

# Figuration of the Japanese Economy: How Accounting Contributed to the Miracle Growth

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## Abstract:-

This is a case study of the dissemination of internationally standardized accounting to a nation where standardized accounting was hitherto only loosely practised under domestic conditions. Soon after World War II, a growing interest in socio-macroeconomic management, rather than microeconomic or corporate governance, accelerated the implementation of standardized accounting in Japan. In order to make ambiguous delineations of the economy and its constituent firms intelligible, official and governable, both national and corporate financial accounting came to occupy an important position as a formal mode of statistics and management. The actors were the officials of the Allied Powers, economic statisticians and academic accountants; whose motives, political manoeuvres and consequences are here reconstructed based on the primary archives of and interviews with those who were directly involved in this accounting revolution which changed the courses of the economy by developing “statistical habits of thought” among the Japanese. In order to clarify the relevance of this history to present day international accounting issues, a few comparative references are also made to the recent development and implementation process of International Accounting Standards and International Financial Reporting Standards (IAS / IFRS).

## Keywords:-

Epistemology of the economic reality,	History of Japanese accounting and statistics,
Social construction of economic reality,	Politics of regulation and implementation process
Philosophy of economics and accounting,	International accounting standards – IAS
National accounting and economic growth,	International Financial Reporting Standards - IFRS

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# Part I

## 1 Introduction

Only a little more than half a century ago, soon after the Pacific War, the United States (hereafter the US) occupied Japan with plans to reconstruct Japanese industries and economy (Over-all Economic Effects Division, The US Strategic Bombing Survey, 1946, 1950). However, the US missions ran into initial difficulties; there were no intelligible pictures of the individual companies, industries and macroeconomy upon which they intended to restructure. The first report of the Research and Statistics Division, Economic and Statistics Section, General Head Quarters of the Allied Powers, *Weekly Summary of Economic Conditions*, reflected on such lack of data as follows:-

Owing to the lack of relevant statistics for the time being, for this first issue of the *Weekly Summary* (of *Economic Conditions*), we have contented ourselves with mere summary statements without figures in most cases. We are hoping, however, to be able to present in due course more or less complete weekly statistics on economic conditions of this country, substantiating our observations with statistical figures whenever such is found possible (Research and Statistics Division, ESS, GHQ, Allied Powers, October 21-27, 1945, Cover page.).

However, the figuration of the Japanese economy proved to be difficult. The lack of data was due not only to the chaos caused by the War, but also to the traditional and intrinsic mode of Japanese accounting, statistics and management. Later, Michael Sapir, one of the US statistical mission officers, reflected upon this:-

Even before the war Japanese data on corporate profits were grossly inadequate. The operations of the *Zaibatsu* and large family concerns – dominating the industrial, commercial and financial affairs of the country – were largely *a well-kept secret*. The corporate business tax law of Japan is so weakly designed and administrated that the returns are of virtually no use for analytical work. Finally, *standards of accounting are notably lax in Japan; there is no profession of certified public accountants, no real requirements for accountability of Japanese corporations to the stockholders or the government*. As a result there is general lack of uniformity in the concepts and methods used in business accounts (Sapir, July 1947, p.14; emphases added).<sup>1</sup>

Nevertheless, within only five years after the end of the War, almost all the important foundations of both national and corporate accounting came to be into place. This included the introductions of central Statistics Law, national accounting framework in the first *Economic White Paper*, the Japanese Generally Accepted Accounting Principles (hereafter GAAP), the first statutory auditing based on the *Audit Standards*, standardized textbook of double-entry bookkeeping and standardized school curricula, Tax reform mission, etc..., which turned out to be important pillars of subsequent courses of the Japanese firms and economy, including the so-called “miracle growth”. What follows is a reconstruction of such accounting revolution, which will be examined from a viewpoint of “Accountics” - the idea and efforts to manage national economy based on standardized accounting.<sup>2</sup>

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<sup>1</sup> This paper utilises the views of those who were directly involved in the accounting reform, which does not deny the possibility of alternative views of others. Similarly, this paper does not claim that the reformers’ views were generally “true” or “real” in any transcendental sense. The reformers’ views are important, however, because they were, at least, politically utilized truth against which the subsequent reforms were carried out.

<sup>2</sup> “Accountics” (or “Political Accounting”) was a term that Kiyoshi Kurosawa (see below for Kurosawa) used, perhaps just only once without defining what exactly he meant by this. Following the common terminology in economics, “Political Economy” (that is management of a national economy by economics and politics),

### Literature Review:

Unlike the traditional and perhaps still dominant view of representationism, Hines (1988) reflected on the role of financial accounting from a constructivist viewpoint, through an allegorical catechism, concluding that “we construct reality”. In the so-called constructivist and relativist literature, researchers often concentrate on the rhetorical and constitutive aspects of accounting in organisations (e.g., Burchell *et al*, 1985; Hopwood, 1989; Morgan, 1988; Morgan & Willmott, 1993; Robson, 1992; Klamer and McCloskey, 1992). They assert that an application of new accounting can change the “visibility” of organisational reality leading to the changes in operations of the organisations. In some areas of research, such as that of public sector accounting, terms such as “visualisation” and “construction” have now come to be substantiated with concrete empirical evidence (e.g., Chua, 1995; Guthrie, 1998; Broadbent & Laughlin, 2002). In financial accounting research, however, researchers have rarely analysed concrete rhetoric of accounting in detail. With regard to macroeconomic and societal effects of the rhetoric, in particular, only a few have articulated constitutive aspects of accounting based on detailed empirical evidence (Bryer, 1993, 2000a & b, 2005; cf., Miller, 1986, 1990, 1994; Miller & O’Leary, 1987; Miller and Rose, 1990). Suzuki (2003b) recently attempted to illuminate the history in which British economists and accountants co-operated to develop national income accounting and corporate accounting in the 1940s which became an implicit but solid foundation of the Keynesian macroeconomic revolution (Stone, R. Joint Sub-Committee of Accountants and Economists, 26th March, 1947). The following is a similar case study based on the Japanese environment.<sup>3</sup>

Japan’s case is of particular importance, as it clearly illustrates the diffusion of the standardized accounting as part of the international movement: from Britain via the US to Japan, where standardized accounting was hitherto only rarely practiced. One of the weaknesses of the traditional constructivist and relativist argument was that they failed to explain why, among other modes of economic descriptions or inscriptions, accounting, in particular the Anglo-American accounting framework, has grown as an outstandingly popular instrument of economic administration in the latter half of the 20<sup>th</sup> century. Indeed, in almost all advanced economies, standardized accounting has come to be utilised as most popular and official data of corporations, local and national governments, international and supranational organisations, etc., notwithstanding that other modes of economic presentation and discourse had occupied important positions in economics before 1930s (Cairncross, 1988; Bray & Stone, 1948; Suzuki, 2003a). From such a viewpoint of epistemology of economic reality, the similarity and relatively standardized characteristics seem to be the most obvious but relatively neglected feature of accounting that may have been implicitly shaping the mode of

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Accountics in this paper refers to management of a national economy by the standardized accounting framework which provides the public with epistemic and managerial consonance by generating autonomous and official data of macroeconomies. See Section 7 for more details.

<sup>3</sup> One of the reviewers of this paper suggested investigating a possible case that accounting reform was accelerated by the US officials in avoidance of the same mistake in the calculation of the war reparations in Germany. Certainly it was an important part of the history in Japan, too. There is a large volume of documents in the NARA archives which were produced through the process of reparation calculation based on government, industrial and company financial records. The result was similar to that of Germany. However, the in the conclusion of the report titled, “Preliminary Study on Japan’s Reparations,” the emphasis was placed on the ‘generous forgiveness’ in order to rehabilitate the devastated war economy, rather than the strict collection based on the accurate data, which comes in line with the subsequent activities of the US military to foster the democratic economic forth in Japan (anon. December 3, 1945, p. 16).

modern economic and corporate governance (Hopwood, 1989, p. 14; Miller, 1986, 1990; Miller, & O'Leary, 1987; Miller & Rose, 1990). In this way, if accounting is functioning as a *lingua franca* of modern economic society, we may direct more attention to the international (and to some extent inter-temporal) isomorphic and standardized features rather than relatively minor international differences.<sup>4</sup> Suzuki (2003a) has already attempted to examine the mechanism of accounting diffusion, drawing on theoretical notions such as numerical notations, standardized form of accounts, regulation, education, professionalisation, indoctrination and so forth. This paper examines this international diffusion mechanism further by integrating such theoretical notions with concrete empirical evidence from Japanese accounting history.

From such a perspective, this paper differentiates itself from the existing literature on Japanese accounting that examines the cultural idiosyncrasy of Japanese financial reporting. Drawing on detailed commentaries on the regulatory texts and institutional formation, which are compared historically and internationally with accounting in Germany, the United Kingdom (hereafter, UK) and the US, substantial knowledge has been accumulated as to why this disharmony and peculiarity of Japanese accounting have occurred (e.g., Harrison & McKinnon 1986; McKinnon, 1986; Fujita, 1966, 1991; Cooke & Kikuya, 1992; Choi & Hiramatsu, 1987; JICPA, 1984-, 1989; Lowe, 1990; Kawamoto, 2001; See Chiba 1998, 1999a-e and 2001 for detailed illustrations and for efforts to demystify the often presumed relationship between US and Japanese accounting.). Such efforts have been of much interest for many international accounting researchers, and are certainly successful in their own terms. However, this achievement seemed to have entailed some occasional side effects. For instance, the extensive commentaries on the regulatory *texts* may direct readers to understand Japanese financial reporting quite exclusively in relation to the Anglo-American rationale of stewardship and accountability, which can blind them from wider contexts and other purposes in which the post-war Japanese financial system was swiftly established.<sup>5</sup> This paper, instead, shifts attention to the wider context of socio-economic management and the underlying pragmatism to realize economic management based on standardized accounting.

#### Aim, Data and Method and Structure of the Paper:

By positioning the potential contribution of this research in relation to the existing literature, the main objective of this paper should be already clear in general terms. In the following,

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<sup>4</sup> There is no contradiction or conflict between the research that examines accounting in the culturally specific settings and the research that examines isomorphic nature of accounting across cultures. It is only the purposes and foci of the studies that are different. The "isomorphic" and "standardized" here refer to the similarity common to the form of accounts, financial statements, regulatory framework based on the notion of accountability and credited official uses of accounts that may have been implicitly shaping the mode of modern economic governance. In this paper, post-war Japanese financial accounting is considered to have been transformed into "standardized" to the degree that business and economic discourses have come to be practically possible owing to such isomorphism that leads one to believe that they refer to comparable economic entities.

<sup>5</sup> Risks of research that excessively depends on the literal and comparative readings of regulatory texts should be clearly noted. Without a correspondingly detailed examination of historical context and practice in which modern Japanese accounting was established, interpretation of regulatory texts can undermine the understanding of Japanese financial accounting history. It should be noted that actual practices are often different from what is supposed to be practised under a regulation (e.g., pre-war Japanese accounting regulations and practices). Furthermore, as will be illustrated shortly, even if Japanese regulatory texts and practices are similar to those of the US after the War, they may still have different social meanings other than those in the US.

more specific objectives are clarified in relation to the data and structure of this paper.

Extensive search and examination of archival data were carried out over a period from 1997 to 2004. Altogether, thirty-four days were spent in archive storerooms, and more than 4,000 archive holders or files were checked to identify the important documents which were either photocopied or digitally photographed for further detailed analyses. The research has significantly benefited from the following archives: the post-war US military and Mission archives at the US National Archives & Records Administration (NARA in Washington DC., US) and *Ken-sei* (Political-Constitutional) Document Room of the Japanese National Diet Library<sup>6</sup>; the Japanese governmental and ministerial archives at the Ministry of Finance, the Economic Planning Agency and the General Affairs Bureau; the archives at the Japan Statistical Research Institute (Zaidan Hojin Tokei Kenkyu-kai, Tokyo); and the Kurosawa Archives at Seikei University, Tokyo.<sup>7</sup> The examined archives, all with reference to the development of modern Japanese financial data, had so far not been presented to audience for examination. In particular, no one seems to have cast any light on the relationship between the creation of macroeconomic data and standardized corporate accounting as the micro-foundation of it.

The importance of these archives lies not only in the contents of each paper, but also in the collection as a whole that shows the broad context and detailed conditions under which hitherto ambiguous and unmanageable Japanese economy and companies became both visible and controlled by relatively limited number of economists and accountants. Throughout Part I and II, I will therefore reconstruct historical details based on the archives, socio-economic writings of, and interviews with those who were directly involved in the reforms. The important interviews include those with John K. Galbraith (October 2003), Tsuru Shigeto (August 1998) and Yoshimasa Kurabayashi (July 1998 & 2003). The description of factual details is not the primary purpose of this paper, but nevertheless an important part in that it shows the series of events altogether as a grand social reform under which the Japanese came to recognise functions of firms, industries and the macroeconomy in

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<sup>6</sup> Note on the NARA records and citation: In many cases, documents in the Record Group 311 (Allied Operational & Occupation Headquarters, World War II) are not accurately sorted nor indexed, mainly due to the large volume of the documents which were kept unsystematically (or at best loosely-systematically) during the Occupation period. In addition to this, some documents seem to have been misplaced, lost or partially destroyed during the process of the reproduction and preservation programme by the Japanese Diet Library (The reproduced documents are kept in the *Ken-sei* Document Room). Although the general guide of National Archives records recommends not citing the Box numbers in the bibliography, it is the most reference-friendly index which researchers will find useful.

<sup>7</sup> Kiyoshi Kurosawa (1902-90) was undoubtedly the most outstanding figure in Japanese accounting history. He was directly involved in the drafting process of the *Business Accounting Principles* (i.e., the Japanese GAAP) and the other central accounting regulations. Up to his death, he remained active in writing and serving for in important positions such as the President of the Japan Accounting Association (1964-75, and Honorary President 1982-1990) and Chairman of the Business Accounting Deliberation Council (1966-80). After his death in 1990, Kurosawa's papers were donated to Seikei University, Tokyo. As of 1998, although the cataloguing process was still in process, yet more than 2,000 files and holders were tentatively classified and stored in the stack room of the Seikei University Library. The process was directed by Professor Jun'ichi Chiba, a former student of Kurosawa and now Director of Faculty of Economics at Tokyo Metropolitan University, by whom the author was introduced to the important documents at an early stage of this research. In co-operation with the Seikei University Library, the author had an opportunity, in the Summer of 1998, to examine materials in the Kurosawa Archives that were written or published before the 1960s (Kurosawa Archives, I-V). The reviewed documents include Kurosawa's scrapbook, memoranda of the Allied Powers, minutes of various committee meetings, drafts of regulations, and drafts of research papers. In this essay's reference list, these papers are indicated as the "Kurosawa Archives".

accounting terms. Although some detailed descriptions may give a trivial impression in places, they are necessary to provide clear empirical evidence to some particular points that each section below tries to highlight.

In Part I, from Section 2 to 3, I clarify that the first application of modern national income accounting in Japan was part of the international standardization of economic data. In 1941, John Maynard Keynes and Richard Stone (Professor of Accounting and Finance at Cambridge University and later Nobel Laureate) inaugurated modern official national income accounting in the UK. As early as 1943, Stone and Milton Gilbert, a representative of the US government, agreed to standardize national accounts. Further, in 1945 Stone also drafted a manual of national accounts at the League of Nations, which became the “bible” of national accounts for many countries. Immediately after the War, in the autumn of 1945, Gilbert began leading Japanese statisticians in a bid to implement national accounting, which was executed along with the internationalization of Keynesian macro-accounting framework. It was in such a context that the need for corporate accounting reform came to be realised as a microfoundation of macroeconomic data (Section 4).

In Part II, from Section 5 to 6, I try to articulate the process of a series of reforms in financial regulations. A wide range of reforms were achieved in a very short period of time, led primarily by a relatively small number of key academics concerned with the establishment of Japan’s new economic systems. I will illustrate the key actors’ recurring political artifices, as they were practically crucial to the swift realisation of the then alien rationale of financial accountability. I will also illustrate the principal consequence of such reforms in relation to “visualising” companies and industries which subsequently turned out to be an important factor of Japanese economic growth. Section 7 is devoted to clarifying the socio-economic philosophy which supported the efforts of the key academics. Section 8 is a summary and evaluation of the history wherein a few attempts are made to contribute to the current research of international accounting. If today’s IAS / IFRS have also been developed by a relatively small number of key actors in the name of “internationalization”, “transparency” and the like, there seems to be some lessons to be learnt from the history of Japanese financial reporting.

<<<Insert Exhibit 1: Main Actors>>>

Main Actors	Main Roles
<b>British economists and accountant</b> John M. Keynes Richard Stone James Meade Frank S. Bray	From the late 1930s, in order to assist Keynes’ economic interventionism, Stone and Meade (Nobel Prize economists) and Bray (accountant) worked for the first official national accounting (1941). Stone endeavoured to internationally standardize national accounting, which was successful. However, Bray failed to reform British corporate accounting for the sake of national accounting. Their attempts served as models for the Americans and Japanese. See Suzuki (2003b) for details.
<b>US economists</b> Simon Kuznets John K. Galbraith Milton Gilbert Stuart A. Rice Michael Sapir Carl Shoup	In the 1930s, Kuznets calculated US national income, but he was against international standardization of British type national accounting. The other economists were supportive of the standardization and endeavoured implementing national accounting regime in Japan after the WWII. Galbraith and Gilbert were the first who applied the national accounting framework to Japan under USBSS. Rice and Sapir recommended overall statistical reform under Statistical Mission. The Shoup Mission tried to improve the Tax system through extensive public education, which was considered to be another foundation of the national accounting system for macroeconomic management.
<b>Japanese economic statisticians</b> Shigeto Tsuru Masao Takahashi Hyoei Ohuchi Hitotsubashi Economists	Tsuru (who was known by Galbraith due to Tsuru’s study at Harvard University) and Takahashi were commissioned to act as liaison officers between the GHQ and Japanese Government largely due to their good command of English. Tsuru as a head of ESB later published the first Japanese <i>Economic White Paper</i> . Takahashi endeavoured to reform corporate accounting for the sake of generating economic statistics. Ohuchi and a handful of Hitotsubashi School Economists (incl. Hiromi Arisawa at Tokyo University) led statistical reforms under the strong influence of Rice and Sapir.

<p><b>ESS officers</b> Robert Swanson William G. Hessler Frank A. March Emerson Ross Clarkson Stevens L. Q. Moss (CIE)</p>	<p>ESS (Economic and Scientific Section of GHQ) officers, who were in charge of producing economic statistics, felt the need for corporate accounting reform in order to improve the quality of statistics. They helped, rather than ordered, the following Japanese accountants to implement the US accounting regulations. Moss was a Chief of Vocational Education Unit of CIE (Civil Information and Education Section), and he helped Japanese accountants to establish a powerful committee to centrally administrate accounting issues, on the basis of civil information, education and democracy.</p>
<p><b>Japanese accountants</b> Kiyoshi Kurosawa Michisuke Ueno Iwao Iwata Gen Murase</p>	<p>Ueno was an elderly authority in academic accounting who supported Kurosawa. Kurosawa had his own idea of accounting reform for macroeconomic management. They utilized political power of ESS officers, Takahashi and Carl Shoup to swiftly implement important accounting regulations and practices. The Japanese GAAP were almost single-handedly drafted by Kurosawa. The other accountants helped Ueno and Kurosawa to draft important financial regulations such as <i>Audit Standards</i>.</p>

## 2 The Introductory Application of National Accounting to the Japanese Economy

When the Japanese Government accepted the terms of the Potsdam Declaration in August 1945, thereby bringing the Pacific War to an end, Japan began its reconstruction as a “democratic” nation under the Post-war Occupation policy and the indirect rule of the Supreme Commander for the Allied Forces; in effect, the US military (1945-1952). To resolve the inadequacies of the unintelligible state of the Japanese economy and its enterprises, President Truman sent the United States Strategic Bombing Survey (hereafter **USSBS**) to ‘secure reasonably accurate statistics on Japan’s economy and war production, plant by plant, and industry by industry’ (The United States Strategic Bombing Survey, 1946; Over-all Economic Effects Division of USSBS, hereafter **OaEED**, 1946 pp. iii-iv). John Kenneth Galbraith, one of ten chief executives of the USSBS, focused on the national economy as an important factor of war potential, citing as an example, the mortal failure of Germany to act upon the inadequacies of its own method of national accounting, thus blinding the country from an efficient use of its available economic resources (Okuma, 1961, pp. 1575-76; Nakayama, 1940).

The U.S. military felt threatened by its own “illiteracy” of the Japanese economy (OaEED, 1946, passim). Towards the end of the war, the general staff office had two distinct views on the war potential of the Japanese economy: one seeing it as materially short and weak, the other as wealthy and strong. The latter view could have cost further thousands of bombs and lives. After the War, reflecting on such illiteracy problems, the General Headquarters of Allied Powers (widely known as **GHQ**) was particularly concerned with the unknown profiles of Zaibatsu companies such as Mitsui, Mitsubishi, Sumitomo and Yasuda, all of which generated very high production during the war. The Allied Powers considered that the Zaibatsu companies were the core that had established the militaristic movement in Japan to protect their economic profits.<sup>8</sup> The Research and Statistics Division of the

<sup>8</sup> The dissolution of Zaibatsu, therefore, became the major task of the Economic and Scientific Section of the Supreme Commander for the Allied Powers (OaEED, 1946, Vol., 1). In the section entitled “Democratization of Japanese Business” the ESS regarded the Zaibatsu as follows: ‘The Japanese economy before and during the war was dominated by the Zaibatsu – a few powerful families, wedded for mutual protection and advantage with influential elements of Japanese society – who controlled the major part of the industry, mining, finance and commerce of Japan, and in large part, livelihood of the people of Japan’ (ESS, n.d. (c1950), pp. 39-40). For example, in the mid 1930s, three Zaibatsu companies (Asano, Mitsubishi and Mitsui) produced 70% of Japan’s cement, three (Mitsui, Mitsubishi and Yasuda) produced 88% of its paper, two (Mitsubishi and Mitsui) produced 87% of its flour, and six (Mitsubishi, Sumitomo, Mitsui, Asano, Yamashita, and Ishihara) dominated more than 50% of its shipping (Tamaki, 1976, p. 49). ‘In the first months of the Occupation, 57 members from

Economic and Scientific Section of the Supreme Commander for the Allied Powers (hereafter **ESS** for the Economic and Scientific Section) was organized in January 1946. Its main task was to collect and interpret economic statistics on all phases of the Japanese economy, in particular, of the *Zaibatsu* companies. For them, '[a]ccurate measurement of current national income and gross national product in Japan are basic to an understanding of the economy as a whole'. However, statistics that covered the large number of *Zaibatsu* companies were not available, compelling ESS to consult 'individual company records ... in order to obtain a set of figures depicting the most important events in Japan's war economy with reasonable accuracy' (OaEED, 1946, p. 97). On reflection, 'a directive (SCAPIN 1337-A) was issued 27 May 1946 directing that the Imperial Japanese government instruct government and private business organizations to make available to ESS such economic data ESS may require' (ESS, 20 June 1946, pp. 1-21).

In this way, both national and corporate accounting gradually came to be the focus of the US officials. In order to quickly establish the accounting data of the Japanese economy, Milton Gilbert, a leading American economic statistician in charge of the national accounts at the Department of Commerce, was appointed Chief of OaEED (OaEED, 1946, p. 1). Before articulating the details of Gilbert's application of national accounting to Japan, this course of history must also be understood in the context of standardization and internationalization of the then newly developed framework of macroeconomic accounting. Suzuki (2003b) explored the modern origin of the British national accounting based on Keynesian philosophy of macroeconomic interventionism. Richard Stone was the key figure in the development, standardization, and international dissemination of detailed balanced national accounting in the UK, through institutional meetings such as the Tripartite Discussion between Britain, Canada and the US in 1944 (Denison, 1947; Gilbert & Stone, 1954), and the League of Nations meeting in Princeton in 1945. The establishment of the new accounting framework was an implicit but solid foundation of the Keynesian macroeconomic revolution. In the US, although Kuznets is often considered to be the father of modern national accounting, he was in fact very skeptical and indeed against the "accounting" framework. (Kuznets 1933, 41, 48; Kapuria-Foreman & Perlman 1995; Perlman & Marietta, 2004). Instead, it was Gilbert, one-time Kuznets' graduate student who took over Kuznets' role at the Department of Commerce in the early 1940s, who pursued the institutional and international standardization and operationalization of national accounting. Gilbert did not follow Kuznets not for academic reasons but for political, institutional and pragmatic reasons. In an interview with the author, Galbraith confirmed the now forgotten roles of Gilbert in disseminating Keynesian national accounting framework in the US and Japan.<sup>9</sup> In 1945, Galbraith as a chief executive of the USSBS and Gilbert as Chief of OaEED, were among only a small number of the US economists who positively regarded Keynesian economic management at that time. Gilbert even demanded the Japanese Finance Ministry to submit all statistical data in accordance with the format laid down by the US Department of Commerce (Nakamura, April 1958, p. 72, Nov. 1958; See Section 7), and the Japanese government had to obey under the directive SCAPIN 1337-A.

The USSBS, however, still faced serious difficulties in collecting data for national

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11 families were designated as *Zaibatsu*, their securities taken over for disposal, and (sic.) their active participation in responsible industrial and commercial positions restricted' (ESS (n.d. (c1950), pp. 39-40).

<sup>9</sup> "It is interesting that you reminded me his name whose contribution has now been forgotten". Interview with John Kenneth Galbraith (Interview, 2003 at his home, Cambridge, MA, USA).

accounts. At the beginning of the Survey, one of the major difficulties was the language barrier between the English and the Japanese (OaEED, 1946, p.84; see also section 5). In attempting to find a solution to this problem, GHQ sought men of talent in both language and economic statistics. Shigeto Tsuru (b.1912-) was the first to be appointed to the position of Economic Advisor to the GHQ. It was his networking amongst American economists including Galbraith, established during his college life at Harvard, alongside his linguistic and statistical ability, that prompted the GHQ to employ him as their agent (Galbraith, 1975). Later, Masao Takahashi (1901-1995), on the basis of his good command of English and knowledge of economic statistics, was also appointed as another liaison agent between the US officials and the Japanese statisticians (Ohuchi, 1995; Economic Society of Kyushu University, 1965).<sup>10</sup> It was these two Japanese economists who led the initial reforms of Japanese statistics, and even corporate accounting (Rice, 1947, p. 2; Sapir, July 1947, Introduction; More details follow in the following sections.).

Another problem was that raw data of national accounts were wholly missing. During the war, all kinds of Japanese statistics were treated as secret and available only within a few bodies of the central government. Immediately after the Potsdam Declaration, the Japanese officials set fire to almost all the important statistics. ‘They were burnt in the yards of many governmental buildings’ because the officials tried to hide the data from the wartime enemy who were about to occupy their nation (Zaidan Hojin Tokei Kenkyu-kai, 1958, p. 500; Yamanaka and Kawai, 1950 p. 62-4; Morita, 1980, p. 121).

Thirdly, even if some raw data existed, the unit of measurement was inadequate for the purpose of USSBS. A survey of pre-war and wartime archives in ministries such as the Cabinet Planning Board, the Cabinet Bureau of Statistics, the Total Mobilisation Bureau of the Munitions Ministry, and the War and Navy Ministries, shows that physical units of measurements dominated government statistics to a large extent (e.g., Okura-sho 1946-1947; Zaidan-Hojin Nihon Tokei Kenkyu-sho, 1962; OaEED, 1946 & 1950, p. 1). *Dai* for tanks and vehicles, *seki* for ships, *nin* for labourers and troops, *koku* for grains, ton, kilo, gallon, barrel, etc., were amongst the most frequently used units (See also Fig. 4-4). When the importance of central planning and general equilibrium, as opposed to partial or sectional equilibrium, of the economy was not well recognised, the *financial* re-evaluation of each physical measure seemed to be of only secondary importance (Naikaku Chousa-kyoku, 10/10/1945; Nakayama, 1940, pp. 368-9). In order to capture the overall profile of the Japanese economy, therefore, the USSBS called for the figuration of the divergent types of economic transactions in financial terms.

This financial construction of the Japanese economy turned out to be a product of much labour and guesswork; ‘[I]t seemed preferable to begin anew with the source data than to attempt to adjust the [existing Japanese] official estimates’ (OaEED, 1946, p. 83). The OaEED Report pointed out a particularly serious deficit of inventory data: ‘it must be noted that the Japanese estimates do not include at any time for the change in business inventories. This exclusion was not a conceptual one but was due to the lack of even reasonably satisfactory data on inventory movements’ (ibid., p. 83). Two years later, in late 1948, when a survey took place focusing on the expenditure side of national income, the same deficiency was still present: ‘the estimate of inventories were almost impossible, due to the lack of raw

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<sup>10</sup> Since he lost his parents at a very tender age, an English-speaking missionary had brought him up. In his early school days, he worked part-time at a cinema where English films were screened. This developed his ability to communicate in English (Nakamura, 1998). He went on to the University of Tokyo, reading Marxist economics and statistics under the supervision of Hyoei Ohuchi (see Section 3 for details). Later, he served as Professor of Economics at Kyushu University.

data' (Keizai Kikaku-cho, 1992, p. 6). In order to acknowledge these deficits alongside the general unreliability of raw data, Appendix C was attached to the OaEED Report.

The collection and collation of economic statistics which would provide an accurate picture of the economic development ... was much more difficult to accomplish than one might have thought. The coverage as well as the quality of economic statistics in Japan are highly unsatisfactory. Japanese statistics are contradictory, based on *unreliable raw material*, and the method of collection of basic information is greatly deficient. ... The statistics used by the Survey had, therefore, to be built up from scratch (OaEED, 1946, Appendix C, p. 97; emphasis added).

It was in this context of macroeconomic data construction that corporate accounting and its regulations came to be highlighted as a micro-foundation of macro-data (for the details of corporate accounting reforms, see Part II).<sup>11</sup>

Eventually, in early 1946, Gilbert compiled data into balanced national accounts, and the Allied Powers came to rely on them for the Occupation policy and operations on the Japanese economy. However this does not mean that the data were "accurate" - whatever that means. According to the OaEED Report published in 1946, the Government Expenditure - one of the main objects of the OaEED and Keynesian macroeconomic analysis - in 1944 occupied 48% of the total expenditure that was estimated at ¥39.8 billion (OaEED, 1946, p. 84). However, in the Japanese draft printed in March 1947 it was shown that, in December 1945, these figures were estimated to be 46% and ¥46.5 billion respectively (Okura-sho Rizai-kyoku, March 1947). A great deal of reassessment must have been carried out after December 1945 when the USSBS returned to the US. Once the figures were published in the balanced accounting form, however, the courses of the future events came to be projected based on such accounting.

Given the unreliable sources of data and the reassessment exercises, the knowledge of the Japanese economy seemed to have originated more in the familiar "form" of national accounting than the substance. The form of accounting provided the Allied Force officers with familiar framework through which the total picture of the Japanese economy emerged. The form of accounts helped the emergence of an at least *prima facie* balanced, coherent and thus intelligible picture of the Japanese economy, which hid all the difficulties such as the language barrier, shortage of raw data, lack of standard data collection process, incoherence between data, etc.. Seen in this way, the significance of the USSBS can be summarised in the following three points.

Firstly, the data started being collected in the form of accounts that conventionally required financial revaluation of data. James Meade, who collaborated with Richard Stone to inaugurate modern national accounting in Britain, clarified that the collection of manifold data was 'essentially a question of central economic planning', and this required 'the translation of "real" factors into "financial" terms' (Meade, 5<sup>th</sup> December, 1940, p.100). Only with the "financial terms" as a common unit of measurement for different factors of the economy, can national accounts be constructed, and thereby the Government's central planning pursued. American economists such as Galbraith and Gilbert initiated financial figuration of the Japanese economy after the War. Chifuyu Masaki translated the OaEED's national accounts into Japanese in 1950 (OaEED, 1950). As only the ashes of the other

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<sup>11</sup> The lack of reliable economic and financial statistics was constantly pointed out from the beginning of the ESS investigation as the most severe set back of their investigation (e.g., Bogdan & Tamagna, 3 May 1946). One of the most significant public propaganda for the improvement of economic statistics was made by Emerson Ross, Chief, Research and Statistics Division of ESS for Delivery at a Civil Information and Education Conference for the Japanese Press on Friday 22 August 1947 (Ross, E, 22 August 1947).

statistics remained, this became the sole common source of information for economists as to the details of the wartime Japanese economy. With this as a turning point, the Japanese economy started being recognised and analysed in the framework of accounting. This financial data collection, in turn, began moulding the way in which the Japanese economy emerged in the public eye.<sup>12</sup>

Secondly, the collection of economic data became the central focus of the Japanese government. In fact, not only in Japan but also in many countries, the history of official financial data collection is remarkably short. In the UK, for example, systematic and continuous collection of data were publicly recognised only after 1941 when James Meade and Richard Stone published the national accounts in the first British *White Paper* (HMSO, 1941). Meade insisted that ‘we (Keynes, Stone and Meade) should strongly urge that this work (construction of national accounting) should now be undertaken by our staff’, namely by officials in the government (Meade, 05/12/1940, p.100; Additions in parentheses by author). Until then, national accounting, or economic statistics, was largely an achievement of individual academics, most notably Lord Stamp and Colin Clark (e.g., Stone, 08 January, 1938, 1949). In 1938, Stone had to appeal that ‘[t]he task of gathering information however is far too great for one man alone, and its importance in the national well-being should be sufficiently to secure its adequate attention’ (Stone, 08 January, 1938, p. 23). The same was true in Japan (Ohashi, 1961, pp. 194-201), and it was the external force of the USSBS in Japan that directed the departments, as opposed to individual academics, to collect economic data. This opened up the potential that government economists control the national economy centrally with the tool of official accounts.

Thirdly, the Survey clarified that the Japanese were not used to the compilation and use of statistical data in an accounting framework. It was not a common practice in Japan to collect data to satisfy the entries of accounts, and certainly there was no official tradition of national accounts. They had to be manually generated from individual company records. Business records, in particular, were utterly unreliable and this state of distrust in statistical data led to the statistical missions that were sent from 1946. The correction of these inadequacies in business records eventually accelerated corporate accounting reform from 1948, with assistance from the statistical missions and their Japanese agents such as Tsuru and Takahashi, to which we now turn.

### **3 National Accounting as “Democratic” Framework of Economic Society**

It was not the case that the Japanese were totally unaware of the deficiencies of statistics. There was a group of academic statisticians who collaborated under the leadership of Hyoei Ohuchi - an elderly authority. The group included Takahashi (see above), Arisawa, Takano, Morita and Minobe – most of them related themselves to what might be called the Hitotsubashi School of Economic Statistics (Zaidan Hojin Tokei Kenkyu-kai, 1958, pp. 499-500; Morita, 1980; Ohashi, 1961, pp. 216-7).<sup>13</sup> They were sometimes called “social

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<sup>12</sup> This point can be further supported by a very early report (July 1946) titled “A Preliminary Study of Structure of Japan’s industries viewed from National Income”, in which fairly detailed analyses and plans to support 80,000,000 people’s lives are scholarly articulated in terms of national income and its break downs by industries. At an early stage of the Occupation, the major concern of the Allied Power was the ‘survival of 80,000,000 people’, which required ‘13,220,000,000 yen’ to ‘be realized by the various industries’ (anon. 9 July, 1946).

<sup>13</sup> Hitotsubashi University has a strong tradition in studies on commerce and economic statistics. Shigeto Tsuru was also attached to the University.

democrats” for their socialist or Marxist, yet non-autocratic thoughts. In 1938, the Police captured Ohuchi, Takahasi and Arisawa and made a wholesale arrest of the Popular Front Academics because the Government had insisted that these democratic ideas were against the established regime (Ohuchi, 1995, P. 2-3). After the war, saved by the GHQ’s occupation policy of “democracy”, the social democrats resumed an active part in academia upon their release. They volunteered with no pecuniary rewards to contribute towards the reconstruction of the Japanese economy from a statistical viewpoint (Morita, 1980). The GHQ, for their part, trusted these social democrats primarily because they strongly opposed the pre-war militaristic movement (Morris-Suzuki, 1989a, p.17).

Douglas MacArthur, General of the GHQ, personally advised Prime Minister Yoshida to urgently improve the quality of statistics (Morita, 1980, pp. 122-3). Hashii and Yamanaka were appointed to the positions of chief and deputy chief respectively of a newly established Statistics Research Section of the Cabinet Bureau in July 1946. As the GHQ demanded more fundamental reform of official statistics, the officials sought help from academic statisticians (ibid, p.123). Prime Minister Yoshida requested Ohuchi and Takahashi to join the Cabinet in May 1946, but they declined. Yoshida then asked Takano – the most venerable and elderly authority in statistics at that time - to persuade Ohuchi and Takahashi to change their mind.<sup>14</sup> However, Takano suggested setting up a centralised institution of statistics rather than appointing Ohuchi and Takahashi as ministers (Zaidan Hojin Tokei Kenkyu-kai, 1958, pp.503-7; Morita, 1980, p.123). Yoshida accepted this suggestion, and in return Ohuchi and Takahashi agreed to lead the new Statistical Committee in August 1946 (Kakugi, 1946).<sup>15</sup>

The US urged the Japanese Government to centrally plan the economic recovery. In accordance with the ESS report, “An Economic Programme for Japan” (ESS, 3 May 1946), the Economic Stabilization Board (hereafter **ESB**) was established as the highest authority in the Cabinet in August 1946. The Statistical Committee fully backed the ESB by providing them with economic and financial data, and ESB supported the Committee by promoting it as a solid central institution controlling all phases of official statistics (Morita, 1980, pp. 123-7). In October 1946, the Committee recommended the establishment of the Statistics Law ‘as a centralised fundamental law concerning statistics, in order to provide legal foundations necessary for enforcing ...’ (Committee on Improvement of Statistics System, Oct. 21<sup>st</sup>, 1946, p. 5).

As a result of these new institutional reforms, Japanese economic statistics started being collected under the powerful authority of the Prime Minister, Statistical Committee and the central Statistics Law which provided an epistemic and empirical tool for the operations of the ESB. It should be noted however that it took one year after the war before the Statistical Committee and Statistic Law were established (cf. Accounting Committee and Law in Section 4, 5 and 6). At the beginning, the approval of statistics as a key for economic management did not rate as the top priority with Japanese politicians, and it was not until the Cabinet came under the supervision of GHQ, did the former recognise the need to set up the Statistical Committee. The economic data did not (and still do not) exist in the transcendental reality. The preparation for statistics and economic management based on them were a process of learning for the Japanese, and required strong support from the Occupation force.

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<sup>14</sup> Generally speaking, seniority commands respect in the Japanese academy and Japanese society.

<sup>15</sup> Sometimes translated into English as “Committee for Statistical Systems Improvement or Cabinet Committee on Statistics”.

On the part of the US, GHQ requested the War Department to send an expert mission on economics and statistics in October 1946 (ibid, p. 127; Rice, 1947, p.1). In response to the request, the First Statistical Mission (i.e., the Stuart A. **Rice** Mission) arrived in Tokyo in December 1946. It was sent to ‘reform statistical procedure of the Japanese government’. More concrete aims were to enhance ‘accurate national income estimate with scientific sampling techniques’, to ‘implement production and income distribution census’ and to ‘prepare for various indexes such as industrial index, price index and consumer index’. The GHQ also requested the Mission for advice on financial reporting system, considered to be one of the latter’s most important tasks (Rice, 1947, p. 1).

The Mission again found the Japanese statistical system very primitive in comparison to that of the US where, as Rice recognised, the ‘Government and people are probably more “statistically minded” than any others in the world’ (ibid., p. 3). It reads further:-

‘[t]he most basic need of Japanese statistics in the Mission’s opinion, is the *development of statistical habits of thought* among the Japanese people. It should become part of their “second nature” to think of statistics as short-hand methods of summarizing the social and economic realities by which they are surrounded, preliminary to bending these realities to human requirements’ (ibid., p. 9; *italics added*).

Rice was a sociologist as well as statistician at the University of Chicago. As articulated in his *Quantitative Methods in Politics* (1928) and *Statistics in Social Studies* (1930), his expertise was quantitative social epistemology. In order to make this social epistemology realised as a foundation of social management, the Mission supported the Statistical Committee to promote the status of statisticians (Rice, 1947, pp. 11-12), to programme educational curricula at schools and on the job (ibid, pp. 17-23), and to strengthen legislative procedure for overriding control of statistics (ibid., pp. 27-33; Sapir, July 1947, p.4).

These reforms were supported by the Mission’s policy to construct a centralised statistical system (Rice, 1947, p. 27). The centralised system did not merely mean a single statistical institution in the Cabinet. It was a new framework of accountability that was modelled on the British government statistical system. Rice considered the UK Central Statistical Office as an example of a highly satisfactory system of public accountability (ibid., p. 6).<sup>16</sup> Unlike the Japanese Government that concealed data during the war, the U.K. Government published the first *White Paper* on its economy in 1941 to disclose the details of its economic state (Stone *et al.*, 1999; HMSO, 1941).<sup>17</sup> In the process of democratisation after the War, Japanese statisticians were of the opinion that this British disclosure system was an ideal framework to connect individual economic activities and the role of central government, and to obtain public consensus on economic policies (e.g., Yoshida, 1974, p. 267). In June 1947, the Ministry of Foreign Affairs circulated a memorandum, pressing for the ‘need for the *White Paper*’ and the ‘need for the public consensus’ (Gaimu-sho, 01 June, 1947). These insinuations may sound absurd because such needs are now taken-for-granted, but for the people who had been previously suppressed under the Imperial regime, they were revolutionary. Tsuru eventually published the first Japanese *Economic White Paper* (commonly known as “*Tsuru White Paper*”) in 1951 based on such a rationale of public accountability, reporting and public consensus. This marked the beginning of formal

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<sup>16</sup> Rice considered the US system less satisfactory as it was not centralised in comparison to the U.K. system.

<sup>17</sup> In fact, even during the war, the UK *White Paper* was brought into Japan, translated and studied by the Finance Ministry (Okura-sho Somu-kyoku, 1944).

macroeconomic reporting as one of the most official means of public accountability of economic issues. (The Government of Japan, 1951).

In order to make the new framework possible, further expert help was required. Michael **Sapir** – a member of the Rice Mission - directed the Japanese academics and officials to arrange data in the form of accounts in accordance with the methodology of the US Department of Commerce (Tsuru, Shigeto, Zaidan Hojin Tokei Kenkyu-kai, May 1954). Sapir was one of few economists who was inspired by the Keynesian economics practiced by the US government in the early 1940s. He was an economist in the Bureau of the Budget, and often participated in the ‘Conference on Research in Income and Wealth’, a conference established by leading national accounting scholars of the day such as Richard Stone (see Suzuki, 2003b, p. 500).

In terms of directing the future course of Japanese economics, there was a critical moment, though it has been entirely neglected, when *prima facie* neutral accounting was actually shaping the knowledge of Japanese economists and the Japanese public. There was a discussion about the type of statistics between the US economic statisticians and Japanese statisticians such as Tsuru, Takahashi, Ohuchi and many others who had Marxist or socialist leanings. The Japanese expressed their frustration that ‘[t]he group of Federal government economists whose forecasts (“model projections”) [were there] under review [were] Keynesians in methods of analysis and in general philosophy’ (Sapir, November 1946, p. 8).<sup>18</sup> In 1946, Sapir gave a lecture on the significance of national income accounting to the leading and most active Japanese economists and economic statisticians. His lecture script reads:-

‘... development of Keynes theory. He wrote a well-known treatise titled “The General Theory of Employment, Interest and Money” which have favourably contributed for national income problem to be brought in the very center of economics, statistics and of various policies. We are living in the midst of Keynesian Revolution of Economics. As to myself, I may be say 70% or 90% of Keynesian School’ (Sapir, M. Research and Statistics Division, ESS, n.d., (April. 1946?), p.4).

At this point, departing from Japanese social norms, i.e., being polite and quiet, Hyoei Ohuchi of Tokyo University suddenly interrupted the lecture.

‘(Prof. Ouchi [sic] spoke up concerning the Keynes theory, saying “We once had a chance to discuss the Keynes theory with Mr. Sapir. Generally speaking, however, it has remained rather unpopular in this country, and particularly so in our University)’ (ibid, p.4; original parenthesis).

As often pointed out, Marxist ideas were significantly influential, if not dominant, in Japanese academia at that time. Takafusa Nakamura, who co-authored a monograph of national income accounting with Hiromi Arisawa at Tokyo University, recalls that economists seriously discussed whether or not national income accounting was necessary in Japan. In the 1940s and 1950s, approximately 90% of students and professors preferred and studied Marxist economics, rather than modern economics (Nakamura, 2003; Arisawa & Nakamura, 1956).

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<sup>18</sup> Sapir explained, “[I]n approaching the task of analyzing the economic outlook for the transition period, it was most natural to operate in terms of the over-all system of economic relationships developed by Keynes and subsequent writers. ... The general framework for the analysis is usually some set of gross national product – national income accounts. ... The econometric model employed by the Washington forecasters in mid 1945 [was] the simplest type of Keynesian model’ (ibid.).

In replying to Ohuchi, however, Sapir did not address his main point, but he appealed to the international trend of standardization of national accounting:-

‘Anyhow, idea, method, definition and analysis of national income have become very, and perhaps most popular in the United States. Mr. Kuznets is called “Father of National Income Theory.” This is also true with England, Canada, and some other countries in Europe only with less ...’ (Sapir, M. Research and Statistics Division, ESS, n.d., (April. 1946?), p.4).<sup>19</sup>

Sapir’s statement was not entirely accurate, either. As Galbraith stated elsewhere and reconfirmed in an interview with the author, Keynes was as unpopular as Marx in the US at that time. There were only few economists who understood the implications of the national accounting framework (Interview with Galbraith, 2003, Cambridge, MA, USA).

(The ideas of Keynes and national accounting arrived in the US in the 1940s.) ‘Professional business leaders appearing before the Congress had no hesitation in attacking Keynes. Certainly he must rank with Marx and Lenin. But they did not attack the accounts or the projections. These could not similarly be so condemned. A case could easily be made from those days that statistics were more subversive than words’ (Galbraith, 1980, p. 80, parenthesis added).

It was through *prima facie* neutral national accounting and a few key economists in federal government offices, such as the Bureau of the Budget and the Department of Commerce, that the ideas of Keynes were quietly implemented in the US economy and economic policy-making (cf. Suzuki, 2003a, pp. 80-88 in general, and Suzuki 2003b, pp. 485-498 for a specific case in the British Keynesian Revolution.).

In Japan too, a similar phenomenon was taking place. For instance, Sapir emphasised two reasons for implementing the national accounting framework, one being the “coherence” in a wide range of data (Sapir, July 1947, p. 6). He did not doubt that ‘double-entry “accounts” [were a] highly fruitful and illuminating form for the different sectors of the economy – business, agriculture, the consumers, government, etc’ (ibid., p. 6). If the data [were] prepared in the form of accounts, there [would always be] a system of checking the coherence of available data (ibid., p. 9). The other reason was the “international” trend to arrange statistics in an accounting framework (ibid., p. 2). In order to join the membership of international organisations ‘such as World Bank, the International Monetary Fund, the I.L.O., UNESCO, W.H.O., I.C.A.O and others’, the use of standardized national accounting was a necessary precondition (Rice, 1947, p. 6).<sup>20</sup> In order to reach the international standard of national accounting, Sapir firmly insisted on the necessity to acquire ‘in Japanese libraries ... voluminous literature that ... appeared on national income problems during the last few years especially in the United States and England’ (ibid., p. 3).

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<sup>19</sup> As explained earlier, Kuznets was against Gilbert’s national accounting framework. However, during the War, Kuznets accepted the UK national accounting framework, as government control of the war economy based on its expenditure was of foremost importance in comparison to the other possible purposes of national income calculation (See Kapuria-Foreman & Perlman 1995; Perlman & Marietta, 2004).

<sup>20</sup> In May 1946, Sapir, Rice (from the Bureau of the Budget) and E. M. Doblin (from the US Department of Commerce) also submitted a report entitled, ‘Working paper on the status of national income statistics,’ to the Economic and Social Council of the United Nations, in which the necessity for the international standardization of national accounts is one of the major themes (Rice, Sapir and Doblin, 1946). Theoretically, they questioned the appropriateness of standardized national accounts for economies under different regimes and conditions; for instance, economies in which Marxist thoughts were popular, or family based businesses were prevalent. What followed however was the pragmatic implementation of standardized accounting to the UN member states as far as possible in the name of international comparison and coordination (ibid, pp. 22-3).

Originating in the early 1940s in Britain, national accounting had already become a prerequisite for membership of the international arena, functioning as a *lingua franca* in the era of international understanding and co-operation. In the name of “accuracy”, “coherence”, “transparency”, “accountability”, “internationalization”, “standardization” and “democracy”, national accounting was about to take steady root in Japan, which evaded the objections of Marxists and Socialists who could have presented different pictures of the Japanese economy to serve different functions.

Sapir further drafted a separate report entitled *Japanese National Income Statistics – Program and Appraisal* (Sapir, July 1947). As a result of this report, a series of statistical reforms were implemented. These reforms included new statistics curricula at schools and on-the-job (should something follow this...it doesn't appear to make sense? – maybe “on-the-job training”?) (known in Japan as OJT), the government “data policy” formation, and “report control” exercise and so forth, many of which were developed by the members of Hitotsubashi School of Economic Statisticians, who became the major economic policymakers in the Government from the 1950s to the 1970s (e.g., Iochi, 1970, 1971, 1972; Kurabayashi, 1966, 1974). Although it goes beyond the scope of this paper to articulate the details of the subsequent growth of the Japanese economy (cf. Section 5 for some details), it would not be difficult to imagine how this new framework of national accounting contributed to the foundation of the series of economic measures, most notably the “Income Doubling Project” (1961-70). Asano, former Chief of Economic Planning Agency (successor of ESB) in the ages of the Japanese growth, confirms that the most frequently used and fundamental data for planning purposes were those of national accounting (Asano, 1961-62). In an interview with the author, Kurabayashi - one of the authorities of the Hitotsubashi School and the former Chief of Statistics Section of the United Nations – supported the premise that national accounting became the main framework of the economic data system used in the series of economic planning (Kurabayashi, 1971; Interview with Kurabayashi, August 1998, 2003).

To summarise the impacts of the Statistical Mission, first, it was clearly not the case that the new epistemological framework came into existence through an indigenous evolutionary process. Traditionally, there were two dominant schools of thought, Marxism and socialism. There was also a successful business practice and economic development in Japan that was in part based on the “secrecy” between Zaibatsu and Government (see Section 4 for details). These, however, did not develop their own socio-economic epistemological and management framework after the war. Instead, in the name of “accuracy and coherence”, “international transparency”, “accountability” and so forth, the modern national accounting framework emerged under the supervision of the Allied Power. It was a consequence of the Occupation policy of “democratization of the Japanese economy”, achieved by developing statistical “habits of thoughts” among the Japanese people. It was democratic in the sense that private economic activities came to be regularly presented to the public and to the government, thereby laying the foundation for public consensus on economic policies (see also Section 7). A series of drastic measures was taken to this end, including the establishment of the central statistical institution, the centralised statistical law, new educational programmes, data policy agreement, inter institutional reporting control, etc... There was even a conception and projection of the *Economic White Paper* as a means of public accountability and consensus, which would come to be realised by Tsuru in 1951. Studies in economic history tend to neglect the development of socio-economic epistemology as a foundation of economic development, however this certainly was one of important factors that directed the subsequent courses of the Japanese economy.

Before turning to further development of the history, a few remarks can be made

with regards to the relationship between this exogenous power, the language or rhetoric they used and the recent development of international financial reporting standards. Although including the details of such references to current development exceeds the scope of this paper, it is nonetheless useful to note some parallels between the two developments. Indeed, Richard Stone's efforts were seen by the Institute of Chartered Accountants in England and Wales (i.e., ICAEW) as a potential model for the international standardization of corporate accounting. ICAEW requested Richard Stone to record his experience of internationalization of national accounting (Stone, 21 December 1981; 25th June, 1979; 1981). Although Stone recognised the differences between national and corporate accounting rule setting, he still explained the usefulness of knowing the history of international harmonization of national accounting (Stone, 1981).

After severe criticisms from overseas against idiosyncratic accounting practices, the Japanese have come through the so-called "Accounting Big Bang" (Kikuya, 2001, Accountancy, 1997; Mizuno, 2004)<sup>21</sup>. This reform was led by a relatively small number of key personnel from the major international organisations, in the name of international "standardization", "harmonisation" and "transparency". How did the US in the 1940s (and now by International Accounting Standards Board) use the rhetoric of "standardization", "harmonisation" and "transparency" for their swift implementation of new accounting? Such rhetoric may at first appear to be politically neutral and free from any particular policy concerning economic and corporate management. However, we have already established that the international standardization of national accounting is heavily influenced by Keynesian philosophy. In this sense, national accounting was, and still is more actively shaping our knowledge and management of our economy than neutrally promoting transparency or visibility of economic truths as they are. How and in what particular way have we come to see and manage our firms and economy due to the international standardization of both corporate and national accounting in the 1940s? We will address such questions in the following sections in more detail, which seems to offer some lessons to illuminate possible socio-economic consequences of the recent development of IAS / IFRS.

#### **4 Accounting Law and Accounting Committee for Macroeconomic Management**

Turning to the Mission's contribution to corporate accounting, identification of the uselessness of existing corporate accounting was of utmost importance. The Mission's, and in particular Sapir's, concern with corporate accounting arose as a result of the Zaibatsu dissolution which was, as already explained in Section 2, originally a matter of democracy and socio-economic management. Sapir considered that the analyses of the Zaibatsu-centred national economy and its income estimates could not in principle be improved beyond the quality of primary corporate data that they rest on (Sapir, July 1947, p. 7). As cited at the beginning of this paper, it was in this context that Sapir deplored the "deficiencies" of Japanese corporate and tax accounting. He found Japanese accounting 'virtually no use for' macroeconomic data construction and analysis (ibid, p.14).

This does not necessarily mean, however, that the original Japanese accounting was wrong or deficient in the domestic environment. The Mission found that there was no tradition of 'accountability of Japanese corporations to the stockholders or the government', which was stated perhaps with a little exaggeration (ibid., p. 14). However, it is still clear that unlike the enterprises in the UK and US, Zaibatsu and large family companies 'were largely a

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<sup>21</sup> Symbolically, in October 2004, as soon as Sir David Tweedie, the Chairman of the International Accounting Standards Board (IASB), visited Japan, the Accounting Standards Board Japan (ASBJ) strengthened its new programme to harmonise the two regulations (IASB, 12/11/2004).

well-kept secret'. The well-kept secrecy, here, does not mean that they were simply unknown. Rather, management of Zaibatsu and large family companies included the element of "secrecy" as an important factor of their success. As the Japanese management literature often illustrates, the mode of Japanese management tends to be implicit rather than explicit, informal rather than formal, and blood- or kin-based rather than talent-based (e.g., Morris-Suzuki, 1989). In terms of their relationship with the government, these Zaibatsu companies operated on the ground of co-operation rather than report and control. As the history of economics often suggests, Zaibatsu companies are generally considered to have played an important role in Japan's early industrial modernization.<sup>22</sup> Therefore, the "deficiencies" of Japanese accounting should be understood to mean that the existing accounting, or lack of it, was not suited to providing the macroeconomic data that the Mission required to manage the economy in their preferred manner.

The Mission therefore began seeking the microfoundation of data system that would enable the Occupation force to collect data of Japanese companies and the economy in a more familiar and autonomous framework. Such a view came to be shared not only by the US officers but also by the Japanese economic statisticians such as Tsuru and Takahashi, who eventually turned to a couple of key academic accountants, Michisuke Ueno and Kiyoshi Kurosawa.<sup>23</sup> Kurosawa compiled a scrapbook, a collection of various articles, newspaper cuttings and notes on the Zaibatsu dissolution, in which he subscribed to the view that the Zaibatsu dissolution should be the 'foundation for the re-construction of peaceful and democratic national economy through the decentralisation of economic power and reorganisation of it in a rational way' (Kurosawa, n.d., c. 1945-48). To this end, the first task of the Finance and Cartels Branch, from the Research and Statistics Division of the ESS, was to analyse the financial structure of Zaibatsu companies. The release of a memorandum, *Reports to be Made by Certain Business Firms*, in October 1945 directed all major Zaibatsu firms to provide their financial statements of the past ten years, as well as future projections (SCAP, 22 Oct. 1945).

The ESS faced two problems, however, which were similar to those of the USSBS. William G. Hessler, Chief of the Research and Statistics Division and formerly a Certified Public Accountant of Illinois did not read Japanese.<sup>24</sup> Although *Reports* were to be made in English for GHQ, the language difference remained a major barrier to understanding Zaibatsu companies. In the absence of standard Japanese accounting practices and terminology, the translation of the companies' financial statements made little sense to the ESS officers. To resolve this problem, Iwao Iwata, an accountant in the Business Accounting Association, was placed in charge of classifying and subsequently standardizing accounting terms. In late 1945, he started preparing a list of Japanese terms accompanied by their equivalent US terms,

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<sup>22</sup> Even in the process of the Zaibatsu dissolution, leading economists and government officials defended the positive value of Zaibatsu in the following way. 'The Zaibatsu (allied with feudalistic state power) was a weapon with which Japan, as a junior capitalistic country, was armed in entering the international arena. In order to hold her own in the competition with the large capital of the Powers, she had to concentrate her capital to a high degree, and on the other hand, on account of the narrowness of the investment market at home, the large capital had to seek the objects of its investment in every branch of economy. These basic conditions will remain unchanged in future, ...' (Special Research Committee, August 1945-March 1946, p. 87 and 91).

<sup>23</sup> Michisuke Ueno - Professor Emeritus at Tokyo University - was Kurosawa's teacher. He was a highly esteemed and senior authority in academic accounting at that time, having a similar status as Ohuchi and Takano in statistics academia at that time.

<sup>24</sup> William G. Hessler was at the Economic and Scientific Section, Programme and Statistics Division (Murse stated that Hessler was a CPA in Illinois, whereas Kurosawa stated Wisconsin).

which was eventually published as a handbook in March 1947.

The other difficulty was that there was little legal precedent relating to accounting practices before the War. There was a statement of *Working Rules for the Accounts* prepared by the Ministry of Commerce and Industry (1934), which set forth terms and format of financial statements. It was merely a guideline with no binding legal force, and thus, as Gen Murase (See below for his detail) illustrated, was not effective.

The most regrettable national trait is that the Japanese do not undertake any action unless they are forced by law. Company practices, except for some banks and others that were regulated by special laws, did not follow the *Working Rules* at all. ... Some performed window-dressing; some financial statements were oversimplified; classifications of accounts were at random and divergent between companies; and the English translation was hardly intelligible. As a result, submitted financial statements and other documents to GHQ were totally unreliable (Murase, 1958; Suzuki's translation.).

Kurosawa recollected that even in the academic field, 'there was no one, other than Mr. Iwata and myself, who was interested in the generally accepted accounting principle in Japan' (Kurosawa, 1979d, No. 4, p. 554).

There were also two accounting regulations that were enacted during the War to rationalise the production of munitions. *Tentative Standards for Financial Statements of Manufacturing Companies*, 1941, and *Manuals for Costing in Manufacturing Companies*, 1942, set by the Planning Board, coined the first attempts in Japan to legally regulate enterprise accounting. However, these wartime regulations turned out to be of little help to GHQ, since actual accounting was rarely practised in accordance with them. The constraints of war afforded no time to enterprises for the study of such regulations and the preparation of detailed financial statements. Because standardized accounting practice could not be achieved nor maintained without continuous education and training, the improvement of standard cost accounting, financial statements, and auditing were discussed in the No. 84 Sub-committee for Management and Accounting, the Japan Academic Promotion Society (Dai 84 - Keiei Keiri - Sho Inkaikai, 1946) from March 1946. However, these efforts reaped only limited benefits to the GHQ. Collected financial data revealed rather incomprehensible and contradictory results of financial statements, further aggravating GHQ's frustration and distrust towards Japanese accounting practices.

GHQ required more help from a Japanese who had a satisfactory command of English. Gen Murase worked for Yasuda group - one of the Zaibatsu conglomerates - and was therefore obliged to prepare an English version of Yasuda's financial statements for GHQ. In contrast to the efforts of the others, Murase's translation proved to be highly comprehensible to the Allied Powers. In order to assist William Hessler at the Programme and Statistics Division of ESS, General Marquette commissioned Murase to translate various Japanese financial statements and the aforementioned two wartime regulations into English (Murase, 1958; Kurosawa, 1969). In July 1947, Hessler and Murase drafted *Instructions for the Preparation of Financial Statements of Manufacturing and Trading Companies* for the Zaibatsu companies to use as temporary accounting standards (Economic and Scientific Section, Research and Statistics Division, 1947; ESS/RS, n.d. (1947)). It was in part based on the wartime regulations but more on the US-oriented principles explained in works such as *A Statement of Accounting Principles* by Sanders, Hatfield and Moore 1938, as well as *Accounting Principles* by American Accounting Association 1936. The *Instruction* states that its 'purpose is to lay the foundation for improving and standardizing Japanese commercial and industrial accounting practices'. Statements furnished to SCAP (Supreme Commander of Allied Powers - Suzuki) in the past have disclosed deplorable shortcomings in accounting practices and procedures' (anon., probably Hessler and Murase, 1947).

**[Insert Fig. 1-1 (*Early Report to ESS*) about here]**

**[Insert Fig. 1-2 (*Instructions*) about here]**

Such efforts fell along the same line as those of statisticians. It was in fact Takahashi, a member of the Statistical Committee and liaison officer of GHQ, who visited Michisuke Ueno in late December 1947 to realise the idea of the Accounting Committee and Accounting Law, modelled after what had been established earlier by statisticians (Kurosawa 1979a and c, No. 1, p. 100, No. 3, p. 98). Prior to this, Ueno and Kurosawa had developed the same idea of establishing a central organisation immediately under the Prime Minister's Office based on an independent Accounting Law that would control all accounting issues of related branches such as securities and tax. However, **at** the first attempt, the idea 'to establish the Accounting Committee and Accounting Law miscarried' (Kurosawa, 1980d, No. 4, p. 91). Ueno and Kurosawa faced severe objections from the Cabinet Office, the Ministry of Finance, the Tax Administration Agency and the Ministry of Education, because the reform meant a radical change in power relationships amongst ministries and a loss of their vested right to control accounting regulations. Statisticians had faced the same problem in obtaining the co-operation of the Ministry of Finance, and it was only after Sapir's report which insisted upon mutual co-operation did statistical reform proceed smoothly (Sapir, July 1947, p. 4). Similarly, the efforts of Ueno and Kurosawa were made easier with the support of the Allied Powers and Statistical Committee who were keen on overseeing the dissolution of Zaibatsu companies and the general improvement of macroeconomic statistics.

Enlightened by statisticians in this way, Ueno and Kurosawa found another chance to pursue their original project. Kurosawa organised a working group to establish Accounting Committee and Accounting Law. The proceedings of the first meeting of the Committee listed the names such as Ueno and M. Hashimoto (on behalf of Takahashi) at the top of the list (anon., 24/03/1948). Five economic statisticians - Takahashi, Masaki, Minobe, Hashimoto and Ohta - were listed together with the other thirty two members from accounting-related bodies such as the Tax Administration Agency, the Ministry of Finance, the SEC and so on.<sup>25</sup> Accountants re-approached the Ministry of Finance and the Prime Minister's Office to set up the Accounting Committee.

However, once again, they failed to obtain the much-needed co-operation (Kurosawa, 1979d, No. 4, p. 101). Yet, this time, Ueno and Kurosawa did not give up and turned to the Statistical Committee and the ESS. Initially, even Frank. A. March and William G. Hessler of ESS (Hessler has already been discussed; why does his first name need stating and why does he need re-introducing?) were reluctant to establish an omnipotent accounting committee.<sup>26</sup> Insofar as enterprise accounting was regulated within the American-style

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<sup>25</sup> The finalised "List of Members" (i.e., not "Draft - List of Members") does not include the names of Takahashi and Masaki. But, the draft version shows a more precise context of macroeconomic management in which Japanese accounting was reformed. Kurosawa also revealed that Takahashi often attended preparatory meetings for the establishment of the Committee (Kurosawa 1979d, No. 4, p. 98). The presence of the Ministry of Finance, which later became the most powerful institution to control accounting matters in Japan, was remarkably low. In replying R. Swanson's request to comment on the proposed forms of financial statements, Ministry of Finance only flattered those who developed the new financial statements. '... we see on these forms extremely advanced parts and we come across many points that are deemed much more practical than the statements now being adopted by various companies in Japan. Accordingly, we are intending to adopt the forms prepared [sic.] by concerned division of G.H.Q. as one of the basic data for such study to be made within Ministry of Finance ...' (Sakai, T. Ministry of Finance, 8 December 1947, pp.2-3).

<sup>26</sup> Robert Swanson, as a senior of March and Hessler, seemed to be more supportive to the idea of establishing

regulatory framework, there was no need to upset the stable ministerial relationship that had already been established (Kurosawa, 1979d, p. 98). There was, after all, no example of such powerful institutions as Accounting Committee and Accounting Law even in Anglo-American countries.

In Kurosawa's opinion, however, the US had such a powerful accounting institution in place, and Japan also needed such a centralised accounting institution.

Even in the United States, the accounting system reform was not achieved in the hands of the private sector alone. It is true that the American Institute of Accountants, the Trade Association and other private bodies contributed significantly to the standard setting; however, without the co-operation of the Federal Reserve Board, the Internal Revenue and the Securities and Exchange Commission, there would not have been today's successful systems would not exist. ... In contrast, in Japan, there is no private body akin to the American Institute of Accountants. It is not feasible, at present, to quickly organise a private body for the improvement of accounting systems. As we observed in the statistical reform, accounting reform cannot be achieved by private bodies alone. ... In order to propose an accounting reform which will have an influence on the Tax codes, the Commercial Codes and other regulations, we must have an Accounting Committee with the highest authority over the relevant ministries. (Kurosawa, 1979e, No. 5, p. 101, p. 99 – Suzuki's translation.)

Kurosawa asked for help from Iwata who was then one of a few Japanese accountants who was familiar with the American accounting standards. They persuaded Hessler to send a memorandum to his senior officer, Frank. A. March – a CPA from California – (March has already been introduced – therefore his position should have been noted on his first introduction and his first name and initial can be dropped here) to recommend the establishment of the Accounting Committee (Kurosawa, 1979d, p. 101). Hessler accepted their request and issued a memorandum on 3rd March 1948 (Hessler, 03 March, 1948). The memorandum explained the conditions and methods of the Japanese accounting system that were far behind those of the West and noted that these had been 'a serious obstacle in developing significant economic statistics in Japan'. The next day, a similar memorandum was sent to General Marquat in the joint names of E. Ross, F. A. March and W. G. Hessler (ER/WGH/FAM/tm, 04 Mar., 1948; See Fig. 2-1).

**[Insert Fig. 2-1 (*Memo for General Marquat*) about here]**

Ueno and Kurosawa also exploited the power of another GHQ officer, as well as the Prime Minister. As we see in the memorandum, the project included some educational perspectives. This was to draw the attention of an education enthusiast, L. Q. Moss, Chief of the Vocational Education Unit, Civil Information and Education Section, GHQ. With much help from him, Ueno and Kurosawa organised a Conference on Accounting Standards and Education in May 1948 (Conference on Accounting Standards and Education, n.d. (c. May 1948); Kurosawa, 1979, Vol. 31, No. 4, p. 101, No. 12, p. 99). The invitation letter was sent

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Accounting Committee (Swanson, 15 August, 1950a). Swanson seemed to have contributed to the reform of Japanese financial reporting significantly. Rather than being scholarly and objective, he seemed to be politically enthusiastic to realise standardized accounting as a foundation of the new Japanese economy. 'One of the unfortunate habits which the Committee developed in the past was the tendency toward long academic arguments on obtuse points. I became very unpopular by debunking academic "hogwash" in favour of results' (Swanson, 15 August, 1950a). It can reasonably be inferred from his memorandum that he played an overall supervisory role in the reform, incorporating the statistical reform into detailed corporate accounting regulations including those of auditing (e.g., Swanson, 15 August 1950a, b; 22 September 1950). Yet, details of his profile are still unknown.

to a wide range of individuals and institutions such as the Association of Industrial Accounting, the Ministry of Finance, the Ministry of Education, the Ministry of Commerce and Industry, the GHQ, economic associations, academic accountants and statisticians, the press, and so forth (Ueno, 07 May, 1948). Chaired by Ueno, the conference was successfully held on 14th May 1948 in Tokyo. The underlying and most important practical purpose of this conference was to submit the Conference Resolution to Prime Minister Ashida. Ueno and Kurosawa intended to use this opportunity as a solid foothold for the establishment of the Accounting Committee. The Resolution that was addressed to the Prime Minister read:-

To: Mr. H. Ashida, Prime Minister. May 14, 1948.

Resolution

The improvement of business accounting is one of the most essential conditions for the democratic reconstruction of the Japanese economy. It is a well-known fact that our country's accounting practice is very backward compared with Europe and America. As a consequence, it is difficult to know with accuracy the financial condition of enterprises and the results of their operations. This prevents the formulation of effective business statistics. Unless a scientific foundation is established for the modernization of business accounting it will be difficult even to initiate the rehabilitation of industries in spite of the introduction of foreign capital. Further, it will be impossible to make any progress toward the solution of various problems closely connected with modern accounting, such as the stabilization of the price structure, the rationalization of financial accommodation to enterprises, the democratization of investments in securities, the protection of investing masses, fair taxation on enterprises, the production of economic data in labor and other industrial disputes, etc.

Accordingly, an "Accounting Standards and Education Commission" (tentatively named) should be speedily established, gathering persons of knowledge and experience to improve the accounting of enterprises. At the same time the Committee should be required to make basic investigations into a fundamental reform of accounting education, which is a precondition for improvement. It is essential that this organization be able to put results into immediate practice. (Ueno, 14/05/1948)

There are three points to note in this Resolution. One is the reasoning for the reforms of accounting and accounting education. In so much as Japanese accounting of this period was concerned, the pressure for reform did not come from, for example, the then taken-for-granted users such as shareholders. On the surface of letters of laws, regulations and textbooks, the need for accounting principles for the stewardship or micro-corporate accountability was often emphasized, but this may have resulted from a different reason (see Section 5 and 6 for details). Voices of management and other business communities rarely appear in the Kurosawa archives and NARA archives. In fact, sudden interests from the Japanese business community in accounting standards, which consequently appeared only toward the end of accounting reform, appeared to undermine the development of the new standards.

'On 13 July 1950 and again on 10 August 1950 the Keizai Dantai Rengokai (Economic Bodies Federation – later the famous '*Kei-dan-ren*': Suzuki) sent letters to the chief of the ESS and to the Chief of the Accounting Standard Council. Although on the face of it, this sudden interest in accounting standards is an encouraging sign, I fear that the Federation has as an ulterior motive the discrediting of the work of the Accounting Council. If they can show just cause for ignoring the standards they can justify retaining the present accounting methods or lack of them, making meaningful audits a near-impossible job' (Swanson, 24 August 1950).

This should not be taken to mean that there was no need for modern accounting among managers, shareholders, creditors, etc.. They, however, did not appeal to the authority to set up a central administrative organisation in the Cabinet, and perhaps they were also not the objects of direct interest to the reformers. Much reference was made, instead, to socio-macroeconomic conditions such as the "the democratic reconstruction of the Japanese

economy”, “rehabilitation of industries”, the “stabilization of the price structure”, “introduction of foreign capital”, and the “production of economic data in labour and other industrial disputes, etc.”. In this context, ‘the dissemination of the knowledge of modern methods of accounting’ was characterised as ‘essential to the establishment of democratic principles and should prove of the greatest value in following developments in Japanese enterprise both during and after the Occupation’ (ER/WGH/FAM/tm, 04 Mar. 1948, p.2). Leaving the interpretation of accounting as part of “democratic principles” for now (See Section 7), such rhetoric certainly helped to push the accounting reform forward.

Secondly, the Resolution did not refer to the planned Accounting Law, nor did it mention the way in which accounting standards should be regulated. More emphasis was placed on the role of professional education. The committee’s ultimate aim was no doubt to formalise accounting standards as Accounting Law. However, Ueno and Kurosawa carefully withdrew them from the Resolution to avoid anticipated hierarchic conflicts between the Committee, the Tax Administration Agency, and the Ministry of Commerce and Industry, each of which sought different accounting standards in their own interests. As this conflict could have brought an end to the entire project, Kurosawa had to conceal Accounting Law from the Resolution (anon., 3 PM., 24 March, 1948).

Thirdly, closely related to the second point, the Resolution used the tentative name of “Accounting Standards and Education Commission” instead of “Accounting Committee”. According to Kurosawa, this was because he could not obtain prior consent from the Prime Minister for the committee to be placed directly under the Prime Minister’s jurisdiction. Ueno and Kurosawa came to know that the committee would be placed for now under the ESB. They settled on a temporary name to wait for another chance to promote the Commission as the “Accounting Committee”, which would have higher authority than the other agencies (Kurosawa, 1979b, No. 2, p. 99, No. 4, p. 101).

On the same day, Prime Minister Ashida accepted the Resolution. With the full support of L. Q. Moss and R. C. Franck, Corporation Branch, Research and Programme Division of ESS, the Cabinet finally approved the Committee for Business Accounting Improvement on 29th of June 1948, which was placed directly under the ESB (Naikaku, 29 June, 1948). The committee was formally named as “*Kigyo Kaikei Seido Taisaku Chosa-kai*” (Investigation Committee on Business Accounting Systems, or Research Committee on Enterprise Accounting System. Hereafter, **Investigation Committee**<sup>27</sup>), and its first plenary session was held on 16th July 1948 (Ueno, 30 September 1948).

In November 1948 (at the very latest, according to the Kurosawa Archives), as he had planned, Kurosawa drafted the Accounting Law in which Article 5 proposes to establish the Accounting Committee under the Prime Minister’s direct jurisdiction.<sup>28</sup> However, Ueno and Kurosawa soon faced the strongest objections ever experienced from government organs, such as Securities and Exchange Commissions and Ministry of Finance. In early February 1949, Ueno explained to ESS that they still wanted Accounting Law: ‘Dr. Ueno ... explained that the council (i.e., Accounting Committee – Suzuki) as provided for by the law would be an advisory committee with no power to force any agency to accept their suggestion’ (Swanson, 11 February 1949, p.1). However, within the same month, Ueno and Kurosawa had to bend their position significantly and reply to the ministries: ‘Of course, we do not

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<sup>27</sup> In the archives, different English names are used for this committee: e.g., the Council, Investigation Committee on Business Accounting Improvement, the Research Committee on Enterprise Accounting System, etc..

<sup>28</sup> In some English versions, the Accounting Law is translated as the “Business Accounting Standards Law” and the “Corporate Accounting Law”.

intend to provide for the very accounting standards and the audit standards in laws' (Ueno, Feb 1949, p.4; see also Ueno, 5 November, 1948). The power of the planned Accounting Law and Accounting Committee was quickly diminishing.

After all, Ueno and Kurosawa did not succeed in establishing the Accounting Committee and the Accounting Law as they wished. They, instead, only managed to publish *Business Accounting Principles* – the Japanese GAAP. The *Principles* were originally published as “An Interim Report” of the Committee, with the final version expected to be realised as the Accounting Law. Sixty years after its publication, however, it still remains the Investigation Committee’s “Interim Report”.<sup>29</sup> As such, in relative terms compared to statisticians who managed to establish the Statistics Committee and the Statistics Law, accountants appeared to be less successful.

This failure, however, did not reflect the strong will and effort of accountants, and should be evaluated along side the large climate change in the Japanese government organisations as a whole. By the beginning of 1949 the Government faced the acute need for re-organisations of its agencies that were fragmented, complicated and expensive. ‘A reduction of 30% in the number of bureaus, divisions and other unites,’ and ‘reduction in the number of personnel in each ministry by approximately 30%’ were planned (anon. 16 April 1949), which threatened even the existence of the Statistics Committee. Although GHQ was concerned and even suspected this reorganisation as a ‘possible “sabotage” of statistical reporting to SCAP by the Japanese government’ (Brenner, 15 March, 1949, p.1), they were already turning to a new phase of the new Occupation policy: ‘to give back the control [to the Japanese Government], and GHQ, SCAP will refrain from dictating that the Japanese Government should do this or should not do that. Along with this line, ESS/PS will not hereafter intervene in the Japanese Government’s project for Statistical survey of corporations’ (Saito, Sept. 27, 1949, p.1). Under such conditions, accountants seemed to have lost the opportunity to make central accounting regulation and organisation the microfoundation of economic management. At this point, the common dream of statisticians and accountants to manage the national economy based on standardized accounting seemed to have lost its core.

If the reformers’ endeavours had stopped at this stage, the Japanese history would have appeared quite similar to what Keynes, Stone and Meade experienced in their development of the first UK national accounting in the late 1930s. The economists required the indispensable help of a research-oriented accounting practitioner, Frank S. Bray, who arranged a series of meetings between leading economists and accountants through which reformers tried to change corporate accounting in the way that would make more efficient data collection possible for the sake of macroeconomic management (Stone, R. Joint Sub-Committee of Accountants and Economists, 26th March, 1947).<sup>30</sup> They failed, however, as

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<sup>29</sup> I am indebted to Professor Jun’ichi Chiba for this point. The other explanation for this “interim-ness” can be found in Kurosawa (1980d, No. 4, p. 94). He stated that the report is “an interim one” because it should be continuously criticised until it has established itself as a set of generally accepted accounting principles via the process of consensus. The two accounts do not necessarily contradict each other, but Chiba’s insight seems to be more precise.

<sup>30</sup> Frank Sewell Bray (1906 – 1979). Born in London. Worked as an accountant for a London based accountancy firm called Tansley Witt & Co.. Richard Stone invited Bray to the University of Cambridge as Part-time Senior Nuffield Research Fellow (1947-1955). Meade stated in his diary, ‘[t]he accountants are playing up marvellously and are translating all their company accounts into Stone’s system’ (Meade, 1989, p. 300). Also, ‘Bray and Norris argued with Rees in favour of the central registration ... of all company accounts in a standard form, so that one could get as much information as possible from the reliable and basic audited accounts rather than from statistical estimates such as those prepared for Census purposes. The economists –

accountants objected to the radical departure from what had already been established as accepted accounting regulations and practices (Suzuki, 2003b, pp. 498-9). I will demonstrate in Part II that the Japanese case was significantly different from what transpired in the UK. Even without the Accounting Committee and the Accounting Law, Kurosawa and his colleagues pursued the creation of a new epistemic and managerial framework by a series of reforms including the introduction of the Japanese GAAP, Certified Public Accountants, *Audit Standards*, *Essentials of Simplified Retail Store Bookkeeping*, *Essentials of Bookkeeping for Small and Medium-sized Companies*, standard textbooks of accounting, costing and auditing, school curricula, free public lectures, etc... This reconstruction of history continues in “Accountics”: Accounting Reforms as a Microfoundation of Economic Management – The Japanese Case Part II.

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i.e., Stone and I – lay back and listened with fascination to the two accountants trying to convince their colleague of this admirable idea!’ (Meade, 1981, Section 3, 3/12).

## Part II

### 1 Figuration of Large Corporations and Industries

Despite a significant setback following the failure to implement the Accounting Law and the Accounting Committee, efforts to make standardized accounting a solid foundation of economic statistics continued. Alarmed at the fact that a few ministries had already started regulating accounting internally, Ueno and Kurosawa insisted on the need for central regulation to avoid incoherent and ineffective accounting systems (e.g., Ki-Kai-Cho, 10 Jan. 1949; anon. (Probably Kurosawa) n.d. (after Sept. 1949)).<sup>31</sup> Their plan was to utilise the political power of the Economic Stabilization Board (ESB) as ‘it was established for basic planning and over-all coordination relating to the economic reconstruction in our country’, to implement, maintain and ‘diffuse accounting standards’ by ‘Licensed Accountants System and accounting education’ (Ueno, Feb 1949,4, pp. 4-5)

Under the ESB, the Investigation Committee on Business Accounting Systems (see the last five paragraphs of Part I) was divided into five groups: the General Division, the First Division for accounting standards, the Second Division for education, the Third Division for *Auditing Standards* and the Fourth Division for *Costing Standards*.

Kurosawa as the chairman of the First Division drafted the *Business Accounting Principles*, i.e., the Japanese GAAP, and the *Working Rules for Financial Statements* which turned out to be the core of the subsequent Japanese financial disclosure system. The Kurosawa Archives include several versions of hand-written drafts, which reveal that Kurosawa almost single-handedly drafted the *Principles* with only limited support from a few academics (Kurosawa, n.d. (c. 1948-9)). There was no draft exposure process, and no wider stakeholder consultations. The priority was the swift figuration of the Japanese economy. As a result of this notable achievement, Kurosawa was often described as “Emperor” (which was often accompanied by a sense of envy and irony) in the accounting profession. Till today, students often learn each principle and rule by rote to pass a college, university or professional examination. However, such literal reading of each principle does not help one’s understanding of the historical significance of the *Principles*; rather, a better understanding can be gleaned from an examination of the Preface of the *Principles*.

- Aim. Japan’s accounting practice is very backward comparing to Europe and America, and it is considerably idiosyncratic between enterprises. As a consequence, it is difficult to know with accuracy the financial conditions of enterprises and the results of their operations. It is essential to take immediate action on these handicaps for the growth of enterprises and for the benefit of society as a whole. ... In order to establish and maintain the standards of enterprise accounting, hereby, we advance the *Business Accounting Principles* that provide scientific foundation for the wholesome development of a democratic national economy (Kurosawa, n.d (c. 1948), Early Draft of *Business Accounting Principles*)

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<sup>31</sup> ‘Matters concerning the laws of taxations are under the jurisdiction of the Tax Bureau of the Finance Ministry, the commercial law under that of the Attorney General’s office, and the price control ordinance under that of the Price Board; but it must be far more effective to have these provisions of the laws concerning the accounting system revised by one authority than by the respective authorities. ... it is necessary to have a competent office for establishing and effectively and powerfully maintaining the accounting standards. And as the competent office, the ESB shall be most eligible...’ (Ueno, Feb 1949,4, pp. 4-5). Before the War, ‘[the] Ministry of Finance was the agency used to collect the data, [a] factor [which] might have affected the accuracy of the figures, since the Ministry of Finance also collects taxes, and since the internal revenue system in Japan is notoriously corrupt’ (anon. Ministry of Finance, n.d. (c.1949), appendix: Financial Summary Data).

In the earlier versions of this draft, Kurosawa even used the phrase, ‘to control the national economy’, but this was withdrawn to avoid creating a possibly misleading image of the wartime-controlled economy. The substance remained unchanged, however. The aim was to establish the roots of the Japanese GAAP in the construction of autonomous business statistics that would ultimately serve the development of ‘a democratic national economy’. The term ‘democratic’ was often used in the archives without defining its exact meaning. One can argue, as we have seen already, that national accounting infuses the public with Keynesian economic philosophy without being noted (see Part I, Section 3), and in this sense, the new regime is not democratic. For Kurosawa, however, it appeared democratic when compared with the Imperial regime, and even if it was not entirely democratic, the rhetoric of “democratic” and “scientific” worked well to establish the position of the *Principles* as an important part of economic management (See more details in Part II, Section 3).<sup>32</sup>

Given that the *Principles* were not passed as the Accounting Law, Kurosawa had to be politically skilful in many ways. In the hands of Kurosawa, the *Principles* were characterised as something which should be ‘respected on any occasion in the future when related regulations, such as the Commercial Code, the Tax Code, and the Price Control Ordinance are established or amended’. The *Principles* also state that ‘every enterprise should follow the *Principles* regardless of whether or not there exists a legal requirement’. Without a clear legal framework, the *Principles* claimed to be authoritative in providing a fundamental guideline to academics, professionals and practitioners alike even though they were not passed as a law. This undoubtedly caused controversy. Kurosawa was severely criticised by even Katsujiro Tanaka, a close friend of Ueno and a prominent professor of Commercial Code (Kurosawa, 1980d, Vol. 32, No. 4, p. 93). Kurosawa’s reply was that the Committee had privileged authority to control all accounting matters in order to rehabilitate the national economy. Indeed, in July 1949, the *Principles* and the *Working Rules* were distributed to ministers in the name of Tsuru, the then Deputy Minister of the ESB, who held the highest authority in the Cabinet Offices at that time.<sup>33</sup> Modelled after the Statistics Committee, the Investigation Committee was established ‘as one of the measure [sic.] to rehabilitate Japan’s industrial economy on a sound and democratic basis’. The committee was originally planned to ‘be established in the Prime Minister’s Office’ (anon. probably Ueno and Kurosawa, n.d. (c. July 1948)), and therefore, according to Kurosawa, what was published by the Investigation Committee should have had the legitimacy to direct all accounting-related matters (anon. (probably Kurosawa), n.d. (after Sept. 1949)).

Kurosawa was also politically astute when crafting the *Principles*. In Article 2, Kurosawa described the *Principles* as ‘generally accepted principles that were developed in the history of business customs’. However, as already explained, there were few standard accounting practices in Japan, and thus this claim must be carefully considered. The Japanese GAAP did not evolve indigenously based on the now taken-for-granted rationales for stewardship. On examining the regulatory texts, it is evident that a number of the terms, phrases and concepts are also employed in the similar institutional framework of the US (see

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<sup>32</sup> Here, “scientific” should not be taken to mean “transcendentally-objective”, and perhaps not even “true and fair” either. At the first meeting of the Investigation Committee, in which Kurosawa gave a concluding address, it was decided that “[s]ince theoretical discussion of the matter (i.e., “Theories of Accounting”) is considered useless, concrete problems will be taken up and the best accounting system adapted to the conditions prevailing in Japan will be established with due regards to the examples abroad’ (Ueno, 30 September 1948, p. 3).

<sup>33</sup> The Minister was the Prime Minister.

Part II, Section 2 for details). However, this can be explained by the fact that the reformers had to make sure that the standardized principles were enforced swiftly so that the microfoundation of economic management was rapidly established. In order to speed up the implementation process, rather than drafting new accounting principles from scratch, the reformers utilized existing US regulations. In addition, US orientated regulations would be considerably more politically tenable as they would be more likely to gain the formidable support of the Occupation Forces.

At this juncture, it would be useful to further investigate the relationship between the English language as a means of international communication and the implementation of new accounting practices in a local culture. In the early drafts of the *Principles*, English and *Katakana* (one of three types of Japanese characters used for foreign terms) words and phrases appeared many times (See Fig. 3-1). Kurosawa struggled with the inherent difficulties of translation, which were particularly apparent when he originally intended to use only small portions of a particular US regulation. When taken out of context, short foreign words, phrases and sentences are more likely to lose their original meaning in translation, and as a consequence, the related concepts and even wider contexts may be lost. In an effort to minimise this risk in his drafts, Kurosawa abandoned his original intention to translate only small portions of the US regulations and he ended up translating them at a large scale. Kurosawa admitted and regretted that he could not modify the US regulations to the extent that he wished, and that the First Division did not have enough time to develop an original Japanese system that would better fit Japanese business conventions (Kurosawa and Aizaki, 1964).

In fact, similar phenomena abounded throughout the statistical and accounting reforms, starting with the arrival of the USSBS which set out detailed accounting rules for small- and medium-sized companies. The problem of translation seemed to be taken for granted as a common technical problem and thus it was taken less seriously. However, Sapir's following comment alerts us to the significant risk of such mistreatment. While he introduced national accounting to Japanese economists and carried out its implementation, he stressed the importance of learning the notions of gross national product, etc..<sup>34</sup> However he also noted:

[m]ention ought to be made of the particular importance of the language barrier in carrying on the work. The process of interpretation via third parties, however skilful, is at best a creaking tool for the job of communication. This is especially so with respect to abstract conceptual discussions, matters of definition, and the like. Unfortunately the glib use of terms like "national income," "profits," "wages" and so on makes no allowance for the different cultural contexts in which these terms are used in Japan and the united states; it is easy therefore to reach apparent understandings on meanings of terms when in fact the waters of incomprehensibility run deep. Three months was too short a period in which satisfactorily even to make a fair start toward lieking [sic.] the basic problem of communication of ideas' (Sapir, July 1947, p. I; underline in original.).

In the case of the statistical reform, what followed was the employment of talented English-speakers such as Tsuru and Takahashi to overcome the linguistic difficulties. However, what Sapir suggested was that English was not a neutral means of communication.

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<sup>34</sup> 'The Japanese have never been familiar with the concept or made any estimates of the gross national product. In recent years, it has become in recent years one of the most important ways of analyzing the structure and workings of the economy in Western countries and is an important aid to government policy making. For Japan to develop good national product estimates will involve many new statistical programs and series not now available' (Sapir, July 1947, p.19).

With limited negotiation time, native speakers of English had potential advantages in that they could better convey their ideas to other parties (i.e., Keynesian rather than Marxist in the case of statistical reform; see Part I, Section 3.). Kurosawa's aforementioned experience also suggests that the conveyance of even a small idea tends to entail importing the framework and context in which the small idea was set.

The following event illustrates a similar condition in which external audit by Certified Public Accountants (CPA) came to be introduced to Japan where traditionally no practice or even the notion of external auditing existed in the business. In the middle of 1946, the Ministry of Finance urgently needed to implement a system to liquidate securities worth ¥24.5 billion that had come into the Government's possession during the process of the Zaibatsu dissolution. By September 1946, the Ministry of Finance already had a draft for the Securities and Exchange Law, and it came to be enacted in March 1947 (Chiba, August 1998, p. 154). T. F. Adams' memorandum in the Finance Division of the ESS entitled, "Summary of Securities and Exchange Bill" reveals that the ESS envisaged equipping the Securities Administrative Office with jurisdiction similar in many respects to the US Securities and Exchange Commission (Adams, 9 January, 1947). Half a year later, after the Japanese had unilaterally drafted some proposed amendments to address apparent deficiencies of the Bill, Adams' behaviour was, as described below, probably politically incorrect. However, he still managed to keep his preferred US regulations in Japan. Okamura, who drafted the revised Bill, recounts the incident as follows:-

In November 1947, he (Adams) brought us an English draft of the revised Bill, ... and requested us to translate it into Japanese by the end of the year. ... But what we found was that the new Bill did not consider the coherence with the other Japanese laws, such as the Civil Law and the Commercial Law. Also, we found a lot of contradictions within the revised Bill itself. ... Therefore, we changed about two thirds of the draft, ... based on our thoughts to satisfy the coherence with the other laws. ... When we came back with our draft, the GHQ was so furious that they almost threw away the draft and we were nearly kicked out from the office (Cited in Chiba, August 1998, pp. 156-7; Suzuki's trans.).

Of course, this may be an extreme case and the extremity was exacerbated by the power of the Occupation. However, it was also to do with the power of language. If the communication had been held in the Japanese language, the need for the revision to maintain the coherence between the other Japanese laws would have been better explained and pursued. However, the English language made this almost impossible, as it required more than neutral translation of context-free words. In order to rectify the problems of Adams' draft, all the relevant laws, regulations and even their background contexts had to be translated - then they would have had to be read, studied and understood by the US officials, which obviously required too much time and effort. It was also clear that there were only a small number of legal experts who had a good command of English. In negotiations, what counts is immediate, accurate and detailed responses. The fact that communication had to be conducted in English implicitly set limitations on the Japanese, restricting how, and thus in many cases, to what they the Japanese could agree and disagree with. As Sapir put it, language was a 'basic problem of communication of ideas' (Sapir, July 1947, p.1), but it could also be exploited as an implicit but powerful tool to convey ideas that the US preferred.

In May 1948, the Japanese saw the passing of the new Bill which drew a parallel with the US Securities and Exchange Act (1934). The major issue of concern for accountants was that Article 193 predicted the introduction of the statutory audit: '[the] Securities and Exchange Commission can set forth the regulation that requires Balance Sheet, Profit and Loss Statement and other financial statements to be audited by Certified Public Accountants'. Previously, however, there was only little demand for and tradition of audit in Japan. There were a small number of professional accountants known as *Keirishi* (regulated in 1927),

however they were financial consultants, rather than auditors, performing advisory services in bookkeeping, cost management and secretarial management. As Sapir noted, management of the large Japanese companies in the pre-war period was satisfactorily executed by the “well-kept secret” which did not go along well with the external audit. The development of the Zaibatsu was supported largely by family-blood relationships and government connections (Morris-Suzuki, 1989a and b). The Japanese business system had evolved into a co-operative “internalised” and “trusting” one rather than one that required independent “external checks” and a rigid audit system as was the case in the US (Sakagami, Yoshimi and Okano, 1999).

In response to this Article, the preparation of the CPA Law and *Auditing Standards* became an important task, which was soon delegated to Iwao Iwata who chaired the Third Division of the Investigation Committee. The efficient way to implement the new external audit system was again to reproduce the equivalent CPA regulations that had already existed in the US (Kurosawa & Iwata. (n.d.)). As we see below (Figure 3-2), a number of English terms and *Katakana* were used in Iwata’s early drafts of *Auditing Standards*, which illustrates the process of replicating terms and notions found in the US regulations.

**[Insert Fig. 3-1 (Early Draft of Japanese GAAP) about here]**

**[Insert Fig. 3-2 (Draft of Audit Standards) about here]**

The CPAs Law was enacted in July 1948. The role of CPAs has come to be defined in the same way as that of CPAs in the US. By now, not only the regulatory texts but also academic papers, textbooks, business magazines, newspapers, etc. define the Japanese corporate disclosure system in a framework centred around external auditing by CPAs. However, at that time, the question of whether or not this framework would suit Japanese business practices was largely disregarded, as the emphasis was on achieving swift diffusion of the US inspired disclosure system on paper. As a consequence, there were three revisions to the Law within one year, and four further revisions in the subsequent year (Chiba, August 1998).<sup>35</sup>

For statisticians and economists, auditing appeared to be able to provide a reliable microfoundation for macroeconomic data. The Rice Statistical Mission had already pointed out in 1947 that in the US, both corporate and national economic data, were audited and therefore offered a reliable and an official foundation for public administration (Rice, 1947). Similarly, Sapir advised that corporate accounts should be audited to create a mechanism for constant checks on the raw data of national accounting (Sapir, July 1947). The ESS officers also saw the need for large Zaibatsu companies to be watched by the external audit to eliminate some of the secrecy. The introduction of audit practice was, therefore, generally welcomed by the statisticians and also by Kurosawa.

Through such processes of implementing modern accounting regulations, the delineations of Japanese firms and industries which we now take for granted gradually emerged. Today, aggregated and categorised data of firms and industries are just a matter of routine compilation. Just about half a century ago, however, they were almost virtually non-existent. In order to compile the corporate profit data for the national income data, tax reports

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<sup>35</sup> Detailed examinations of Japanese audit practices are still rare (c.f., Yoshimi, 2002). If problems exist between the actual audit practices and the stated regulation and framework, the historical investigation of the origin of Japanese auditing as set out here should offer a useful starting point for further research. What appears to be idiosyncratic features of Japanese accounting including auditing is, paradoxically but by definition, much to do with international standardization of accounting.

were used, but ‘[s]urely no one believe[d] these [we]re reliable reports’, as the profits were largely understated to reduce tax (Huber, 30 August 1950, p. 8; anon. Ministry of Finance, n.d. (c.1949), appendix: Financial Summary Data). Swanson was concerned that:-

‘[a]t present the questions involving corporate operations and structure cannot be intelligently answered, and government decisions affecting corporations are based on opinions growing out of political pressure and personal feeling – not on facts.’ (Swanson, 26 August 1949, p. 1.).

‘The Tokyo exchange employs ten statisticians, but their work is concentrated on stock exchange prices, volume of trade, and related market data. SEC has only one statistician. No statistics are compiled on the semiannual financial reports. In fact no government agency compiles data on aggregate corporate sales, cost of sales, earnings, and capital formation. This and other gaps in statistical data were brought to the attention of the Statistical Committee more than a year ago ... The only attempt to provide such data came from the Finance Ministry Research Section, ...’ (Swanson, 3 October 1950).<sup>36</sup>

From about June 1946, the Ministry of Finance, under the supervision of the ESS, planned to conduct a large-scale corporate statistical survey. The process of this survey and its principal results are well illustrated, for example, in the ‘Financial Trends of Japanese Industrial Companies 1937 to 1947 (500 Largest Companies)’ (ibid.), “Trends of the Financial Ratios of 650 Large Japanese Companies” (Swanson 3 August, 1949), and similar surveys in subsequent years, all of which benefited greatly from the new standardized accounting. In order to collect accurate data (or desired data for the US officials), ‘[a]ll the information was obtained directly from the companies’. The Corporate Branch of the ESS achieved this by preparing ‘a questionnaire which included a request for a summary balance sheet and a summary statement of operations’ (anon. Ministry of Finance, n.d., c.1949, p. 1 and Appendix: Financial Summary Data.). This was accompanied by detailed instructions for the preparation of financial statements and the standardized form of the financial statements (See a very early version in Fig. 1-1 & 1-2). Once standardized forms (in which, for instance, current and fixed assets and liabilities are clearly distinguished) were distributed, completed and collected, common financial ratios as seen today, such as current ratio, came to be calculated (See Fig. 4-1). Note, however, that the Japanese at that time were not accustomed to the notion of the current/fixed distinction (see the quote from “Murase, November 16, 1948” in Part II, Section 2). Through carefully considered accounting forms, numbers of new epistemic and managerial measures, such as ROE and ROA, came to be calculable. The survey was modelled on the method and data used by the US Securities and Exchange Commission as well as Moody’s Investors Service, which of course enhanced US officials’ understanding and facilitated easier international comparisons (anon. Ministry of Finance, n.d., c.1949, p.1.). Once data were collected from all the major companies (e.g., Fig. 4-2 & 4-3), they were categorised, aggregated to the industrial level, tabulated and graphed (Fig. 4-4, 4-5 & 4-6) in the way that the data were initially used to analyse war finance, and later to analyse the industrial structure for future economic planning purposes.

In this sense, unlike the pre-war “well-kept” secret formation, accounting started actively forming knowledge about the functioning of firms, industries and the economy in the

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<sup>36</sup> Cf. ‘National Income Division [of the Japanese Ministry of Finance - Suzuki] included, early in 1947 about 20 people, including professional and clerical. The head of each of the four units is a university graduate, but in no case apparently is he really trained either as an economist or statistician.’ (Sapir, July 1947, p.4; Underline in original).

particular way that the standard forms allow. Each different section of the economy has come to be periodically presented, aggregated and connected in ways which clarify their functions in relation to the plans for and control of the whole economy by the government. Recall the first *Weekly Summary of Economic Conditions* (Research and Statistics Division, ESS, GHQ, Allied Powers, October 21-27, 1945), cited at the beginning of this paper in Part I, in which no financial data were available. It cannot be overemphasised that the above arrangement of new data marked a revolutionary shift in the cognition and control of the Japanese economy.

**[Insert Fig. 4-1 (Introduction of Financial Ratios) about here]**

**[Insert Fig. 4-2 (10-year standardised FS data collection) about here]**

**[Insert Fig. 4-3 (IBM Aggregation Table) about here]**

**[Insert Fig. 4-4 (Pre-Survey Industrial Data) about here]**

**[Insert Fig. 4-5 (Graphed companies' performance) about here]**

**[Insert Fig. 4-6 (Flow-chart of Japanese industry) about here]**

## **2 Education: Making the public accustomed to accounting as a new epistemic mode**

The US' interest in the management of the macroeconomy first led to the reform of large company accounting. However, small- and medium-sized companies' accounting practices also had to be taken into account. This was because smaller businesses must have contributed towards a significant part of Japanese national income and such statistics were scarcer than those of large companies. Smaller sections were also important because in order to harness the democratic force within the Japanese economy, the government should have endeavoured to assist their growth. For Kurosawa, accounting education for smaller businesses and the public was another key to success for management of the economy, as it is the public who recognise the state of their economy on the basis of standardized accounting (Sapir, M. Statistical Mission to Japan, April 1947). For the Statistical Mission, the family-based secret management was the root of unsatisfactory business records that prevented the efficient collection of macroeconomic data.

‘There is no sector of national income currently more important than the net profits of entrepreneurs (chiefly small unincorporated business men, but including also independent professional men). Yet it is literally true that there are no direct data, complete or partial, past or current, which can be relied on to show the level, composition or trend of entrepreneurial income’ (Sapir, July 1947, p. 15).

The rudimentary nature of bookkeeping in Japanese business and the almost whimsical attitude towards it is strikingly illustrated by ... Mr. X (owner of a factory where he hired 47 workers) maintains no regular set of books or accounts, and carries all these various transactions largely in his head. When asked if he didn't feel the need for a bookkeeper, Mr. X – educated in American colleges – agreed he did, and explained he had in fact been constantly on the look-out for some family relative (sic!) with such training and experience (ibid. p. 16; Parentheses in original).

The deficiency of the tax system was also of particular concern to Sapir. His view was that ‘only when all or the major parts of the corporate business community are compelled to make complete returns of gross income, costs and net income for tax purposes, on the basis of a well-drawn tax statute can we hope to have complete, reliable, and consistent statistics’ (ibid., p 14). But the Japanese corporate tax reports were ‘virtually useless because of grave defects and loopholes in the tax laws and laxness in tax collection and administration’. The same is true for individual income taxes, for sales and excise taxes, etc. Without extensive overhauling and tightening up of the Japanese fiscal system there was little use in trying to utilize the records and reports for analytical purposes’ (ibid., p.9). The reporting and collection of personal income taxes was ‘so haphazard and inefficient in Japan that the tax

records, even if they were systematically tabulated and analyzed, would be practically worthless statistically for estimating wages or anything else. In fact they [were] generally piled up in the Ministry of Finance and never analyzed' (ibid., p12).

Such observations led Sapir and other key economic statisticians to believe that a fundamental education in standardized accounting practices, specifically designed for smaller businesses, was necessary. As a result, manuals for small-firm accounting were crafted along with Carl Shoup's Tax scheme, whilst vocational education for students and business people was provided.

In late 1947, in order to make economic statistics more reliable, Takahasi recommended that the *Instructions for the Preparation of Industrial Financial Statements* should apply not only to "Restricted Companies (i.e., large Zaibatsu-related companies)" but also to the other ordinary firms. But this aim was not realised at that time because Hessler and Murase thought of the *Instruction* as tentative and only applicable to large Zaibatsu companies. The quality of *Instruction* was 'not sophisticated enough to form the basis for all companies' accounting' (Murase, 1958). M. Hashimoto, a colleague of Takahashi and an advisor for the ESS, requested the Association of Industrial Accounting to revise the *Instructions* (Kurosawa, 1979j, No. 10, p.99). This task was eventually taken over by the Investigation Committee. Out of gratitude to L. Q. Moss, Chief of the Professional Education Section, for his help in organising the Conference on Accounting Standards and Education which led to the establishment of the Investigation Committee (See Part I, Section 4), Ueno himself took responsibility for the education division (Kurosawa, 1979j, No. 10, p. 99). Under the leadership of Ueno, the Second Division of the Committee was placed in charge of accounting education, particularly that which concerned small- and medium-sized companies.

In March 1949, the Second Division summarised the economic condition of small- and medium-sized companies in the draft of *Essentials of Simplified Retail Store Bookkeeping*. The following paragraph points out that accounting was not practised to the degree necessary to establish an autonomous financial system. The lack of financial data was not due to isolated faults of individual corporations, but rather, it was due to the fact that Japanese firms as a whole did not have a tradition of representing and supporting themselves based on trustworthy accounting to the extent that it made banking loans and fair tax collection possible.

Despite the fact that the small and medium-sized enterprisers in our country are playing a very important part in our economic recovery, they are now facing very serious financial difficulties. ... which chiefly originate from the following causes:-

(a) Our bankers are reluctant to finance the small and medium-sized enterprisers mainly because of the fact that their financial conditions are unascertainable for lack of any reliable financial statements.

(b) The extremely heavy tax levied on their incomes is fixed by haggling between tax-payers and revenue officers as the majority of tax-payers do not keep their books of account at all and no reliable figures are available to ascertain the exact amounts of taxable income. (anon. (probably Nakanishi, Nabejima, and Kurosawa), March 1949, Suzuki's translation; emphasis added).

Note here that the banking system, for instance, was considered to be an important pillar of high economic growth after the war, which would not have been possible without accounting education.

Despite the urgent need for reform, Ueno once again faced interference from the Ministry of Finance which insisted upon its exclusive control over financial matters. This time, Ueno turned to Shoup Tax Mission to source for political backing. Following

recommendations made by Gilbert, Rice and Sapir, the US Government sent Carl Shoup as Chief of the Tax Mission in 1949. In September 1949, Shoup published the *Report on Japanese Taxation*, in which he supported the role of the Investigation Committee as a standard setter.

“[a]n organized effort must be made to improve Japanese accounting practices. A start in this direction has been made by the formation of the Committee for the Improvement of Accounting Standards (i.e., Investigation Committee – Suzuki). This Committee should continue to function as an independent advisory group, upon which would be represented those interests, Government and private, that are concerned with the subject of accounting standards. In particular, the Tax Administration Agency should be represented on that Committee. (Shoup Mission, 20 Sept. 1949, sec. Improvement of Accounting Standards and Practices).

This reaffirmed that the Investigation Committee had legitimate control over other institutions such as the Ministry of Finance in preparing accounting standards.<sup>37</sup> Tsuru and the members of the Investigation Committee collaborated with the Shoup Mission, and they eventually came up with what is now known as the Blue Income Return system in December 1949.<sup>38</sup>

There are two points to be noted with regards to this new system. Firstly, as the Preface to the *Shoup Report* stated, the aim of the Blue Income Return was ‘to recommend a modern system, which depends upon the *willingness of business men* [sic] and all taxpayers of substantial means to keep books and to reason carefully about some fairly complicated issues of equity’ (Shoup Mission, 20 Sept. 1949. Emphasis added). Following the Allied Powers’ occupation policy to cultivate a “democratic economic force” in Japan, the tax system was revamped on the basis of business people’s *willingness* to calculate their own income and tax based on accounting. It was revolutionary for the Japanese in the sense that the new tax was based on a “self-assessment” principle under which taxpayers managed their own books. Kurosawa noted, ‘nowadays, everyone takes the self-assessment system for granted, but it was absolutely unfamiliar for both the tax authorities and tax payers’ (Kurosawa 1979k, No. 11, p. 98).<sup>39</sup>

Secondly, as we see in his *Principles of National Income Analysis* (1947) and “Development and Use of National Income Data” (1948), for example, Shoup was another

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<sup>37</sup> Kurosawa acknowledged that ‘the original idea of an Accounting Committee as a standard setting body had been almost turned down but was saved by L. Q. Moss to survive as an educational institution [1947; See Part I, Section 4]. This time, thanks to the Shoup Plan [1949], we recovered our status as a committee for accounting standards’ (Kurosawa 1979l, No. 12, p. 99, Suzuki’s trans.). With Shoup’s help, Ueno sought further help from the ESS: ‘...[the] Research Committee (i.e., Investigation Committee - Suzuki) was established in the Economic Stabilization Board in June last year in compliance with the suggestion of the interested offices of [the] ESS as an organ preparatory to the establishment of a permanent organization on improvement of business accounting system. But no actions have been taken so far for the establishment of a permanent organization mainly on account of administrative retrenchment and reduction of public expenditures. ... In view, however, of the recommendations of the Shoup Tax Mission on the improvement of accounting system, and with a view to expediting the establishment and maintenance of business accounting standards, it is considered appropriate to reorganize and strengthen the Research Committee along the following lines and your kind consideration in this respect is cordially requested’ (Ueno, 5 November 1949, pp.1-2).

<sup>38</sup> The name of Blue Income Return comes from the colour of the return form, which remains the same till today.

<sup>39</sup> The unreasonably high tax levying, due partly to the untrustworthiness of accounting records, is a common problem that some developing and transitional economies, such as the Russian economy, currently face. Although this point goes beyond the scope of this paper, for those who are interested in the developing and transitional economies, I believe, there is much to be learnt from the history of Japanese accounting and economic growth.

one of the small number of national accounting experts in the US at that time. The Japanese tax system was designed in such a way that tax return data served national accounting, taxation and public finance. Taken together, these two points illustrate the manner in which tax data are collected automatically based on the willingness of the business community, thus contributing towards the establishment of the microfoundation of macroeconomic data (See also Part II, Section 2 and 4).

The reformers efforts did not stop at setting the standards on paper. In order to ensure completion of the Blue Income Return by smaller businesses, the Second Division arranged special education programmes for the smaller businesses and the public. Its major tasks were the publication of a standard textbook and follow-up on-the-job-training. As a subject taught in Japanese high schools, bookkeeping has proven much more popular than economics as the former is perceived to equip graduates with more practical skills upon leaving school. Unlike in many other developed countries, economics courses are rarely taught in Japanese high schools. Therefore, it has been through accounting courses that students learn the workings of enterprises.

The development process of the standard textbook was monitored closely by the ESS officials. For instance, all the contents (i.e., three Vols.) of the textbook were translated into English, approved in advance, and reviewed according to the directions given by Frank A. March (Murase, n.d. (c. 1948-9)). For instance:-

‘I have run through the textbooks, ... A strong objection may be raised by some teachers that it is too early in this stage to teach the students to classify the assets into current assets and fixed assets. However, I am of the opinion that the students of Accounting should be taught from the beginning to make the classification of the assets when they are going to prepare any balance sheet. ...’ (Murase, November 16, 1948)

As exemplified in the above and following stenographic records, when the Division worked on the content of the standard accounting textbook, it clearly kept in mind students’ cognitive processes, and the epistemology of economic reality and the way in which accounting impacted upon it (Kigyo Kaikei Seido Taisaku Chosa-kai, 17/02/1949). Shinobu Imai initiated the drafting of the standard high school textbook and curriculum. He planned to start with a petty cash book and household account book; however, Kurosawa and Ueno opposed to the strategy.

**Imai:** I started from a petty cash book – the most familiar form of money management. I wanted students to think of management in a simpler way, to work things out for themselves and progress from there through trial and error. I have also included the use of the household account book to guide them from the familiar to the new...

**Kurosawa:** I think, the petty cash and the household account books are essentially different from enterprise accounting in nature. While book-keeping education aims to teach enterprise accounting, the petty cash and household account books do not and therefore, it would be inappropriate to use the two to fulfil the same objective.

**Ueno:** Since double-entry bookkeeping has been a *globally shared system or institution* that has been used to describe the workings of enterprises, *it is better to “imprint” students with this idea of double-entry bookkeeping as a given method, from the very beginning.* (Kigyo Kaikei Seido Taisaku Chosa-kai, 17/02/1949, Suzuki’s translation; emphasis added.)

Later, Ueno and Kurosawa were appointed members of the Committee for Approved Textbooks in the Ministry of Education, and Kurosawa drafted the first official guideline for the teaching of bookkeeping at school (Kurosawa, 1979j, No. 10, p.101). Accordingly, any

option or alternative descriptive mode was not provided to students. Priority was given to the unified and internationally shared method of modern accounting. Analogous to one's mother tongue, accounting has become a given means of communication that implicitly directs the public to see economic issues as a formal and financial matter (anon. (Nakanishi, Nabejima, Kurosawa), March 1949).

Having handed over such textbook issues to the Ministry of Education, the Second Division then concentrated on professional education, adult education and the On-the-Job-Training (Kurosawa, 1979j, Vol. 31, No. 10, p.101). Two academic accountants, T. Nakanishi and T. Nabejima, were appointed to the committee of standard accounting for small- and medium-sized companies. Under the supervisory leadership of Ueno and Kurosawa, they started drafting the standard accounting methods and procedures from April 1949. Within half a year, the *Essentials of Bookkeeping for Small and Medium-sized Companies*<sup>40</sup> was published as a basis for the Blue Income Return, which was expected to be enforced in December 1949. 'This booklet became the best seller of the time', for every enterprise came to have a duty to calculate tax according to proper bookkeeping guidelines (Kurosawa 1980b, No. 2, p. 81). In this way, double-entry bookkeeping came to be the principal method even within smaller businesses. Similarly, even for those who were not 'well versed in the theory of double entry bookkeeping', it was soon adopted as a matter of routine practice (anon. probably Nakanishi, Nabejima, Kurosawa, March 1949, p. 2).

In order to achieve standardized accounting practices as well as an applied understanding of them in practice, Kurosawa even provided lectures to students, business people and professionals, for little and often no financial reward. For example, the "Report on Lectures of *Business Accounting Principles*" shows that at least 32 Lectures were organised for business people in July and August 1949, not only in the bigger cities but also in local cities such as Takamatsu, Nagasaki, Muroran etc.. The lecturers were Ueno, Kurosawa, Iwata, and a few other academic accountants. They drew more than 10,000 audience members from all over the country. The lectures were on the significance of new regulations and concrete methods and procedures to be practiced by the audience (anon., 10/01/1949, Lecture of the *Business Accounting Principles*).<sup>41</sup>

This short description of the origin of modern accounting education, of course, does not represent the whole process by which double-entry bookkeeping and standardized accounting came to dominate the mode of economic description among the Japanese public. The scope of this paper is limited to showing how the foundation of standardized accounting was established; empirical tracing of how this foundation actually contributed to the subsequent growth of the Japanese economy requires further research. Yet the above is at least illustrative of how the public started becoming accustomed to the workings of enterprises through double-entry bookkeeping and the standardized accounting regulations that were recognised by Ueno as a 'globally shared' mode of democratic economics.<sup>42</sup>

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<sup>40</sup> "... it is absolutely necessary for them [the small- and medium-sized corporations and entrepreneurs] to have their books of accounts kept somehow or other as accurately as possible in case they are unable to afford the costs of employing bookkeepers, well versed in the theory of double entry bookkeeping; alternatively, they can keep their own books of account under the double entry system in order to tide over the financial difficulties they currently face. (anon. probably Nakanishi, Nabejima, Kurosawa, March 1949, p. 2)

<sup>41</sup> In order to disseminate information on accounting and promote the status of accountants, lectures were also given by the US officials. One of the lecture titles was "Opportunities of Accountants" in which students' and business persons' were encouraged to become professional accountant (anon. n.d. (c.1948-49)).

<sup>42</sup> Similarly, an ESS memorandum that records the discussions of the Investigation Committee (Swanson, 11 February 1949) reveals the "principles being used in the new outline" in the way that '[b]ookkeeping techniques [should be] taught before advanced theory' to get used to the world standard.

Suzuki (2003a) investigated theoretically how standardized financial accounting has turned out to be the common mode of modern economic society, in which factors such as “economists”, “form of accounts”, “aggregation”, “professionalisation of economic figuration”, “codification and regulation”, “textbooks”, “hardware and software”, “education” and so forth are considered to constitute a self-perpetuating apparatus that facilitates the prevalence and even incorrigibility of accounting. The above history, hopefully, provides some empirical materials for such an understanding. And perhaps, more importantly, it also provides a useful comparative basis for the current research on the implementation of IAS / IFRS in many countries.

### **3 Pragmatic Philosophy of Political Accounting or “Accountics”**

Recall the initial point when the US missions instructed Japanese statisticians to import the technology of national accounting from the West. The Japanese statisticians were willing to undertake statistical reform, however, they did not explicitly display leadership and attempt to utilise accounting frameworks for economic statistics (Nakamura, April 1958, p. 78). On the other hand, Ueno and Kurosawa displayed more active leadership in the reforms of corporate accounting. What was the background and motive, if any, that drove the key academic accountants to undertake the grand accounting reforms? Kurosawa in particular (more than Ueno who rather provided his authority based on seniority to a younger but capable scholar), seemed to have had his own ideas of remedying Japanese accounting, which was already suggested by the fact that he had had his own project of the Accounting Law and the Accounting Committee before Takahashi approached him (See Part I, Section 4; Kurosawa, 1980d, No. 4, p. 91).

In order to address this question, attention should first be directed to Kurosawa’s educational background and lifetime concern with the management of modern economic society. As an undergraduate, Kurosawa majored in sociology at Tokyo University, becoming conscious of the “autonomy” and “modernisation” of Japanese society. Having read A. Smith, K. Marx, E. Lederer, M. Weber, G. Simmel, E. Durkheim, W. Sombart and T. Veblen among others, Kurosawa drew an important characteristic of the modern society in the developed economy and business enterprises within it. Kurosawa’s undergraduate thesis was “On *The Theory of Moral Sentiments* (Adam Smith)” in which he addressed the mystery of the harmonic “order” of economic society maintained by the *invisible hand* (Kurosawa, 1965; Chiba, 1994, 1998, 1999a). In contrast to Japanese Imperialism, British civil society was seen as an ideal state in which democratic economic activities led to harmonious social order, i.e., the autonomy of the wide-range of social systems. The interpretation of Kurosawa’s social order or autonomy of economic society is largely open to discussion. However, it was clear that such an ideal state of economic society could not be achieved under Imperialism and the Zaibatsu domination (Kurosawa, n.d., (c.1945-48)). Since then, the autonomy of economic society and its development became a major concern in Kurosawa’s academic life.

Unlike the idealised British economy in which social order is co-ordinated by the *invisible hand*, actual economic development entails business cycles and crises, and therefore Kurosawa considered that it required some form of interventionism. In such a context, for Kurosawa, accounting appeared to be a critically important mechanism. Kurosawa explained this in his “The Controlled Economy and Accounting: 1-5 (Jan–May, 1938)”, in which he uncritically drew upon an almost unknown American accountant, or rather economist, W. C. Schluter 1890-1932 (Schluter, 1923, 1925, and particularly c1933). In *Economic Cycles and Crisis: An American Plan of Control* (c1933), Schluter tried to clarify that the profit-making enterprise system enhances the development of the national economy and brings social welfare (which Kurosawa called the “Anglo-American idea”), but it also accompanies

business cycles and crises. Profit-oriented commercial activities were not deemed undesirable, but ought to be managed to the extent that unwanted economic fluctuations and crises were avoided. Furthermore, under wartime economic conditions, there was a pragmatic need for economic control and price control. Traditional descriptive economics and *laissez-faire* philosophy, however, did not offer a satisfactory means to control business cycles, partly due to the lack of periodical monitoring.<sup>43</sup> Schluter proposed to make corporate accounts aggregate-able to the industry and national economic level so that individual business activities were captured in the framework of the national economy that is periodically monitored by economists.

As Schluter died at an early stage of his career, he did not appear to be the main figure in the development of the US national accounting. However his contribution in the early 1930s was one of the earliest attempts to develop the concept of national accounting for the purpose of controlling business cycles and crises (cf. e.g., Kuznets, 1936; Tinbergen, 1937, 1939a & b; Stone & Stone, 08/01/1938), which was almost completely disregarded by all but Kurosawa. Kurosawa was particularly attracted by Schluter's idea of accounting as a "socio-economic-business concept", by which Schluter meant that accounting can present economic activities at any level of society, economy and business in the aggregate-able form of standardized accounts. Despite such simplicity as an idea but such difficulty in practice, this method was important for Kurosawa as it explicitly suggested the linkage between the micro and macro economic entities, and implied possible means to control the economic society via individual firms' behaviour.

Kurosawa had actually developed his own faith in the accounting form before he encountered Schluter. In "Nature of Accounts" (1933), Kurosawa claimed that the fundamental feature of modern accounting lies in the form of standardized accounts that provides us with an epistemic framework or 'analytical method' of economic reality. Citing Sombart's well-known thesis on the concept of capital from *Der Moderne Kapitalismus*, he insisted that one can only understand the economy through accounts; without accounts, some economic concepts do not even exist (ibid., pp. 34-6; Sombart, 1924, Vol. II, No. 1, p. 112). Kurosawa went so far as to claim that the form of accounts gives the order of business community and economic society. Although this was not fully articulated in detail, it may be interpreted to mean the following:-<sup>44</sup>

In "On Thinking-via-Accounts: New Teaching Method of Accounting" (Kurosawa, July 1943), Kurosawa proposed a new educational curriculum that aimed to provide students with formally conceptualised knowledge of firms through the rationale of accounting. He did not doubt that the operations of enterprises and the economy could be best learnt through the form of accounts. Given that the complex phenomena surrounding modern businesses and economies were beyond intelligible description without the framework of accounts (Schluter,

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<sup>43</sup> 'Even if the traditional representation of the economy and business enterprises give certain type of understanding and explanation, they do not offer any concrete measure for the practical control, (Kurosawa, March 1938, p. 485).

<sup>44</sup> In contrast to practices in modern Western academia, Japanese academics, particularly senior authorities, used to assert their central themes without well-structured theories or evidence. Kurosawa was no exception. Evidence for this abounds. Many of his articles are very short essays containing only a few citations (some even were without citations), and most of them were published without any review process. A few important essays were left unfinished (e.g., 1933, 1941, 1943). Yet, these articles show, at the very least, the interest of and general methods of Kurosawa's thoughts about the management of economic society, which he once called political accounting or "Accountics".

c1933), the application of accounts provides business people with a set of selected important factors within which each factor maintains coherence with every other factor. Accounting conventions helped maintain a constant and disciplined rule-dependent practice of data collection (OaEED, 1946; Rice, 1947; Shoup, 1949). This formality of balanced accounts, the accounting period, the evaluation basis, the name of accounts as well as the scope of accounting entities helped put in place a system of checks between the entries of the accounts, and offered the means to bridge the micro and macro data (Schluter, c1933; Sapir, July 1947, Shoup, 1949, Bray & Stone, 1948; anon. (Probably Stone and Bray), n.d.).

For Kurosawa, observation and presentation of business mechanisms were not passive epistemological acts of receiving uncountable pieces of facts, but the active selection, classification and aggregation of them in the form of accounts, thereby making a pragmatically intelligible blueprint of the economy and its enterprises. In the new accounting system, anonymous and innumerable business people were expected to produce economic data through their own initiative (Rice, 1947; Shoup, 1949). They account for their own activities in relation to the role of government in managing the whole economy. Once standardized accounting started being practised, accounting's descriptive and explanatory power led business people to behave in ways that accounting rationales and criteria suggest they should. The accounting data are also the foundation of planning, control and consensus on economic policies. In this sense, accounting for Kurosawa appeared to be "democratic" and "scientific" (e.g., Preface of *Business Accounting Principles*). It is worth noting that the survey of the NARA archives reveal that the new guidelines, textbooks and curricula always refer to the morals, ethics as well as social and democratic characteristics of bookkeeping and accounting. For instance, one of the "Basic Principles" of the new guideline was '[t]o teach the social character of business management and the social and the moral characters of book-keeping and accounting' (anon. n.d. (c. 1948-49), p. 4). 'Moral responsibility and economic function in a democratic society as applied in accounting practices' were emphasised in the new accounting education. (Swanson, 11 February 1949, p.2)

In order to share the same economic order of business operations, Kurosawa concluded that accounts had to be standardized and diffused. Such a thought was most explicitly articulated in his article "On the significance of Standardizing Balance Sheets" (Kurosawa, March 1932). As no unified accounting practices were observed by Japanese enterprises, Kurosawa was of the opinion that standardized accounts had to be tightly regulated by statutory regulations and central institutes. His programme aimed to realise manageable economic order through practices of double-entry bookkeeping widely taught to the public (Kurosawa, July 1947). Apart from micro business organisations, Kurosawa also focused on accounting as a method for national income estimates and control, which is in fact one of the earliest introductions of national accounting to Japanese academia, even prior to its introduction by economists (Kurosawa, 1941; Kurabayashi, 1989, p. 22). Kurosawa named such a discipline political accounting, calculation economics or "Accountics".<sup>45</sup> Later, he came to be regarded as the father of a distinct school of accounting that is now sometimes called the Social Accounting School which explicitly directs attention to the role of accounting in bridging micro economic and macro social entities (e.g., Aizaki & Nose, 1971, Aizaki, 1964, 1990; Kurosawa & Aizaki, 1964).

Seen in this way, both Kurosawa's ideas and efforts were similar to those of Richard Stone and F. S. Bray who dreamt of reforming British corporate accounting for the sake of

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<sup>45</sup> The term possibly originates from an old German term "rechnungswirtschaftslehre". Kurosawa later used alternative terms such as Social Accounting and Welfare Accounting, all of which were named after subdivisions of economics: Political Economy, Social Economics and Welfare Economics.

national accounting in the 1940s (See the last three paragraphs of Part I, Section 4), Kurosawa himself noted this similarity (Kurosawa & Aizaki, 1964, pp. 105-6). Stone acknowledged that ‘... I first met Sewell Bray to whom I owe most of what I know about accounting from a technical point of view’ (Stone, 3<sup>rd</sup> Feb., 1954). Stone and Bray shared the same epistemology for macroeconomic management by accounting, and were of the opinion that quantitative data were most efficiently collected in the form of accounts because accounts automatically maintain coherence between entries (Bray, 1947, pp. 115-38; anon. (probably Bray and Stone)). They managed to establish the Central Statistical Office and *Economic White Paper* as a home for the British national accounting and management regime. Bray further tried to re-design company accounts for more efficient and autonomous economic data collection, but he failed (e.g., H. M. Treasury, 04/11/1948; also see Suzuki, 2003b). Commenting on this UK history, Kurosawa appreciated Bray’s contribution as ‘similar to mine’ and ‘significant as a long-term project’. However, he suggested that his approach was ‘too radical for the conservative British’ (Kurosawa & Aizaki, 1964, pp. 105-6).

In Japan, however, with the end of both Imperialism and the Zaibatsu domination as a result of the new Occupation policy of democracy, there was a good chance for Kurosawa to implement Accountics. Backed by the Occupation force, and sharing a similar philosophy of economic interventionism based on standardized accounting with US economists, Kurosawa devoted himself to implementing a series of accounting reforms.

To what extent, then, was Kurosawa’s effort to realise Accountics achieved? Toward the end of the Occupation, an officer of the ESS reported their overall achievement to Stuart Rice, the Chief of the Statistical Mission which initiated the Japanese statistical reform.

‘Sapir’s comment regarding accounting standards and practices are only too true, and deserve more emphasis in the report. Lack of uniform bookkeeping definitions and practices are serious obstacles to securing valid corporate statistics necessary for national income estimates and other related purposes. Some progress has, however, been made during the last few years in raising the professional standards for the CPA title. An active committee of Japanese accountants has worked hard with little or no assistance from the Occupation. In that respect I privately think ESS has missed a good opportunity, considering our major interests in the field – taxation and statistics. Bob Swanson of our office worked valiantly on a volunteer basis with the committee while he was here; but no serious recognition was ever given to the whole problem. Shoup in his reports has likewise been concerned by the state of affairs’ (Stevens, June 8, 1951, p. 2).

Kurosawa’s and his colleagues’ efforts were clearly acknowledged. As Kurosawa stated, ‘what was constructed in this period was not something that was imposed by the US’ (Kurosawa, 1979l, No. 12, p. 97). Rather, Kurosawa utilised the power of the authorities to realize his principle of Accountics. Stevens’ rather modest evaluation of the overall policy achievement can be put down to expectations: both the Statistical Mission and the ESS officers expected and hoped that Japan would establish the best possible centrally-systemised accounting system for macroeconomic management (Swanson, 15 August, 1950a, 22 September 1950; Stevens, June 8, 1951).

The aim of this section is not to judge whether Kurosawa’s belief in Accountics was right or wrong. We did not examine the methodological validity of Kurosawa’s Accountics (cf. Suzuki, 2003b, Section 4 for Stone’s methodology). The task of this section is to explore the pragmatism upon which a series of statistical and accounting reforms was based in a short period of time by only a limited number of key actors. At the risk of some oversimplification, the idea of Accountics came to be internationally shared by the following key actors: Keynes, Stone, Meade and Bray in the UK; Schluter, Galbraith, Gilbert, Rice, Sapir, Shoup and Swanson in the US; and Tsuru, Takahashi, Ueno and Kurosawa in Japan. There was an

international movement to standardize accounting for the sake of macroeconomic management. Japan's case was is one of special interest because the players explicitly intended to develop 'statistical habits of thought among the Japanese people' (Rice, 1947, p.9) in the way that people 'think through accounts' (Kurosawa, July, 1943). This was achieved through new laws, regulations and professional frameworks, standardized textbooks, curricula and free public lectures, and so forth, which ultimately constituted a grand social reform that took place amongst little attention.

#### **4 Evaluation: Making the history relevant to current issues in accounting.**

We do not observe businesses and economies *per se*, but we observe the data of them (Bogen, 1988). As financial data are so prevalent today, we no longer question the *raison d'etre* and the history of them. However, it was not long ago that non-numerical economics, which was dominant until the 1920s, was largely replaced with the highly quantitative and formalized discipline of modern economics and accounting (Cairncross, 1988; Fusfeld, 1981). Suzuki (2003a) attempted to explain theoretically the mechanism in which accounting came to be prevalent in modern economic management, drawing on abstract notions such as numerical notations, the power of balancing form, professionalization, indoctrination by education and regulations and so forth, all of which contributed to the intended consequence of economic governance by econocrats, as well as the unintended problem of "entrenchment" and "incurability" of the accounting framework. As a case study of such a theme, *The Keynesian Revolution from an Accounting Point of View: Epistemology of Economic Reality* (Suzuki, 2003b) articulated the process in which macroeconomics was developed in the UK and disseminated internationally via standardized accounting. This paper is a case study of this internationalization of standardized accounting; following the Anglo-American development of national accounting in the 1930s and early 1940s, Japan also came to share the standardized national and corporate accounting framework after 1945.

It is a history of about half a century ago, yet its significance in terms of epistemology and management of modern economic society is far from conclusive. It is indeed a matter of on-going investigation and evaluation. Rather than making any definite concluding remarks, this final section attempts to the summarise main points in a way that will make this history relevant to current and future issues in accounting, thereby evaluating and suggesting some practical relevance of this research.

In this paper, I tried to treat national and corporate accounting as a single entity, as they are clearly inter-connected under the same objective of macroeconomic management. Despite divergence when explored in detail, these two practices fall into the same category of a single discipline; accounting, if it is defined as a process of attributing standardized financial data with a balanced form of accounts to an explanandum, thereby disclosing at least *prima facie* coherent and official delineations of economic states which function as a basis of argumentation, calculation, planning and public consensus on economic issues (See also Miller (1990. p.316-7)). Accountics is a term which refers to an intention and programme that tries to strategically apply the above-defined accounting to a sphere where standardized accounting was not hitherto practised to the degree that reformers wished it to be.

What was remarkable in this history was the speed of the implementation process. Originating in 1941 in the UK, the Keynesian national accounting framework was introduced to Japan in 1945, and was followed by a series of wide-ranging reforms. Within five years of the end of the War, almost all the fundamental pillars of accounting regime were established. Some of the key factors that contributed to this swift implementation can be summarised as follows.

Firstly, there was a widely shared belief in the need for reforms towards international co-operation and democratic economic principles. It was just after the War ended, 'owing to the appearance of long-range bombers and atomic bombs,' which made not only reformers, but also the public feel 'something had to be changed' (Special Research Committee, August 1945-March 1946, p.6). Perhaps, not so much sophistication, but strong will to reconstruct the nation's economy based on international co-operation and democratic economic force is best represented in the following mimeographed report. In Introduction, the delegates agree that:-

'... political stability is impossible without the economic security of the people, and the world's peace cannot be maintained without the rational solution of economic problems among the nations, which fact is clearly recognized by the people of the world and their leaders: [sic.]

The Allied Powers, therefore in dealing with the post-war security of peace, have prepared sundry concrete measures, especially with regard to economic problems. This fact may mean that mankind is advancing from a stage where it is blindly controlled by economic phenomena to a stage where it tries to control them consciously.

... the prevention of human destruction by means of international co-operation will occupy a pre-eminent position in world politics in future, and thus the importance of a state, as an absolutely independent existence, is losing its significance, and the idea of world-state gaining ground' (ibid., p.6).

This mimeographed report was produced by the leading Japanese economists and government officials, including Tsuru, Takahashi and Ohuchi, who met 'about 40 times during the period between August, 1945 & March, 1946' in order to discuss the new course for the Japanese economic society economy (ibid., p. 2). Section 2, "Growing tendency towards international control of world economy", further articulated the need for economic control by international organisations and fostering democratic economic force. From this large-scale 'idea of the world-state' for the peace - such rhetoric appealed to Sapir and Kurosawa - internationalization of accounting as a *lingua franca* of the world seemed to have gained wider support (See Part I, Sections 3 & 4 and Part II, Sections 1 & 2).

Secondly, relatively small numbers of academics that believed in standardized accounting acted as reformers who skilfully utilised the ascendancy of institutions. The idea of economic management by standardized accounting was originally developed by academics, particularly by those in the UK and the US. Scholarly papers, monographs and conferences helped make the idea more international in the early 1940s. (e.g., Kuznets, 1936; Schluter, c1933; Patinkin, 1976; Suzuki, 2003b, Sections 6 and 7; See Part II, Section 3 for the case of Kurosawa). The idea started being operationalized swiftly by institutions such as the Central Statistical Office (UK), the League of Nations Statistical Office, the USSBS, the Statistical Mission, the ESS, the Shoup Tax Mission and the ESB, which exercised their power in the form of various recommendations, ordinances, regulations and laws. In this process, we hardly observed wider stakeholder consultations or democratic hearings afforded to interest groups as these must have been time-consuming and counter effective for the given purpose of the reformers. In order to gain the legitimacy to actualise their idea, academics attached themselves to the above institutions which officially existed to support "international co-operation", "democracy", "accountability", "economic growth", "induction of foreign investment," etc., which appeared to be, as mentioned above, incontestable social needs at that time.

Thirdly, as a mode of knowledge transfer, the implicit power of the English language seemed to be indispensable (Part I, Section 1). Given that English is used as a means of communication and negotiation within a limited time frame, the body of knowledge generated in English is likely to be passed on unilaterally to the non-English native speakers;

this is a one way transfer, it does not, however, occur the other way round. Translation of non-English to English requires extra effort, and resources, and is thus difficult to 'export'. On the other hand, to 'translate' even a small portion of English tends to entail 'importing' larger portions in which the small portion is contextually embedded. As a result, at least in part, large parts of the US financial regulations seemed to be 'exported' to Japan, despite the fact that Kurosawa originally wished to alter the regulations in a way that would better suit the Japanese business customs and traditions would be better represented.

However, as a fourth point, such a truthful and possibly scientific representation of business and economic entities was of only secondary importance (Part I, Section 3). As Swanson put it, what was pursued was political accounting, and the political accounting had to be "propagated":-

'We also have on file in our office several publications in Japanese which represent the breadth of propaganda outlets for accounting information. The word "propaganda" is used intentionally inasmuch as the principal barrier to be overcome in this field is the Japanese apathy toward the spread of the accounting "gospel". If the (Accounting - Suzuki) Committee were to devise the best standards in the world, they would be useless unless propagated. ... I cannot too strongly express the need for propagation of the accounting standards as they are developed; the encouragement to include bookkeeping in the curriculum of schools for both commercial and non-commercial students ...; proper teacher training; and establishment of extension and night courses for businessmen, government officials, teachers, and accountants' (Swanson, 15 August, 1950a).

Here, 'the best standards in the world' should be understood in relation to the standards' effectiveness in forming the governable structure in the new Japanese economy. In order to establish a governable and official order of economic activities, non-financial aspects, cultural values which traditionally defied quantification, were excluded altogether. Priority was instead given to the standardized quantification of business enterprises and the economy as a whole so that policy makers could handle the routine processes of aggregation, calculation, planning, discussion, disclosure and consensus more efficiently (See Suzuki 2003b, Section 4 for the case of UK reform). Therefore, the formal figuration of the Japanese economy was not a result of philosophical endeavour but as a result of pragmatic epistemology and administrative doctrine.

Finally, as noted in the above quote, indoctrination of the new accounting practices was an important part of Accountics (Part I, Section 2). Throughout statistical and accounting reforms, there was a clear intention to change the epistemological consonance among the public. Further, standard textbooks were prepared and higher education curricula were developed, public lectures were offered for free, and high social status was afforded to newly created statistical and accounting professions. The public came to be trained to explain their business operations and economic states in terms of accounting and statistical data, and if they were to do this well, they were awarded high marks in the public examinations, and were even given professional status. On one hand, reformers made a system in which financial data was autonomously generated, and on the other hand, they also educated the public who read the financial data, which was a necessary condition for public consensus on government economic policies.

How, then, have these reforms impacted upon our modern economic society? With respect to macroeconomic figuration and management, the main impacts are fairly uncontroversial. As intended, the data of large companies, industries and the national economy came to be readily available. Financial results of businesses have come to be centrally collected, and due to standardized classifications and forms, they are easily aggregated to the industrial and national levels (Part I, Section 1). Unlike physical units of measurement, the financial data allow different sections of the economy to be connected with

each other, an essential part of government economic planning. In order to claim that such standardized accounting and statistics contributed to the miracle growth of the Japanese economy in the 1960s and 70s, further empirical research is required. However, for example, the works of Kurabayashi, who was a key member of the Hitotsubashi School of Economics, the Government Economic Planning Board (i.e., the successor of ESB), and later the UN Statistical Office of which he was the Chief, are full of supporting evidence. In the series of government economic development measures, most notably the “Income Doubling Project” (1961-70), national accounting data were certainly essential for their success (Asano, 1961; Kurabayashi, 1964, 1971, 1974; Interview with Kurabayashi, 1998 & 2003).

The growth of the Japanese economy was also supported by the reforms of the microeconomic conditions. Although some doubts always exist about the quality of financial accounts, the situation has been much improved when compared to the pre-war conditions illustrated, as bankers were reluctant to provide finance due to the lack of reliable financial statements; extremely heavy tax was levied because majority of tax-payers did not keep their books (anon. (probably Nakanishi, Nabejima, and Kurosawa), March 1949); ‘standards of accounting are notably lax in Japan; there is no profession of certified public accountants, no real requirements for accountability of Japanese corporations to the stockholders or the government’ (Sapir, July 1947, p.14); and so forth. The public came to recognise the need for accountability, and thus tax was, and still is, calculated on self-assessment and regulated accounting basis. Again, further empirical research is required to trace and prove the causal relationship between these microeconomic improvements and economic growth. However, economic historians have already showed, for instance, that the improved banking credit system was an important factor that contributed to the high economic growth (e.g., Nose, 1970; Ueno, 1972; Okazaki, 1995).

From such perspectives, the implementation of Accountics can be considered “successful”, and this historical case can offer some germane suggestions to development issues of third-world countries and transitional economies. A number of econometric methods have already been proposed for developing countries, occasionally modelled on Japanese economic planning (Ishi, 1999; Morris-Suzuki, 1989a; Mizoguchi, 1995; Stone, 25 June, 1979). Many of them seem to presuppose an existence of standard economic data systems in less-developed nations. Hundreds of equations are applied to developing economies without examining whether or not the economic statistics are generated on the basis of well organised statistical institutions, statistics laws, corporate accounting regulations, textbooks, as well as the education of students and professionals. Although some appear aware of the importance and deficiencies of fundamental economic data (e.g., Srinivasan, 1994a, 1994b; Mizoguchi, 1995), none explicitly acknowledge the importance of, and need for accounting reforms. There seems to be some lessons to be learnt from the history of Japanese accounting, and such research would constitute the foundation of practically useful projects.

However, the “successful” implementation of Accountics is not without reservation. The “success” or the growth of the Japanese economy and enterprises are nearly always evaluated in accounting terms.<sup>46</sup> In other words, what national and corporate accounting take

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<sup>46</sup> For the macroeconomy, the notion of GDP is undoubtedly most popular term. For companies, Nikkei, for example, announces the best Japanese companies every year, according to their “most comprehensive 15 indices”, which is considered to be one of most authentic rankings of Japanese companies (NEEDS-CASMA). In 1999 and 2002, for instance, Nintendo, the computer game giant, won the first place. However, 14 out of the 15 indices are financial indices, and non-financial factors or “externalities” such as impacts on children’s psychological health are, of course, not accounted for.

as data determines the success or failure of economic operations. Presently dominant pictures of the Japanese economy and enterprises are rarely questioned, but they by no means guarantee transcendental truths, social welfare, public good and the like. Indeed, this is the reason why Simon Kuznets, who is considered to be the father of US national accounting, was not supportive of international and institutional standardisation of the national accounting regime (Part I, Section 2; Perlman & Marietta, 2004). While this point extends beyond the scope of this paper, two related points are worth bearing in mind.

At the macro level, Iochi, one of the Hitotsubashi School economists directly involved in the Government economic planning, stated that data have been ‘too successfully collected in the framework of accounting’ (Iochi, 1970). A large part of non-financial data remains sidelined to the entries of accounts (Iochi, 1972). Recent research suggests that ‘non-financial’ factors such as pollution, gender, environment, etc., of the economy and society have come to be of ever-growing importance in our economic life (e.g., Fisher and van Marrewijk, 1998; Waring, 1989; Nihon Keizai Shimbun, 1999). Since accounting has been employed as the official mode of economic epistemology and management, these problems have tended to be sidelined and left unaccounted for. Namely, while accounting creates visibility or presence, it also creates invisibility and absence that can be an important factor of social management, yet the government cannot propose appropriate actions. These are well recognised problems that economic statisticians including Richard Stone clearly acknowledged (Stone & Peasaran, 1991, p. 112, 1986; also a series of studies to amend the deficiencies of the national accounting framework in *Income and Wealth* series). If institutions cannot change their epistemological mode from accounting to something else, despite their recognition that important “externalities” such as CO<sub>2</sub> emission and greenhouse effect fall outside accounting frameworks, the institutions are considered “entrenched” in the accounting framework which has become “incorrigible” (Suzuki, 2003a, pp. 80-88; 2003b, Section 8).

At the micro level, Japanese financial accounting practices have often been the target of criticisms, particularly by international investors. According to the new regulations, published financial statements are generated for shareholders, investors, creditors, government, etc., based on the rationale of accountability. On the face of regulatory texts, the new system ensures that the operation of Japanese enterprises no longer remains secret. Beyond the surface, however, the traditional mode of secrecy may still continue. A series of financial scandals in the 1990s should be investigated in relation to this history of swift internationalization of accounting. For example, the *Financial Times* attests that ‘[a] successive collapses and scandals engulf the Japanese financial system it looks increasingly as though the external audit function, like so much else in Japanese business, is largely ceremonial’ (Financial Times, 26/11/1997). One of the few large-scale empirical tests suggests that it is highly likely that auditees chose CPAs who can be “internalised” for the convenience of the traditional Japanese management (Kobe Daigaku, 1991, pp. 56-60). It has also been frequently pointed out that large corporations, CPAs, the Japanese Institute of Certified Public Accountants and the Ministry of Finance colluded to conceal a series of recent financial scandals to maintain the credibility of the Japanese financial sector (e.g., Harris, Nakamae & Tett, 18/06/1999; Saiki, 1999, Saiki *et al.* 1999). In this case, under the leadership of the Ministry of Finance, auditors may have been “internalised” for the greater good of macroeconomic management. Although less-scholarly articles often point out these culturally idiosyncratic aspects of Japanese accounting, they are not fully articulated by well-

founded evidence. Research can be developed further in this area in future in relation to the revolutionary history of the Japanese disclosure system that this paper tried to illustrate in detail.

Finally, what may be the implication of this historical case to current IAS / IFRS issues? The development of IAS / IFRS had a rapid turn in the latter 1990s, and as of now, in 2005, IAS / IFRS is regarded as the quasi-global accounting standards, which seemed to have passed without much critical examination (Brown, 2004). Although IAS / IFRS may be the first plausible attempt to standardize corporate accounting at the global level, the trend of standardization and internationalization is not new. Indeed, between the two cases of the Japanese history and IAS / IFRS, we observe significant similarities and comparable features, which can offer useful foundation to examine how IAS / IFRS have been developed and what impacts they may cause. Some of the important similarities are summarised as follows.

Both in the Japanese and IAS / IFRS developments, relatively limited number of key actors, Anglo-American academic accountants (in particular, based on English language), led the international movement, often under the power of international and domestic institutions such as UN, IOSCO, EU Parliament, Accounting Standards Board Japan (ASBJ), etc... (cf the second and third points in the summary). For instance, IAS / IFRS, originally only a private sector voluntary regulation, turned out to be a quasi-law, as European Parliament voted on 14<sup>th</sup> January 2003 to approve the proposal for a Directive amending the European Union's Accounting Directives, which requires all EU companies listed on a regulated market to use IAS / IFRS from 2005 onwards. The International Accounting Standards Board (IASB) states that it ensures the democratic process in the regulation setting by gathering representatives from wider stakeholders in the Board, putting draft exposure systems in place, and letting decisions be made by the EU Parliament. On the face of it, these appear different from the Japanese historical case, and further, they comply the democratic process of international regulation setting. However, they may function as sophisticated rhetoric that enables the key actors to swiftly implement their preferred framework. In terms of the skilful utilization of institutional power, we have observed a series of political manoeuvres in the Japanese historical case. It is hoped that such historical knowledge provided and this comparative study would contribute to the future discussion on the democratic legitimacy of global regulation setting (Held, 2004).

However, such a concern about democratic legitimacy may not be a central issue for the IASB (cf. the forth point in the summary). Similar to the Japanese historical case, they use terms such as “transparency,” “international comparison” and “in the public interest” (IASB Foundation Constitution revised 2002, PART A, ‘Name and Objectives’). These proclaimed promises, however, do not mean that IAS / IFRS objectively reflect all culturally idiosyncratic business transactions. The Chairman of the IASB, is clear on this: “What we are doing at IASB is political accounting – it’s not just the technical side. You’ve got to get right out there and sell it” (Heffes, 2004, p. 17).<sup>47</sup> IAS / IFRS may have been also “propagated” to serve particular purposes that IASB pursues. These terms can be considered as rhetoric rather

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<sup>47</sup> See also the comment made by an “expert” who is believed to be one of ex-IASB members. “You shouldn’t put too much weight on different interest groups, you should be careful with this concept! It’s like the medical profession – within accounting we are seeking the truth, not over different interests. We seek the truth for a more efficient capital market. That is what the IASB is doing and not trying to be democratic. The best experts should be there. There are about 50 powerful men and women in the world. And what really is the contribution of developing countries? We know what is best and we can help the rest of the world with our standards. So we shouldn’t let developing countries interfere with the technical work.” (interview with an IASB expert) (Hallström, 2004, p. 126.).

than substantive objectives that grants IASB pragmatic legitimacy in pursuing their project, which is again a phenomenon observed in the Japanese historical case.

What is, then, the fundamental objective of the IAS / IFRS movement, if there is any? What is the internationally shared and enthusiastically supported aim of IAS / IFRS? On this point, unlike in post-war Japanese history, the fundamental context of IAS / IFRS (cf. the first point in the summary) is not always clear. The notion of international standardization of accounting seems to be largely taken for granted and regarded as if it is for the public benefit at a global and local levels. However this is a matter of intellectual examination, rather than one to be readily presumed.

Consider, for example, the case of China where the government has decided to transform its economic system from a communist economy to a market-based economy, thus arising a clear need to reform the country's accounting system. However, it does not immediately follow that China should adopt IAS / IFRS. They can come up with other accounting systems that may better suit local history, environments, needs and government policies. They may wish to develop a framework which is market-oriented, but not necessarily "democratic", if it is judged better for their people at least for now. Or, there may be an accounting framework through which 1.2 billion people's perception of companies is shaped in a specific way, thereby achieving China's long-term social goal. Such political judgement, of course, goes beyond the scope of this paper. However, if IAS / IFRS are introduced, these potentials will be undermined, and only particular interest groups such as international institutional investors and large companies, may benefit for many years to come. One of the major implications of the Japanese historical case is that standardized accounting, which is *prima facie* politically and socially neutral, can actually infuse notions such as Keynesian economic interventionism, public accountability, democracy, etc., by changing the public perception of firms' and the economy's functioning in relation to the government. Therefore, if IAS / IFRS are implemented in China only for short-sighted aims, such as the introduction of foreign capital, this can work against its peoples' long-term interest.

Regardless of such potential risks, newly developed textbooks, educational courses, professional qualifications and so forth have already started indoctrinating the value of IAS / IFRS (cf. the last point of the summary).<sup>48</sup> The risk of accounting entrenchment and incorrigibility can be significantly high due to the unprecedented scale of internationalization and development of information technology, which was not observed in the Japanese historical case. For instance, once XBRL (Extensible Business Reporting Language) is developed to the extent that all financial data becomes available on the Web, the pressure to adopt IAS / IFRS in many countries will certainly be enhanced, and a more-advanced phase of technological determination about how we see the companies will set in (e.g., Hannon, 2005). Although supporters of IAS / IFRS seem to believe in the notion of efficient markets where various views of a wide variety of participants contribute to perfect information, the trend is towards "monopoly of information" mode, i.e., IAS / IFRS, through which only a biased set of information is promoted. The more you standardize, the more you know? Or, the more you standardize, the less you know? The history of Japanese accounting, hopefully, hinted at the way in which such a question can be addressed. Standardised accounting can certainly promote transparency of international businesses and economies in the way that they are "economically true" (Suzuki, 2003a, pp. 88-90; 2003b, p. 507). However it can also cause invisibility and potentially unintended demerits for the wider stakeholders. When the

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<sup>48</sup> See IASB Website in which extensive educational programmes are introduced.

significance of intended consequences overrides that of the unintended, the propagation and indoctrination of standardised accounting may be justified. In the Japanese case, the “idea of world-state” and “macroeconomic control by standardized accounting for the peace” was the intended consequence, which seemed to have provided the legitimacy for various reforms. Whereas, what is the relevant philosophy of the current international standardisation of accounting? In considering these questions, the history of Japanese accounting and statistics reforms will hopefully offer a useful comparative base.

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implementation of national accounting in Japan.

Tsuru Shigeto (Professor Emeritus of Hitotsubashi University; Close friend of Galbraith; Deputy Chief of Economic Stabilization Board; Author of the first Japanese economic *White Paper*.) August 1998, a telephone interview (at International House of Japan, Tokyo). On the implementation of national accounting in Japan.

Yoshimasa Kurabayashi (Professor Emeritus of Hitotsubashi University; Former Chief of UN statistical office.) July 1998 at Toyo Eiwa University; 2003 at Hitotsubashi University).

Nobuko Nose (Late Professor of Economics at Himeji Dokkyo University. One of a few pioneers of national accounting in Japan): 3rd and 7<sup>th</sup> July, 1998, at Himeji Dokkyo University, Japan. On the development of Japanese national accounting, with particular reference to the transfer of knowledge from abroad.

Sir Alexander Kirkland Cairncross (Late Professor of Economics; known as Sir Alec Cairncross; After gaining postgraduate degree from Cambridge, he became a Lecturer/Professor/Fellow of Economics at Glasgow, Oxford, LSE, etc.; Economic Adviser to Board of Trade., HM Government, OEEC, etc.. Extensively published on the role of economists in the Government.): July 1997, at his home in Oxford, UK. On the development of national accounting and its impact on modern economics.

Nita Watts (Former Professor of Economics, Oxford; She also worked for the Government in which she helped developing national accounts): July 1997, at St. Hilda's College in Oxford, UK. On the development of national accounting and its impact on modern economics.

Hiroshi Nakamura (Former Professor of Economic Statistics; Daito Bunka University, Japan): July, 1998, at his home in Tokyo. On the development of Japanese economic statistics.

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