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by

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No. 2004-9

Working Paper Series in Economics

ISSN 1442 2980

<http://www.une.edu.au/febl/EconStud/wps.htm>

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A Public Choice Perspective on the Origins of the Pacific War

Brian Dollery and Zane Spindler**

Abstract

Existing historical literature on the origins of the Pacific War tends to focus on either international relationships between the great powers in the interwar period or on the role of domestic interest groups in Japan, especially the Imperial Army and Navy. An alternative to these predominantly narrative approaches resides in conceptualizing Japanese imperialism in terms of public choice theory. If both imperial expansion through armed conquest at the international level and domestic interest group rivalry for resources are seen as forms of rent-seeking behavior, then this can shed light on the debate surrounding the origins of the Pacific War.

Key Words: : Imperialism; Interest groups; Pacific War; Public choice; Rent seeking.

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1. INTRODUCTION

The nature of the Great War had profound effects on the strategic thinking of all belligerent nations. In Japan, the chief lesson to be drawn from the European conflict seems to have been an abiding belief that future hostilities between great powers would be protracted (Utley 1985). Moreover, nations that depended on other countries for key raw materials and essential manufactures would surely suffer the same fate as Germany in 1918. Given the paucity of natural resources possessed by Japan, it was thus essential that ‘the empire began to reorganize itself in a search for self-sufficiency’ (Barnhart 1987, p. 9).

Japan had already enjoyed considerable success in the acquisition of foreign territories through armed conflict. It had waged a short war with China (1894-1895) to secure colonial domination of Korea and Taiwan. A ruthless attack on Russia and the subsequent hostilities (1904-1905) had ended with control of southern Sakhalin Island and Imperial Russian concessions and areas of influence in both Manchuria and China proper. Moreover, half-hearted participation in World War I secured the German concession in Shandong as well as several important islands in German Micronesia. Thus, by 1918 the Japanese Empire ‘included Taiwan, Korea, the Pacific Island chains the Japanese called *Nan'yo*, the southern half of Sakhalin, as well as participation in the unequal treaty system in China’ (Young 1999, p.3-4).

The military occupation of northeast China in 1931 and the subsequent establishment of the puppet state of Manchukuo represented the first concrete step towards imperial advancement in the post-World War I period. A full-scale Sino-Japanese war followed in 1937 when Japan invaded central China and unsuccessfully attempted to control and pacify it. At the same time increasing tensions with the Soviet Union escalated to the point of military confrontation in which Japan suffered severe reversals (Morley 1980). Ongoing conflict in China, associated tensions with the United States and Great Britain, and growing resource shortages in Japan itself finally erupted in a Pacific-wide conflagration with the Japanese attack on Pearl Harbor in December 1941.

While the origins of the Pacific War have been the subject of exhaustive analysis by historians, no consensus has yet been achieved. Existing scholarly literature may be divided into two main strands (Komatsu 1999)¹. In the first place, some historians have sought to situate the causes of World War II in the Pacific in the context of international relations in the inter-war period (Akira 1987). In particular, relationships between the major colonial powers, especially Germany, Great Britain, Japan, the Soviet Union and the United States, have been employed to explain the Pacific War. By contrast, a second school of thought has focused on the behavior of various powerful interest groups in Japan as its primary engine of analysis (Barnhart

¹ See, for instance, Akira (1987, pp. 187-190) and Komatsu (1999, pp.348-374) for bibliographical details of this literature.

1987). However, with some exceptions (Moriyama 1990), historians in both camps have produced a predominantly narrative literature largely devoid of theoretical frameworks as organizing and explanatory tools. There is thus considerable scope to apply the conceptual techniques developed by economists, and especially public choice theorists, to the analysis of the origins of the Pacific War. This task forms the basis of the present paper.

Following the existing dual dimensions of the historical literature, it seems intuitively appealing to conceptualize the origins of the war in the Pacific in terms of rent-seeking behavior by the Japanese decision-makers² in their quest for economic autarky. At the international level, the Japanese Empire sought to expand its resource base through the conquest and colonization of adjacent territories. Since an alternative approach to securing the resources necessary for economic growth lay in international trade, armed aggression aimed at seizing rather than purchasing natural resources represents a form of rent seeking conduct. At the domestic level,

² Bix (2000) provides the basis for our treatment of national rent seeking as directed by the *Shōwa* Emperor, Hirohito, and his advisors. Their objective, as seen by Bix, was the maintenance and enhancement of the *Kokutai* ideology – *Kokutai* being Japan’s unique imperial system of national polity. The general-interest ideology that motivated and facilitated imperial rent seeking is described by Bix (2000, p. 10). As:

Centered on the imperial house, Kokutai meant the best possible principles of Japanese state and society...a new, spiritually driven, and powerful nationalism called “the imperial way,” kōdō, arose and spread widely. The “imperial way” was a motivating political theology sprung from the idea of the emperor as literally the living embodiment of Japan past and present, a paradigm of moral excellence all should follow. The term denoted a kind of ideological warfare but also...an action plan. It was designed to make Japan free of all externally derived isms, such as Western democracy, liberalism, individualism, and communism. Free to be itself only, the nation would regain self-esteem and be able to wage a “holy” wars of ideas against Western political doctrines.

competition amongst public bureaucracies, especially the Imperial Army and the Imperial Navy, for an increased share of the national budget, as well as competition between bureaucracies and industrial interest groups for scarce strategic materials, such as steel and oil, may also be characterized as rent seeking.³ This provides the theoretical framework for the present paper.

The paper itself is divided into three main parts. Section 2 provides a synoptic review of relevant historical developments prior to Pearl Harbor. Section 3 seeks to explain both domestic and international Japanese conduct as the outcome of rent seeking behavior. The paper ends with some brief concluding comments in section 4.

2. HISTORICAL DEVELOPMENTS

2.1. International Considerations

At the end of World War I, Japan was a fully-fledged and respected member of the international community of advanced powers. It was a signatory to a number of critical international treaties under the so-called ‘Washington system’ (Akira 1965), including naval disarmament and ‘nine-power’ cooperation in China, and a founding member of the new League of Nations. Japan was also an integral member of the international economic order centered on the Washington system: Based on currency convertibility at the gold standard, this system sought to foster world trade and investment.

³ We have dealt with bureaucratic aspects of this competition more deeply in Dollery, Spindler & Parsons 2004. Here we will concentrate on developing the rent-seeking paradigm instead. Complementary bureaucratic perspectives can be found in Breton & Wintrobe 1986, Clark 1997, Jackson 1982, Mueller 2003, and Niskanen 1994.

In essence, 'within the framework of the Washington treaties, the powers had by and large succeeded in stabilizing their mutual relations, putting a premium on economic rather than military issues as they dealt with one another, and co-opting Chinese nationalism by integrating the country step by step into a global economic order' (Akira 1987, p. 4-5).

However, from the end of the 1920s onwards, various events occurred that diminished Japanese acquiescence in the Washington system. In the first place, global economic crisis attendant upon the Wall Street 'crash' in October 1929 plunged Japan into deep recession. Unemployment exceeded a million workers, farm prices plunged, and exports declined drastically following the collapse of international silk market. Ineffective government monetary policies and an alarming deficit in the balance of payments saw mass demonstrations and other forms of widespread political discontent amongst the Japanese public. The time was thus ripe for extreme nationalist organizations, such the secret Cherry Blossom Society, to engage in political agitation. Participation in the global economy no longer seemed to advance Japanese interests.

Secondly, in 1930 the Japanese government signed the London naval arms limitation treaty that effectively entrenched the provisions of the earlier Washington treaty and left the Imperial Navy at a continuing disadvantage relative to the Royal Navy and the US Fleet. Already smarting naval officers split into 'fleet' and 'treaty' factions and the latter group

embarked on a vocal political campaign against the government on grounds that it had violated the Emperor's constitutional rights. Radical naval officers sought to manipulate volatile public opinion by arguing that international disarmament agreements had served only to weaken Japan against potential adversaries.

Finally, the gradual move towards the abrogation of extra-territoriality in China under the Washington system directly threatened Japanese interests in Manchuria. To Imperial Army officers, and especially officers in the Kwantung Army in Manchuria, Japanese participation in the Washington treaty system seemed inimical to the very existence of the Japanese Empire in China. Like their naval colleagues, they too were determined to use public discontent in the home islands in an effort to remove the yoke imposed by Japan's international treaties. Thus 'the thing to do, they reasoned, was not to seek to preserve Japanese interests within the existing system, but to act unilaterally and entrench Japanese power once and for all in Manchuria' (Akira 1987, p. 7).

With growing rage at the perceived disadvantages accruing to Japan from its membership of the Washington system, the stage was thus set for dramatic action. It came in the form of a fabricated attack on a railway line near Mukden in Manchuria on the 18 September 1931. Hostilities between Japan and China broke out almost immediately. The Mukden Incident marked an historic turning point in the relations between Japan and the other

great powers involved in China. It effectively led to a Japanese withdrawal from all its treaty obligations under the Washington system and its exit from the League of Nations. It also heralded a new dawn in Japanese politics: ‘when coupled with several army-inspired assassinations of political figures opposed to war, it brought about the end of political parties and began the military domination of government’ (Renzi & Roehrs 1991, p. 9).

The isolationist tendencies of Imperial Japan were by no means unique in the 1930s. In the aftermath of the Great Depression most industrialized powers had steadily withdrawn from the ideas underlying the Washington system, especially in the area of international trade, with tariff and other barriers on the increase everywhere. Moreover, military aggression was not solely limited to Japan: After all, Italy conquered Ethiopia and the Germans seized the Sudetenland and annexed Austria. Nevertheless, in comparison with other powers, the Japanese Empire pursued its goal of national self-sufficiency with much greater vigor and at a larger cost to itself. There was considerable irony in Japanese efforts aimed at imperial autarky: For instance, it has been estimated that ‘Japan’s rule cost it’s economy as much in iron ore and oil as it obtained from Manchuria’ (Renzi & Roehrs 1991, p. 9). Moreover, after the China Incident in 1937 provoked full-scale hostilities with China, American economic boycotts drastically worsened the economic position of Japan, particularly in terms of fuel oil.

In essence, the economic problems confronting Japanese policy makers in the 1930s revolved around the thorny issue of securing sufficient raw materials to facilitate rapid domestic economic growth while at the same time ensuring that adequate supplies existed to support prolonged military efforts at enlarging the imperial resource base through colonization. The proposed solutions to these problems were threefold: ‘stockpiling through purchases in the world market, direct investment in offshore extraction or production, or direct political control over resource-rich territory’ (Duus 1996, p. xvii). All three methods were tried during the 1920s and 1930s, with varying degrees of success.

An important question thus arises: Why did Japanese policy makers increasingly rely on the third option of armed conquest as the chief means of realizing autarkic self-sufficiency during the 1930s? Although the answer to this question is necessarily complex and multi-faceted, at least three factors seem critical. In the first place, the Washington system of international trade was progressively breaking down into a series of protected trade blocs that did not admit Japan, thus exacting a higher price from Japanese importers and exporters. Secondly, the mute response from the western powers to the seizure of Manchuria appeared to lower the costs of colonial acquisition by means of armed force. Finally, the growing potential for war in Europe, and the attendant fractures between European imperial powers, seemed to provide a ‘window of opportunity’ for Japan to exploit the apparent vacuum

in East Asia with comparative ease. Thus, in the language of economics, the international situation appeared to reduce the cost of armed colonial aggression relative to stockpiling and direct investment.

2.2. Domestic Considerations

Although their ability to propagate and popularize the notion in national politics remained weak during the 1920s, a significant number of military and civilian leaders nevertheless did their best to foster the idea that economic self-sufficiency was the key to national security for the Japanese Empire. For these men, the lesson of the First World War was startlingly clear and simple: ‘Future wars would be fought not only with guns but with the entire resources of nations, from engineers to doctors, from cotton to iron ore’. Thus ‘a nation that could not supply all of its needs in wartime, a nation that was vulnerable to economic pressure from other nations, would neither be truly secure nor truly sovereign’ (Barnhart 1987, p. 18).

We have argued that international factors, especially the onset of the Great Depression and the demise of the Washington system, served to make the climate of public opinion in Japan much more receptive to the critical importance of economic autarky as the foundation of imperial security. But domestic considerations also favored armed colonial expansion, not least maximizing behavior on the part of key interest groups in the Japanese polity.

Several historians have presented cogent arguments that the policy of aggressive territorial acquisition embarked upon in the 1930s enjoyed the support of a broad distributional coalition of important domestic interest groups. For example, Young (1999, p. 4) has contended that a triad of colonial aims embracing ‘military conquest, economic development, and mass migration’ forged a dominant constellation of military, business and popular interests that fuelled colonial expansion. Thus, ‘over a million Japanese soldiers, entrepreneurs and agricultural emigrants crossed the waters that separated Japan from the continent’ in a wave of enthusiasm ‘inspired by utopian visions of economic opportunity’. Similarly, Peter Duus (1996, p. xiv) has observed that ‘there is general agreement that one cannot explain the wartime empire simply as the work of the Japanese army’. Instead, ‘there emerged a coalition of pro-expansionist forces, whose conflicting demands were resolved not by mutual concession but by mutual inclusion’. This latter proposition is of critical importance since it explains why ‘instead of pursuing a manageable and minimal expansion agenda as the Meiji oligarchs had, the leaders in the 1930s and 1940s pursued a maximal and unmanageable one, as many of them knew even as they prepared to go to war with the United States in 1941’ (Duus 1996, p. xiv). Put differently, in order to maintain a distributional coalition of domestic interest groups intent on drastic and violent territorial imperialism each had to be offered substantial payoffs, even at the cost of war with America and

Great Britain. A brief evaluation of some pivotal interest groups can serve to illustrate this point.

In the first place, inter-service rivalry between the Imperial Japanese Army and the Imperial Japanese Navy over the size of their annual budgetary allocations has been recognized as a central causal factor in the Pacific War by a number of historians⁴. Moreover, once the Army finally usurped control of Manchuria by securing the abolition of the ‘three-in-one’ system in 1934 (Matsusaka 1996) and then embarked on the conquest of central China following the China Incident, the Navy faced strategic irrelevance and thus diminished budgets. As a consequence it developed the *hokushu nanshin* (defense in the north and advance in the south) doctrine as a counterweight to the Army’s *nanshu hokushin* (defense in the south and advance in the north) strategic plan (Frei 1991, p. 66). Under this doctrine, the Navy hoped to seize the resource-rich British Burma, Malaysia and Singapore, the Dutch East Indies, French Indochina and the American Philippines. By adopting this strategy the Navy could lay legitimate claim to the vast budgetary resources required to build a modern fleet of sufficient strength to defeat the Royal Navy and US Fleet. The outcome of inter-service rivalry in this instance exactly illustrates how the pro-imperialist coalition accommodated conflicting demands: The Army continued its

⁴ See, for instance, Barnhart (1987), Frei (1991) and Schencking (1998; 1999).

continental campaign in China at the price of acceptance of the Navy's 'southward advance' scheme, with all the fateful consequences this entailed.

Secondly, during the 1920s, the Japanese economy experienced rapid, but nonetheless sectorally uneven growth. A decade-long recession in agriculture, especially in rice production, had induced severe hardships in rural areas and raised the Malthusian specter of over-population. One way of solving the problem of rural poverty was to stimulate agricultural output in existing colonial possessions and simultaneously encourage the mass migration of peasant farmers to these colonies. Although in fact 'the expansion of the empire invariably created more employment opportunities for small shopkeepers, company employees, and petty officials than for sturdy farmer-settlers', nevertheless the perceived need for *lebensraum* 'was a significant factor in predisposing certain elements of the elite (mainly in the military, the economic bureaucracy, and the parties of the Left) toward expansion onto the continent' (Duus 1996, p. xv).

Third, the repercussions of the Great Depression on the Japanese economy were severe. Not only did the international economic downturn weaken export markets and thus curtail domestic economic growth in an environment of high unemployment and social unrest, but it also diminished investment opportunities in Japan itself. Colonial possessions therefore acquired much greater appeal to members of the industrial cartels that controlled much of the Japanese economy. The prospect of protected

markets abroad and the investment possibilities involved in the economic development of colonial territories must have seemed enticing. Moreover, the attendant benefits that could be derived from a massive program of rearmament by the ‘military-industrial complex’ of pre-Pacific War Imperial Japan would have been very attractive.

Fourthly, rapid economic growth in the post-World War I period had displaced textiles as the leading sector in the Japanese domestic economy in favor of heavy engineering that relied largely on imported raw materials, especially metals. With the collapse of the Washington system in the 1930s, the subsequent emergence of international trade blocs, and then American economic embargoes of strategic materials in 1939, the prospects of obtaining the requisite raw materials looked bleak. This appears to have persuaded key industry groups of the need to support the Navy’s *hokushu nanshin* doctrine.

Finally, there was a dramatic shift in imperial perspective that occurred with the winding down of the *Taishō* era of democratic evolution and national ambivalence under a sickly and weak emperor (Yoshihito, who died on December 25, 1926) and the rise of the Regency, followed by the *Shōwa* era, of a more robust emperor (Hirohito) trained and oriented to regain the Imperial prerogatives established during the *Meiji* era. (Bix 2000) The Imperial, political, and public perception of Japan’s *de jure* constitutional monarchy status changed from *de facto* Cabinet control of the

Emperor (with active party politics) to *de facto* Emperor control of the Cabinet (with an atrophy of party politics). From a public choice perspective, the government of *Shōwa* Japan was more like an evolving divine dictatorship – indeed, it was a special form of theocracy given the Emperor’s divine status at the head of Japan’s Shinto cult -- than an evolving representative democracy (at the stage of representative autocracy) as it was during the *Taishō* era.⁵

3. PUBLIC CHOICE PERSPECTIVES

Even dictators respond to, indeed often rely on, rent seekers, during the normal course of governance. In abnormal times, such as during war, rent-seeking behavior may be accentuated, both as a cause and a consequence.

⁵ Public choice modeling of dictatorship is best described in Wintrobe (1998) as summarized in Mueller (2003). As is clear from Bix’s (2000) analysis, starting in the Regency hiatus between the *Taishō* and *Shōwa* eras, and over the entire *Shōwa* era, as authorized by the Meiji Constitution of 1889, Hirohito increasingly assumed executive privileges (including ultimate authority over the military) without executive responsibility. That constitutionally mandated and cleverly exercised *de jure* and *de facto* asymmetrical power nexus would naturally tend to reduce risk aversion to the point of a risk preference. Hirohito, however, was methodically careful over tactical details, albeit lacking the strategic grasp of his *Meiji* Emperor grandfather. For example:

Yet Hirohito was rarely adequate when exceptionally strong personal leadership was needed to coordinate and control the decentralized power structure and mediate conflicts between general staffs and their ministries. Too inhibited and slow in producing ideas, he was never able to surmount rivalries between the military services and thereby maintain their unity of purpose and effort. This proved costly [In our terms, “rent-seeking waste”]. What Hirohito did was provide his chiefs of staff with continuous oversight based on his strong sense of responsibility for the empire and, ultimately, the interests of the imperial house [In our terms, “imperial rent seeking”] He also reinforced their belief in the inherent superiority of offense over defense. Optimistic by nature, he approached difficult military situations with the attitude that the troops could succeed if only they tried harder. On the other hand, before approving campaign plans he was habitually cautious. (Bix 2000, 439-41).

Also see Krauss (1995) for the changing role of Japanese bureaucracy since the *Meiji* era.

Here we will use the rent-seeking paradigm to analyze the effect of the various international and domestic developments during the 1920s and 1930s (discussed in the previous section) leading up to the Pacific War– a veritable political economy of war and peace. Our presentation follows, and extends, the model and methodology developed by Baysinger, *et. al.* (1980) to explain “mercantilism as a rent-seeking society”. We explain the rise of Japanese Imperialism as a rent-seeking enterprise. However, we only concentrate here on the “macro” or centrally-directed aspects of that enterprise, leaving the “micro” or internal aspects for future analysis. In order to explain this paradigm to those in disciplines other than economics, we will use the less formal methodology of verbal and graphical analysis.⁶

3.1. Rent and Rent-seeking

First, we will explain and illustrate the concepts of rents and rent seeking. Briefly, in economics a “rent” is a surplus of benefit over cost in some economic activity like employment, production, exchange, and/or consumption. Corresponding to these categories, there are factor, producer, trader, and consumer surpluses, respectively. A rent might only be temporary in a market period or short run – a so called “quasi-rent” – that can be reduced, or even eliminated, by competition over a longer run. Alternatively, a rent might be associated with a unique resource or a unique

⁶ Those interested in more mathematical formalism can refer to Katz *et. al.* 1990 and Mueller 2003, pp. 333-358, on rent seeking. Mueller 2003, pp. 53-56, on “redistribution as taking”, is somewhat parallel to our approach here.

natural or legal restriction that competition to capture the rent can not replicate or overcome directly.

If the property right (or “rent right”) to the resource or restriction is privately and securely held, competition to capture the rent simply capitalizes the rent into the price of the rent right. The result is an increase in net private and net social wealth. However, if the rent right is not privately and securely held – say, it is in the public domain or subject to government edict, competition to capture the rent must expend resources directly on private coercion (capture, theft, fraud, etc.) or indirectly on politics over public (that is, government) coercion (taking, taxation, and regulation).

Generally, it is the activity directed at public coercion that public choice refers to as rent seeking.⁷

Rent seekers’ access to the political process may be strictly limited, as in some systems of monarchy and autarchy, where those in privileged positions have an advantage over all others; less strictly limited, as in some representative democracies, where those special interest groups that can organize to lobby representatives have an advantage over those who cannot

⁷ Jagdish Bhagwati’s attempt to re-characterize “rent seeking” as DUPing, where DUP is the acronym for Directly Un-Productive activity, did not prove successful, though it did interject a note of humour into an otherwise serious business. Tullock’s (1967) original treatment of rent-seeking did not employ that term and did include theft as an example of the general phenomena.

so organize;⁸ or totally unlimited as in a direct democracy with unlimited franchise, where there may be rent-seeking competitions (or “wars”) of “all against all”. Fortune may also favor those rent-seekers whose special interest is served in the process of serving the “general interest”, so it is most rewarding to always cast a special interest as meeting some general interests, and general interest causes are typically supported by those whose special interests are rewarded thereby.⁹

While the “winner” of a rent-seeking competition may claim a rent, marginally diminished by her private cost of her rent-seeking activity, which can be capitalized as private wealth, the “losers” often incur costs, which in total can exceed the value of the rent. On balance, then unlimited, competitive rent seeking may be a zero sum, or even a negative sum, “game”, just like a lottery.¹⁰

The “rules of the game” (or the constitution) of government may be designed to limit rent-seeking competitions in order to avoid zero or negative sum contests over in-period legislation. However, then rent dissipation may regress to the constitutional design stage (See Spindler & de Vanssay 2003). When rent as a social surplus is dissipated in a competitive

⁸ See Olson (1971) for an analysis of the special interest basis for collective action.

⁹ For the rent-seeking role of ideology and the general interest see Spindler (2002).

¹⁰ In a lottery, players buy lottery tickets to “compete” for the prize(s) offered. Those who win a prize may have a net gain – the value of the prize less the value of the ticket – while all other “competitors” suffer a net loss. Adding all net gains and net losses of competitors nets out to zero – a zero-sum game – if the lottery is designed just to break even; it nets out to a negative amount (transferred to the lottery sponsors) – a zero sum game for the lottery ticket holders – if the lottery is designed to make a profit for its sponsors.

struggle over capturing rent rights in a natural or government-created commons (like the House of Commons), the result is what Garrett Hardin characterized as “a tragedy of the commons” (Hardin 1968). Many such “tragedies” occur out of sight of the general public; others, like a mutually devastating war, say the Pacific War, are hard to ignore – at least with respect to their physical, if not economic, consequences.

3.2. *The Methodology Examined*

Refer now to **Figure 1a**, which is the graph usually deployed to illustrate rent and rent seeking. The economic concepts of demand and supply are illustrated in **Figure 1a** as curves labeled respectively ***MV*** (for Marginal Value) and ***MC*** (for Marginal Cost, here, for the sake of graphical simplicity, assumed to be constant). Competition among suppliers and consumers leads to an equilibrium price (***P_e***) and output (***Q_o***) determined by the intersection of demand (***MV***) and supply (***MC***).

At this equilibrium, a surplus or rent exists that is typically claimed by consumers.¹¹ This rent, so-called “Consumers Surplus”, is the difference between what consumers are willing to pay (given by the ***MV*** curve) and what they actually have to pay (given by the ***MC*** curve). It can be denoted in

¹¹ Consumers claim this rent because it is actually internal to them as a notional value under the circumstances assumed here. Producers’ competition reduces their own return to equal their costs, so they collect no producer surplus or rent from their production activity as a result. There may be un-illustrated surpluses here, such as factor surplus, which arises when factor payments exceed factor cost – typically the case when factor supply curves are positively sloped.

Figure 1a as the triangular area bounded by the vertical axis, *MV*, and *MC*, and labeled “*Rent*”. This rent represents a net gain for society.¹²

Suppose now that a producer receives a right or franchise from the government to be the sole supplier of this product. This monopoly right can then be used to capture some or all of consumer surplus for producer surplus. One possibility is shown in *Figure 1a* where the producer is presumed to offer the product at a single price which maximizes producer surplus (more commonly called profit), given that consumers are free to choose any quantity at that price.

¹² If it were nominal (in terms of dollars) rather than notional (in terms of utility), this rent could also be capitalized as net wealth for society.

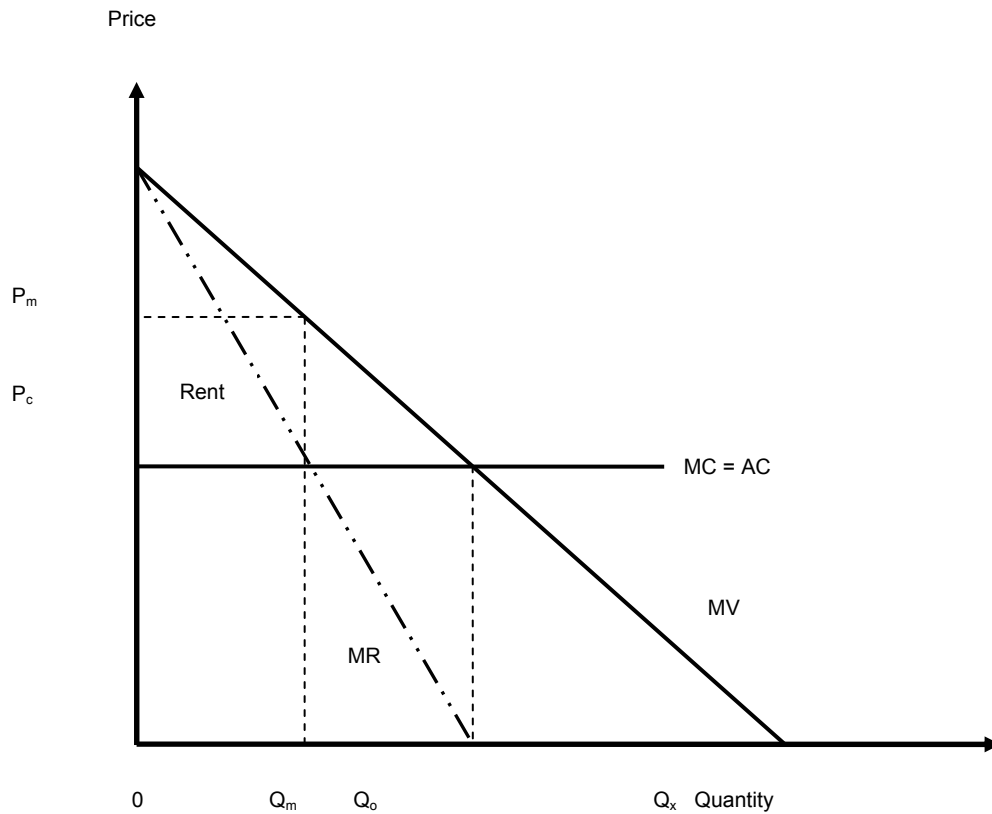


Figure 1a. Simple Rent Extraction

With this pricing strategy, the producer's marginal revenue curve falls (to MR) below the demand (or marginal value) curve (MV) and equilibrium occurs at a lower output (Q_m) and a higher price (P_m) than in the competitive case.¹³ Now consumers' surplus is reduced to the triangular

¹³ For a monopolist, profit is maximized at the output where the extra (or marginal) revenue gained from the last unit sold is just equal to the extra (or marginal) cost of producing that extra unit. Unlike a competitive firm that takes the price set by the market, a single-price monopoly firm has to consider that changing quantity changes price and, hence, revenue, not only on extra units sold, but also on all units sold. So marginal revenue falls below marginal value – that is, marginal revenue is less than price at any given quantity. Actually,

area bounded by the vertical axis, the MV curve, and the P_m price line. The part of the original consumers' surplus given by the rectangular area bounded by the vertical axis, MC , P_m and Q_m is now captured by the producer as producer's surplus, while the part of the original consumers' surplus given by the triangular area bounded by MV , MC , and the Q_m line is simply lost by consumers, producers, and society. Economists refer to this triangle as the Dead Weight Loss (**DWL**), which was once considered to be the only social cost of monopoly. This social loss provides an allocation inefficiency basis for economists' bias against monopoly.

However, this social loss would appear to evaporate if another pricing strategy is followed. If the monopolist used her franchise right to set both price and quantity via all or none offers or multi-part pricing, then her marginal revenue would be given by the MV curve, she would choose the same (efficient) output Q_o as under competition, and she would capture the entire surplus. That is, there would be no dead weight loss.¹⁴

This is illustrated in *Figure 1b*, which replicates *Figure 1a*, except for removing the MR curve (since marginal revenue is now given by MV) and adding the AV curve showing the Average Value associated with each quantity sold. This is sometimes called the "All or None" demand curve because it shows the average price (AP_m) paid at every quantity. Producer's

for straight line curves, the marginal revenue curve bisects the distance between the vertical axis and the demand (MV) curve.

¹⁴ See Spindler & de Vanssay (2000) for more extensive analysis of these strategies.

surplus is denoted by **Rent** and measured either by the rectangle bounded by the vertical axis, **MC**, the **AP_m** line and the **Q_o** line or by the triangle bounded by the vertical axis, **MV** and **MC**.

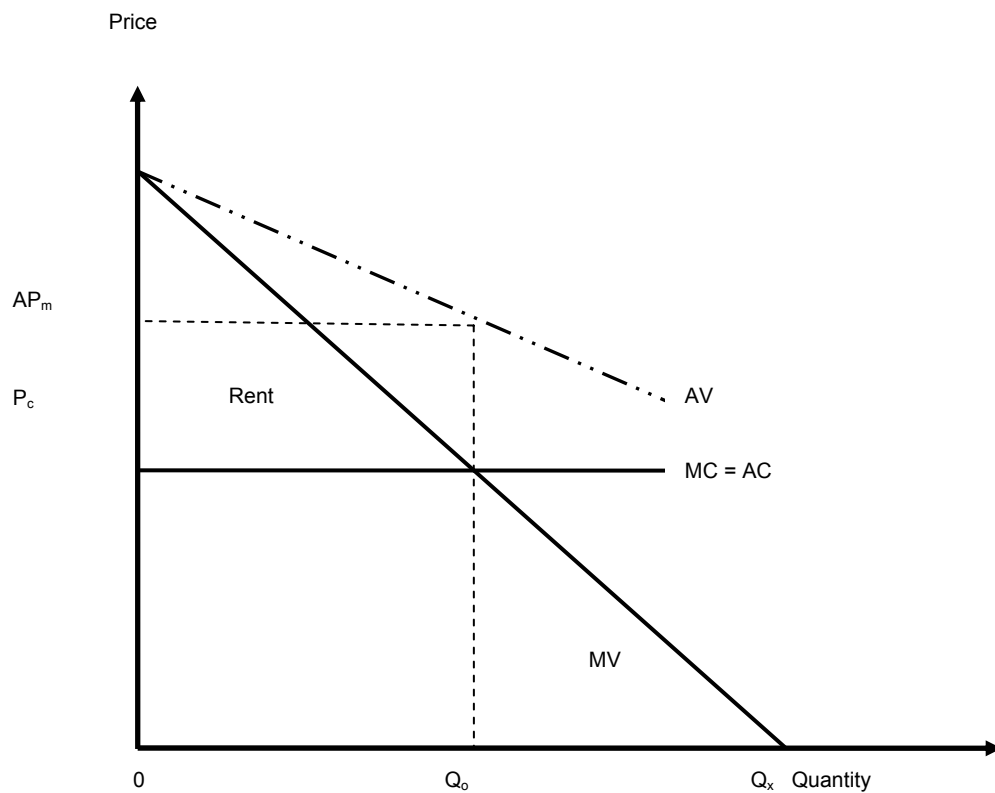


Figure 1b. Advanced Rent Extraction

Given that there is just a transfer of consumer surplus to producer's surplus without a dead weight loss, the latter monopoly pricing strategy is socially preferable on the basis of allocation efficiency although not perhaps

on the basis of distributional equity.¹⁵ However, this presumes that the monopoly right is gained without cost. As Tullock (1967) first pointed out, resource-using, competitive rent seeking imposes extra social costs, which at the limit, may totally dissipate the social surplus or rent.¹⁶

The structure of government is quite important in determining not only the extent and form of rent seeking, but also the extent to which rent seeking costs dissipate the rent (Baysinger *et. al.* 1980, Mueller 2003, Spindler & de Vanssay 2003). For example, in an absolute monarchy by divine right, the monarch could simply auction all conceivable franchises to the highest bidders, thereby extracting all rent for herself, with minimal resource cost (mainly for running the auction and specifying rent rights). In an ochlocracy (mob rule), each rent-seeker would have to exert physical force to capture and hold onto any rights whatsoever and that would surely exhaust all conceivable rents. Democracy, which sometimes operates like a divine-right monarchy and sometimes like mob rule, probably falls somewhere in between these extremes of rent maximization and rent dissipation.

¹⁵ Unless consumers owned the producer! It should be noted that the capitalized value of this rent when it is producer, rather than consumer, surplus, would represent a nominal increase in Social wealth.

¹⁶ When rent is totally dissipated by rent-seeking costs, the social costs of monopoly then can be considered to be the rent rectangle – called the “Tulluck Costs” of monopoly – as well as the DWL triangle.

3.3. *The Methodology Applied Generally*

Originally, the economic conceptualization of rent arose in the 19th century from David Ricardo's attempt to explain the division of national output between tenants who worked the land and received their marginal product in wages and landlords who owned the land and received as rent the residual left from the market value of the agricultural output after wages were paid to tenants. Land was considered the fixed factor – fixed perhaps by the nation's boundaries and topography. In this section, we will reverse that perspective by considering a nation's population, institutions and technology as fixed (or changing at fixed rates) and the geographical area over which it is sovereign as variable – indeed as a policy variable.

Figure 2a can be used to develop further the conceptual basis for a rent seeking analysis of the Pacific War. The horizontal axis measures the *Land*¹⁷ over which a state is sovereign. The vertical axis measures the net marginal (average) value of that sovereignty. The Net Marginal Value curve NMV_I is drawn assuming that the marginal costs of extending and maintaining sovereignty are subtracted from the marginal benefits of sovereignty so extended and maintained. The NAV_I curve is the Net Average Value curve associated with NMV_I .

¹⁷ Land here designates a geographical area which may cover and consist of actual land, sea, and/or air or space.

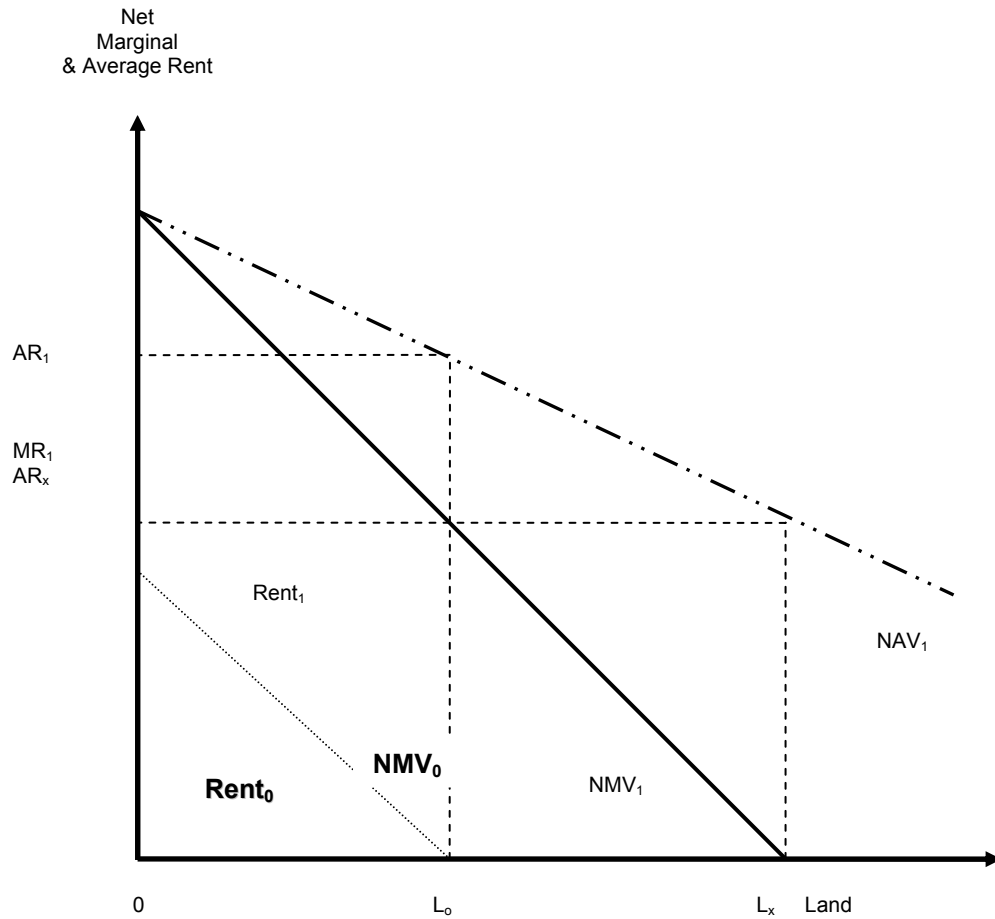


Figure 2a. Sovereignty Rent

The “Sovereignty Rent” is measured in *Figure 2a* as either the area under the *NMV* curve up to the quantity of *Land* over which sovereignty exists or could exist or, equivalently, as the area of the rectangle whose coordinates are given by the associated point on the *NAV* curve. For the curves *NMV₁* (*NAV₁*), Total Rent is designated as *Rent₁* in *Figure 2a*.

Sovereignty Rent is maximized when sovereignty is extended over land equal to L_x . An absolute monarch would choose that size for a nation given the characteristics that define the Net Marginal Value curve in this two-space of *Figure 2a*. Any other size nation, such as L_o , would not be optimal. However, L_o might have been optimal at some earlier date when the characteristics defining the Net Marginal Value curve were such that the curve was given by a lower curve such as NMV_o , with a lower associated rent $Rent_o$. Given the changed circumstances, it would then be optimal to increase the nation's size from L_o to L_x . This may be done by purchase,¹⁸ diplomacy,¹⁹ and/or invasion. The costs of such actions would decrease the net rent from expansion, so it would be important to pursue expansion via the least expensive method, at least from the standpoint of the decision-making monarch. From the social, in this case, international, perspective, any expansion method that did not involve voluntary exchange, would likely dissipate net sovereignty rents world-wide.

Similarly, sovereignty rents might be dissipated nationally if the monarch did not have the absolute control necessary to capture sovereignty rents in the most economical way, relying instead on resource using political interest-group competition to support the policy of national expansion. Bureaucratic and militaristic interest groups, whose own interests are best

¹⁸ As the US did with the Louisiana and Alaskan Purchases.

¹⁹ As in other exchange, nations could trade land (or other consideration, such as protectorate status) that they valued less, for land they valued more.

served by resource-using expansion of their organization, may successfully out-compete business and labour groups, whose own interests are best served by securing exclusive trading or employment rights and by avoiding surplus-reducing government expropriation directly (via takings of physical assets, as say land for military bases or human assets, as say through conscription) or indirectly (via increased taxation, and regulation). More costly methods of capturing sovereignty rents may be applied as a result and sovereignty rents might be entirely dissipated. The latter would be a special national case of “the tragedy of the commons” where average value, net of all costs including rent-seeking costs, would fall (actually, *NAV* would shift down) to zero in *Figure 2a*.

3.4. *Imperial Rent Seeking*

We can now apply this methodology to the origins and consequences of Japan’s pursuit of the Pacific War. The internal and external developments we noted in our second section can be interpreted as shifting out Japan’s perceived Net Marginal Value curve for geographical sovereignty, by either increasing perceived benefits or by reducing perceived costs.

For example, higher levels of unemployment occasioned by the Great Depression, and increased militarism and emperor devotion occasioned by the ascension of the *Shōwa* Emperor, arguably reduced the costs of territorial and military expansion, thereby shifting out the *NMV* curve. Japan’s technological and institutional advances – especially in

comparison with other Asian nations, and other nations' protectionism and sanctions against Japan, arguably increased the benefits of sovereignty relative to international trade, thereby further shifting out the *NMV* curve.

Thus, as perceived by Japan's power elite – the Emperor and the oligarchs surrounding him – territorial expansion likely promised net gains, both personal and national. Their personal gains – that is, their special interest – were made to appear consistent with the national gains – the general interest – through the promotion of the *kōdō* version of the *Kokutai* ideology.²⁰ The *Kokutai* ideology was the general-interest rationale for special-interest rent seeking in Japan – not only by the Emperor at the macro decision-making level, but also by those under him at the micro decision-making levels in bureaucracies (especially the military bureaucracies) and industries. As perceived by us, this all can be interpreted as shifting the *NMV* curve from NMV_0 to NMV_1 in *Figure 2a* or to NMV_J in *Figure 2b*.

Shifting to *Figure 2b*, we can now introduce more realism by considering that Japan was not alone in these sorts of calculations of national advantage. Other countries, notably the US and the UK, had also established areas of sovereignty in East Asia and/or were in the process of extending or contracting sovereignty. Let's call these countries the "Allies" and represent their initial interests by the Net Marginal Value curve NMV_A . This curve is graphed from a different origin (θ_A). Its distance from Japan's

²⁰ See again footnote 2.

origin ($\mathbf{0}_J$) represents the geographical area available to be divided between Japanese and Allied (or other, such as national) sovereignty.

If prior to the above mentioned historical developments of the 20s and 30s, which shifted Japan's NMV curve, Japan was in a temporary territorial equilibrium at L_{J0} while the Allies were also in a temporary territorial equilibrium at L_{A0} , there would still be some room (namely, L_J to L_{A0}) for territorial expansion by Japan (or the Allies) without impinging directly on the Allies' (Japan's) interests. Conceptually, this "room for territorial expansion" was what Japan exploited in Manchuria and China as a run-up to Pearl Harbor and the Pacific War.

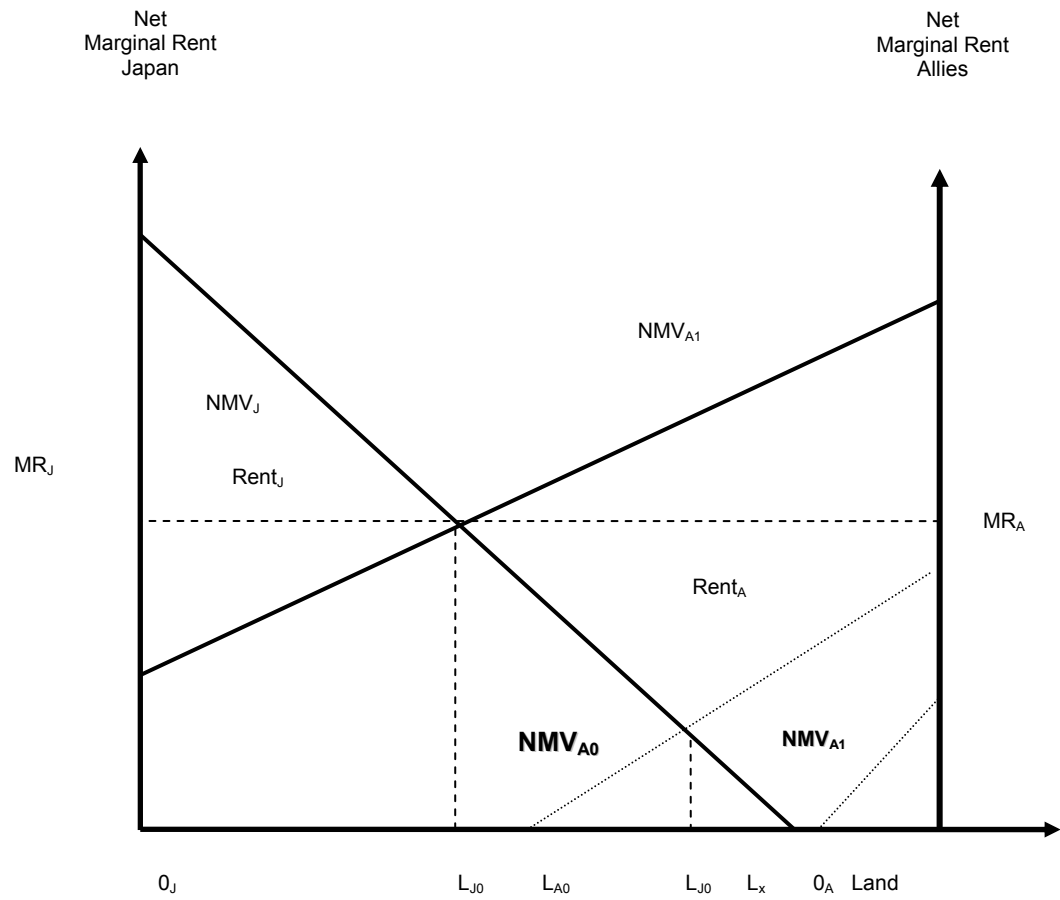


Figure 2b. Sovereignty Rent Competition

Eventually, however, Japan encountered and encroached on Allied interests, which, if the Allies persisted in protecting their interest via sanctions and outright war, would raise the cost of Japan reaching its “manifest destiny” at L_{JX} , and limit its territorial expansion to a lower level, such as A_{JI} in *Figure 2b*.

A potential strategy for avoiding such a limitation would be to suddenly raise the Allies costs of maintaining territorial sovereignty to such

a high level that the Allies' NMV curve would collapse either totally (as with the UK) or to NMV_{AI} (as with the US). That, in fact, was what the attacks on Pearl Harbor²¹, Hong Kong and Singapore achieved for the Japanese. If the UK, with its increasingly costly and declining empire and its involvement in the European War, had been Japan's only adversary, that strategy would likely have been successful in the much longer run. The US, however, had considerable slack resources along with technological and organizational capacity at the time, and its resolve for regaining and extending its sovereignty over the Pacific and East Asian was in fact strengthened by Japan's attack on Pearl Harbor.

Thus, the US was soon able to re-establish and expand its own NMV curve (to NMV_{AI}), and to increase its sovereignty rents, by defeating and limiting Japan to its initial sovereignty area under the provisions of the "Unconditional Surrender" imposed at the Pacific War's end. The following 6-year US military government, ongoing military occupation and the rewriting of the Japanese Constitution (especially with the famous, and continually contentious, Article 9, which renounced war), effectively limited

²¹ Unlike Hong Kong and Singapore, or the Philippines, there was no Japanese action to occupy Hawaii after the attack on Pearl Harbour. Attacking Pearl Harbour (as well as simultaneously attacking the Clark Air Base in central Luzon, as well as Guam, Wake, and capturing a US Gunboat off Shanghai. Bix 2000, 433-437) was clearly more than a "warning shot across the bow" of the US. Pearl Harbour was no doubt chosen for the concentration of the US Pacific Fleet ships there (only the aircraft carriers were unexpectedly missing) that were not on a sufficiently heightened state of alert. In retrospect, the Pearl Harbour attack was probably a miscalculation given that FDR so effectively used it to mobilized US popular support for war against Japan. Thus, from our perspective, while the Pearl Harbour attack may have been intended to lower the US' NMV curve, it ultimately raised it.

Japan's ability to extract sovereignty rents outside its existing domain by any means other than voluntary exchange. This long run equilibrium is denoted as occurring at L_{J0} in *Figure 2b*, where Japan and America's marginal rents (both as marginal returns and marginal costs) are equalized at MR_J and MR_A , respectively, or, alternatively, at L_{J0} in *Figure 3*, where Japan and America's respective NMV curves have been subtracted from each other to yield NMR_{J2} and NMR_{A2} , respectively, and a simpler hypothetical presentation of the actual outcome of the Pacific War.

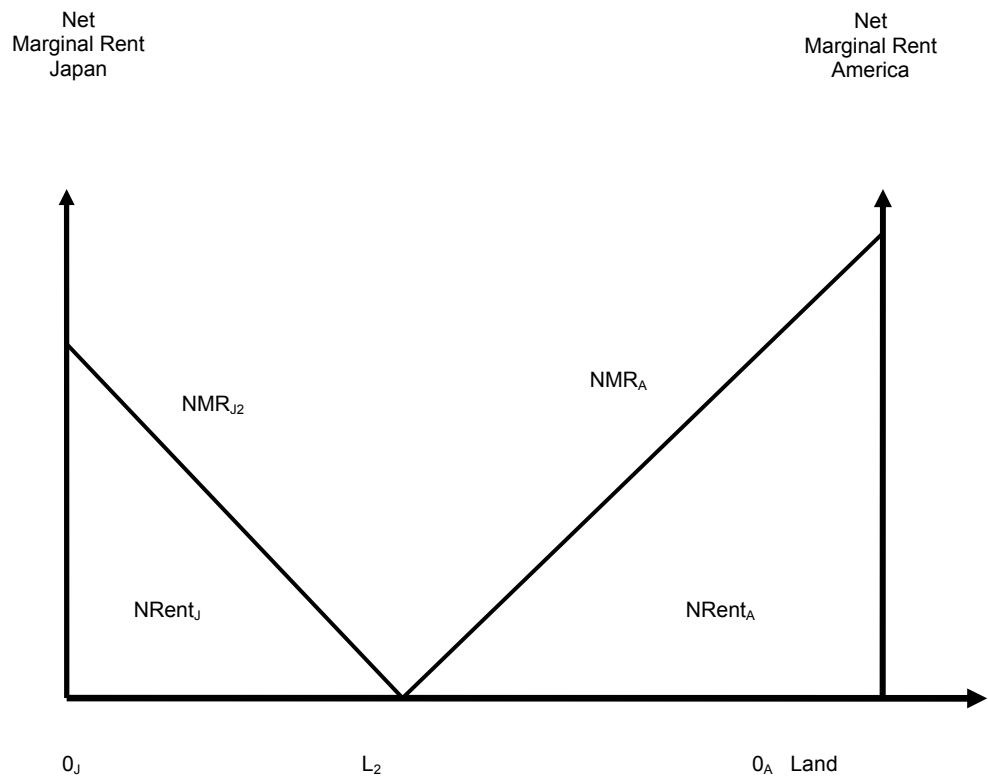


Figure 3. Sovereignty Rent Equilibrium

Moving from *Figure 2* to *Figure 3* implicitly recognizes the nature of sovereignty competition as creating an externality problem, with attendant and mutually imposed social costs.²² Unlike in some treatments of the externality problem, the so-called “third parties”, when they are sovereign nations, will not idly suffer the costs of externalities, but will demand compensation in one form or other or exert force if compensation is not forthcoming. Thus, in *Figure 2_b*, the area under America’s (Japan’s) *NMV* curve between θ_J and L_{J0} (L_{J0} and θ_A) represents a cost to Japan (America) of exerting sovereignty over its θ_J to L_{J0} (L_{J0} to θ_A) territory. Adjusting for these costs yields the Net Marginal Rent curves, *NMR_J* and *NMR_A*, in *Figure 3*, the area under which measures the remaining Net Rents for Japan and America, *NRent_J* and *NRent_A*, respectively. As shown in *Figure 3*, each country is now in equilibrium with respect to the area over which they enjoy sovereignty and sovereignty rents.²³

This analysis concentrates on inter-national rent seeking while it glosses over intra-national rent seeking where the deeper causes of the Pacific War, and its resolution to post-war spheres of sovereignty, may be further explored.²⁴ However, as a “broad brush” characterization, it

²² See Mueller, Chapter 2.

²³ For Japan, this geographical area includes only its own islands. For the US, this geographical area would include its Pacific island possessions (Guam, etc.), its de jure and de facto protectorates (South Korea, Taiwan, The Philippines, etc.), and the land, sea and air space over which it maintains a defensive shield.

²⁴ Future analysis of intra-national rent seeking in either Japan or America can draw theoretical inspiration from Mancur Olson (1971, 1982). Bix (2000) provides an excellent source on Japanese interest-group competition during the *Taishō* and *Shōwa* eras.

demonstrates the potential for deploying public choice concepts and methodology in understanding historical developments.

4. CONCLUDING REMARKS

The origins of the Pacific War are undoubtedly multifarious and involve the complex interplay of cultural, economic, social and other factors. Accordingly, we do not contend that the public choice approach to the complicated question presented here explains all, or even most, of the key elements leading to the cataclysm. However, it does offer a fresh analytical approach to the problem that contrasts with the orthodox narrative method followed by most historians. In particular, notwithstanding any descriptive inaccuracies that may flow from its reliance on the reductionist *homo economicus* postulate, it does possess the decided advantage of being able to impute the behavior of all individuals and interest groups to a common rational maximizing basis. Thus the calculus of human action can be adduced in a common framework without resort to *ad hoc* arguments derived from cultural ‘uniqueness’ that have so bedeviled Japanese studies.²⁵

It is easy to find contemporary examples of the unfortunate tendency to ‘exoticize’ Japanese society and thus render it immune to the standard

²⁵ We might further note that this rent-seeking approach can be applied more broadly to many “wars of opportunity” as, for example, to Iraq’s 1990 invasion and takeover of Kuwait. It can also be used to explain why some wars may be unsuccessful at permanently capturing rents because of encroachment on the rent-rights of other international rent-seekers/rent defenders, as well as because of internal dissipation. Again, Iraq, in both 1991 and 2003, provides an excellent example.

tools of rational analysis. For instance, in his *Dogs and Demons: The Fall of Modern Japan*, Kerr (2001, p.10) employs the thematic paradigm of immoderation to characterize 'Japan at the extremes'. Thus, 'once it has been set on a particular path, Japan tends to continue on that path until it reaches excesses that would be unthinkable in most other nations' (p.11). In the final analysis, this is due to a deep-seated 'cultural malaise' that arises 'because of a severe mismatch between Japan's bureaucratic systems and the realities of modern life' (p. 12). It seems to us that one of the benefits of using a more universal public choice approach is that it removes the possibility of using the exotic 'other' as an explanatory device.

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