

Lecture: Contemporary Economic History of Japan

No. 9

1-7 Showa Depression

Winter Semester, 2004

Haruhito Takeda

7 Showa Depression

- **Mar. 1927: Financial crisis arisen**
- **Apr. : Moratorium executed**
- **May : Troops dispatched to Santo for first time**
- **Jan. 1928: Banking Act in force**
- **Apr. : 2nd dispatch of troops to Santo**
- **Jun. : Incident of Cho Saku Rin blown to death**
- **Aug. : Paris antiwar pact concluded**
- **Jul. 1929: Hamaguchi Cabinet formed**
- **Major policies announced including lifting of gold embargo**
- **Sep. : Social Policy Council installed**
- **Oct. 24 : New York stock market collapsed**
- **Nov. : Temporary Industry Council installed, study on industrial rationalization policy begun**
- **Jan. 1930: Lifting of gold embargo implemented**
- **Apr. : London Disarmament Conference**
- **1930 : Domestic and foreign depressions aggravated**
- **Apr. 1931: Strategic Industries Control Act issued**
- **Sep.18 : Manchurian Incident erupted**
- **Sep. 21 : U.K. seceded from gold standard**
- **Dec. 13 : Inukai Cabinet formed, re-embargo of gold export decided and implemented**
- **Mar. 1932: Manchukuo national foundation declared**
- **May : 5/15 Incident**

1-7-1 Repeal of Gold Embargo Policy by Hamaguchi Cabinet

- On July 2, 1929, a new cabinet was established with Osachi Hamaguchi, president of Minseito, as the prime minister. The challenges were to restore international confidence in Japan that got hurt by Tanaka's diplomatic intercourse, and simultaneously to rebuild the finance and economy. The lineup having taken in Kijyuro Shidehara as foreign minister and Jyun-nosuke Inoue as finance minister demonstrated Hamaguchi Cabinet's eagerness to renovate policies.



Prime Minister Hamaguchi



243 幣原喜重郎 1924年、加藤高明内閣で初めて外相となり、さらに若槻、斎藤の両内閣でも外相を務めた。その方針は、対中国非干渉と対英米協あり、「幣原外交」と呼ばれる。

Foreign Minister Shidehara

(Source left) Image from Wikipedia

(Source right) Image from Foreign Ministry reference center

1-7-1 Repeal of Gold Embargo Policy by Hamaguchi Cabinet

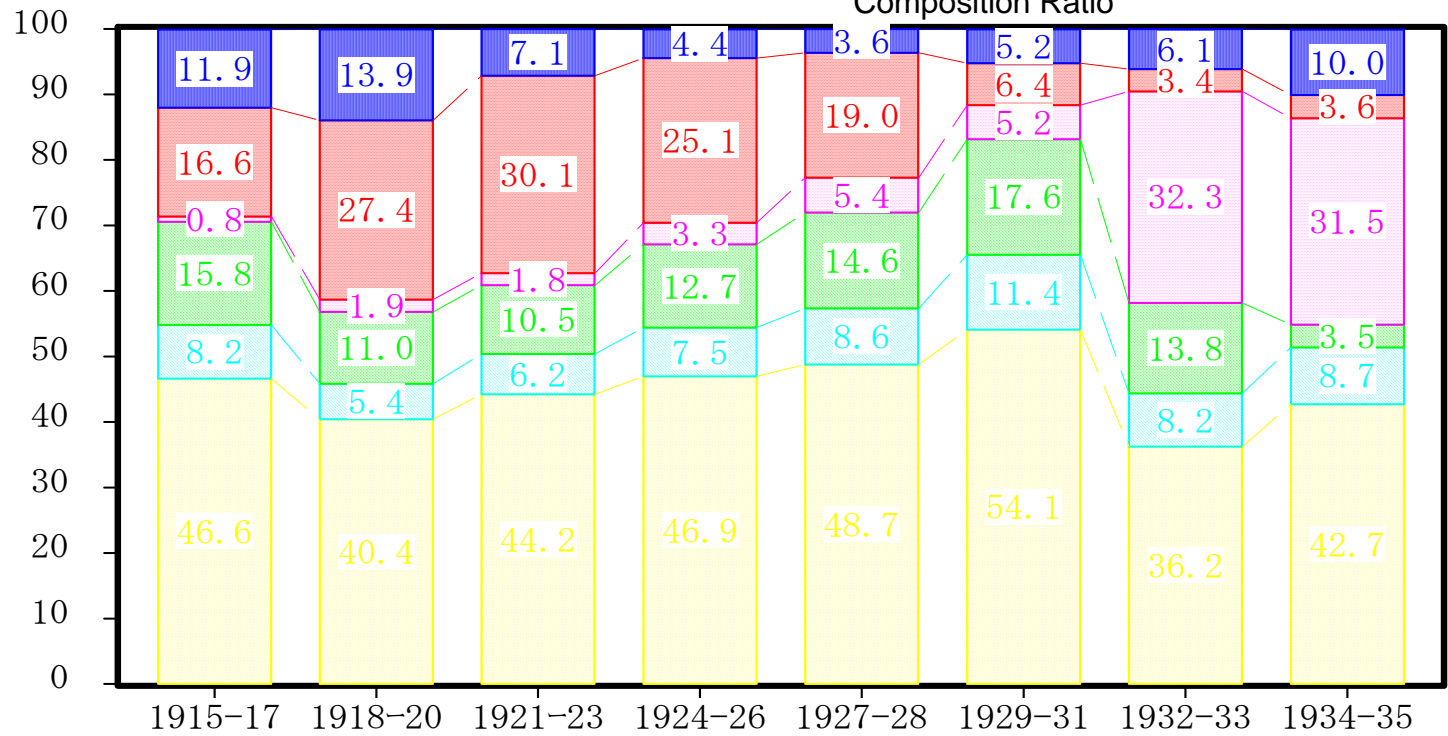
- Putting together its policies into 10 items in a ministerial meeting on July 9, the newly formed Hamaguchi Cabinet announced them to the public:
 - ① open and fair politics
 - ② to muster up public mind
 - ③ to strengthen discipline
 - ④ goodwill to China
 - ⑤ to promote disarmament
 - ⑥ restructuring and austerity
 - ⑦ no-loan floatation and sinking fund
 - ⑧ to resolutely execute repeal of gold embargo
 - ⑨ to establish social policy
 - ⑩ to update education
- First three involved spiritual slogans concerning political reforms.
- Subsequent two were principles of diplomacy. In diplomatic field, the cabinet criticized Tanaka's diplomacy by saying, "There were no grounds not only to move troops without a due reflection but also to display a national prestige," and intended to protect the special privileges in Manchuria/Mongolia with the attitudes of "coexistence and coprosperity" and "collaboration".
- Three items starting from "restructuring and austerity" were economic policies, and the assertion was that to lift the gold embargo based on austerity measures was "one an only method to stabilize and develop the financial circles."

Background of Repeal of Gold Embargo Policy

- International trend toward the reconstructed gold standard
“Issue of refinancing foreign bond”
- Realignment of financial arena after the financial crisis
→ Decline of interest rates, partial expansion of investments
- Depletion of fiscal reserves
→ Need for balanced finance

- After the financial depression, capital investment expanded, replacing the previous electric power, in part of manufacturing industries, and in 1929 the investment showed a high growth versus the previous year in spite of the government's stringent policy.
- On the other hand, the specie money rapidly decreased particularly one retained by the government, which corresponded to the depletion of the fiscal reserves.
- In sum, as the specie reserve ran short, so did a room for fiscal expansion.

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

Finance Minister Inoue's Explanation on "Repeal of Gold Embargo Policy"

- We are in a depression now. If this is the one we can have a long-term vision on, it's all right. But one we are in today remains unforeseeing, which is most terrifying. Unless an appropriate measure should be taken, our economic world would not be able to achieve an eternal progress.
- To cite a familiar example, what we're faced with now is like stumbling across a steep rise in the road. In the past we used to turn to the right coming to a standstill, or, take a left straying into labyrinth. If we could scale this steep rise, it is obvious that we would be able to see into the future of the economic circles.
- When one intends to expand, he contracts first. Today's thrifty austerity is for the future, and an outcome of the thrift will remain in our hands to serve as a foundation for the future.

Consistency of Policy System

- While lifting the gold embargo was only claim to fame of policies of Hamaguchi Cabinet, it was closely linked to other economic- policy principles set forth at the same time:
 - ①open and fair politics ②to muster up public mind ③ to strengthen discipline ④goodwill to China ⑤to promote disarmament ⑥restructuring and austerity ⑦no-loan floatation and sinking fund ⑧to resolutely execute repeal of gold embargo ⑨to establish social policy ⑩to update education
- In order to reintegrate into the gold standard by lifting the embargo, the exchange rate of the yen, valued about 10 percent below parity, must be brought back to the parity standard, which required the reduction of level of domestic prices.
- Status quo of comparatively high prices and the low yen rate that had stemmed from the expansion of currency needed to be changed through propping up the value of the yen by money contraction.

Consistency of Policy System

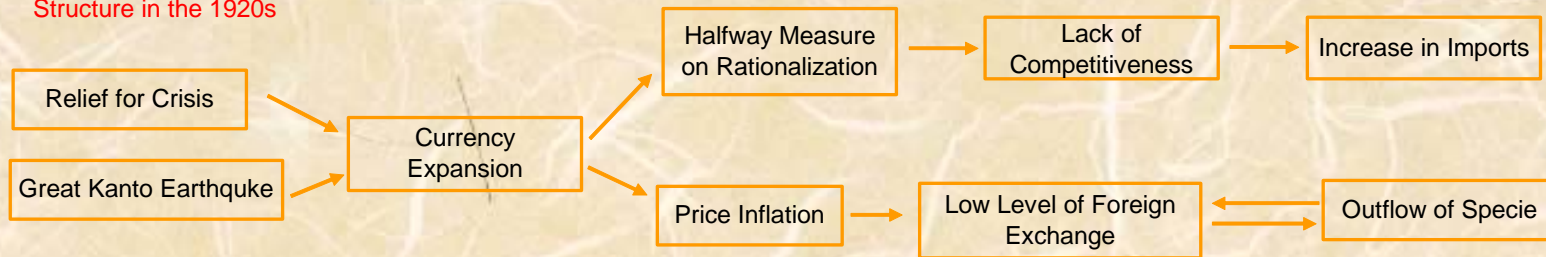
- **To accomplish such goals, the following measures were required:**
 - ⑥ **restructuring and austerity** ⑦ **no-loan floatation and sinking fund**
- In terms of curtailing expenditures, a cutback in military expenditure made a difference. Complying with the naval arms control at a disarmament talks scheduled in London would have a beneficial effect on financial austerity. To maintain collaboration with Europe and the U.S., and “goodwill to China” by withholding military actions there was preferable to limit arms.
 - ④ **goodwill to China** ⑤ **to promote disarmament**
- **These methods, however, were to cause a higher yen and decline in prices that would bring about “an economic depression” . Therefore, a preparation for emergence of depression, such as enriching social policy, was considered necessary**
 - ⑨ **to establish social policy**

Promotion of Rationalization in Industry

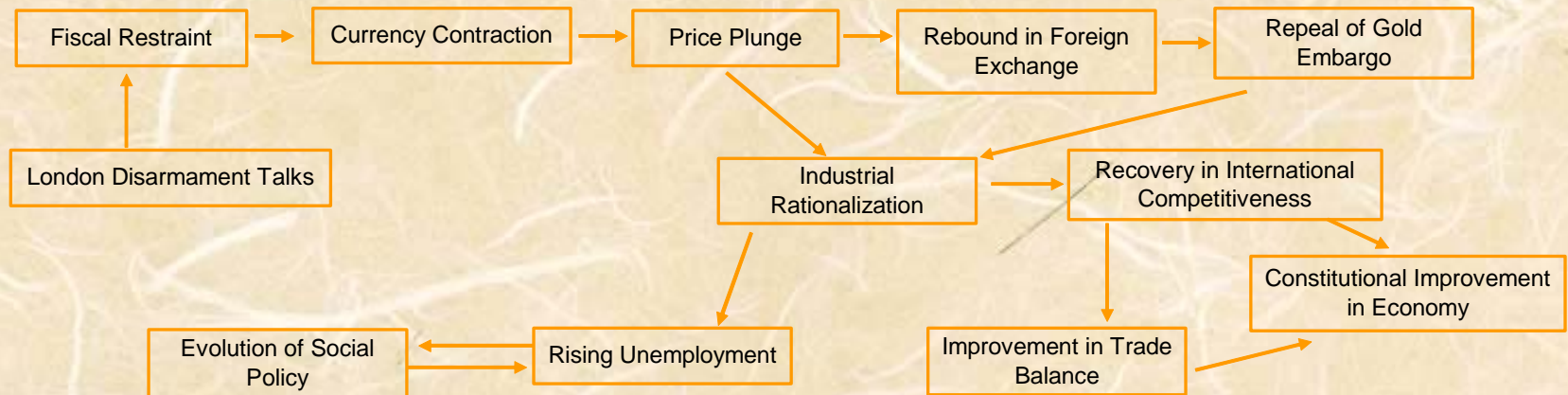
- It is equally important that in mid-November, 1929, four months after the announcement of the 10 major political platforms, Hamaguchi Cabinet took up policies to move into action in preparation for pushing through the repeal of the gold embargo, as follows: ①rationalization in industry, ②industrial development, ③promotion of efficiency.
- Responding to depression, the consideration was made to promote rationalizing and improving productivity of industrial enterprises.
- As such, Hamaguchi Cabinet's policies in their own way gave legitimate and systematical considerations heading toward the goal to return to the gold standard.

Policy Target for Lifting Gold Embargo

Structure in the 1920s



Policy Target for Lifting Gold Embargo



1-7-2 Implementation of Lifting Gold Embargo

- Hamaguchi Cabinet steadily took measures to implement the repeal of the gold embargo.
- Specifically, the cabinet:
 - ① Made efforts on the fiscal austerity by moving into action to reduce the 1929 budget already in execution, while,
 - ② Succeeded in arrangements of credit with Anglo-U.S. banking syndicates in preparation for the outflow of specie at the time of the repeal.
- As the results, the yen rate recovered from the range of \$45/¥100 at the time of the cabinet formation to \$48 in November, and the commodity price went down nearly 10%, which indicated the preparations for the lifting the gold embargo were going smoothly.
- That said, nonetheless, these depressed economic activities. But such outcome was preconceived.

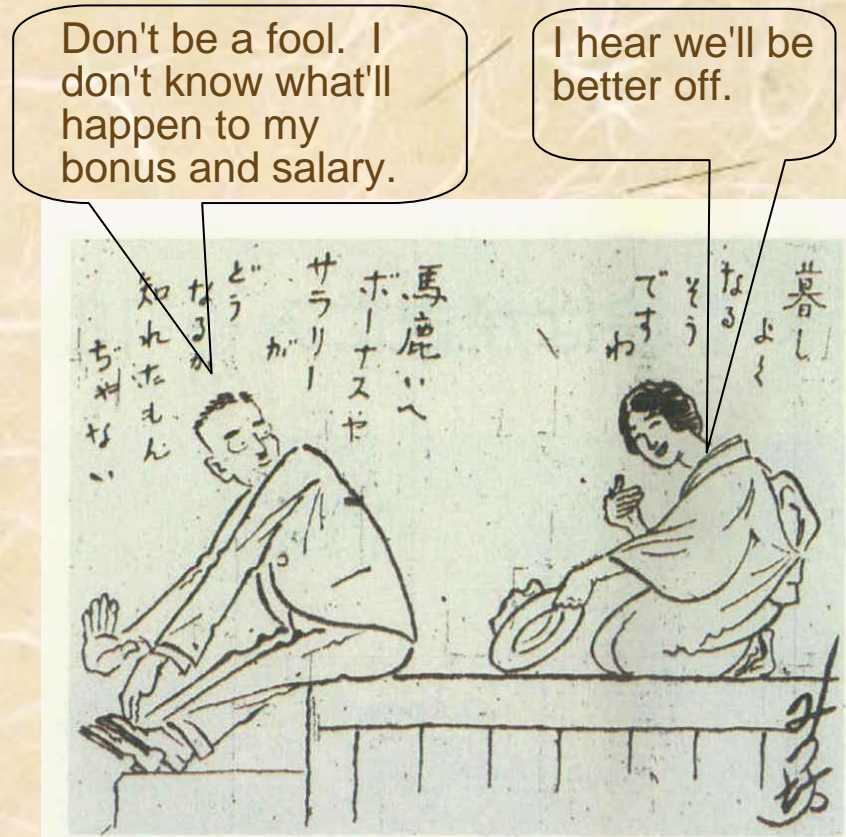
1-7-2 Implementation of Lifting Gold Embargo

- On Nov. 21, 1921, the government announced the implementation on the date of Jan. 11, 1930, proclaiming the abolishment of the finance ministry's three ordinances established during WWI.
As these three ordinances banned the exports of coins, bullions, and products of gold/silver, getting back to the gold standard was realized by abolishing them so as to remove the embargo on gold/silver exportation.
- On the occasion to bring out its decisive action on the repeal in the open, the government released the manifesto under the names of the prime minister and finance minister so as to make appeals once again on the need to lift the gold embargo. Identifying the vulnerability of the fluctuating Japanese economy as the insufficient international competitiveness of industries expressed in the deficit in trade balance, the government considered that, in order to improve such status, an industrial rationalization needed to be realized through the repeal of gold embargo.

- Newspapers dated November 23 reported that this policy of Hamaguchi Cabinet was favorably received in New York and London. A predominant viewpoint in New York was that getting back to the gold standard would expand U.S.-Japan trade and increase mutual interests.
- It was generally unthinkable that a policy forcing citizens to bear the burden of depression would become a positive factor in any election campaign. But the campaign on lifting the embargo by Minseito swept into populace. The party gained a great victory in the general election held in February, 1930 in which the point of controversy was the repeal of gold embargo. Minseito's seats increased by 100 to 273, whereas the opposition party Seiyukai fell off to 174 from a pre-election 237. To say the least, populace supported the government's attitude of pulling hard.

- The popular support also meant people's endorsement to the effort on realizing disarmament, in place of the had-line diplomacy toward China, by Hamaguchi Cabinet. They hoped for peace rather than armed aggression, and were ready to address the challenge they would have to go through for the sake of the future economic prosperity.
- However, their determination as such never came to fruition: the political sway caused by the problem of infringing on supreme command derived from the London disarmament issue, and the onslaught of the devastating economic blow by Great Depression worldwide.

(Source) Haruhito Takeda, *Imperialism and Democracy*, p.294



257 金解禁への期待 「暮しよくなるそうですね」「馬鹿いへ、ボーナスやサラリーがどうなるか知れたもんぢやない」。2人の会話に浜口内閣の経済政策に対する人々の期待と不安とが交錯する。『大阪毎日新聞』1929年11月19日より。

257 Hopes on Repeal of Gold Embargo
 In the dialog of the two, hopes and fears were mixed about Hamaguchi Cabinet's economic policies. *Osaka Mainichi Shimbun*, Nov. 19, 1929
 Haruhito Takeda

1-7-3 Spread of Great Depression



(Source) Wikipedia, *Crowd on Wall Street*

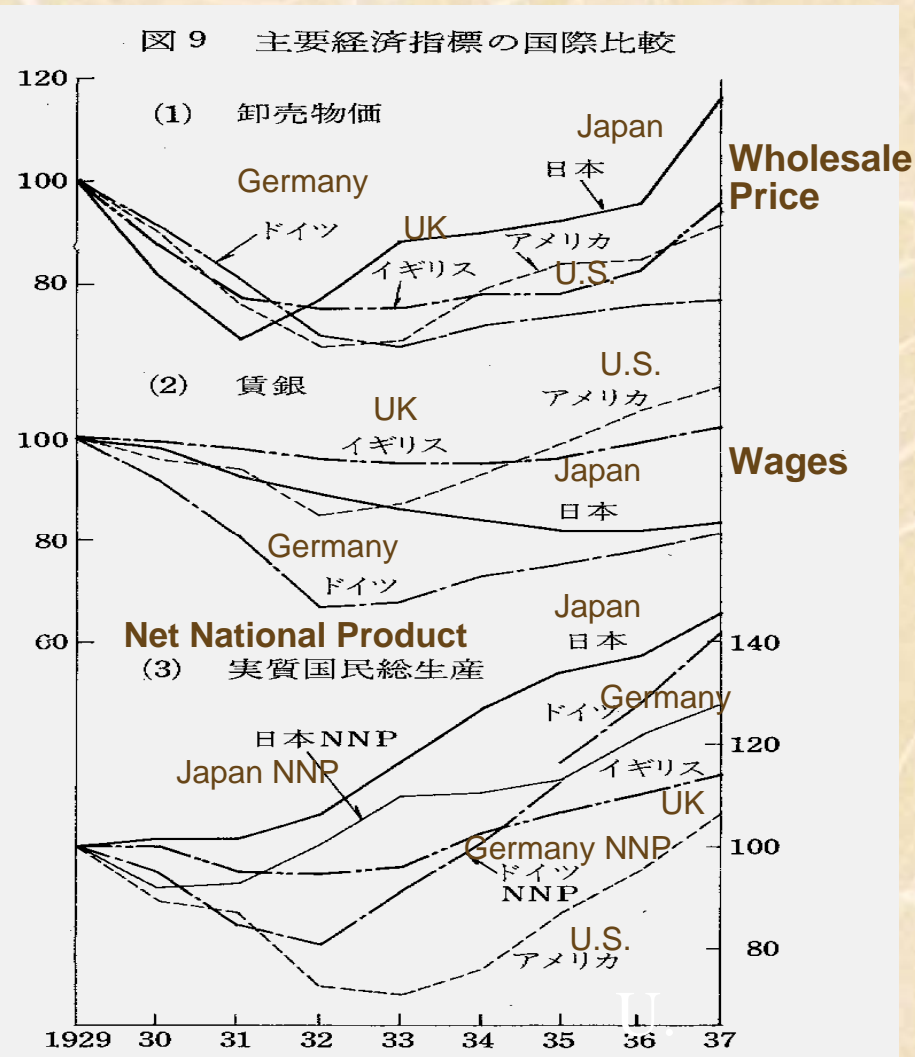
- There were not many who were aware of its magnitude when the American New York stock-market set off an unprecedentedly great dive on Oct. 24, 1929.
- That very day, influential bankers who rushed into Morgan Firm, headquarters of the largest financial group in the U.S., mentioned an optimistic outlook after their brief meeting: “There was just a little troubling sale at the exchange” (words of Morgan Firm Chairman Lamont), *New York Times* reported the following day.

- But shortly the state of affairs for sure started showing the American economy tumbling down to the worst situation.
- Five days later on the 29th, the stock market presented a great crash of the magnitude since “Black Thursday” taken place on the 24th, and the stock boom since 1927, appeared to be rather extraordinary, busted up.
- America, having sung in praise of prosperity in the 1920s, came to be overwhelmed by a grave crisis over the following 4 years. Effects of the recession were serious and had far-reaching consequences. The unemployment rose, wages were lowered, production activities and foreign trade activities markedly fell down. The unemployment in the US reached some 12 million according to the statistics in March, 1932.
- The recession of America, under the gold standard, was transmitted to all the countries of the world. Particularly hard hit were European countries supported by the American export of capital, hence turning into an adverse environment subsequently.

- The world economy since the end of WWI was sustained by financial resources provided by the prosperous U.S. Relying on its overseas investment were European countries unable to grow out of wounds left by war, including Germany with huge reparations, and countries of producing primary goods having uncertainty of international trade balances attributed to the oversupply/price slump of agricultural commodity.
- The supply of funds to these countries by issuing national bonds and securities in the stock market in New York came to a stop due to this depression of America, which swelled uncertainty in each country's economic situation, and, in due course, the countries sank into abyss of The Great Depression as if shackling each other.
- Because of the European financial depression triggered by a bankruptcy of the Austrian central bank in Sept., 1931, the worldwide spreading of such great depression became ultimate, which brought about the full stop of the reestablishment of the gold standard. The world economy was doomed to suffer severely from the long, broad, and deep great depression until 1933.

International Comparison in Depression Period

Diagram 9 International Comparison of Major Economic Indicators



- Price plunge was severe, and changes in wages and national product varied by country.
- That the price tumble was the largest and lasted for a long period constituted the characteristic of the great depression. It's relatively minor for Japan.
- Effect of the production activities was also minor, but was a serious problem in those days.

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

Comparison of Price Plunge

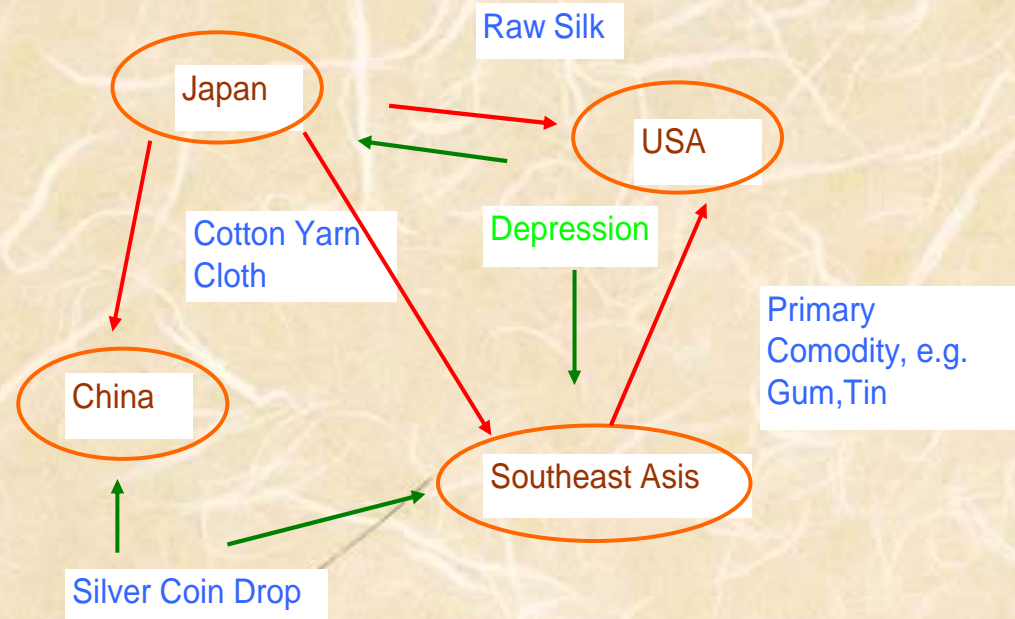
Chart 9-6 Transit of Wholesale Price Index

	Maximum in 1929 (A)	Minimum in Mar, 1933 (B)	Mar, 1933 (C)	A-B A	A-C A
Japan	172	111	134	35	22
Netherlands	147	72	72	51	51
Italy	499	28	287	42	42
France	660	390	390	41	41
USA	138	86	86	38	38
Germany	140	91	91	35	35
U.K.	140	98	98	30	30
Austria	171	122	122	29	29
Sweden	145	105	105	28	28

Source: League of Nations, *World Production and Prices 1925-1932*, p.78.

Spread of Great Depression to Japan

- The Great Depression spread over to Japan through two pathways:
- ① Directly, by a sharp decline in raw silk export, the largest exporting item, to the U.S.;
- ② Indirectly, via a decrease in exports of primary commodities from Southeast Asia due to the U.S. depression, causing a depreciation in the area's purchasing power, hence decaying exports from Japan
- And the depreciation in silver coins, continuing from the last half of the 1920s, added a further adverse momentum.



Demand and Supply Regarding Raw Silk

- Inventory of raw silk got accumulated at export ports starting from the beginning of the 1930s.
- ←Supply-restraint measure to cope with a sharp downswing of the price
- But the price slippage caused by the depression didn't stop.

Raw Silk Price

- Raw silk price turned into a declining trend since the latter half of 1929.
- The going market rate in New York and Yokohama came down in conjunction.
- Accordingly, the silk-reeling industry deteriorated its operation, and cocoon-raising farmers aggravated their profit, and momentum spreaded further.

Damage to Silk-Reeling Industry

- Prospect of profit for a silk-reeling house in average was:
1929 earning ¥1297, spending ¥1389, balance ¥98 in deficit
to
1930 ¥ 714 ¥ 737 ¥23 in deficit
- For silk-raising farmers, the cocoon price was more than halved in 1929-30, and their profit prospect tumbled down to a substantial deficit.

1-7-4 Showa Depression

- **The seriousness of the situation was underestimated in Japan, too. Hamaguchi Cabinet of Minseito was engaged with steady steps on the preparation of the pending policy to lift the gold embargo.**
- **Such a preparatory process caused a downturn in consumption and an apparent business recession, and the New York stock market took a great dive right in the middle of these situations. It was a matter deserving a careful attention as an American business trend was to significantly influence the Japanese export via such staff as the export of raw silk.**
- **But Finance Minister Inoue, pushing ahead with the gold-embargo-repeal policy, preached the need for an austerity for the sake of development in future, thus, did not soften his stance. Faced with Euro-American central banks, including New York federal bank, lowering interest rates in response to the stocks' great dive, he even made a special note that such an outturn was a "great piece of optimistic news for lifting the gold embargo." He evaluated that the favorable condition, rather than a dangerous symptom, proliferated.**
- **Those who were aware of the danger were not many in number, and people had their high hope of the policy to lift the gold embargo, as demonstrated in the big victory of Minsei Party.**

- But the result was “like opening up storm windows at a raging hurricane.”
- Influenced by the world economy gradually becoming exacerbated, Japan began to show a serious state of depression.
- First, the international trade balance was on the rock attributed to the collapse of the export of raw silk which was then the heart of exports to the US and the central player of acquisition of foreign currency.
- Coupled with the crash in rice price in Oct., 1930, agricultural villages were thrust in the gutter of slump. The price of raw silk fell off from ¥116 (per 10 “kin”) of Dec., 1929 to ¥55 in 1931, more than 50%, which was one-quarter of the high price in 1924.

(one “kin” = 600 g)

Price of Rice

- Around the same time, the price of rice fell off from ¥28 to ¥16, more than 40%.
- In a little more than a year, commodity prices tumbled 50-60% all round.
- The reduction in commodity prices and the letup in demand compelled the mining and manufacturing production to diminish, and which increased the unemployment.
- The escalation of depression enhanced social unrest and discontent.

Cotton Industry during the Depression

- From the second half of 1929 to the first half of 1930, the industry faced the sharp fall in price and the steep decline in production.
- The performance briefly picked up in the second half of 1930.
- ←Cartel activity by Spinners' Association

Corporate Profit Ratio

- Profit ratio of corporations marked a sharp decline in the second half of 1930.
- Business sector, in particular, suffered the largest blow, and transportation/warehouse, manufacturing industry, in that order.
- Downturns started
 - for the business activity index in 1929 autumn
 - for the wages in the beginning of 1930
 - for the labor population slightly earlier than the business activity index.
- While there is no reliable statistics of unemployment available, the labor market turned extremely disadvantageous to workers, and massive discharged persons came into existence, which sharply increased those unemployed or returning to the farm.

Age of Terrorism

- It must have been nearly impossible to foresee the onslaught of Great Depression. For the government to be fixated on the policy of lifting the gold embargo worsened the situation despite the radical changes in the environment.
- A greater problem, however, was that a series of policies Minseito drove forward enlarged the criticism, with the military playing a central role, on a government by party politics. Movements to attempt a breakthrough by force began to be visible from time to time.
- These moves came up to the surface early on as in the assassination of Takashi Hara and the Amakasu incident. An aggravation of the depression broadened a footing to tolerate such terrorism, which was symbolized in the shooting of Prime Minister Hamaguchi. Against the current of political democratization described as Taisho democracy, an ominous sound of footsteps trying to straighten matters out with the bayonet, as if to say, "Might for sure is justice", was getting up close. People were just too naive about it.

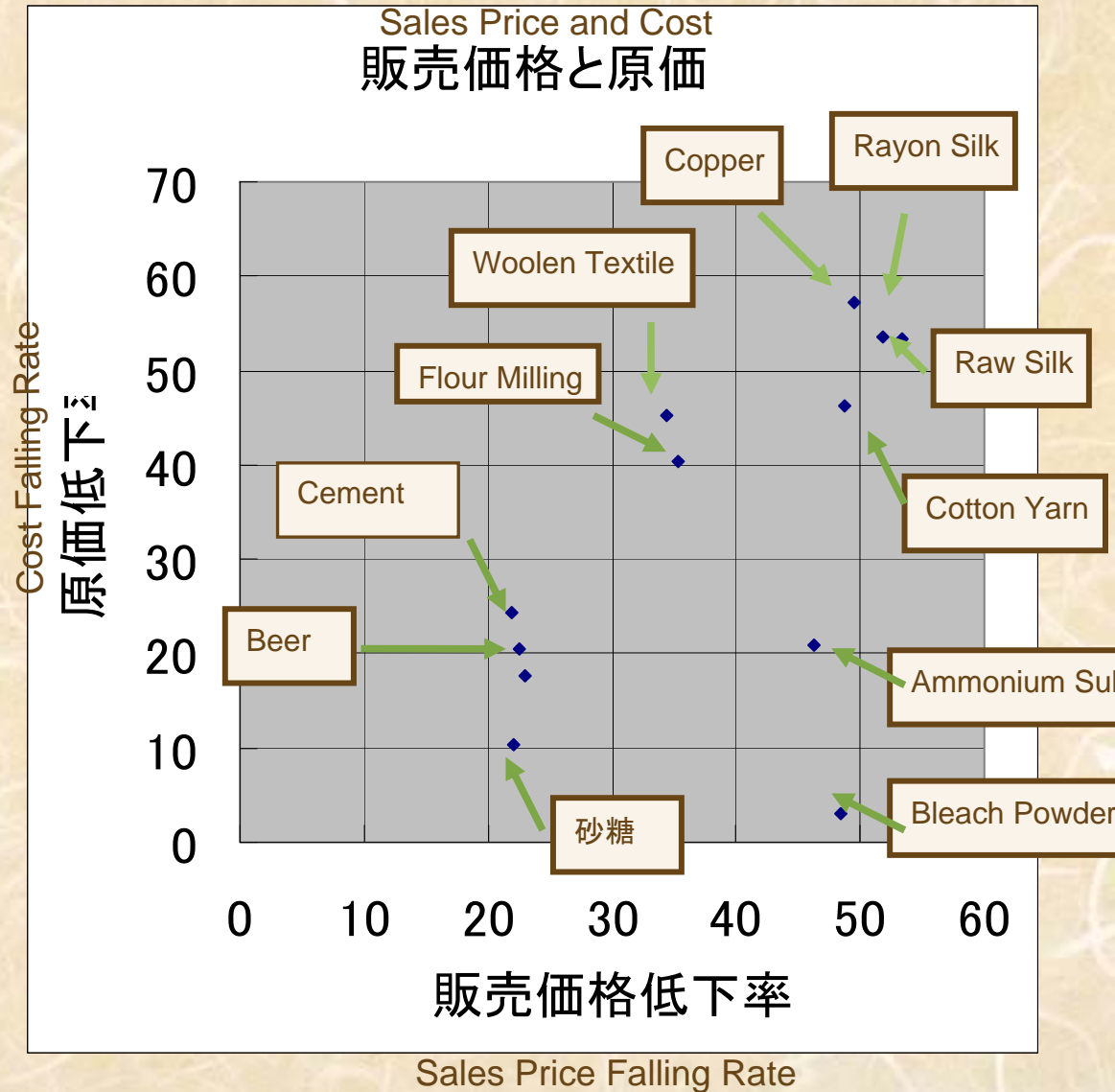
- In Nov., 1931 when U.K. came off the gold standard, Manchurian Incident occurred suddenly and the times were to transform in a large way.
- Based on their judgment that it would be tough for Japan to sustain the gold standard, some powerful banks began to show the movement of “yen selling and dollar buying” out of necessity to cover exchange loss due to plunge of the yen expected to incur at bringing the gold standard to a halt, which came into a sharp collision with the government policy to maintain the yen exchange.
 - *When a “dollar buying incident” erupted, the government criticized the banks affiliated with such Zaibatsu as Mitsui. This became one factor to criticize Zaibatsu. leading to the assassination of Takuma Dan, board chairman of Mitsui Partnership Corp.*
- Thus, placed in a tough position to continue its policy of lifting the gold embargo, the Minseito-run cabinet was driven to the resignation en masse in Dec.

Switch to Seiyukai Cabinet

- Seiyukai's Inukai cabinet
 - ① immediately put a stop to the gold standard
 - ② left the rapid fall of the yen unattended
 - ③ attempted to create demands by a positive dissemination of financial funds such as increasing the military expenditure.
- Materializing the export expansion and import constraint by the yen depreciation, and creating effectual demands by the financial administration, such measures achieved an effect to get the recession under better control. Thus, in 1932 Japan tracked back on the recovery process from the depression forerunning other countries.
- These policies, on the other hand, came to lay down serious domestic and international conflicts. An increase in arms expenditure strengthened the military power's influence, and acts of terrorism by the military and right wing strode.
- Laid in the background was that, despite the recovery of mining and manufacturing output, the depression in agricultural villages trailed on, coupled with the failure of the crop caused by the unseasonably cold weather. Among farmers having a rough time with debts, not negligible numbers sold their daughters into slavery or fled by night.

Characteristics of Showa Depression

- A rapid price slippage incurred during the 2 years from the end of 1929 throughout the end of 1931.
- But responding to that, enterprises went ahead with cost reduction.
- While the cost-price relationship deteriorated in chemicals and foods, the cost reduction proceeded in other sectors.



- It is noteworthy that, in the basis for the cost reduction against the heavy fall in market price, there happened the reduction in wages, in addition to the decline in material prices.
- Under the depression, the labor market explicitly reacted in workforce size and labor cost, and a downward-rigidity-type of constraint of wages became less.
- In sum, in the depression process, the Japanese economy in terms of both quantity and price reacted quite flexibly, or in a market-economy-oriented manner.