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Introduction

Global Tax Reform and an Iconic Mission

Tax reform is now a global preoccupation. Almost everywhere severe financial crises, with their attendant fiscal stresses, and the drive to maintain or increase global competitiveness have led to intensifying, and often conflicting, demands for reforms of tax systems. Many reformers emphasize the need to reduce tax burdens on mobile capital and labor; others focus on increasing government revenues. Some believe that tax reform can simultaneously advance both international competitiveness and tax capacity. Others see conflict between these objectives, and look for taxation to help strike a balance between the homogenizing forces of globalization, on one hand, and the maintenance of distinctive economic, social, and cultural orders, on the other. Meanwhile, the severe underperformance of the global economy has led to widely differing diagnoses, which have dictated conflicting approaches to taxes and tax reform. Regardless of their concerns and strategies for change, tax reformers now intently seek out useful models and analogies, both rigorous and casual, in the experiences of other nations. This volume represents an effort to advance this learning process by exploring the history of the United States tax mission to Japan in 1949–50, during the American occupation (1945–52).

OVERVIEW OF THE SHOUP MISSION

General Douglas MacArthur, as Supreme Commander for the Allied Powers (SCAP) – in effect, proconsul of Japan – delegated public finance economist Carl S. Shoup (1902–2000), a professor at Columbia University, to head a mission to undertake a huge task – nothing less than a thoroughgoing reform of taxation in Japan.[1] Shoup's specific charge was

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to frame a tax system that both strengthened a democratic state and helped accelerate the pace of capital investment and economic development in that industrial nation.

The enormous challenge and opportunity attracted exceptional talent to the mission. Shoup was one of the most prominent public finance economists of his generation. MacArthur gave him great latitude in appointing the rest of the mission, and by the time he arrived in Tokyo in May 1949 he had recruited a stellar assemblage of interdisciplinary analysts of public finance. Shoup's key colleagues on the mission included economist William Vickrey, who went on to win the Nobel Prize in economics; Stanley Surrey, whose later career included service as assistant secretary of the U.S. Treasury for Tax Policy and over three decades at Harvard Law School; William Warren, who was a professor at Columbia Law School and later the school's dean; and Howard Bowen, an economist who later served as president of Grinnell College and the University of Iowa. At the same time, Shoup and the Japanese government recruited three gifted public finance economists from Japanese universities to collaborate with Shoup – Ito Hanya, Shiomi Sabaru, and Tsuru Shigeto. Ito and Shiomi were two of the most distinguished students of public finance in Japan, and Tsuru, who was the most junior of the three, went on to become one of Japan's foremost development economists and a powerful intellectual force in advancing global understanding of the Japanese economy. After the mission's members returned to the United States, Martin Bronfenbrenner, who was to become the leading American expert on Japanese economic development, arrived in Japan to help implement the Shoup recommendations. MacArthur assigned Harold Moss, a talented Internal Revenue Agent on loan from the U.S. Treasury, to lead in expediting the implementation of Shoup's program. Moss went on later in his career to create the Foreign Assistance Office of the U.S. Treasury Department.

During the summer of 1949, Shoup and his exceptional team spent about three months investigating tax in Japan. They continued their work, largely at home, for another year. From their Columbia University headquarters, the Americans provided advice to the occupation and the Japanese government, and then returned to Japan during the summer of 1950. After each of their two visits, Shoup and his colleagues filed extensive reports, the first of which, accompanied by a Japanese translation, become foundational in the knowledge base of the postwar tax community in Japan.[2] SCAP translated the first Shoup report into Japanese, and circulated thousands of copies within Japan as part of an even larger

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public relations effort to sell Shoup's reform program to the Japanese public. In its two reports, the Shoup mission emphasized sweeping, fundamental reform based on the adoption of comprehensive income taxation at the national level, some capital-favoring reforms at the same level, and greater fiscal autonomy at the local level. The central goal was to increase the fiscal capacity of Japanese democracy by increasing popular confidence in its tax system. In 1950, the Japanese government implemented most of the changes that the mission had proposed in its first report.

THE SIGNIFICANCE OF THE MISSION

The recommendations made by the Shoup mission and the subsequent reforms may well have constituted the most dramatic tax reform program ever launched in a modern industrial nation. For this reason alone, Shoup's mission is worthy of close study in the contemporary search for approaches to fundamental global tax reform. In addition, the work of the mission was distinctly transnational in character. As such, its history was part of the global exchange of tax ideas within what historians Holger Nehring and Florian Shui describe as the larger story of the development of "the processes of social and political self-observation which have characterized modern societies."[3] The work of the mission included a close, transnational collaboration between a group of both American and Japanese tax experts.

By 1949 the Japanese government had succeeded in expanding its power within the structure of the occupation, and during 1949 the government proved itself able to shape the contours of the process of tax reform that MacArthur and Shoup initiated. Japanese tax reformers, both inside and outside the government, used the Shoup mission, and the ideas of Shoup and his American colleagues, to advance their own intellectual and political agendas, which had their origins in the period before World War II. Thus, the mission's history may well be important for shedding light on the possibilities for international collaboration in fiscal reform.

The Shoup mission may have incorporated collaborative elements, but it was fundamentally, within the context of the American occupation, an instrument of reform designed to advance distinctly American goals for Japan's future. As such, it represented what was no doubt the most ambitious intervention ever by one industrial nation in another on behalf of fiscal reconstruction. This distinctly top-down aspect of the Shoup mission also makes its history important to the study of contemporary transnational reform. As a government-sponsored – more accurately, perhaps,

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government-owned – project, the Shoup mission was one of the many transnational efforts at tax reform that governments, quasigovernmental agencies, and influential private entities had begun organizing earlier in the modern industrial era and would continue to organize into the twenty-first century. Arguably, it has been the work of these tax missions that has dominated the history of transnational tax reform since at least World War II.

During the early twentieth century, international tax investigations had become largely the province of representatives of powerful nations seeking in various ways to consolidate their financial spheres of influence. Often the sponsors of these investigations, which provided "tax assistance" or "technical assistance," called the investigations "missions," thereby trying to cloak them in an aura of public service. Many such missions were only subsidiary components of larger missions, whose scope extended beyond tax reform to encompass wholesale restructuring of financial systems.[4] After World War I, the interest of the United States in such missions intensified. Its huge and largely successful financial effort during the war, the great competitive strength of the American economy, and the wartime transformation of the financial stake of Americans in the world motivated the U.S. government and American financial experts to increase their export of advice, and to focus that advice on strengthening international capital markets. During the 1920s, these financial missions focused on countries that were in debt to the United States – especially Latin American nations that were the recipients of huge inflows of American capital, and American trading partners, such as France, that had became vulnerable as a consequence of the U.S. policies of high tariffs, rapid return to the gold standard, and repayment of World War I debts. Tax reform often became an integral part of the financial advising, which became known as "money doctoring." The most prominent of the "money doctors" was Edwin Kemmerer of Princeton University. He and most of these "money doctors" represented American financial interests, and they often sought to strengthen tax systems in order to expedite the repayment of creditors. Within the financial missions, however, the Americans who were tax experts often used their training in institutional economics to seek reform that addressed problems of inequitable tax distribution, monopoly power, and flawed democracy. To them, redistribution of economic power could be a desirable objective of fiscal and tax policy. They believed that "tax doctoring" had a legitimate political as well as an economic purpose, and often they believed that promoting equity and fiscal capacity could work together. Greater tax equity and a government

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more committed to social justice, they believed, could increase public confidence in government and, thereby, strengthen the fiscal capacity, in turn strengthening the borrowing capacity of governments.

Stress during periods of international financial crisis usually increased the level of interest in financial missions, but this pattern did not hold during the 1930s. The collapse of international monetary arrangements became so severe during the global depression of the 1930s that the frequency and scale of financial missions declined. Meanwhile, American tax experts interested in international tax reform were paying increasing attention to long-run structural problems and the promotion of progressive social reform abroad. During the late 1930s, these tax experts began to develop an interest in helping the nations they studied to use their fiscal systems, including taxation, to employ Keynesian countercyclical policies. In so doing, reinforced by the international collapse, they set the stage for a shift in the conventional emphasis of financial missions from the imposition of conventional gold-standard globalism to the encouragement of Keynesian-style financial autonomy. Scholars have appropriately labeled the later shift as "embedded liberalism," and identified its most important locus as resting in the early post-1945 years. The shift, however, began before World War II. In light of this chronology, and the wider goals of many of the tax experts involved in these missions, we might reasonably take liberties with the useful concept of "embedded liberalism," expanding its reach and describing the overall orientation of the dual emphasis on progressive social policy and Keynesianism that emerged during the 1930s among tax experts as a kind "embedded progressivism."[5] Shoup went on his first tax mission (to France) during the late 1920s, and then participated in two more, both in Cuba, during the 1930s. This aspect of his career provided significant examples of the "embedded progressivism," at least of the social justice variety, and in the Japan mission Shoup and his colleagues embraced both elements of the expanded approach to tax reform.

Shoup's earlier experience on tax missions, coupled with the familiarity of Harold Moss (the U.S. Treasury official who was the dominant tax expert on MacArthur's staff) with prewar financial missions, contributed to the designation of Shoup's investigations as a "mission." MacArthur had described numerous groups of his advisors as working on missions. The international financial community did not have a monopoly on the "mission" rubric, however, and the Shoup mission differed in a fundamental way from many of the financial missions of the prewar years. It was by no means part and parcel of a financial mission. It took up only the

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reform of taxation and therefore its work was not "money doctoring." The Truman administration, however, did attempt to coordinate Shoup's work with that of another mission that had general financial reform as its central responsibility. In this other mission – the so-called "Dodge mission" – a powerful Detroit banker, Joseph Dodge, led an effort to restructure Japan's financial system. These two independent missions, Shoup's and Dodge's, engaged in some of the same debates that had taken place earlier within financial missions over issues of social justice and Keynesian economics. These debates became exceptionally intense because they operated under separate and often conflicting authorities – Shoup under General Douglas MacArthur as Supreme Commander for the Allied Powers and Dodge under President Harry Truman and the Joint Chiefs of Staff.

The strength of the Dodge mission complicated the implementation of Shoup's recommendations and contributed to the reform program falling significantly short of Shoup's aspirations in both 1950 and the final two years of the occupation. The accomplishments of the mission were sufficiently impressive, however, to inspire the community of international tax experts. For them, the Shoup mission acquired a kind of iconic significance, demonstrating, many believed, what the best and brightest public finance specialists could accomplish abroad. In 1991, Malcom Gillis, an economist and tax-mission veteran himself, honored Carl Shoup along with another distinguished economist of public finance, Richard Musgrave. Gillis declared that their legacies "may be found not only in tax laws actually enacted, most notably in Japan (Shoup) and Colombia (Musgrave), but also in the residue of theoretical and applied insights where the proposals of their missions were stillborn, as in Liberia (Shoup) and Bolivia (Musgrave), in the impact of their missions in developing greater tax sophistication among the public in almost every instance, and finally, in the influence of all the Shoup and Musgrave missions upon tax reform programs initiated on all continents in the past four decades." Gillis added: "The Shoup mission to Japan was . . . the prototypical study, and the focus of that mission foreshadowed his approach to tax reform not only in later missions to Venezuela (1958), Brazil (1964), and Liberia, led by Shoup, but in missions organized for other countries, including Indonesia, in 1981–84" (a mission that Gillis led). He went on: "The Shoup mission to Japan was the first example wherein a group of distinguished American analysts had the opportunity to apply their formal skills to the problem of reforming an entire tax system."[6] Recently, public finance economists Roy W. Bahl and Richard M. Bird, who themselves

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led significant tax missions, correctly noted the influence of Shoup on the community of foreign tax advisors. Bahl and Bird pointed out that, while bilateral arrangements, international agencies such as the International Monetary Fund and the World Bank, and regional development banks eventually dominated in the mobilization of foreign expertise, "the path-breaking missions led by Carl Shoup to Japan in 1949–50 and by Richard Musgrave to Colombia in 1968 and Bolivia in 1976 created models on which future tax studies would build."[7] Indeed, of all the international tax investigations before and since the Shoup mission, along with Musgrave's Columbia mission, may well have been the most influential in shaping subsequent tax missions.

SCHOLARS AND THE SHOUP MISSION

Despite the potential significance of the Shoup mission, almost the entire body of historical analysis of it in English is of "first-generation" nature, contributed by scholars who participated directly in the creation and implementation of the mission's recommendations.[8] The numerous and accomplished historians in the United States who have studied the occupation of Japan have paid almost no attention to the Shoup mission.[9] The historians who have begun exploring the history of financial missions in a very productive way have had little to say about tax missions and have written nothing about Shoup's.[10] Public finance economists with an interest in economic development have made important contributions to understanding the legacy of the Shoup mission for international tax assistance, but they have tended to rely heavily on "first-generation" accounts.[11] A few American public finance economists have analyzed the effects of the Shoup mission on the Japanese tax system, but they have also tended to rely heavily on "first-generation" research.[12] Scholars in a wide variety of disciplines in the field of international political economy have made important contributions to the study of the recent history of financial missions, but they have rarely mentioned the Shoup mission or, for that matter, any of the tax missions of the early post-World War II era.[13]

Beginning with the Japanese economists who advised the Shoup mission, Japanese scholars have made much greater contributions to an understanding of the Shoup mission than American scholars. A great many social scientists and members of various policy communities in Japan have written about it. In fact, virtually all serious discussions of tax reform in Japan have reckoned with the Shoup recommendations, and

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authors usually take the recommendations as the starting point for their analysis.[14] Only a small fraction of the work by Japanese scholars on the Shoup mission has appeared in English. The literature has focused on the important question of the effects of the Shoup mission on the Japan's tax system and the development of the Japan's economy, but its examination of important issues of political economy has been limited. In addition, Japanese scholars have had difficulties in utilizing the historical archives in the United States.

This volume seeks to bring together and expand the two national streams of scholarly discussion relevant to the Shoup mission through an interdisciplinary collaboration of scholars. The contributors to this volume are united by their common interest in the study of political economy, their desire to apply it to transnational history, and their conviction that these interests applied to the history of fiscal development bring substantial rewards by way of understanding contemporary policy choices. In their chapters, the authors attempt to establish the history of the Shoup mission within a nuanced understanding of the interplay among politics, economics, and society in both Japan and the United States.[15]

The volume consists of four parts. Part One sets the origins of Shoup mission within the context of the multifaceted social investigations associated with the progressive movement, the New Deal, and mobilization for World War II. In addition, it analyzes the missions in which Shoup participated before travelling to Japan. Part Two of this volume explores the Japanese background to the Shoup mission and the process by which American and Japanese tax experts and their governments shaped the recommendations of the Shoup mission and their initial implementation. It also assesses the mission's short-run accomplishments (those through the end of the occupation in 1952) in the context of the configuration of economic and political interests in both the United States and Japan. The chapters in Part Three examine the long-running legacy of the Shoup recommendations for Japan. In the process, the chapters of Part Three contribute to the ongoing debate in Japan over the long-term effects of the Shoup mission on that nation's fiscal system, and to the development of a broader historical understanding of the forces that have shaped tax policy in Japan. The first three parts establish the Shoup mission as a major milestone within the history of tax missions through the early post-World War II years. Part Four examines the significance of the mission within the context of global fiscal reform since World War II. It suggests the importance of thinking about the policy debates that surrounded the mission as part of wider debates about international financial policy following

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World War II. In addition, Part Four examines the post-1950 career of Carl Shoup to help assess the influence of the Japan mission on subsequent tax missions, and the extent to which Shoup and other tax economists learned from his experience in Japan. In the process, this section of the book evaluates the development of global tax missions since 1950 from the perspective of the ideals that Shoup and his colleagues espoused during the mission to Japan. The result is a critique of the direction of tax missions, often described as "neo-liberal," since the 1980s.

The contributors to this volume hope that the history of the Shoup mission may provide an opening and an opportunity not only to evaluate the work of tax missions over the past few decades, but also to assist Japan and the United States in addressing the fiscal challenges of the early twenty-first century. Both nations face looming crises in public finance – crises set up by global financial conditions and by characteristics of the political economies of Japan and the United States. There are broad similarities in the scale and structure of many of the fiscal problems in both nations, and the history of the Shoup mission, with its transnational dimensions, may help identify the possibilities for fundamental or comprehensive tax and fiscal reform in both. Many of the scholars who have contributed to this volume share the esteem Shoup and his colleagues held for base-broadening tax reforms because of the ways in which those reforms can promote horizontal equity, economic efficiency, trust in government, and a vibrant public sector. At the same time, however, Japan's lack of success in following through on the base-broadening recommendations of the Shoup mission illustrates the severe political problems that confront reformers who take that approach in seeking a resolution to today's fiscal crisis. Even so, the history of the Shoup mission might bring some guidance to today's reformers. This history suggests that certain procedural elements may be vital to fundamental tax reform in many societies. These elements include building a democratic consensus in support of modern tax systems, balancing a principled approach to reform at the same time as recognizing the force of historically contingent institutional constraints, extending collaborations of tax experts and political leaders across national boundaries, and establishing processes of social learning that have the capacity to sustain reform over several generations.

Notes

1. During the occupation, SCAP become commonly used as an acronym to refer not only to MacArthur, the Supreme Commander for the Allied

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Powers, but also to his massive administrative bureaucracy in Japan. The acronym GHQ, standing for General Headquarters, also referred to this bureaucracy.

2. Shoup Mission, *Report on Japanese Taxation by the Shoup Mission*, Volumes I–IV (Tokyo: Supreme Commander for the Allied Powers, 1949).
3. Nehring, H., Schui, F., *Global Debates about Taxation* (New York: Palgrave Macmillan, 2007), 11.
4. Emily Rosenberg has written the best surveys of the history of the pre-1945 financial missions based in the United States. She discusses tariff reform at length, but she only mentions in passing American interest in reforming the internal tax systems of other nations. See Rosenberg, E. S., *Spreading the American Dream: American Economic and Cultural Expansion, 1890–1945* (New York: Hill and Wang, 1982) and *Financial Missionaries to the World: The Politics and Culture of Dollar Diplomacy, 1900–1930* (Durham: Duke University Press, 2003). In the latter book, see pages 87, 89, 222, and 238 for references to tax reform. The following sources are also very valuable for understanding the early twentieth-century financial missions based in the United States: Drake, P. W., *The Money Doctor in the Andes: The Kemmerer Missions, 1923–1933* (Durham: Duke University Press, 1989); and Schuker, S. A., "Money Doctors between the Wars" in Flandreau, M., ed., *Money Doctors: The Experience of International Financial Advising, 1850–2000* (New York: Routledge, 2003). These studies, however, like Rosenberg's, provide little information regarding any components of tax reform embedded in the earlier financial missions. The same is true of the histories of the financial missions of the early post-World War II years. For example, Michele Alacevich's excellent history of the Currie Mission to Columbia, 1949–53, never mentions the work of the mission or its chief economist, Richard Musgrave, on taxation. See Alacevich, M., *The Political Economy of the World Bank: The Early Years* (Palo Alto and Washington, D.C.: Stanford University Press and The World Bank, 2009), 11–63. The most helpful of the essays on the early postwar period is Helleiner, E., "The Southern Side of 'Embedded Liberalism:' America's Unorthodox Money Doctoring during the Early Post-1945 Years," in Flandreau, M., ed., *Money Doctors*, 249–75. Japan also has an important history of "money doctoring" before World War II. Michael Schiltz describes this as an effort "to establish a 'yen bloc' and a more or less self-sufficient Asian economic zone," and he discusses the activities of money doctors in Taiwan, Korea, China, and Manchuria. However, he does not discuss the role of the Ministry of Finance in restructuring tax systems within Japan's sphere of influence. See Schiltz, M., *The Money Doctors from Japan: Finance, Imperialism, and the Building of the Yen Bloc, 1895–1937* (Cambridge, MA: Harvard University Press, 2012). See p. 3 for the quotation.
5. For the most important usages of "embedded liberalism," see Ruggie, J., "International Regimes, Transactions and Change," *International Organization* 1983, vol. 36 (2), pp. 379–405; and Helleiner, E., "The Southern Side of 'Embedded Liberalism."

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