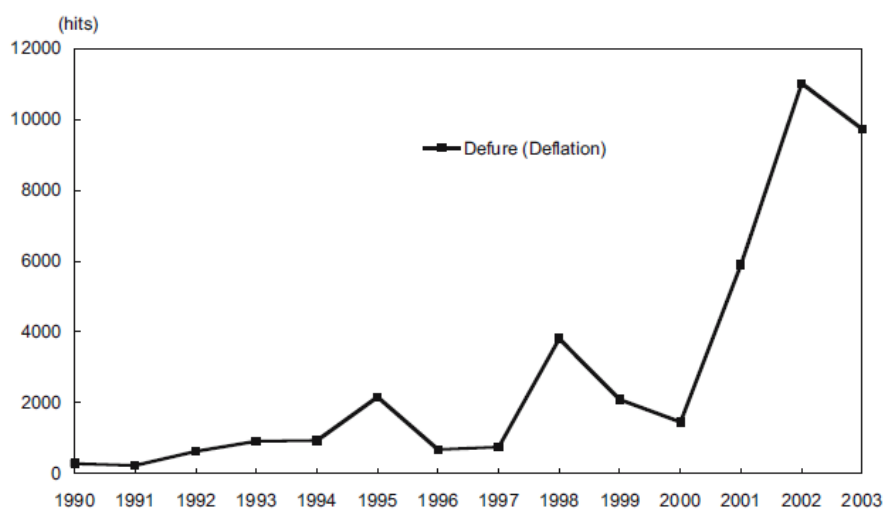


Fig. 4 Hits per year of the term “Defure (Deflation)” in the five biggest Japanese newspaper, *Asahi, Mainichi, Yomiuri, Sankei and Nikkei* by Nikkei Telecom 21 database

⁷ His career was unique for a Japanese academician: he worked first for the Japan Development Bank, government financial corporation, and moved to the academia. When he went to Harvard in 1981, he befriended with 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 policy-making process that he set his mind to become a policy entrepreneur.

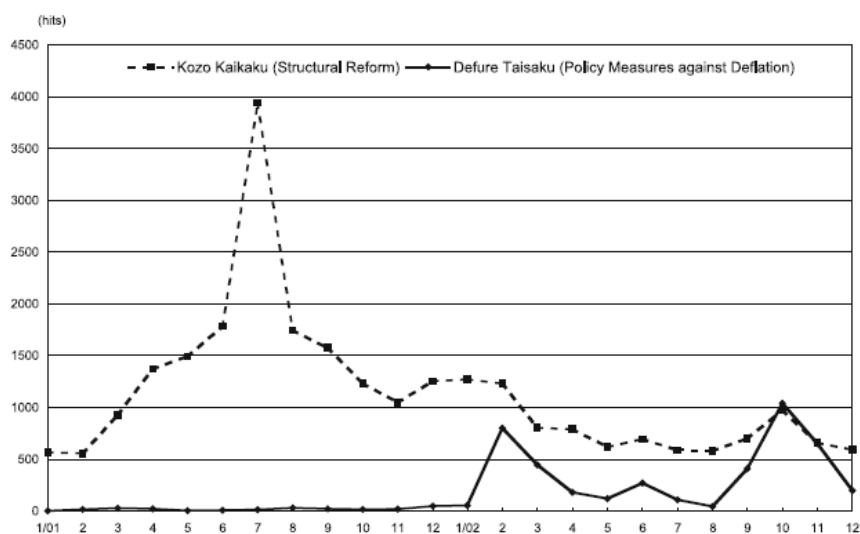


Fig. 5 Hits per month of the term “Kozo Kaikaku (Structural Reform)” and “Defure Taisaku (Measures against Deflation)” in the five biggest Japanese newspaper, *Asahi*, *Mainichi*, *Yomiuri*, *Sankei* and *Nikkei* by Nikkei Telecom 21 database

The economy started to recover slowly from the early 2002, which led to the gradual appreciation of Yen. The MOF asked the approval by the U.S. Treasury to intervene to the exchange market: the then-undersecretary of the Treasury John B. Taylor was concerned with deflation in Japan, allowing massive intervention by the MOF (Taylor 2007, 286-287). Also, unlike Hayami, Governor Toshihiko Fukui, newly appointed in March 2003, was more cooperative toward the government.⁸ Emphasizing the significance of the QE, he raised the target amount of demand deposits of the BOJ successively, continuing the QE: along with the foreign exchange intervention, it halted the appreciation of Yen and stabilized it around 1US\$=110 Yen.⁹ On the issue of February 14, 2004, *The Economist* newspaper named Fukui as the world’s best central banker above Alan Greenspan and Jean-Claude Trichet, for his continuation of the QE.: in the same article, Hayami was named “possibly the world's worst central banker” (*The Economist* 2004).

⁸ Fukui was a graduate of the Faculty of Law of the University of Tokyo, 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 of scandals of his subordinates.

⁹ 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).

III. Clash of Ideas

The economic controversies during the Great Stagnation were fiercely fought, involving a wide variety of people from policymakers to academic and business economists, to the media people, and to the general public. Crisis involves crisis in the existing knowledge and policy, and in the time of economic crisis, there emerges competition among economic ideas (Congleton 2004). The focus of controversies changed considerably over time, yet once can discern the recurrence of several dominant ideas. According to Asahi Noguchi of Sensyu University, who surveyed the economic controversies from the late 1980s to the early 1990s meticulously, “upon reviewing the policy discussions during the Great Stagnation, what strikes me is the fact that the same pattern of disagreements has emerged over and over again in a different context” (Noguchi 2005-6, 1st installment, 35; Noguchi 2012). That same pattern is the conflict between two contending views of the economy, structural view vs. macroeconomic view.

In the early 1980s, period leading up to, and after the Plaza Accord, the focus of economic discourse was international coordination of macroeconomic policies. The dominant preoccupation at that time was the increase of “domestic demand,” and the “transformation from export-led power to domestic demand-led livable power” became the slogan. The most representative document was the report by Prime Minister Commissioned Study Group on Adjustment of the Economic Structure for International Cooperation, the so-called Maekawa report published in 1986. Its influence was long-lasting and far-reaching. It should be noted that this report used the word the “economic structure” in its discussion of current account imbalance. The report was severely criticized by Ryutaro Komiya, then professor of economics at the University of Tokyo. He pointed out the current account surplus of Japan and the current account deficit was the reflection of the saving over investment in both countries, so that international cooperation of macroeconomic policies was unnecessary and futile. The majority of economists embraced this Report, however, and those who questioned it remained as a minority.

In the early 1990s, Japan’s recession became obvious to most economists, and the first controversy erupted over the appropriateness of macroeconomic stabilization policy. Three issues were discussed during this phase. The first issue was the desirability of policymakers’ responses to the bursting of the Bubble. With the accelerating deleveraging induced by decrease in asset prices, people began discussing the “Balance Sheet Recession”. However, some economists did not want government and

the Bank of Japan to engage in macroeconomic policy to counter deleveraging. One Yukio Noguchi, then professor of economics at the University of Tokyo, opposed macroeconomic policy, advocating a continuation of monetary contraction even in 1991. His 1992 book entitled *Baburu no Keizaigaku (The Economics of Bubbles)*, a best-seller, was written on the premise that bubbles were not only detrimental to the economy but also moralistically evil: “A society which does not reward industrious labor properly is a wrong one. The Bubble brought us a wide variety of evils, but the most serious one was that people’s values went mad by an extraordinary rise in asset prices. Many corporations became too much absorbed in financial transactions, going astray from its proper corporate mission to real estate investment. The assets of those who happened to have land and stocks from the past ballooned to several thousand million yen without effort, while workers in general were put into a situation where they could hardly afford to buy a house to live even though they work hard for life. All of these denigrates the integrity of work” (Noguchi 1992, 2). The moral tone of his writing is striking. Though he analyzed the economic forces leading up to the Bubble from macro and micro-economic perspective including distorted financial liberalization, low interest rate policy, and overemphasized fiscal consolidation, and he admitted that a bubble could not be eradicated in a market economy, he nonetheless demanded the authorities to pursue contractionary macroeconomic policy not to repeat the same mistakes of engendering a bubble.

Second, there emerged another type of argument against macroeconomic policy. Masaru Yoshitomi,¹⁰ then Director of Economic Coordination at the Economic Planning Agency, defended the government’s initial policy in 1991: Yoshitomi was instrumental in devising the plan. His defense revealed a common view of what is later known as liquidationism (De Long 1990): he not only defended the government policy from the criticism of being too little too late, but also argued for the necessity of recession after the boom. Instead, what he envisioned was the self-sustaining recovery led by private sector’s Schumpeterian technological and managerial innovations (Yoshitomi 1991). His view was not surprising since he studied Marxian economics, writing his thesis on the Great Depression in the U.S from a Marxian point of view (Yoshitomi 1965). Also he was typical among the Japanese economists in his reference to Schumpeter, as we shall see later. Takahiro Miyao, then at Tsukuba University, debated with both Noguchi and Yoshitomi. He was worried about the massive deleveraging induced by a sharp fall in

¹⁰ He was born in 1932 and received his Ph.D. 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.

asset prices. Naming the ongoing recession as the “asset price deflationary recession,” or the “balance sheet recession,” he criticized the government’s slow reaction to the recession. He further criticized the government and the BOJ’s deliberate “Baburu Tsubushi (bubble crashing)” as they initiated sharp asset price deflation (Miyao 1992).

Thirdly, during this period, money supply fluctuated dramatically, its growth rate plunging to the lower rate, and from the late 1992 to early 1993, the controversy over the behavior of money supply and its economic significance erupted. It would be later called “Iwata vs. Okina” Controversy, or the Money Supply Controversy, which marks the beginning of a long series of debates regarding monetary policy and the Bank of Japan. It was initiated by Kikuo Iwata, well-known economist and former student of Komiya’s, who attacked the BOJ for inappropriate monetary policy conduct: first, the BOJ emphasized the stability of policy rate, allowing the unnecessary fluctuations of money supply, which led to the violent fall of stock and land prices and subsequent downturn; second, the policy rate was determined inappropriately aiming at the wrong targets including the exchange rate and the asset prices; third, the BOJ should change the policy target from policy rate to monetary base (Iwata 1992a, 1992b, cf. Adachi 2003, Noguchi 2005-6, 2012). Kunio Okina, Graduate of the University of Tokyo, Chicago Ph.D., and prominent BOJ economist, who were to become the Director of the Institute for Monetary and Economic Studies of the BOJ, defended the BOJ policy by explicating the “BOJ theory”. This entailed that the BOJ would control the reserve at the short-term money market, controlling first the short-term interest rate by announcing implicit target rate to the market, thereby controlling the money supply. He further argued that abandoning the “BOJ theory” would lead to the great disturbances in the short-term financial market, and thus to the confusion of the Japanese economy itself. He also argued that there was no empirically stable relationship between base money and money supply, therefore money supply could not be controlled by base money (Okina 1992a, 1992b). As we shall see later, this was the continuation of the debate between Komiya and Toyama, albeit a more sophisticated one.

From the mid-1990s to the late 90s, the focus of the debate shifted to “structural reform,” but the precise meaning varied from commentator to commentator. It largely refers to bad loan problem, deregulation, and rigid Japanese economic “system”. Once the Japanese economic system was hailed as the best-performing in the world, generating a great deal of literature on it up until the mid-1990s, but the tide turned completely reversed. At the same time, deflation became the center of the debate, with or without consideration of its relation to “structural factors” including bad loan problem. One representative argument was presented by Sota Kato and Keiichiro

Kobayashi, both at the Ministry of Economy, Trade, and Industry. Using Blanchard and Kremer's disorganization idea (Blanchard and Kremer 1997), they argued that what happened was the disruption of supply networks by the emergence of bad loan problem: firms became distrustful toward each other (Kato and Kobayashi 2001, Kobayashi and Inaba 2005).

Economic Debates about Japan's Great Stagnation was the first Global Economic Debate. Unlike the other episodes of the Japanese macroeconomic management, this one attracted considerable amount of attention from abroad. As Gillian Tett of the *Financial Times* observed in 2004, "Indeed in recent years, the country's problems have become akin to a bizarre laboratory test tube for Western economists" (Tett 2004, 321). It should be noted that foreign commentators were also divided on the causes and remedies of the Great Stagnation. For example, Richard Katz and Edward Lincoln argued it as a system-wide failure to adapt to the new economic environment (Katz 1998, Lincoln 2001). Edward Kane of Boston College was one of the first to warn delayed responses to bad loan problem, based on the U.S. S & L banking crisis (Kane 1993). Later, Anil Kashyap of the University of Chicago, together with Takeo Hoshi of the University of California, San Diego, emphasized the problem of banking sector, connecting lending to the Zombie firms with bad loan problem (Hoshi and Kashyap 1999).¹¹ However, what became the most long-lasting contribution came from macroeconomic analysis by foreign commentators. Jeffrey Sachs, then at Harvard University, currently at Columbia University, took notice in malfunctioning of the Japanese economy, writing an article for November 27, 1995 in *Nihon Keizai Shimbun*, advocating more vigorous expansionary macroeconomic policy including purchasing the foreign government bonds to boost the economy.¹² Adam S. Posen, a senior fellow at the Peterson Institute for International Economy, advocated expansionary macroeconomic policy (Posen 1998; Kuttner and Posen 2001). His diagnosis was straightforward: the slowing down of Japan's growth rate was not a "structural stagnation," but a result of "macroeconomic mistakes". Although he devoted more on the efficacy of fiscal policy, an opinion very unpopular at that time in Japan, he nonetheless did not fail to endorse a more expansionary monetary policy as well; after all Posen was one of the first to recognize the importance of inflation targeting (Bernanke et al. 1999).

The most powerful argument came from Paul Krugman: based on a standard modern macroeconomic theorizing his 1998 paper demonstrates the following: it is

¹¹ At the same time, Hoshi supported expansionary monetary policy using inflation targeting (Arai and Hoshi 2004).

¹² As a friend of Heizo Takenaka, he assured Takenaka of the appropriateness of "Structural Reform" policy when he visited Japan in May, 2001 (Takenaka 2006, 252).

assumed that the real equilibrium interest rate required to generate enough demand to achieve full-employment level output was negative due to the aging and decreasing working population and dysfunctional financial sector; the nominal interest rate cannot be negative; the “liquidity trap” can be redefined as the situation in which nominal interest rate was lowered to zero, but real interest rate remains to be high due to the deflationary expectation; therefore the BOJ should announce the “long-term commitment to inflation,” therefore it should work on generating inflationary expectation; lastly, the BOJ purchase of long-term government bonds would be a good signal to its commitment as long as 4% inflation targeting for 10 years (Krugman 1998a, Adachi 2003, 95-96).¹³ Critics questioned Krugman’s assumption of negative real equilibrium rate, although this is not necessarily the required condition: what is needed is the persistent discrepancy between nominal and real interest rates due to the zero lower bound of nominal interest rate. Also Krugman’s assumption should be interpreted as a rebuttal of the proponents of “structural reform”: a negative equilibrium rate was assumed not necessarily because Krugman believed that was the case, but because he wanted to show that a reflationary monetary policy was effective even under the assumptions which the Structural Reform proponents often made. He later rephrased his insights in a more familiar IS-LM framework (Krugman 1998b): Japan’s problem was macroeconomic demand shortage so that the necessary remedy was expansionary macroeconomic policy. It is not surprising that he described Takenaka’s policy of “Kozo Kaikaku” as a “leap in the dark” (Krugman 2001).¹⁴

Another plan was proposed by Lars Svensson, then at Princeton University: the BOJ, together with the government, should set the target Yen/Dollar exchange rate temporarily at the depreciated level of Yen which corresponded to the desirable price level, using purchase of foreign government bonds. Once the target level is achieved, the BOJ could switch to the ordinary inflation target (Svensson 2003). More monetarist or the quantity theoretical line were taken by Robert Hetzel, economist at the Richmond Fed (Hetzel 1999, 2004), and Bennett T. McCullum of Carnegie Mellon University (McCullum 2001a, b), with its emphasis on monetary and nominal GDP growth rates. Yet another proposal was made by Ben S. Bernanke, then another Princeton University professor. Although he admitted that the Japanese economy had several structural

¹³ For the concept of the liquidity trap in the history of macroeconomic thought, see Boianovsky 2004.

¹⁴ 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).

weaknesses including the rigidity of the banking sector and other sectors, he argued that the BOJ could cooperate with the government more productively. His specific proposals included the BOJ's commitment to the ZIRP with the explicit inflation targeting, the depreciation of Yen which is similar to the Svensson plan, and a money-financed transfer. He concluded that "To this outsider, at least, Japanese monetary policy seems to be suffering from a self-induced paralysis. Most striking is the apparent unwillingness of the monetary authorities to experiment, to try anything that isn't absolutely guaranteed to work. Perhaps it's time for some Rooseveltian resolve in Japan" (Bernanke 2000, 165).¹⁵ When Bernanke became the Governor of the FRB in 2002, he articulated the basic strategy of the FRB not to repeat the mistakes of the BOJ and the FRB of the Great Depression years (Bernanke 2002, Ahearn et al. 2002, Wessel 2009).

Their proposals are based on the development of modern macroeconomics, and have developed it further in three respects. First, they are based on modern macroeconomics of the New Keynesian variety which consists of new IS-LM analysis coupled with and new Keynesian Phillips curve. Secondly, with Japan's policy rate reaching to zero during the 1990s, economists have turned to the question of optimal monetary policy under the zero interest rate lower bound: in the process, Krugman resurrected the notion of the "liquidity trap" in modern macroeconomics. Thirdly, inflation targeting which had become adopted by the central banks during the 1990s as the standard policy framework came to be spotlighted: for those who emphasized deflation and deflationary expectation, the most urgent issue was how to generate inflationary expectation, thereby inflation targeting was seen as one of the most powerful tool to overcome deflation and deflationary expectation.

These discussions had a tremendous effect on the controversy in Japan. Japanese economists who had already argued for expansionary monetary policy came to embrace the Krugman proposal, with or without some hesitation. By the 2003 to 2004, those economists had become called the "reflationists," those who emphasized deflation and deflationary expectations, advocating the reflation policy of reversing deflation and restoring the modest inflationary path using inflation targeting.¹⁶ It turned out that

¹⁵ Bernanke would be later to be reminded of his words against 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, a popular enemy which appeared on the TV series *Star Trek: The Next Generation*.

¹⁶ They include Takatoshi Ito, Motoshige Ito, both at the University of Tokyo, Kikuo Iwata of Gakushuin University, Koichi Hamada of Yale University, and Mitsuhiro Fukao of Keio University. For an overview of the debate on "inflation targeting," see Fujiki 2004.

the Krugman proposal sparked more controversies and heated than ever, and the differences and divisions among the economists still remained. First, there are some Keynesian-leaning economists who were vigorously opposed to reflation policy.¹⁷ The most representative is Hiroshi Yoshikawa, professor of economics at the University of Tokyo and member of the Economic and Fiscal Policy Council which was set up in 2001 and later deployed by Takenaka to promote his policy: he developed his own theory to explain Japan's Great Stagnation arguing that it was caused by demand saturation (Yoshikawa 1999/2002). His theoretical vision was ambitious enough: he tried to integrate economic ideas of J. M. Keynes and J. A. Schumpeter in that the Great Stagnation was a result of effective demand shortage, but the fiscal and monetary policy cannot recover the economy since the demand shortage was due to its saturation. Instead, he conceived his remedy in the emergence of new industries through the "demand-generating structural reform": explicitly referring to Schumpeter, he asserted that the introduction of new goods and the development of new markets would generate more effective demand: "technical advances still contribute to economic growth via the creation of new high demand growth goods...under the demand-side model, innovation contributes to economic growth through the creation of high demand growth goods" (Yoshikawa 1999/2002, 210)¹⁸. Moreover, he was highly critical about the Krugman proposal, since he believed that it was based on modern macroeconomics and the quantity theory of money, both of which Yoshikawa firmly denied. Even so, when deflation received the most attention in 2002, Yoshikawa signed a joint appeal with others to promote inflation targeting.

Another economist is Yoshiyasu Ono, then professor of Osaka University. He also developed his own theory of the Great Stagnation. In contrast to Yoshikawa, his theory is based on standard assumptions of utility maximizing rational agents. However, there is one specific assumption in his model: the utility of holding money could be infinite, and the "love of money" becomes too powerful to overcome by monetary policy. Under such an assumption, the agents would like to demand money for an infinite amount, which leads to general oversupply of goods and services. In essence, Ono constructed a Keynesian world within a neo-classical framework. His policy prescription

¹⁷ The scope of the paper is limited to academic discussions. If we turn to business economists, there were more who supported fiscal policy, but very skeptical toward the effectiveness of monetary policy and inflation targeting. That was the case for Kazuhide Uekusa, and Richard Koo, both at the Nomura Research Institute, the largest private think tank in Japan.

¹⁸ For his model in detail, see Aoki and Yoshikawa 2002. His model should be named a Robertsonian rather than Keynesian since Robertson thought demand saturation was the cause of the Great Depression (Robertson 1937).

varied from time to time: on one occasion he emphasized expansionary fiscal policy, while on another occasion he hoped the emergence of new generation would push the economy out of the recession. But Ono remained a staunch opponent of inflation targeting since he thought the demand for money became infinite (Ono 1994, 2001, 2007).¹⁹

Although they have been influential in policy circles, Yoshikawa in particular, they are outsiders among the mainstream Japanese economic profession in developing their own theories: Yoshikawa believed that the developments since the 1970s rational expectations revolution were a complete waste of time. But the analysis by Fumio Hayashi, another professor of economics at the University of Tokyo, was different. With Edward Prescott of the University of Arizona, they offered an explanation of the Great Stagnation based on the Real Business Cycle model, according to which the shortening of the working hours in 1992 and the stagnation of the growth of total factor productivity due to heavy regulation were the two main culprits. Being firmly embedded into the mainstream, Hayashi and Prescott 2002 had a great impact on the research direction: Japanese economists turned to the analysis of productivity and its implications for macroeconomics.

By 2004, Japanese economists had held several conferences to argue their cases against each other, hoping to resolve their differences: two conference volumes emerged (Iwata and Miyagawa 2004, Hamada and Horiuchi 2004). However, it was quite clear that the deep differences and divisions of opinions had not been resolved: in the case of Hamada and Horichi 2004, even two distinguished editors could not agree on what was agreed upon in Introduction Editors' Introduction so that they had to write two separate sections of Introduction respectively. As the recovery began taking hold around 2004, the controversy waned, but it was suspended for a time being.

IV. The Shadow of History

IV. 1 Why Structural View Took Hold

Every idea has its own history. This section explores the historical roots of ideas expressed in the Great Stagnation. There are several characteristics of the economic ideas which have persisted and repeated during this period. First, macroeconomic arguments were dominated by other ideas: the most dominant idea was

¹⁹ Of course, in a real world, there is no infinite supply of money to begin with. Therefore, it is impossible to verify Ono's policy implications.

a wide variety of “Structural” view which resonated with various proposals of “Structural Reform”. Although the foci and exact topic at issue shifted throughout the period, almost everything was made related to a “fundamental” cause of the stagnation. Against this background, “Structural Reform” took many forms from the resolution of bad loan problem, change in corporate governance, deregulation, to the political electoral reform.

Second, economic arguments were dominated by non-economic arguments: moralistic argument against bubbles, the arguments against macroeconomic policy as relief, and liquidationism, were influential from the beginning to the rise of Structural Reform. As we have already seen it, Noguchi 1992 was the representative in his not only economic but also moral indignation of bubbles as evil. Thirdly, monetary policy arguments were dominated by other arguments: whenever macroeconomic case for stimulus was made, fiscal policy received the most attention; especially after the BOJ’s policy rate reached zero, the proponents of monetary policy had to confront critics.

Why did the Structural view take hold? First, the failure of macroeconomic policies in the early phase of the Great Stagnation to boost the economy reinforced the impression among the economists and the public that macroeconomic policies would not work. Heizo Takenaka’s policy philosophy echoed this sentiment:

During the 90s, economic policy involved mainly demand-stimulus policy, which should have been adopted when the economy suffers from a temporary demand shortage. This is the so-called Keynesian policy. Keynes’ theory is not wrong. But Japan since the 90s has been stagnating not due to a temporary demand shortage, but due to the serious supply-side problems such as bad loan. This was my analysis. Without solving these problems, the economy could no way recover to a proper growth path, no matter what amount of fiscal policy was engaged (Takenaka 2006, 251).

In the process, the name of Keynes and Keynesian economics received negative connotations. On the other hand, the demise of Keynesian economics was in part engineered by policymakers and economists. As two journalists reported, the Ministry of Finance resisted expansionary fiscal policy in the early phase of the recession, deliberately promoting the message that “the age of Keynesianism was over”. In the years up to the consumption tax hike in 1997, the MOF recruited several academic economists to endorse the idea of “non Keynesian effect” (Karube and Nishino 1999, 39-42).

Second, modern macroeconomics tends to strengthen that perception. The

standard workhorse model of modern macroeconomics tends to assume away a long-lasting stagnation as a long-run phenomenon. Even though the “long-run” in economics is an abstraction in which full employment of resources prevails, economists tend to confuse the abstract concept with the real time concept. Hayashi and Prescott 2002 is the prime example, and it also explains Takenaka’s thinking since he started his career as a “supply-sider” economist after the rational expectations revolution in the late 1980s. Although Takenaka did not argue against monetary policy, and indeed did advocate more expansionary monetary policy when it came to deflation, many others argued against monetary policy with the presumption that monetary forces could not explain the “long” stagnation of the economy.

Third, one may point out the Japanese characteristics, economics culture in Japan which has been formed historically.²⁰ Historically economic thinking in Japan has been dominated by two ideas, Marxism and developmentalism. Until the 1980s, the majority of academic economists was neither Keynesians nor neo-classicals: it was Marxians. Keynesian and/or neo-classical economics were called *Kindai Keizaigaku* (Modern Economics), and treated as a different type of economics.²¹ Marxian economists dominated economics departments of Japanese universities for a long time, including the University of Tokyo, arguably the most prestigious and well-funded national university in Japan.²² The situation gradually changed throughout the 1970s and 1980s, but the influence had been felt among media discourse throughout the period. Secondly, there was a strong tendency among the Japanese economists to regard the role of the state to promote economic development positively: what was first coined as Japan as a “developmental state,” and later called developmentalism, was found among some proponents of Modern Economics (Gao 1997; Noguchi 2000; Garside 2012, Chapter 3). Many academic economists took for granted the success of Japanese economic development as state-driven, the so-called industrial policy of the MITI being a prime successful example of its characteristics.²³ Thirdly, we must note the diversity

²⁰ This part is drawn on Wakatabe 2011a.

²¹ The term had already been used in pre-War period and it was reputedly influenced by Oskar Lange (Lange 1935), which was in turn inspired by Kei Shibata (Shibata 1933). See also Bronfenbrenner 1956, and Dimand and Wakatabe 2011.

²² 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).

²³ 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

of Keynesianism in Japan in post-WWII period. Here the strong presence of Marxian economics and the prevalence of developmentalism in the Japanese academic and media discourse played an important role: Keynes was accepted as someone who endorsed the role of government in the economy.

Keynesianism in Japan had more affinity with what might be called “structural” view.²⁴ Although Shigeto Tsuru,²⁵ an influential economist in the post-WWII Japanese economics academia, was not a Keynesian, his sympathy toward Marxian, Institutional, and even Schumpeterian economics showed up in his emphasis on the “structural approach” to economic problems: the Japanese economists, Marxians or otherwise, saw one of the major problems of the Japanese economy was the “dual structure of the economy,” inter-and-intra industrial disparities regarding wages and salaries. Marxian economists in turn tended to grasp the contemporary economy in terms of Monopoly Capitalism. This focus on the structure of the economy became blended with modern economics’ analytical developments of imperfect and monopolistic competition developed by Joan Robinson and Edward Chamberlin during the 1930s.

Therefore it is no coincidence that the students of Shigeto Tsuru including Yoshikazu Miyazaki, Mitsuharu Ito, and Yoshihiro Takasuka focused on the monopolistic nature of the Japanese economy throughout their careers. Miyazaki received a special attention by Morris-Suzuki (Morris-Suzuki 1989, 155-158). He wrote extensively about the significance of dominant Kigyo Shudan (Corporate Groups) in the Japanese economy.²⁶ Ito was originally a student of Sugimoto, becoming Tsuru’s after Sugimoto’s untimely death. Together they wrote a book of commentaries on Keynes’ *General Theory* (Miyazaki and Ito 1964). The book, which came out from their joint lectures and seminars, was a huge success, going through three editions and numerous reprints. It was characterized with three things: first, they sympathized more with British, Cambridge UK interpretation of Keynesianism, with emphasis on not only the

has been questioned in the recent literature. See, e.g., Beason and Weinstein 1996.

²⁴ This view should not be confused with the “Structuralist” view of South American economists.

²⁵ Tsuru was a very unique economist in Japan: he did not graduate from a Japanese university, since he was arrested by a thought police when he was a high school student. With the help of his rich family, he went to the U.S., receiving his B.A. *magna cum laude*, and Ph.D. from Harvard University before the War broke out. There he befriended Joseph A. Schumpeter, John Kenneth Galbraith, Paul Samuelson, and Paul Sweezy. After he was deported to Japan with the outbreak of the War, he assumed the role of political and economic advisor to the politicians, culminating in his post as Undersecretary of the Economic Stabilization Agency under the Occupied Japan. After 1948, he became the professor of economics at the Institute of Economic Research at Tokyo College of Commerce (later Hitotsubashi University).

²⁶ This view is recently under criticism. See Miwa and Ramseyer 2006.

multiplier and effective demand theory, but also with liquidity preference theory of money; second, they referred to and compared with Marx quite often; third, this commentary on Keynes was infused with their analysis of contemporary capitalism. Ito had already published a short book entitled *Keynes* in 1962, which became an instant bestseller and a long seller; it is still selling well (Ito 1962).

The third student of Tsuru's, Takasuka became a Marxian of analytical and mathematical bent, but his first major work was on the post-WWII inflation (Takasuka 1973). He offered a structural explanation of inflation, the so-called Seisansei Koujyo Kakusa Infure Riron (Differential Productivity Improvement Theory of Inflation). Although he never admitted to call his theory as such, this was his version of the cost-push inflation. In his theory, the key assumption was the "dual structure" of the Japanese economy: there were two types of firms in the economy, monopolistic large-scale corporations, and the competitive small firms. The corporations, so went the argument, succeeded in increasing productivity, earning a great deal of profits even though their prices were stable, while increased profits fed into an upward pressure to the wages which the small competitive firms had no choice but to transfer to their prices.

The British or Cambridge-type Keynesianism has an affinity with Marxian economics, and with "structural" approach to the economic problems. Although Cambridge economists were not entirely sympathetic to it, Joan Robinson thought that there some positive things to learn from Marx (Robinson 1942). However, Japan had not only both types of Keynesianism, British-like and neo-classical synthetic, at the same time, but also this British-like Keynesianism was homegrown: this version of Keynesianism was not a direct descendant of Cambridge Keynesians such as Joan Robinson and Nicholas Kaldor, although the proponents including Tsuru, Miyazaki and Ito displayed much sympathy towards them later.²⁷

There was a different type of Keynesianism in Japan. American Keynesianism was built around the people at the University of Tokyo. Here the effect of study networking had some influence. Studying abroad has been an important step for a Japanese economist to gain a respectable status. American-type, neo-classical synthetic Keynesian also took interest in industrial structure, although their interests reflected more of the developments in the U.S. academia such as Industrial Organization by Joe S. Bain. The most vocal promoter of Keynesian or neo-classical synthesis economics in Japan was Ryutaro Komiya, who graduated from the University of Tokyo, and worked

²⁷ Hitotsubashi University, with probable initiative of Tsuru, invited Joan Robinson to Japan in 1955.

there from 1955 to 1989. Komiya was unique in many respects. Komiya challenged implicit assumptions of the Japanese economic community. First, he challenged the pure theory-oriented nature of Japanese academia: when he studied at Harvard, he worked as an assistant for W.W. Leontief, learning the importance of empirical analysis; also he was deeply impressed with American economists' ability and willingness to apply mainstream economic tools to engage in real world issues over lunch or during a seminar, so that he was determined to apply mainstream economic tools, neo-classical synthesis, to real issues of the Japanese economy. He became a regular contributor to the column "Yasashii Keizaigaku (Economics Made Easy)," which appeared on *Nihon Keizai Shimbun* (Japan Economic Journal), the Japanese equivalent of the *Wall Street Journal*, espousing basic concepts of Modern Economics. Furthermore, he made a presentation at the annual meeting of the Economic Theory and Econometrics Association of Japan (later Japanese Economic Association) to the effect that there were too many Japanese economists whose research areas were either the methodology, the history of economic thought, pure theory or mathematical theory." Without denying their significance, he advocated more resources should be directed toward empirically-oriented research based on the logic of economics (Komiya 1960).²⁸ Secondly, he challenged Japanese modern economists' implicit cooperation with, and endorsement of government policy. He was instrumental in promoting counter-measures against the government decision to overrule the Fair Trade Commission's objection to the merger of two of the large steel companies. Two steel companies eventually became Nippon Steel in 1968. Komiya drafted a report against the anti-competitive merger: the report was cosigned by 90 economists. He also questioned a view which attributed the success of Japanese economic growth to a positive role of industrial policy and planning. In July 1971, one month before Japan was forced to abandon the peg to the U.S. dollar, Komiya together with other 35 economists proposed a gradual and piecemeal appreciation of Yen, "crawling peg". After a few skirmishes with bureaucrats, he determined not to be a member of government committee. Thirdly, he challenged the dominant Marxian economic thought in 1970: as he later recollected, there was a "cold peace" or mutual non-interference pact between Marxian and Modern economists within the Department of Economics at the University of Tokyo, which was quite natural at that time. His forty

²⁸ According to Komiya himself, this plea made a quite a splash among the fellow economists (Komiya 2008, December 14). Also see Hayakasa and Masamura 1974, 74. Komiya's plea resonated with Tsuru's similar one a decade ago: when launching *Keizai Kenkyu*, journal of the Institute of Economic Research, Tsuru as its Director lamented that economics in Japan had devoted too often to the introduction, interpretation, and commentary of economics in foreign countries (Tsuru 1950).

page long article on contemporary capitalism became a frontal attack on the ambiguous and stagnant status of Marxian economics (Komiya 1970).

Naturally Komiya came to have disagreements with Tsuru on many points, although they remained good friends to each other.²⁹ Tsuru and Komiya both appeared at the January 1st, 1971 issue of *Nihon Keizai Shimbun*, Japan Economic Journal. Into the 1970s, the issues of environmental pollution was becoming keenly felt among the general public, which were considered to be the direct consequence of the high rapid economic growth of the preceding decade. There was a surge of anti-growth sentiment, which Tsuru strongly supported. In May 1970, the *Asahi Shimbun*, the second largest and most influential newspaper, launched an anti-growth campaign, which was called “Kutabare GNP (Damn with the GNP),” to which Tsuru contributed one short article “In Place of Gross National Product” (Tsuru 1971): he thought that “The concept like national income or GNP which essentially is specific to a particular economic system is bound to be affected by the evolution and changes of that system itself. On the other hand, social life of man can be described not only in terms of a set of concepts specific to a particular economic system that society has, but also with reference to what might be called ‘the physical aspect’ which transcends differences in economic systems” (Tsuru 1971, p.xxx).³⁰ In his discussion with Komiya, Tsuru criticized “wasteful goods” such as a laughing box distinct from “basic needs” in a Galbraithian term, questioning further the appropriateness of economic growth. Komiya countered Tsuru in that all needs were socially determined and economic growth may not lead to human happiness but no growth was even worse than growth. Komiya speculated later that Tsuru never adopted Keynesian macroeconomics and remained an old, pre-Keynesian, since he never analyzed Japanese or international economic problems using macroeconomics (Komiya 2010, 291). But it is important to note that a part of Japanese Keynesianism was influenced by someone who was critical about Keynes.

As for inflation, Komiya and his associates were extremely critical toward Takasuka’s approach. They could have agreed with the cost-push approach since the classification of inflation into the cost-push and the demand-pull was a staple during the 1960s and 70s (Bronfenbrenner and Holzman 1963). Also Komiya and Hiroshi Niida relied on a cost-push analysis during the 1960s, following a similar analysis by

²⁹ It was Tsuru who took care of the family of Komiya’s at Harvard, and recommended Komiya to Leontief: Tsuru was a Visiting Professor at Harvard then.

³⁰ The book is unusual for the Japanese general reader, since it has three papers in English appended at the end of the book. This might be Tsuru’s idea since other two papers were written by John Kenneth Galbraith and Jan Tinbergen, both of whom Tsuru knew well. Tsuru was to be an advisor to the editorial board of the newspaper since 1975.

American economists (Kataoka and Wakatabe 2011). However, they were not satisfied with two features of Takasuka's theory, Takasuka's refusal to be grouped into a cost-push camp, and the validity of differential productivity improvement as the source of cost-push inflation (Niida 1963).

In contrast to the strong presence of Keynesianism, monetarism lacked strong supporters. True that Milton Friedman was introduced to Japan, being invited to Japan several times: his *Free to Choose* was translated into Japanese, becoming an instant bestseller in 1980, and there were several influential economists who advocated monetarist-like policy. Komiya's 1977 paper was a monetarist critic of the BOJ's too loose monetary policy. However, he did not call himself a monetarist, so that the dominance of Keynesianism was retained. Also the reception of Friedman in Japan was somewhat biased. He was hailed as a champion of the free market economy and inflation-fighter; his monumental *Monetary History of the United States* (Friedman and Schwarz 1963), and his view against deflation were not known among the Japanese.

Monetarism did not lack critics in Japan. Hirofumi Uzawa, once a colleague of Friedman at the University of Chicago, best known for his contributions to the theory of economic growth, came back to the University of Tokyo in 1968, having launched a series of attacks on Friedman and monetarism. With a great deal of sympathy toward radical economics movement in the early 70s, he did not hide his theoretical and ideological dislikes of Friedman. On January 4, 1971, on *Nihon Keizai Shimbun*, three days later the aforementioned Tsuru and Komiya debate appeared, Uzawa wrote a piece entitled "Modern Economics in Disarray," attacking mainstream economics. This was published before Joan Robinson's Richard T. Ely lecture at the annual meeting of the American Economic Association in December, 1971. Indeed the similarities were striking. Both knew each other well, and Uzawa had been a promoter of Robinson's works.³¹ But the contemporary historians of economic thought detected in Uzawa's critique similarities with Marxian criticisms of mainstream economics (Hayasaka and Masamura 1974, 164).³² In 1984, Uzawa wrote his own version of commentary on Keynes's *General Theory*, in commemoration of Keynes's 100th birth (Uzawa 1984). The book was a line by line account, and as such not particularly informative or remarkable for a theorist of his stature, but it did not miss a chance to snipe on monetarism. From the viewpoint of a proponent of disequilibrium dynamics during the late 70s and early

³¹ Uzawa translated Robinson 1971 in 1971, and Robinson and Eatwell 1973 in 1976.

³² Uzawa claimed that his two sector model of economic growth (Uzawa 1964) was the mathematical reexamination of Karl Marx's capital accumulation espoused in the volume II of *Das Kapital* (Uzawa 1988/1994, 147).

1980s, he attacked monetarism. But his criticisms had several peculiarities. First, he grouped Friedman, Becker, and Lucas together, calling monetarism as the extreme extension of ‘rational economics,’ economics based on pure maximizing behavior of self-interested agents (Uzawa 1986, Chapter 7). It is problematic, since as Laidler 1981, and Taniuchi 1982 had already argued, monetarism was not the same as the equilibrium macroeconomics of Lucas.³³ Ironically, a self-claimed disequilibrium theorist Uzawa failed to see the difference. Secondly, he attacked monetarism on another theoretical ground in that the quantity theory of money on which monetarism based was flawed. His criticism was purely theoretical, and it is striking that he did not refer to any empirical validity which monetarism might have. Thirdly, his own theory of inflation was a “structural” one. He considered inflation as a problem specific to the contemporary economy: in a well-advanced capitalist economy, the market mechanism is extremely and inherently dynamically unstable, and it is impossible to achieve full-employment and stable inflation rate. Especially, the constant money growth rate policy would lead to involuntary unemployment or hyperinflation if full employment is to be maintained (Uzawa 1987/1994, 28).³⁴

This history has had several implications and influences. First, economists in Japan tend to focus more on “structural” or “real” factors than on effective demand shortage and expansionary policy as its remedy. Therefore, they see “structural reform” in a decisively favorable light; even self-proclaimed Keynesians such as Yoshikawa, a student of Uzawa’s, emphasized the “real” cause of the shortage of effective demand, the saturation of demand. Second, when it comes to macroeconomic policy, fiscal policy has been preferred to monetary policy. The British-type Keynesians’ emphasis on endogenous money and its antagonism against monetarism, coupled with the old-fashioned understanding of the liquidity trap, tilted the balance against monetary policy. Monetary policy ineffectiveness has resonated with the “Nichigin-Ryu Riron (the

³³ Mitsuru Taniuchi, another Economic Planning Agency economist, received his Ph.D. from Brown University, under the supervision of Herschel I. Grossman. William Poole was also a member of his dissertation committee. Taniuchi, whose book received the Nikkei Economic Book Prize, referred to Laidler 1981.

³⁴ Later Uzawa’s criticisms of Friedman became more explicit and personal. He told the episode in which “one prominent libertarian professor” was refused by Chicago banks to sell pounds short in 1967, the episode reported in Friedman and Friedman 1997, 351. Uzawa did not reveal the identity of the professor in 1977 (Uzawa 1977/1994, 13), criticizing self-interested behavior of the professor. Later he revealed the identity in 2000 (Uzawa 2000, 179-187) with a shifting emphasis. Uzawa said that Frank Knight became so dissatisfied with Friedman that he wanted to dissociate from him. Its authenticity aside, Uzawa used his experience as a professor of economics at the University of Chicago to give credibility to his anecdotes.

BOJ theory)", the modern successor of the real bills doctrine. Yoshikawa is a staunch opponent of the quantity theory of money and monetarism: he criticized Krugman's 1998 paper since it was considered to be based on the quantity theory of money. Instead he adopts what is called Accounting Theory of Inflation / Deflation, cost-push theory.

IV.2 The Return of Old Masters

During economic debates on the Great Stagnation, the names of great economists have been often invoked: even though their usage is mainly as a rhetorical device, it nonetheless shows preferences among the Japanese economists. Historically, Keynes has been popular among the economists: Yoshikawa wrote a very short introduction to Keynes (Yoshikawa 1995). As is pointed out, throughout the Great Stagnation period, Keynes' name, or rather its association with the Keynesian macroeconomic policy, have been tarnished. It was in part because Keynes's name has been strongly associated with not only the Keynesian but also macroeconomics in Japan. As the reputation of Keynes went down, other economists became highlighted. The best favorite Great economist in Japan was Joseph A. Schumpeter: unlike in the American economic discourse, F. A. Hayek has not been referred to as often as Schumpeter. He has been popular in Japanese academic and media discussions throughout the post-WWII era. Personal connections mattered: Tsuru and other Japanese economists knew Schumpeter personally, and almost all of Schumpeter's works have been translated into Japanese. Schumpeter appealed to a wide variety of people; those who emphasized the necessity of innovation for a Japanese recovery loved to refer to him, the BOJ's governor Masaru Hayami often using the "creative destruction". Also Schumpeter's theory has been conveniently associated with a sort of economics which emphasizes the "real" rather than monetary factor. Hiroshi Yoshikawa's work is a case in point. As we have seen in Section III, he envisioned the integration of Schumpeter and Keynes.

Another economist who became more 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 deflation induced by deleveraging. It was cited by those who advocated fiscal policy including Richard Koo referred to him, but his main policy proposal of reflation policy was somewhat downplayed.³⁵ In the context of the debate in Japan, Shumpei Takemori, a professor of economics at Keio University, popularized the term "liquidationism" (Takemori 2002). Based on DeLong 1990, Takemori contrasted two

³⁵ Also Fisher's remark on 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.

views of dealing with the recession, Schumpeter's "liquidationism" and Fisher's "reflation": in the final analysis he sided with Fisher.³⁶

V. Lessons to the Current Crisis

V.1 What Went Wrong in Japan

What lessons can we draw from the Japanese experience to the current crisis? Paul Krugman said that Japan's Lost Decade was a "full dress rehearsal" for the world to be prepared for the current crisis. In one sense, it has been the case. The members of the so-called "Princeton Inflation Targeting Cabal" went on to advocate and implement reflation policy; Lars Svensson, as a Vice President of Swedish Central Bank, Riksbank, engaged in one of the most expansionary monetary policies in 2008. Ben Bernanke, as a Fed chairman, prevented the collapse of the banking sector, implementing a wide variety of unconventional measures including two rounds of the QE, although he has been criticized by his fellow Cabal member, Paul Krugman, repeatedly. Another notable commentator on the Great Stagnation, Adam Posen, became an MPC member of the Bank of England, advocating the QE most staunchly. Olivier Blanchard, who became the Chief Economist of the IMF, supported expansionary fiscal and monetary policy after the crisis, marking a departure from usual austerity stance of the IMF this time around.³⁷

What went wrong in Japan? We can list several macroeconomic policy mistakes chronologically. The first mistake happened in 1985 when the Japanese policymakers agreed to appreciate the Yen according to the Plaza Accord. It was a departure from one of proper principles of conducting macroeconomic policy: under the flexible exchange rate regime, policymakers should not target the exchange rate. The departure from it constituted the beginning of a series of policy mistakes. The second mistake was the emergence of the Bubble economy induced by expansionary monetary policy, and Japanese policymakers' deliberate attempt to burst the bubble in 1989. This mistake requires a careful explanation. The common perception was that the bubbles were necessarily bad so that policymakers should prick the seeds of bubbles. Yet it was not

³⁶ Hayek did not appear in Takemori's account. White 2008 questioned DeLong 1990's portrayal of Hayek and Robbins as liquidationists.

³⁷ He was among the first to note the slump of the Japanese economy in his textbook (Blanchard 1997, 13-14, 279-281). Probably because of his leadership, the IMF economists have now written papers critical toward "expansionary austerity". See, e.g., Guarjardo et al. 2011. Also see the 2012 *World Economic Outlook* where problems of austerity are discussed (IMF 2012).

and it is still not a consensus among the economists about the desirability and possibility of pricking the bubbles beforehand. True that a large swing of asset prices would affect the economy enormously, and the stability of asset prices is closely related to the stability of the general price level. It is debatable that the extent to which central bank should respond to a change in asset prices, but it is still “out of the question to tighten monetary policy to collapse the boom” (Jinushi 2007).

The third mistake was the inadequate responses after the burst of the bubble. Bubbles come and go, as long as we have assets, the market for assets, and people expect the future prospects to improve. What is striking about the Japanese case is its prolonged aftermath. As Reinhart and Rogoff 2009 showed, several big bubbles and their clashes happened from the late 1980s to the early 90s: they are called the “Big Five”. However, the Japanese case was exceptional among the “Big Five” in that land prices have been kept falling for almost twenty years, while they recovered in other countries. The policy reactions were too little too late, marked by a repetition of stop and go, without coordination of fiscal and monetary policy. Using the relatively good performance period from 1975 to 1985 as a benchmark policy rule, Toshiki Jinushi of Kobe University showed the following: (1) during the bubble period, fiscal policy was too contractionary, and monetary policy was too expansionary; (2) after the burst of the bubble, monetary policy became tighter since there was no room for further interest rate cut, while fiscal policy followed a usual pattern during the early 1990s, changing to an extraordinary swing from expansion to contraction to expansion again in the late 1990s (Jinushi 2007, 178). The latter extraordinarily contractionary period corresponded to the Hashimoto administration; Jinushi concluded that “faced with a large financial and economic shocks of the bursting of the bubbles and the long stagnation afterward, it was regrettable that fiscal and monetary policy were never implemented to an extraordinarily degree at the same time” (Jinushi 2007, 178-9).

The fourth mistake was on the other policy front other than macroeconomic policy. The major focus during the period was the bad loan problem. It is still debatable about the relationship between the bad loan and macroeconomic performance. During the debate the focus shifted: first it was claimed that the residual bad loan inhibited the bank lending. “Kashi-Shiburi (Unwillingness to Lend)” became the buzzword. Debt overhang and the disorganization story (Kato and Kobayashi 2001) were variations on the same theme. However, this “Kashi-Shiburi” was not detected in the empirical studies except in 1997-1998, the period of financial panic. Therefore another argument emerged: now the banks were lending too much to inefficient firms and industries so that they survived unduly: Zombie lending (Hoshi and Kashap 1999) and the “survival of

the unfit” were variations on this theme. According to the joint study headed by Fumio Hayashi (Hayashi 2007), no conclusive evidence was presented on the relationship between Zombie lending and the productivity slowdown; rather some argued “based on the available data and the literature it seems that the demand factor was more important than other factors...many policies made by the Japanese government and the Bank of Japan were mistaken not only in the Bubble economy in the early 1980s but also in the post-Bubble period of the 1990s” (Hayashi 2007, 32). However, as Kazuo Ueda, a professor of economics at the University of Tokyo and the former member of the Policy Board of the BOJ from 1998 to 2005, concisely argued, several studies showed the relationship between the productivity slowdown and the loans to the inefficient firms (Ueda 2012).

Even though its economic impacts were unclear, it was no doubt that there was a series of government’s mistakes not to deal with the bad loan problem as soon as it appeared. Especially, the MOF did not recognize the magnitude of the problem, postponing and prolonging the necessary measures to deal with the problem. According to Yoichi Takahashi, who was at the MOF during the 90s closely involved in the bad loan problem, the bad loan problem has two players, the banks and the MOF as a regulator. During the early 1990s, there was no proper understanding of how to deal with the bad loan on the side of banks, while the regulator could not monitor the banks (Takahashi 2000, also cf. Muramatsu 2005). In this sense, there was a clear failure, yet its macroeconomic implication is not clear.

V.2 Learning Lessons

Before we draw lessons from history, we must point out differences as well. The first and foremost, unlike the Japanese experience, the current financial crisis unfolded really fast since the summer of 2007. Initial reactions were fast as well: financial panic was contained despite some delays. Rather, faced with their quick development, policymakers had no choice but to act swiftly. Unlike Japan, the U.S. policymakers have largely avoided miscommunication between government and central bank. In the case of Japan, the intra-governmental co-ordination has failed: Secondly, Deflation has been prevented in major economies. One may well argue that the measures were inefficient or insufficient, but the fact remains that central banks all over the world—other than Japan— have succeeded in stabilizing the inflation rate in the wake of crisis. Also, economics cultures are different: the American economists are more policy-oriented than the Japanese economists.

However, several similarities have emerged out of this current economic crisis.

The biggest similarity of all is the increasingly diverse and divisive nature of economic debates. The current discussion now turns to the responses to the aftermath, but the discussion also has been revolving around the causes of the crisis. First, economists have been divided on the causes of, and the remedy for, the current crisis in a fundamental manner. Broadly speaking, there are three groups of economists, those who believe in macroeconomic policy as remedy including Paul Krugman (Krugman 2012), those who do not believe in macroeconomic policy as a remedy (Rajan 2010, 2011, Taylor 2009, 2012), and those who see the whole events as a “natural course of events” (Reinhart and Rogoff 2009). Paul Krugman rephrases his diagnosis and prognosis, based on those of the Japanese economy: he now advocates a large-scale fiscal stimulus combined with a higher inflation targeting of 4%.³⁸ On the other hand, Rajan points out several underlying “structural imbalances” in the World economy including the “global imbalance” and increased income disparity (Rajan 2010), arguing that expansionary monetary would lead to a distortion of efficient allocation in the financial market (Rajan 2011). William R. White, former economist at the Bank of International Settlements, and now at OECD, warns about the unintended consequences of “ultra easy monetary policy,” a message very similar to the one that could come from the Bank of Japan (White 2012). In fact, White refers to the papers of Masaaki Shirakawa, the current governor of the BOJ favorably. Although he supports expansionary fiscal policy, he is quite pessimistic about monetary policy. Tyler Cowen does not oppose to macroeconomic policy; in fact he endorsed the two rounds of quantitative easing by the Fed. But he advances the Great Stagnation hypothesis, according to which the current crisis is not a temporary, short-term cyclical phenomenon, but a long-term stagnation due to the lack of “low-hanging fruits,” e.g., new opportunities of knowledge generation including education and innovation.³⁹ Carmen Reinhart and Kenneth Rogoff claim that the current great recession is as big as the big five historical crises so that it would be natural to take more than three years to recover (Reinhart and Rogoff 2009).⁴⁰

³⁸ Krugman seems to be emphasizing more the necessity of fiscal policy than he recommended to Japan before, but he had already stated the role of fiscal policy in his 1998 paper.

³⁹ When asked about his view on the Japan’s Great Stagnation, he responded as follows: “I don’t think the Bank of Japan has done a great job but monetary policy cannot be the main cause of a 25 year downturn. Ultimately that has to be driven by the real economy, and by productivity slowdowns, in my view. For instance Japan hasn’t had anything like a new Sony or Toyota and even the product lines of those companies don’t seem as fresh anymore. Keep in mind that the late 19th century also had deflation but it was a time of very real growth” (Personal communication, May 31, 2011).

⁴⁰ This does not preclude any policy proposal from them. Rogoff has been advocating

Against this background, the greater division within the profession emerged, modern macroeconomics vs. the “old” macroeconomics. The usefulness of the IS-LM has been questioned, as has been that of modern macroeconomics. As the recession goes on, the usual method of the H-P filter has been questioned: it is problematic since it assumes away the long-lasting recession (Krugman 2012b). It should be noted that it is misleading to say that Krugman uses only the IS-LM analysis since Krugman developed models in line with the modern macroeconomics (Krugman 1998, Krugman and Eggertson 2012). What is at issue is which model captures the “essence” of macroeconomics: the defenders of the IS-LM think that it already captures what is needed to understand the macroeconomy at least at the current juncture, while the critics believe that it has flaws and limitations not to be rescued.⁴¹

Secondly, even among the economists who are likely to support more expansionary policy, the division has become visible. Joseph Stiglitz concentrates more on the underlying causes of the recession, in his case the increasing income and wealth inequality, a concern he shares with Rajan (Stiglitz 2012). Jeffrey Sachs, who advocated the depreciation of the Yen for Japan as early as 1995, criticized Krugman as a “crude Keynesian”: “Paul Krugman defends crude Keynesianism as if we’ve learned nothing in recent years about the severe limitations of short-term fiscal stimulus....In Paul Krugman’s telling, we are in the 1930s. We are in a depression, even though the collapse of output and rise of unemployment in the Great Depression was incomparably larger and different in character from today’s economic stagnation....In Krugman’s simplified Keynesian worldview, there are no structural challenges, only shortfalls in aggregate demand. There is no public debt problem” (Sachs 2012).⁴² The accuracy of his description aside, the emergence of this division is quite striking.

On the other hand, Krugman has been criticized by the economists who emphasize the power of monetary policy. The so-called “market monetarists” have emerged⁴³: Scott Sumner of Bentley University along with David Beckworth, and Nick Rowe have argued that the cause for the great recession was the Fed’s policy mistake in

setting higher inflation targeting of 4 % (Rogoff 2008).

⁴¹ Robert Gordon argued that pre-1978 macroeconomics could do a better job than post-1978 modern macroeconomics in that the former acknowledges disequilibrium, non-market clearing situation (Gordon 2009).

⁴² Sachs already started his attack on February 6 when he appeared on Bloomberg TV show on February 2012.

<http://www.bloomberg.com/news/2012-02-09/columbia-s-sachs-says-krugman-is-crude-keynesian-on-spending-tom-keene.html> For Krugman’s response, see Krugman 2012c.

⁴³ The term was coined by Danish economist, Lars Christensen (Christensen 2011).

2006 to contract the nominal GDP, advocating the nominal GDP targeting to return to the normal nominal GDP trend path. Unlike Keynesian-leaning economists, they tend to see the government and the Fed as a cause of the recession. By contrasting the Market Failure View with the Policy Failure View, Robert Hetzel of the Richmond Federal Reserve sides with the latter (Hetzel 2012). Also they reject the notion the “liquidity trap”: monetary policy is still effective even when the short-term interest rate reaches zero. In their belief in the rule-based monetary policy, and rejection of the “liquidity trap,” they are the intellectual descendants of Milton Friedman, yet they do not emphasize the money supply growth rate as Friedman did: rather they consider the price of nominal GDP futures as an alternative policy target. In this sense, they call themselves “market” monetarists.

Thirdly, the ideas of “old masters” returned: Keynes made a comeback, so did Hayek. They are not only contrasted in a new textbook on the history of economic policy ideas (White 2012) or in a book-length popular treatment (Wapshott 2012), but also in popular two video clips.⁴⁴ In the opening page of his paper, William White contrasts Keynes against Ludwig von Mises.⁴⁵ Not only liquidationism but also the gold standard mentality might come back, as is shown in a certain political support for it within the Republican circle.

As what at stake is high, the whole discussion is becoming heated and politicized. One cannot be absolutely certain about the extent to which economic controversies and debate contributed to the slow and sluggish recovery of the American and European economies. For the policymaking process is too complicated to be influenced by economic ideas alone. But if there is anything one can learn from Japan’s Great Stagnation, the division among the economists would not help the policymaking.

VI. Conclusion

Some might argue that controversies in Japan’s Great Stagnation are peculiar to Japan: after all, Japanese economic academia and media have been strongly influenced by Marxian, developmentalism, and Japanese style Keynesianism as this

⁴⁴ One could see on You Tube Round One (<http://www.youtube.com/watch?v=d0nERTFo-Sk>) and Round Two (<http://www.youtube.com/watch?v=GTQnarzmTOc&feature=fvwrel>).

⁴⁵ Here is the quote from Mises: “No very deep knowledge of economics is usually needed for grasping the immediate effects of a measure; but the task of economics is to foretell the remoter effects, and so to allow us to avoid such acts as attempt to remedy a present ill by sowing the seeds of a much greater ill for the future”.

paper has shown. The Japanese economists have grown up in a particular cultural environment in which they seek to “structural factors” and downgrade the importance of money. Moreover, seemingly the policymakers in the U.S. and European countries largely have avoided the mistakes of Japan in its initial stage. In this sense, one may argue that the Japan’s Great Stagnation was a uniquely Japanese phenomenon.

On the other hand, one may discern universal patterns. When the recovery was still at the early stage, the European governments have engaged in austerity measures out of fear about the accumulated debt and deficit: the end result was more accumulation of debt and deficit. The word “zombie banks” has surfaced in the U.S. economic discourse, and the public outcry for punishing bankers has become louder (Onaran 2011). Some people are beginning to worry about the possibility of further monetary expansion leading to a bubble.⁴⁶

The development is similar. Ironically, it is in these confusions and mistakes that one can see the clear case for human universals. There seems to be a universal pattern to crisis responses to economic crises. As Roger E. Congleton of George Mason University argues, any crisis involves a crisis in the existing, established ideas and policy: a very fact that crisis happened cast a grave doubt on the legitimacy and usefulness of the existing ideas and policy (Congleton 2004). This would open up a competition of ideas to claim to replace the existing ones. According to this view, the controversies and debates are the necessary reactions to the crisis. Also, this is all the more for social sciences in which old ideas almost never die and major differences have never been resolved: no one in Japan expected that liquidationism would make a comeback. Controversies and debates would never cease as far as the crisis continues. If we paraphrase an old saying, old ideas never die out; they just fade away—for a while.

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⁴⁶ On this matter, see Cowen 2012’s rebuttal.

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