

Lecture: Contemporary Economic History of Japan

No. 10

1-8 Takahashi's Financial Administration and Economic Recovery

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8 Takahashi's Finance and Economic Recovery

- **Sep. 18, 1931:** Manchurian Incident erupted
- **Sep. 21** : U.K. seceded from gold standard
- **Dec. 13** : Inukai Cabinet formed; Re-embargo of gold export decided and implemented
- **Feb. 1932** : Ex-Finance minister Inoue assassinated; in Mar. Mitsui Partnership's board chairman Takuma Dan assassinated
- **Mar.** : Manchukuo foundation declared
- **May** : 5/15 Incident
- **Jun.** : Issuance of deficit bond started
- **Nov.** : System for Bank of Japan to undertake national bond enacted
- **Mar. 1933** : Seceded from League of Nations
- **Foreign Exchange Act** rectified
- **Apr. 1933:** Trade dispute with India surfaced
- **May** : Oji Paper consolidated extensively
- **Jul. 1933** : Mitsui Partnership started public stock offering of firms like Oji Paper in response to criticism against Zaibatsu
- **Jan. 1934:** Japan Steel Co. founded
- **Sep.** : Mitsubishi Heavy Industries founded
- **Dec.** : Washington disarmament treaty nullified
- **Jun. 1935** : Finance Minister Takahashi announced '36 budget policy on gradual decrease of public bond, to surface confrontation with the military
- **Feb. 1936:** 2/26 Incident
- **Nov.** : Japan-Germany-Italy anticommunist treaty concluded
- **Jul. 1937** : Sino-Japanese War begun

- 1854-1936 (leap Jul. 27, 7th yr. of Kaei - Feb. 26, 11th yr. of Showa)
- Bureaucrat, banker, finance minister; born in Edo
- Enrolled in Nanko Univ. after visiting the US; via commissioner of patent bureau in the agriculture & commerce ministry, joined the Bank of Japan in 1892
- 1899: Deputy governor, succeeded in the floatation of foreign loan for Japanese-Russo War
- From 1906: Held the additional post of president of Yokohama Specie Bank
- 1911: Governor of the Bank of Japan
- 1913: Finance minister in Yamamoto cabinet; joined Seiyukai
- 1918: Finance minister in Hara cabinet
- 1921: Prime minister-cum-finance minister, and president of Seiyukai (-1925); resigned in 1922
- 1924: Agriculture & commerce minister in Kato cabinet of three pro-Constitution factions; resigned in 1925
- 1927: Finance minister in Giichi Tanaka cabinet at time of the financial crisis
- 1931: Finance minister in Inukai cabinet, conducted embargo of the gold export and expansion of fiscal expenditures; remained in his post in subsequent Minoru Saito cabinet and kept up the policy to stimulate the economy through financial resources measures for the Bank of Japan to undertake national bonds.



Korekiyo Takahashi

(from Wikipedia)

1-8-1 Framework of Expansive Fiscal Policy

- Characteristics of the fiscal policies of Finance Minister Korekiyo Takahashi, said to be the preemption of Keynesian revolution, are:
 - ① To identify the cause of stagnation of the economy as a shortfall in demand, and to **expand expenditures to fiscally stimulate the economy** = to create effective demand;
 - ② For that matter, to call for financial resource on the **issuance of deficit bond**, an action to deviate from the conventional basic principle of balanced finance;
 - ③ To clear up an anxiety about bond redemption by letting **BOJ directly undertake** deficit bond;
Deficit government bond launched in June, 1932; and the system for Bank of Japan to accept the same bond inaugurated in Sept. the same year
 - ④ Under an expanded money supply, to alleviate the burden of finance derived from the dependence on public bonds by **inducing to lower interest rate** even further;
 - ⑤ As for the exchange market after the re-embargo of gold export, to abdicate the exchange sustaining policy to date, and to **leave the yen to take its own course of depreciation.**

1-8-2 Effectiveness of Takahashi's Finance

Looking from changes in aggregate demand composition:

- ① What were factors for demand expansion?
- ② Did an expansion in the military expenditure have a long-lasting effect?
- ③ What sort of transition did investment activities in the private sector undergo?
- ④ Whether or not changes came out with the scheme of his policies during the period of Takahashi's financial administration?
- ⑤ What were limitations in Takahashi's financial administration?

Chart 8-1 Various Indexes in Period of Takahashi's Finance

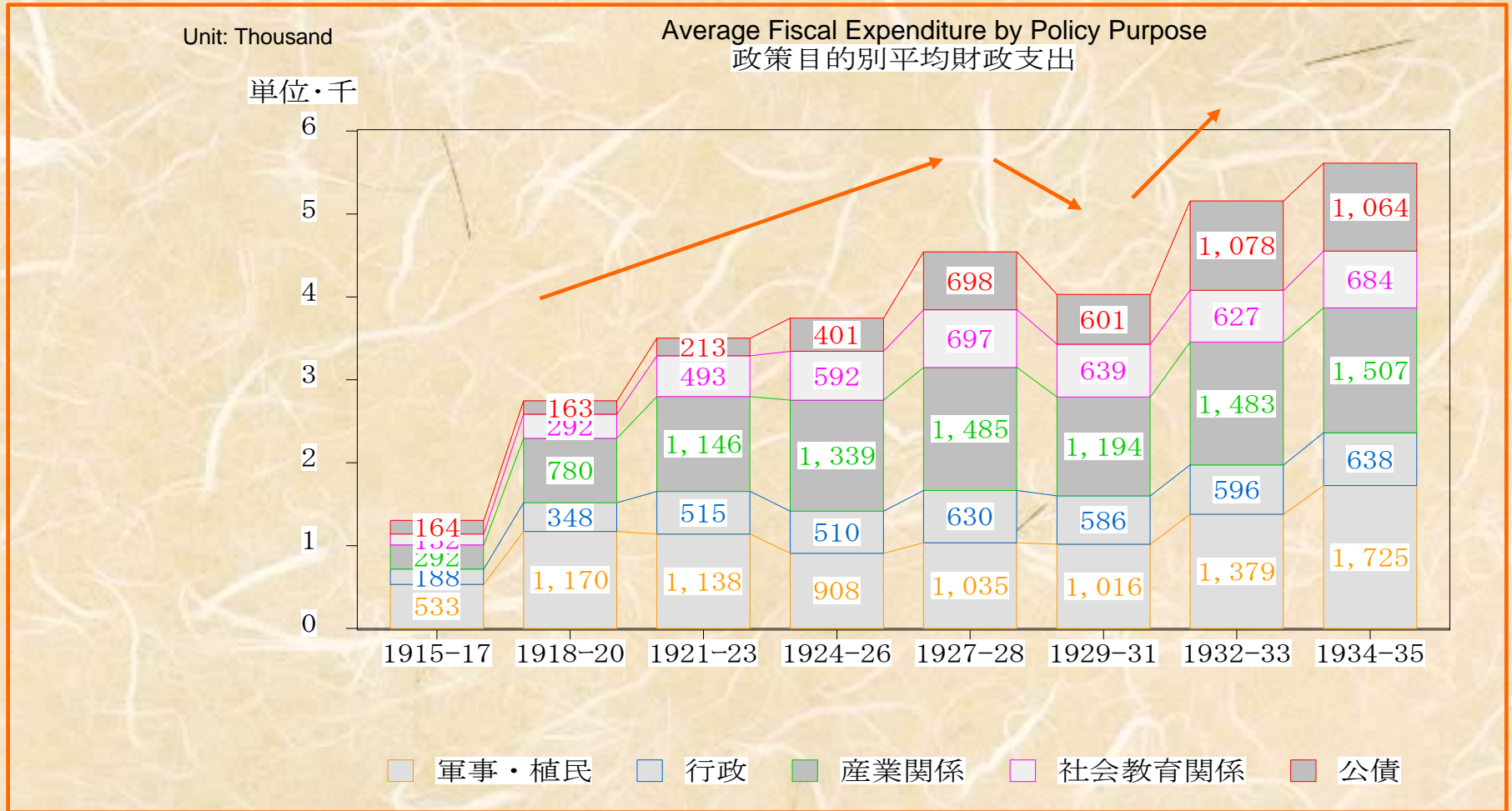
	Personal Consumption Expenditure	Private Fixed Capital Formation	Government Fixed Capital Formation	Of Left		Government Current Purchase	Export	Aggregate Demand
				Military Affair	Non-Military Affair			
1930	11,325	946	978	173	805	1,624	2,046	16,919
	92.1	86.5	78.4	98.9	75.0	93.5	72.3	88.1
1931	10,198	697	908	175	733	1,939	1,628	15,370
	90.0	73.7	92.8	101.2	91.1	119.4	79.6	90.8
1932	10,154	570	1,255	353	902	2,217	2,047	16,243
	99.6	81.8	138.2	201.7	123.1	114.3	125.7	105.7
1933	11,228	859	1,332	355	977	2,464	2,632	18,515
	110.6	150.7	106.1	100.6	108.3	111.1	128.6	114.0
1934	12,515	1,218	1,329	452	877	2,421	3,011	20,494
	111.5	141.8	99.8	127.3	89.8	98.3	114.4	110.7
1935	13,081	1,501	1,430	472	958	2,637	3,468	22,297
	104.5	123.2	107.6	104.4	109.2	108.9	115.2	108.8
1936	13,722	1,838	1,490	532	958	2,723	3,724	23,497
	104.9	122.5	104.2	112.7	100.0	103.3	107.4	105.4
1937	15,583	1,849	2,961	1,965	996	4,714	4,405	29,512
	113.6	100.6	198.7	369.4	104.0	173.1	118.3	125.6

① Fiscal Expansion by Military Expansion

- While the expansion in the government spending was mainly realized by the enlargement in the military spending, Takahashi's financial administration was driven forward in a framework contrastive to the policies by the preceding finance minister Jyunnosuke Inoue, as in changes from austerity to positivism, from gold standard to controlled currency, and from arms reduction to military expansion.

	General Account		Against GNP	Issuance of Government Bonds	
	Military Expenditure Ratio	Rate of Increase			of which Bank of Japan's Undertaking
1930	28.4	-10.3	3.0		
1931	30.8	-5.2	3.5		
1932	35.2	32.1	5.2	200.0	200.0
1933	38.7	15.6	5.8	1,215.0	1,115.0
1934	43.6	-4.1	5.6	915.8	701.4
1935	46.8	2.0	5.7	1,047.8	750.7
1936	47.2	3.4	5.6	3,059.4	1,643.2
1937	45.7	18.4	12.8	1,485.0	1,135.0

Increase in Annual Expenditure



Military
Affair/Settling

Administration

Industry-
Concerned

Social
Education-
Concerned

Public Bond

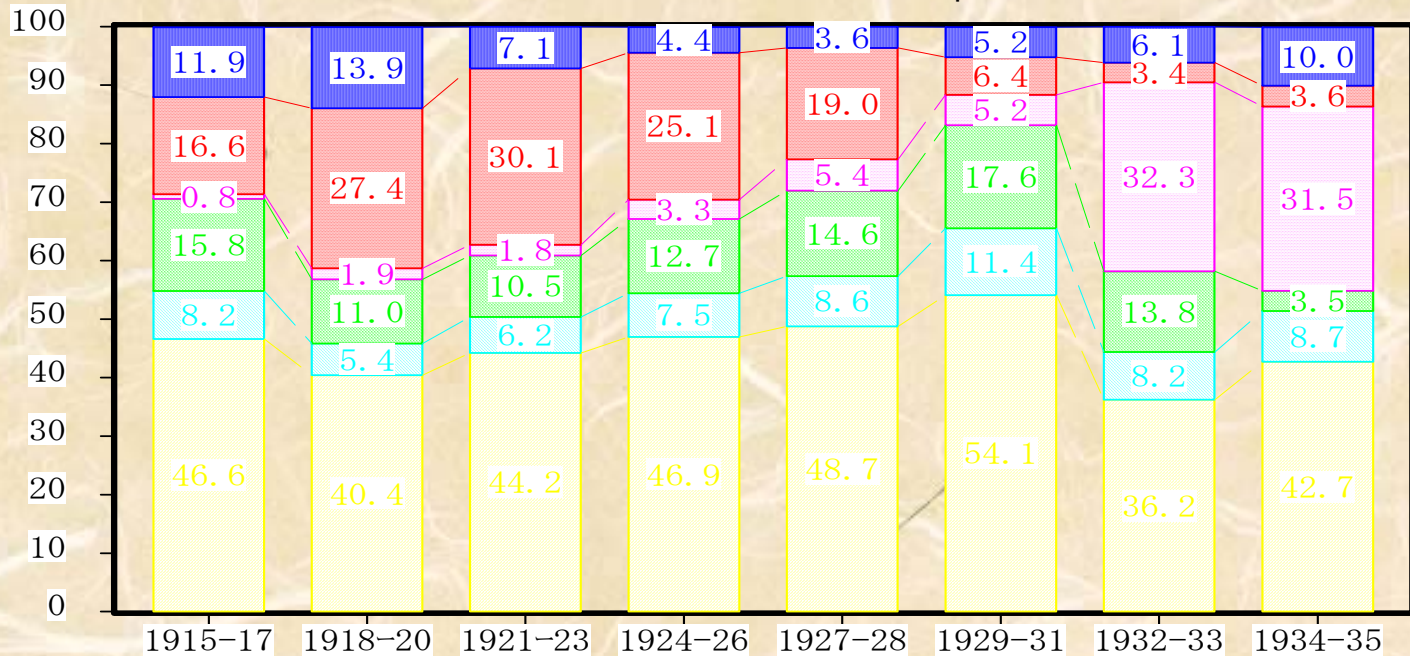
Annual Revenue Composition Ratio

Breakdown of General Account Revenue

一般会計歳入内訳

構成比

Composition Ratio



租税等

専売益金

官業収入

公債収入

前年度繰越金

Tax, etc.

Monopoly Gross Revenue

Revenue from Government Enterprises

Revenue from Public Bond

Balance Brought from Last Year

- Flotation of the government bond and the amount accepted by BOJ = to avoid a potential problem of taking up in markets by undertaking nearly the whole amount
- To sell to markets subsequently constraining currency expansion
- But, the acceptance exceeded, save for 1934

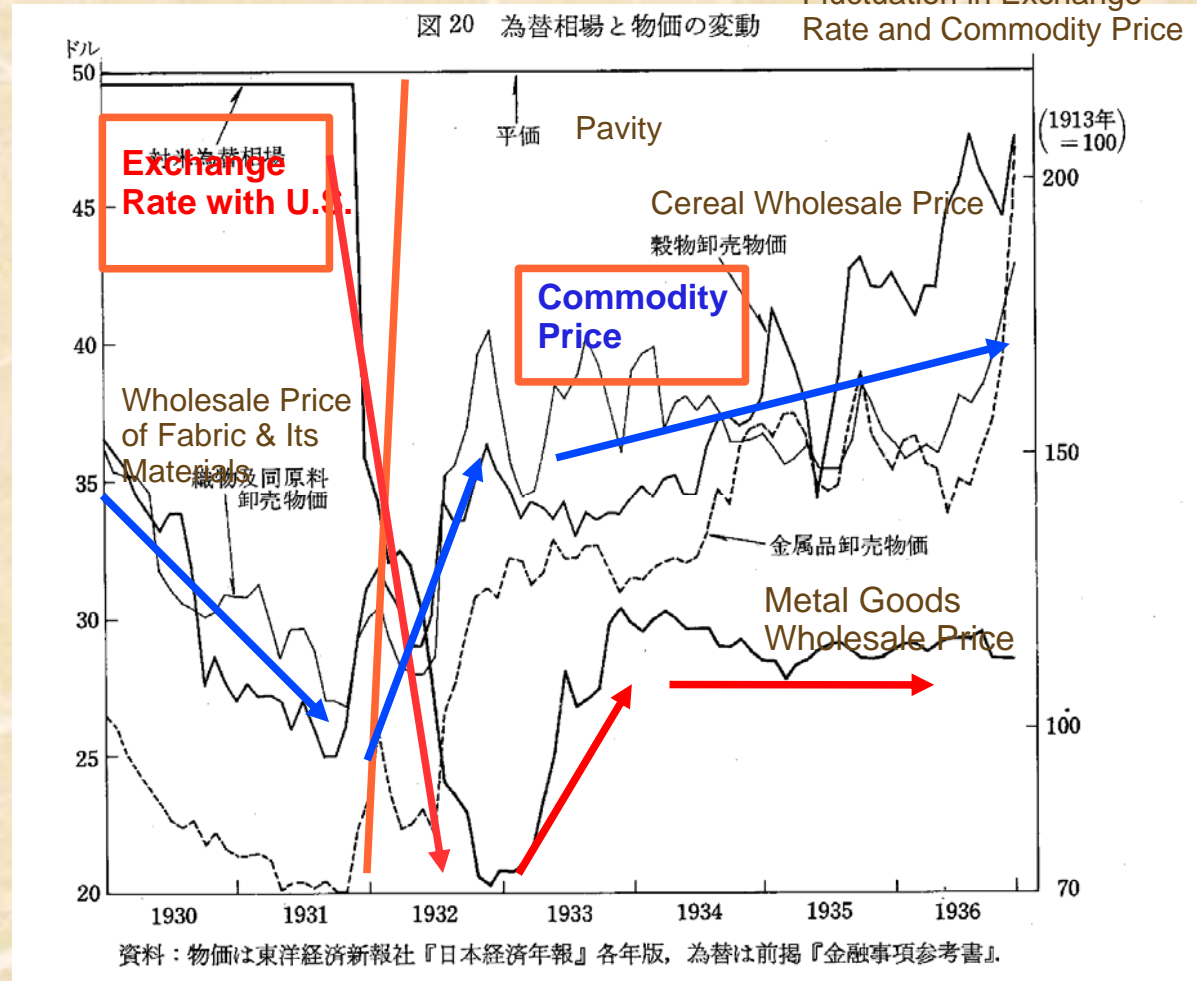
- Under an expanded money supply, the interest rate was drawn on lower to alleviate the burden of finance stemming from the issuance of large amounts of government bond.

② Letting Alone of Cheap Yen and Export Expansion

- Sharp depreciation of exchange rate →
- Reversal of commodity prices
- Stabilization of exchange rates after 1933

Progression of a moderate inflation

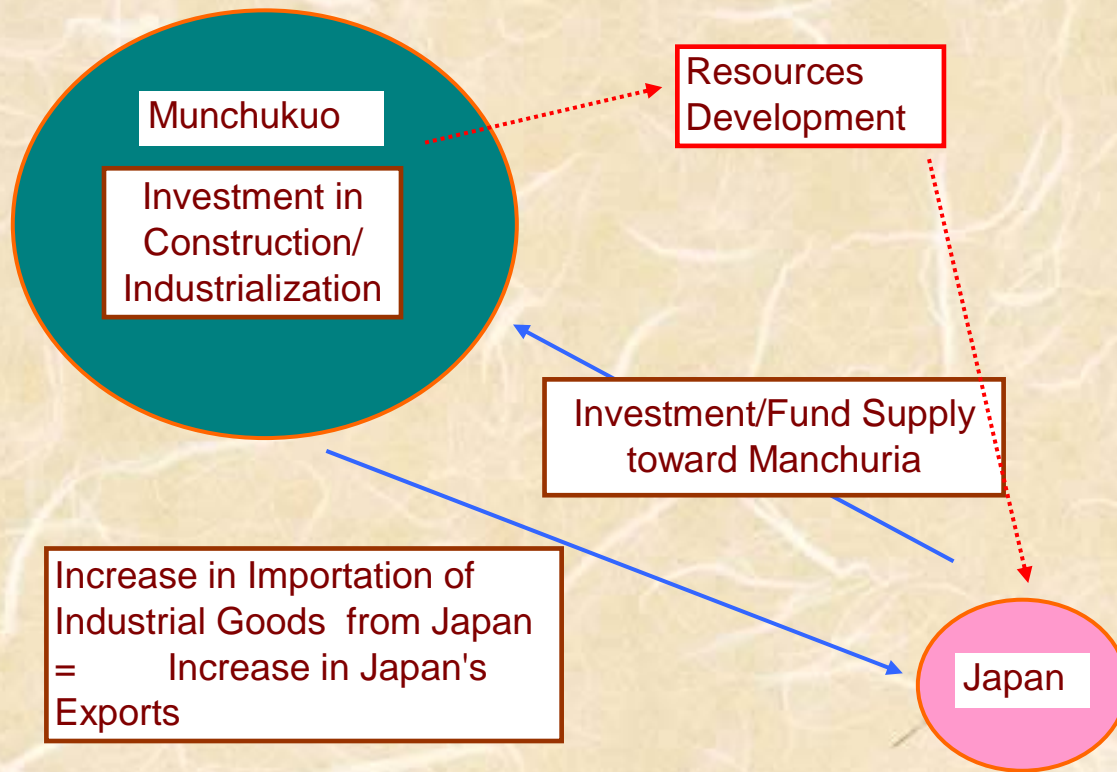
Fluctuation in Exchange Rate and Commodity Price



(Source) Toshiro Hashimoto, *Japanese Capitalism during Depression era*, p.166

Expansion of Cotton Cloth Export

- Japan rapidly developed a market in Asia by taking advantage of cotton cloth made in U.K.
- Leveraging the low exchange rates and market development efforts, the business expanded sustainably, and spawned a trade dispute with U.K.



Capital Investment Trends

- As the demand expanded, so did the output, and corporations' performances recovered.
- Private capital investment since 1933 continually played a leadership role in the economic expansion.
- In 1932, the investment in construction dipped, and there was a little impact of the expansion in private investment.

Delay in putting people back to work

- Lag from the investment expansion was also observed in the expansion in demand for labor.
- As for dismissal/taking in regarding factory workers, taking in turned to an excess in 1932 resulting from a sharp decrease in dismissal. The taking in switched to an increase in 1933, and notably increased from 1935. This transit was reflected on the hiring outlook of employment agencies.
- In hindsight, it was in 1935 that the job number recovered to that of the 1926 standard.
- The average earned rate did not regain the 1926's level even in 1937.
- Constrained wages and employment constituted the expedient conditions for recovering corporate earnings.

1-8-3 International Comparison of Economic Rebound Policy

- Sharp declines in the depression process were common across countries, particularly, the rapid fall of prices.

But,

- Japan recovered exceptionally fast.
- ←Export drive by the expansive fiscal policies and low foreign exchange

- U.K.'s economic recovery and balanced-finance doctrine, block economy
- New Deal program of the U.S. had limited effects.