

Lecture: Contemporary Economic History of Japan

No. 4

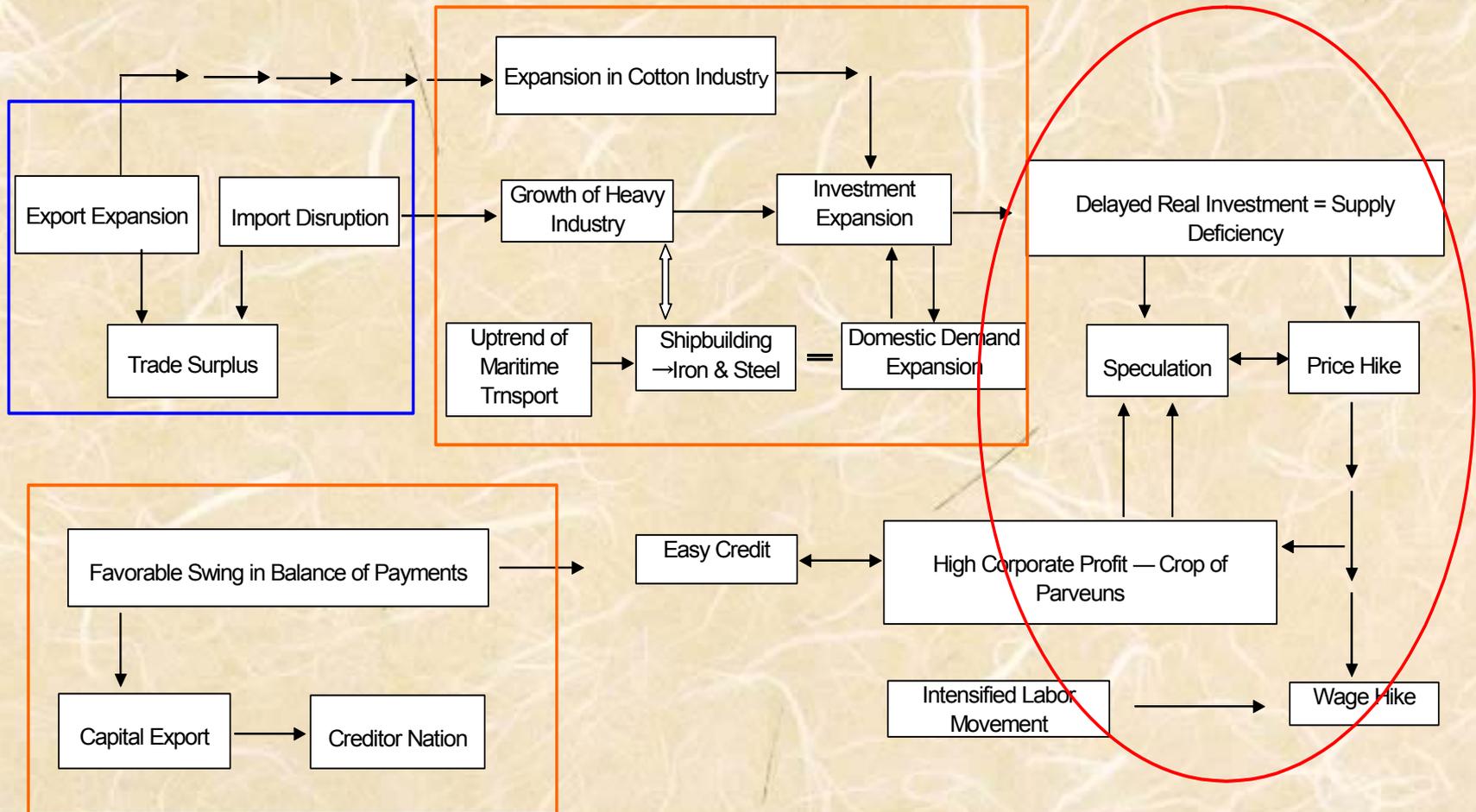
1-2 1920 Panic and Stagnant Decade

Winter Semester, 2004

Haruhito Takeda

Mechanism of WWI Boom

Chart 1-1 Mechanism of World War Boom



1-2 1920 Panic and stagnant Decade

1-2-1 Shift to Postwar Boom

As WWI ended in November, 1918:

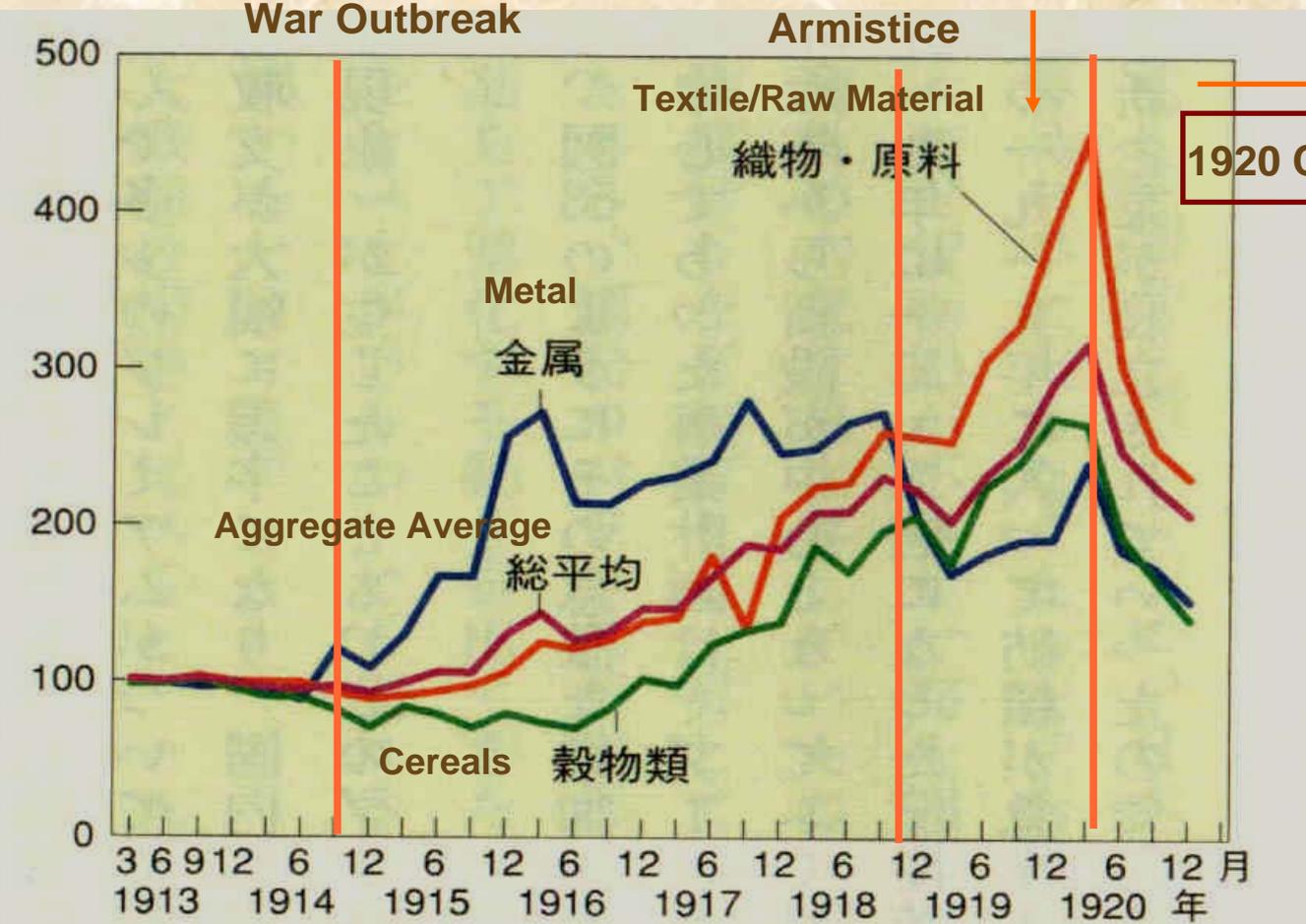
- Industries related to military demand, having led the war-period boom till then, lost the main driving force of business climate amid steep falling prices.
- → “Truce backlash” over 6 months

Starting in 1919 spring:

- ① Strong exports of raw silk led by the favorable American economy
- ② Expansion of cotton cloth exports to Asia
- ③ Increase in personal consumptions in the background of wage hikes under the war-period boom

These factors in overlap brought about an intensively speculative phase of the economic upturn

Price Hike



54 物価指数 東洋経済『日本の景気変動』より作成。

54 Commodity Price Index Drawn from *Business Trend of Japan*, Toyo Keizai

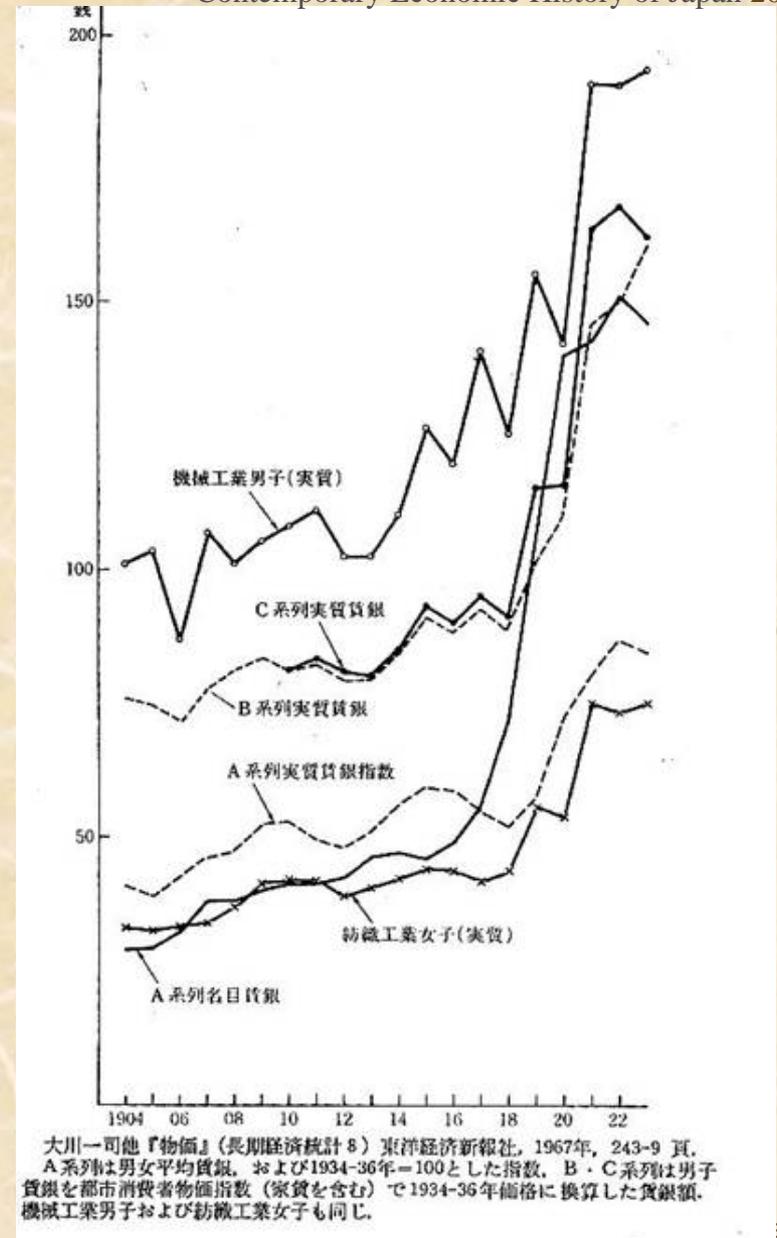
Trend of Real Wages

In the postwar period, real wages were on an upward trend on every account of indexes.

→ Foundation of consumption rise

Plus, the demand contangoed from the war period

Brisk business of consumption goods industries



(Source) Haruhito TAKEDA, *the relations between capital and labor*, Kaihirou OOISHI, *History of Japanese Imperialism vol 1*, p.286

1-2 1920 Depression and Chronic Recession

- Differences between the war-period boom and the postwar boom:
 - ① “Boom led by civilian demand/domestic demand”
 - ② Investment expansion under “lifting of conditions to limit investments” by resuming imports from Europe and the U.S.
 - ③ Transition of the trade balance on the premise of deficit

These characterized the postwar boom entirely distinct from the other before.

Characteristics of Cyclical Change

"WW I Boom" → "Truce Backlash" → "Postwar Boom" → "1920 Depression"
Nov, 1918 Mar, 1919 Mar, 1920

Military Demand Boom (Shift to Peacetime)

Civilian Demand Boom

→ Increase in Consumer Price

→ Rise of Interest Rates

Restriction on Capital Investment

Lift of Restriction

Export Surplus

Import Surplus

Moderation of External Competition

Resuming of External Competition

Increase in Real Wages → Restriction of Corporate Profits

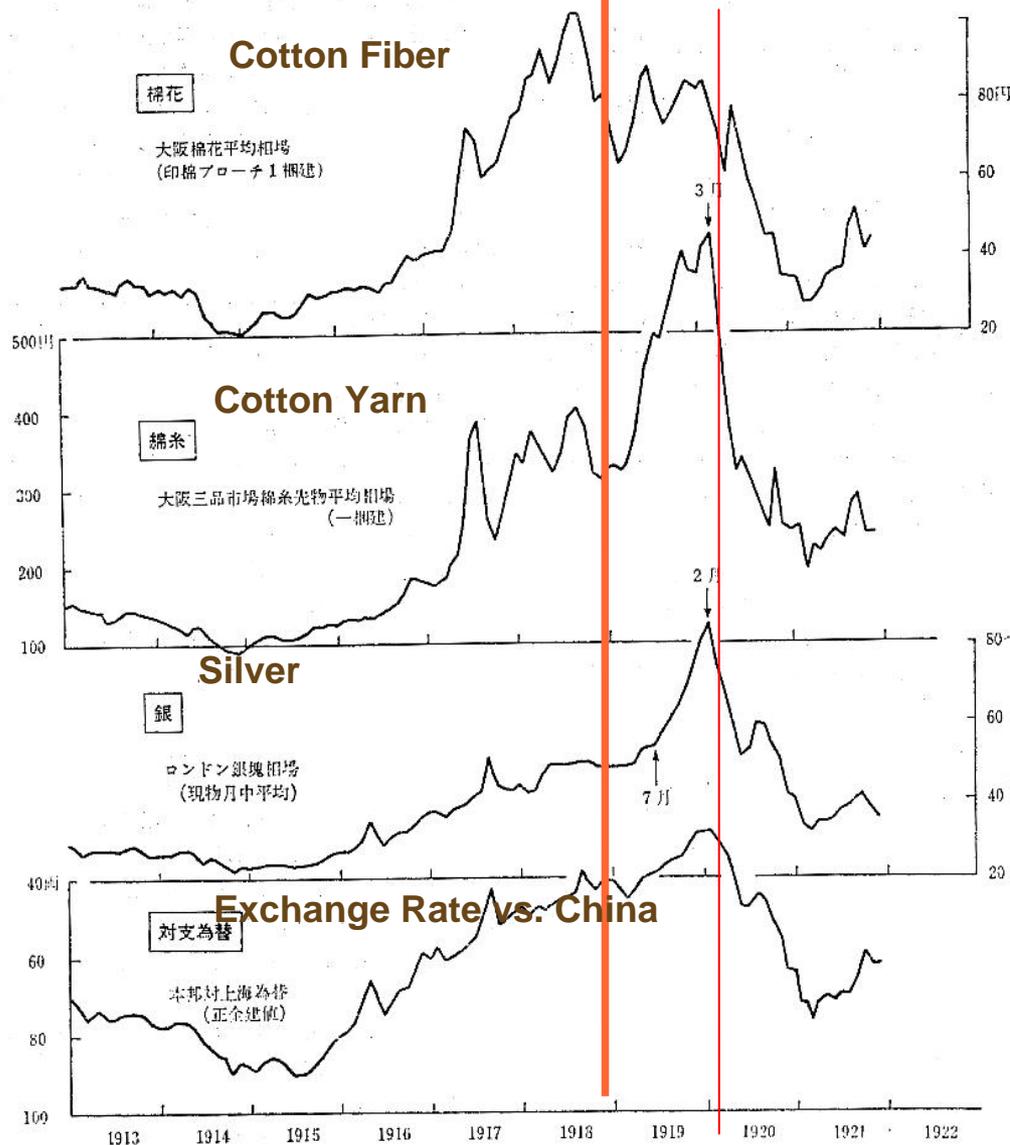
Revenue by Industrial Sector

Period	1914	15-16	17-18	19-20
Banking	12.3	12.5	16.2	28.8
Commercial Matter	19.6	61.0	90.6	36.9
Spinning	14.4	30.5	62.8	76.0
Sugar Manufacture	13.3	25.1	27.0	41.9
Milling	11.2	19.5	38.9	56.8
Mining	13.6	27.8	37.0	24.2
Marine Transport/Shipbuilding	13.9	42.1	102.5	48.6
Steel	18.6	18.2	40.2	8.0
Fertilizer	11.1	27.1	44.7	38.7
Electricity	9.1	10.2	13.5	12.7
Railway	7.1	7.9	11.2	13.3
Average	11.5	19.8	36.3	31.1

Sectors with profits higher than War period

Diagram 1 Cotton Trade Market

図1 綿業市況



Cotton spinning industry which became the main player of the postwar boom

Domestic demand, plus, strong exports, as the factors of the expansion

Low cost materials and high product prices being conditions in the international market

→ High revenue

Mechanism of Speculation Outbreak

Bullish scenario: ①International price hike, ②Fixing of foreign exchange
→ ③Sharp increase in domestic prices
④Climb in corporate profits, ⑤Constraint on
investments
→ “Money glut” = Easy credit = Decline of interest rates

Bases of Speculation

Upturn in corporate performances → Climb in share prices
→ Speculation in stocks
Price hike → Speculation in commodities such as rice and
cotton yarn

In addition to these war-period conditions being sustained:

Appreciation of silver currency → Brisk Asian market
→ Expansion of exports to Asia
→ Appreciation of prices of export products
Outbreak of speculation in futures on silver currency
appreciation

Speculative Characters in Postwar Boom

Unfavorable balance of trade = falling into the red, which should have led the financial market to a tight bias, however, the government adopted a positive finance:

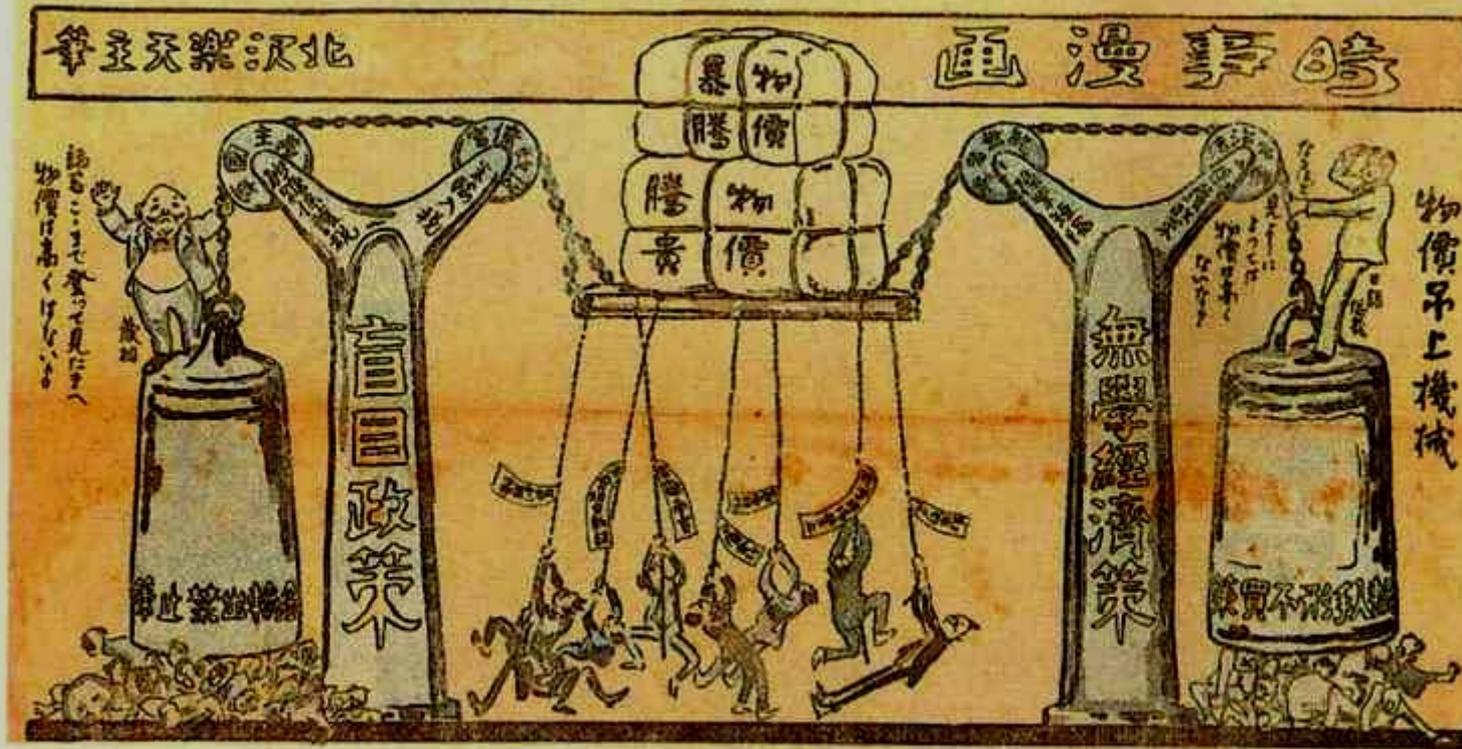
- **→Domestic funds were abundant, a “money glut” situation continued, which boosted up the boom.**
- **Furthermore, the foreign bonds purchased in the wartime were redeemed as the war terminated, and gold once sterilized was imported, enabling a quantitative growth of domestic fund supplies.**
- **Under these conditions, rapid price hikes surpassing ones in the war boom**
 - ①**incurred on the likes of cotton yarn, raw silk and rice, and**
 - ②**steep increases in land price became conspicuous in such large cities as Tokyo and Osaka due to the lack of housing supplies to growing urban inhabitants attributed to the war boom.**



Takashi HARA

(from Wiki Pedia)

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92 物価吊上機械 左の蔵相の盲目政策と右の日銀総裁の無学経済策によって、物価は騰貴し、人々は押し潰される。北沢楽天画。

A rise of sudden prices to exceed a WW I boom under such condition;

(1) It occurs in cotton yarn, raw silk, rice,

(2) A phenomenon of a sudden rise of land Price came to be outstanding in big cities like Tokyo and Osaka from lack of housing to a resident of the city that increased by a War boom.¹

Path to Depression

② Raises of Interest Rates Aiming at Price Stabilization

- Formed after the rice riot in the 1918 summer, the Hara Cabinet, keenly aware of grave influences on political framework rendered by a popular discontent because of the price hike, implemented a variety of measures to put a curb on prices, starting around the summer of 1919 when the boom gained its speed.

Specifically,

- ① Tried to force down the domestic price hike by prohibiting exports of civil requirements like cotton yarn, and,
- ② Made attempts to restrict speculations from the financial angle by raising the discount rates for a few times from the fall to the year's end.



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The market kept on a speculative climb retaining anxiety Factors for about a half year since the monetary tightening, and suddenly in March, 1920, the crash stroke down.

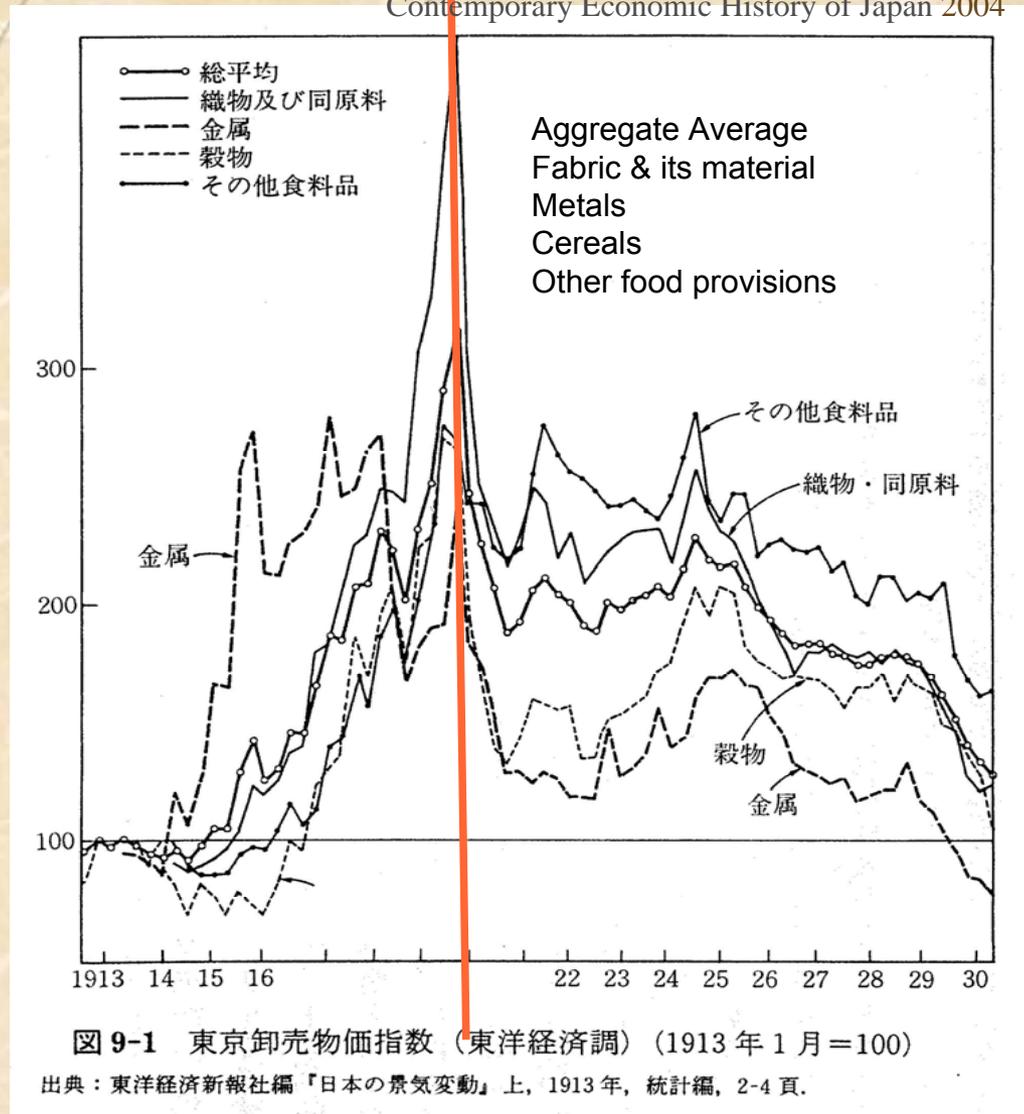


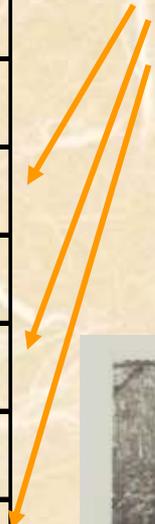
Diagram 9-1 Tokyo Wholesales Price Index (research by Toyo Keizai) (Jan,1913=100)

Source: *Business Cycle of Japan* edited by Toyo Keizai Shinpo Sha, Vol. 1, 1913, Statistics Canto, pp.2-4

Bank Bankruptcy in 1920 Depression Period

		Banks in Cessation from Work	Others	Total
Total number		21	27	48
Capital	1 million Yen & above	2	12	14
	Less than 1 million Yen	19	15	34
Dealing with Bank of Japan	Yes	2	16	18
	No	19	11	30
Address of Head Office	6 big cities	5	4	9
	Others	16	23	39

Bankruptcies concentrated in medium and small size banks with small capitalization value located in local regions



128 取り付け騒ぎ 倒産説が流れて、東京貯蓄銀行銀座支店に殺到した預金者たち。1920年11月6日。

124 Banks Run On in 1920 Crash Period Drawn from Kamekichi Takahashi, *Fluctuation History of Financial Circles in Taisho and Showa Eras*

1-2-2 Panic and Relief

- The **1920 Panic** triggered by the great dive at Tokyo Stock Market on March 15, 1920 caused a heavy decline in prices and a bankruptcies of corporations in an unprecedented scale.
- Its characteristics:
 - ① From an international standpoint, this was an exceptional depression in the Japanese history in the sense that the nation plunged into a panic phenomenon **forerunning the world**;
 - ② The problem was mainly developed as a “liquidity crisis”, thus “stockpile financing”= “**relief loan**” for corporations on the verge of bankruptcy was proactively deployed from the financial angle by the group with the core of governmental financial institutions headed by Bank of Japan, and simultaneously,
 - ③ The establishment of cartel in each industrial field was promoted to dispose commodity inventories that reached extraordinary standards, which created a momentum to sort out **industrial organizations**.

- Particular issue was “relief loan” in ②:

As the relief loan was deployed broadly, corporations with weak competitiveness that should have been disposed of in the process of the depression were preserved by the scheme. Left disorganized, their liabilities became bad loans, only to deteriorate earnings of financial institutions, which were the cause of diseases to the Japanese economy in the 1920s.

1-2-3 Chronicity of Recession

- Aftermath of the 1920 Panic was put to bed by 1921 spring, but
- Thereafter, by the conclusion of the Washington disarmament treaty, shipbuilding and steel industries, the leading sectors in the wartime that had expected a great deal from military demands till then, were badly hurt. This condition, with others, prolonged stagnation of the economy.
- Additionally, the outbreak of Great Kanto Earthquake and the admission of the “earthquake bill” as its countermeasure further promoted the aggravation of claimable assets.

Cotton Industry's Tendency Toward Downturn

- Although corporate profit dropped sharply, and prices became stable, the cotton industry remained at low levels subsequently.
- Also, in the Asian market where the industry had once enjoyed the boom, additionally sided by the abrupt rise in the silver currency prices, as the silver currency tended toward decline, its purchasing power decreased, and prices centering on cotton fabric trended slipping off , thus aggravated the cotton industry's profitability.

Toward Unbalanced Growth

- As for relatively low profit sectors like electricity during the war period, since the power shortage became obvious, the positive development of electric power resources and proliferation of power distribution installation were implemented. Furthermore, the social overhead capital investment intensified in such areas as improving transport facilities in answer to the increasing urban population, and upgrading roads and sewage system.
- Accordingly, in real standard, the Japanese economy recorded a high real growth partly owing to such factor of the increased investment.
- But in its reality, the time should be named as an epoch when a significant disequilibrium in growth incurred among industrial sectors.
- In other words, while new growing sectors such as electricity came into the picture, they did not have a strong enough impetus to switch the whole Japanese economy to an uptrend.