

# FROM THE SHŌWA ECONOMIC CRISIS TO MILITARY ECONOMY

— With Special Reference to the Inoue and  
Takahashi Financial Policies —

CHŌ YUKIO

## I. THE CHANGE OF INDUSTRIAL STRUCTURE

This article deals with the tense period from the lifting of the gold embargo and the Shōwa economic crisis in January, 1930 to the February 26th Incident in 1936. The aim is to describe the macroscopic structural changes in the Japanese economy at that time when viewed from the standpoint of modernization.

As is clear from the figures in Table 1, during the first four decades of the twentieth century the weight of primary industries (agriculture, forestry, fisheries, stock raising, etc.) in the national economy declined, while that of secondary industries (mining and manufacturing industries) rose strikingly. Thus we may note a change in the traditional pattern of the structure of Japanese industry, in which the primary and tertiary industries (mainly small-scale commerce and service industries) had prevailed over the secondary industries from the beginning of the Meiji era to the mid-Taishō era. In the period between 1907 and 1919 (that is, from the time of the economic crisis which came with the cessation of industrial fever at the end of the Russo-Japanese War, to the year of the post-World War I boom), the secondary industries had remained as yet in a low position. In 1927, a year of financial crisis, the absolute income of the primary industries decreased heavily in nominal terms; in contrast, the secondary industries developed to the point that they were of almost as much importance in the industrial structure as that of the primary industries, although the absolute income of the secondary industries was lower than it had been immediately after World War I. In 1930, the primary industries shrank further and were surpassed by the secondary industries in absolute income. Since then, the secondary industries strengthened their predominance over the primary

**Table 1.** CHANGES IN INDUSTRIAL STRUCTURE AS REFLECTED IN NATIONAL INCOME

(in million yen and %)

	Aggregate	Primary Industries	Secondary Industries	Tertiary Industries
1907	3,102 (100)	1,405 (45.3)	611 (19.7)	1,086 (35.0)
1919	13,593 (100)	5,187 (38.2)	3,483 (25.6)	4,923 (36.2)
1927	13,097 (100)	3,188 (24.3)	3,164 (24.2)	6,745 (51.5)
1930	11,598 (100)	2,260 (19.5)	3,239 (27.9)	6,099 (52.6)
1935	15,600 (100)	2,944 (18.9)	5,033 (32.3)	7,623 (48.9)
1940	33,914 (100)	6,154 (18.1)	12,885 (38.0)	14,875 (43.9)

Notes: 1) Years are fiscal years (April 1-March 31).

2) Primary industries include agriculture, stock raising, forestry, and fisheries; the secondary industries, mining and manufacturing (except governmental and public enterprises) as well as gas and electric power industries; and the tertiary industries, all other industries.

Source: Kazushi Ohkawa, *The Growth Rate of the Japanese Economy since 1878*, Tokyo, Kinokuniya Bookstore, 1957, pp. 130 and 247.

industries, and became a leading sector of the national economy. Thus, the industrialization of the national economy accelerated remarkably during World War I compared with the preceding period. Furthermore, in the course of the post-war depression, industrialization was carried out steadily, in contrast to the primary industries which showed a real decline in their weight in the national economy. From this, we can say that a great structural change had been occurring in the national economy; after 1930, the change was sharply accelerated and the promotion of heavy and chemical industries came to play a major part in the Japanese economy.

Now, this structural change brought about notable changes in the secondary industries themselves. In 1909, according to figures in the *Kōjō tōkei hyō* 工場統計表 (Factory Statistics), the spinning and weaving industries accounted for 50.2% of the total industrial production and constituted the major sector of Japanese secondary industry; in the same year, the heavy and chemical industries such as metals, machines, chemicals, and ceramics represented no more than 15.0%. As shown in Table 2, the heavy and chemical industries recorded a remarkable growth in the Taishō period, and in 1930 they occupied 38.2% of the total industrial

production, surpassing slightly the spinning and weaving industries' 36.6%. In 1930-36, the growth rates of the heavy and chemical industries rose further and in 1936 accounted for 52.3% of total industrial production; on the contrary, the spinning and weaving industries' production was reduced to 29.5% of the total. In the same period, the metal, machine, and chemical industries more than doubled or, in some instances, quadrupled; i.e., 423%, 246%, and 234% respectively; on the contrary, the spinning and weaving industries showed a growth of only 177%, lower than the growth rate of all industries combined, i.e., 205%. We might safely conclude from the above statements that, in contrast to the stagnancy of agricultural production during this period, the secondary industries made great progress and among them in particular the heavy and chemical industries were promoted.

**Table 2.** CHANGES IN INDUSTRIAL COMPOSITION

	Production Value (in million yen)		Percentage		Rate of Growth (1930-1936) (%)
	1930	1936	1930	1936	
Grand Total	5,963	12,258	100.0	100.0	205
Metal	509	2,209	8.5	18.1	434
Machine & Equipment	695	1,716	11.6	14.1	246
Chemical	902	2,111	15.1	17.2	234
Electric & Gas	18	22	0.3	0.2	122
Ceramic, Stone, Clay & Glass	162	329	2.7	2.7	202
Total	2,286	6,387	38.2	52.3	279
Spinning & Weaving	2,174	3,655	36.6	29.5	177
Lumbering & Woodworking	163	280	2.7	2.3	172
Foods & Related Products	954	1,260	16.0	10.3	132
Printing & Book-binding	192	235	3.2	2.0	122
Others	194	441	3.3	3.6	227

Source: Ministry of International Trade and Industry, *Kōjō tōkei hyō*.

This change in the industrial structure was reflected also in the tendency towards urbanization. The gravitation of population to the cities proceeded in the period between 1930-36, and the pattern of population composition changed decisively to that of an industrialized nation. In spite of the increase in total population, the population in the towns and villages declined from 82.0% in 1920 to 67.2% in 1935. The increased population concentrated in the cities and, in particular, in those cities with more than one million residents; in 1935, the figures for these cities noted an increase to 16.1% of the total population, from 6.2% of 1920. As the natural increase in the towns and villages was offset by

outflow to the cities, the increase in the cities thus may be attributed to both this outflow plus natural increase itself.

On the basis of the above-mentioned figures concerning the structural changes in both industry and population, the period from 1930 to 1935 may be said to have been a period of transition for the Japanese economy to that of a modernized industrial nation in which the heavy and chemical industries become the leading sector. The period is also characterized by the transient return to the gold standard and a serious economic crisis; by the reimposition of the gold embargo and the suspension of specie payments or conversion to a managed currency system; and by the development of a quasi-wartime reflationary economy. In the history of Japanese capitalism, the period marked a major turning-point comparable in significance to the Matsukata 松方 deflation period (from 1881 to 1886). What should be noted here is that the two periods provided turning-points in the forming of the "pattern" of Japanese capitalism. The Matsukata financial policy put the finishing touches to the original accumulation of capital in Japan by stabilizing the currency system and terminating the pre-capitalistic inflationary policy. Moreover, the policy paved the way for such capital accumulation as the establishing of a pattern of "semi-feudalistic" capitalism, in which the landlord system and minute-scale agriculture functioned as the basic element, with the spinning and weaving industry as the leading sector and the state-operated munitions industry as the catalyst.

The expansion of the economy and the progress of industrialization caused by World War I produced an intense impact on the pattern of the industrial structure of Japanese capitalism. Under this impact, the pattern was forced to collapse during the mid-Taishō and early Shōwa eras. Thus the chronic nature of the depression and the intensification of the economic crisis at that time were not due to the business cycle but were really due to the collapse of the old pattern of Japanese capitalism and the difficulties faced in overcoming the contradictions deriving from a structural change. The Inoue 井上 financial policy and the resultant Shōwa economic crisis dealt the final blow to the "pattern." In this sense, the Inoue deflationary policy was the culmination of the Matsukata policy. Thus, the Takahashi 高橋 financial policy (and subsequent Japanese economic policy) was evolved to create through the reform of the currency system a new "pattern" in which the heavy and chemical industries would become the leading sector.

## II. THE LIFTING OF THE GOLD EMBARGO AND THE ECONOMIC CRISIS

The reconstruction of the multilateral settlement through the stabilization of exchange rates of the various currencies was the most urgent task for the recovery of world economy after World War I. At the Genoa Conference of 1922, it was resolved to revive the international gold standard, though on the condition that devaluation measures and gold bullion and gold exchange standards be adopted on a large scale. In fact, by 1929, with the exception of Japan and five other major countries 26 major countries had returned to the gold standard. Therefore, under such circumstances Japan was obliged to lift the gold embargo.<sup>1</sup>

The lifting of the gold embargo had been a long-pending problem for domestic reasons, one of which had been the inflationary policy employed for relief of the post-war depression. Arguments for lifting the gold embargo were often raised, but came to naught when the great crises such as the Kantō Earthquake and the financial crisis attacked Japan. An urgent request for lifting the embargo, however, arose in the midst of the depression and the slack money market after the financial crisis was overcome.

Speculation in yen, which first started on the Shanghai market subsequent to the Chinan Incident of May, 1928, was undertaken in Japan on the supposition that Japan would soon return to the gold standard because France had returned in June of the same year. On the other hand, Japan's specie holdings abroad had decreased heavily, so that the exchange rates of yen were subject to repeated wide fluctuations. For instance, in 1928 the Specie Bank's exchange rate with the United States was altered 90 times, thus making it very difficult for traders to engage

<sup>1</sup> The lifting of the gold embargo was necessitated, too, by such reasons in the context of international affairs as, first, the fact that investors in the Bank for International Settlement and the members of the Financial Committee in the League of Nations were limited to those countries which were on the gold standard. Thus, Japan, as a member of these organizations, had to return to the gold standard. Second, according to the terms of redemption British sterling bonds bearing 4 percent interest would reach maturity by 1931. Therefore, it was necessary that negotiations for a new loan from Great Britain be undertaken before that time. The Japanese government insisted on the negotiations and, in fact, the revival of the gold standard was expected to favourably assist the negotiations. However, as former Finance Minister Mitsuchi Chūzō 三土忠造 of the Seiyūkai 政友會 asserted in *Keizai hijōji no seishi* 經濟非常時の正視 (Looking Squarely at the Economic Emergency), Tokyo, Nihon hyōronsha, 1930, pp. 90-92, the lifting of the gold embargo was not necessarily a prerequisite for a successful negotiation.

in stable transactions. The stabilization of exchange rates thus became a task for the Japanese economy to undertake and the voices calling for the lifting of the gold embargo suddenly grew loud.

The deposits in the big banks increased after the financial crisis because of the distribution of special loan funds by the Bank of Japan and the transfer of deposits from small-scale banks. However, the demand for funds had been reduced; for example, judging from the general deposits at the Bank of Japan which carried no interest, superfluous money in the hands of the big banks is estimated to have been ¥200–300 million. Under these circumstances, the big banks were willing to release this money to foreign markets where interest rates were rising. Moreover, if the gold embargo were lifted, the big banks would themselves benefit from the rise in interest rates brought about by the tight money market.

Those who insisted on lifting the gold embargo at a new parity raised objections to lifting at the former parity, which was supported by the major banks and big business, although such men as Kaneko Naokichi 金子直吉, Matsukata Kōjirō 松方幸次郎, etc., were opposed to the lifting of the gold embargo itself. Leading economists, in particular such as Ishibashi Tanzan 石橋湛山, Takahashi Kamekichi 高橋龜吉, Obama Toshie 小汀利得, Yamazaki Yasuzumi 山崎靖純, and others, held that the gold embargo should be lifted by lowering the exchange rates to a level corresponding to the purchasing power of the yen and to the productivity of Japanese industry. They attacked, in articles in such famous periodicals as *Tōyōkeizai shimpō* 東洋經濟新報, *Chūgai shōgyō shimpō* 中外商業新報, *Jiji shimpō* 時事新報, the overwhelming public opinion which called for the lifting of the gold embargo at the former parity. What these advocates of the new parity asserted was, so to speak, a Japanese version of “The Economic Consequences of Mr. Churchill,” even though there were differences in their backgrounds.

In 1929, the opposition parties as the Minseitō 民政黨 and the Shintōkurabu 新黨俱樂部 severely attacked the government, which hesitated to lift the gold embargo. The irresolute attitude of the government made the business circles lose their bearings, thus causing extremely unstable business conditions. Amid this seething controversy over the lifting of the gold embargo, the Seiyūkai cabinet headed by Tanaka Giichi 田中義一 resigned *en masse* on account of its failure in dealing with the assassination of Chang Tso-lin. In July, 1929, the Hamaguchi 濱口 cabinet was organized and Inoue Junnosuke 井上準之助, an expert on financial problems who had already occupied such important positions as president

of the Specie Bank, governor of the Bank of Japan, and Finance Minister in the second Yamamoto 山本 cabinet, took office as Finance Minister.

Soon after its inauguration the Hamaguchi cabinet issued a policy statement, generally referred to as "The Ten Big Political Principles," in which its foreign and economic policies may be seen as a combination of the Shidehara 幣原 co-operation diplomacy which consisted of "reform of the China policy" and "acceleration of disarmament," and of the Inoue tight-financial policy of "reorganization and curtailment of finance," "non-floatation and reduction of bonds," and "resolute execution of the lifting of the gold embargo."

The Hamaguchi cabinet first cut ¥ 91.65 million from the 1929 operating budget, and prepared a budget of ¥1,608.77 million for fiscal 1930, which was a reduction of ¥164.99 million compared with the 1929 budget. Second, in order to refinance Japan's overseas specie holdings which had decreased to about ¥83 million, the government and the Bank of Japan encouraged the Specie Bank's buying of export bills and purchased funds held abroad from the bank. Furthermore, the government established a credit totalling ¥100 million in the United States and Great Britain<sup>2</sup> for the purpose of preventing the efflux of specie which was assumed would occur when the lifting of the gold embargo was effected. During November of 1929 the specie holdings abroad of the government and of the Bank of Japan recovered to about ¥300 million. Also, Ministry of Finance bonds worth ¥35 million were sold in an attempt to absorb superfluous funds and restore the Bank of Japan's credit control. Furthermore, according to what may be seen from examples of mass media still available, such as radio broadcasts and advertising handbills, slogans advocating thrift and savings were widely disseminated to develop a nation-wide movement for economical personal consumption and of savings, with the dual intention of curbing purchasing power and reducing prices. After these preparatory measures had been taken, the gold embargo was lifted on January 11, 1930.

On January 21, 1930, the House of Representatives was dissolved. The statesmen who belonged to the Minseitō campaigned on a platform which called for reconstruction of the economy with the lifting of the

<sup>2</sup> This credit was constituted of £5 million from Great Britain and \$25 million from the United States. In the contract, Japan was represented by the Specie Bank under the assistance of the government and the Bank of Japan; the United States by J.P. Morgan & Co., the National City Bank, Kuhn'Loeb & Co., the First National Bank of New York, and the Guarantee Trust Co.; and Great Britain by the five big banks headed by the Westminster Bank, Rothschild & Sons, and Hong Kong and Shanghai Banking Corporation.

gold embargo; in a frantic endeavour to collect votes they foresaw a rosate future which might be brought about by the lifting of the gold embargo. Impatient with the continuing depression, the people played into the hands of this campaign by the government and its party, allowing the party to win a signal victory. However, the various conditions which were felt to be necessary for the reconstruction of the economy and which the government proudly proclaimed to have been met were in fact not fulfilled, and the statements of the government were mere illusions.

The balance of current payments was improved. This was, however, due only to the following two factors; first, exports increased through the speculative buying by foreign countries of Japanese goods on the assumption that the lifting of the gold embargo at the former parity would bring about a rise in the exchange rates of yen; and second, Japanese traders refrained from importing foreign goods. Consequently, a balance of payments achieved on such a basis involved the possibility of a number of vicious effects, including decreased exports and increased imports. Likewise, the recovery of exchange rates and the increase in specie holdings abroad were promoted by such heterogeneous factors as the establishment of credit and speculations in yen exchange in large quantities. Japan welcomed, as a favourable condition for the prevention of the outflow of the Japanese capital, the decline of interest rates on the United States and British markets which were caused by the great drop in stock prices on Wall Street in October; however, she would have done better to be alarmed at the difficult conditions which would appear with business recession, a fall of prices in the two countries, and the intensification of the international economic war.

When the gold embargo was lifted in January, 1930, amid a precarious mood of optimism, conditions became worse and developed into a far more severe situation than had been expected by the government. Specie flowed out violently as if it had been waiting for the lifting of the gold embargo, and the total outflow reached ¥288 million in 1930. This was due to the withdrawal of exchange speculation funds, the flight of capital caused by the purchase of foreign currency bonds, etc., rather than to settlements involved in an excess of imports over exports.

The stagnancy of business owing to austerity finance was exacerbated by the contraction of currencies and credits caused by the outflow of specie, thus leading to a serious financial crisis known as the "Shōwa economic crisis." Commodity prices fell sharply as the exchange rates recovered. Taking the average in 1934-36 as 100, the index of wholesale prices in Tokyo stood at 78.6 at the end of December, 1930, as



compared with 108.4 in 1929 before the establishment of the cabinet, thus showing a decline of more than 29.8%. As this rate of fall is equal to more than twice the rate of exchange recovery (from \$ 44.050 to \$ 49.375, with New York), the result must be regarded as the impact of a double blow by economic crises at home and abroad. Even this low price level, moreover, was considerably higher than that of the commodity prices prevailing in Great Britain and the United States. The market for Japanese raw silk and cotton yarns, the two major items of

Table 3. INDICES OF THE ECONOMIC CRISIS (1926=100)

	1927	1928	1929	1930	1931	1932	1933
Wholesale Price <sup>1)</sup>	95.1	95.6	92.8	76.5	64.6	68.2	75.9
Rice Price <sup>2)</sup>	86.0	82.0	80.6	50.6	50.1	61.9	61.3
Stock Price <sup>3)</sup>	110.2	92.4	81.0	55.1	42.7	56.4	80.4
Mining & Manufacturing Industrial Production							
Cotton Yarn <sup>4)</sup>	88.8	84.6	97.3	96.8	101.5	118.9	122.8
Pig Iron <sup>5)</sup>	110.8	135.1	134.4	143.6	113.4	124.9	177.6
Steel <sup>6)</sup>	111.9	126.6	152.3	152.0	125.0	159.2	212.3
Coal <sup>7)</sup>	106.7	107.7	109.0	99.8	89.1	89.2	103.5
Bank and Company Capital							
New Incorporation & Capital Increase <sup>8)</sup>	93.6	94.2	94.7	64.3	62.9	47.6	104.8
Liquidation & Capital Decrease <sup>9)</sup>	97.9	122.6	75.5	132.8	110.4	79.7	97.9
Amount of Bills Cleared at All Clearing Houses <sup>10)</sup>	70.4	77.1	71.2	60.9	51.9	59.4	75.2
Number of Labourers <sup>11)</sup>	101.3	103.3	97.3	90.1	88.6	92.4	101.3
Daily Average of Earnings of Factory-Labourers <sup>12)</sup>	114.9	119.9	121.2	117.5	109.8	112.0	110.3

Sources: 1) Bank of Japan, Statistics Department, *Meiji ikō hompō shuyō keizai tōkei* 明治以降本邦主要經濟統計 (Hundred-Year Statistics of the Japanese Economy), Tokyo, 1966, pp. 76-77.

2) Ohkawa Kazushi 大川一司 *et al.*, *Bukka* 物價 (Commodity Price), Chōki keizai tōkei 長期經濟統計 (Estimates of Long-Term Economic Statistics of Japan since 1868), No. 8, Tokyo, Tōyōkeizai-shimpōsha, 1966, p. 170.

3) *Meiji ikō hompō shuyō keizai tōkei*, p. 253.

4) *Ibid.*, p. 100.

5) *Ibid.*, p. 100.

6) *Ibid.*, p. 100.

7) *Ibid.*, p. 99.

8) Ministry of Finance & Bank of Japan, *Shōwa nijū-sannen zaisei keizai tōkei nempō* 昭和23年財政經濟統計年報 (Annual Report of Financial and Economic Statistics for 1948), p. 278.

9) *Ibid.*, p. 278.

10) *Ibid.*, pp. 274-275.

11) *Ibid.*, p. 652. (Figures for factories with more than 5 workers.)

12) *Meiji ikō hompō shuyō keizai tōkei*, p. 68.

export, was narrowed and the prices for these goods fell because of the shrinkage of the purchasing power of the yen under the effects of the depression plus the attack by the growing rayon industry in the United States, in addition to the development of national capital formation and the decline in the price of silver in China and India. Thus Japanese foreign trade decreased to a great extent. In 1928-31, imports decreased by 44% and exports by 42%. Moreover, in agriculture, the fall of silk prices and the collapse of farm product prices caused by bumper crops in 1930, together with poor harvests in 1931, drove peasants to, literally, a starvation level of living.

The recession of exports and the shrinkage of purchasing power worsened the standing of business firms and led to a sharp increase in reduction of capital and number of liquidations. Production control, joint selling, and rationalization became popular and the organization of cartels and trusts made headway. The government established the Bureau for Temporary Industrial Rationalization in June, 1930, and in April, 1931, promulgated the Law for the Control of Important Industries to accelerate rationalization and cartelization. As a result, the unemployed crowded the streets, giving rise to the so-called "lumpen era." Labour disputes became frequent, increasing in scope and severity. The cautious attitude of banks in financing provoked severe shortages of funds and increased bankruptcy or liquidation among enterprises.

Thus, under the pressure of a mounting call for overcoming the depression by means of a low interest-rate policy, the government, in August and September, lowered the interest rate for postal savings and the official rate of the Bank of Japan. Prior to this, in June, through the intercession of the government and the Bank of Japan, the syndicate banks in Japan reached an agreement to set the Council for the Industrial Survey for the purpose of industrial rationalization; the syndicate banks carried out the so-called "loan by the league," or joint loan to the Keihan 京阪 Electric Railways, Asano 淺野 Cement, Dai-Nippon 大日本 Synthetic Fertilizers, Karafuto 樺太 Industries, Daidō 大同 Electric Power, Tokyo Gas, and other big business. As the depression grew more serious from the latter half of the year to the year-end, the government, on the one hand, distributed relief loans from the funds of the Deposit Bureau and, on the other, replaced the president of the Industrial Bank of Japan with Yūki Toyotarō 結城豊太郎, a confidant of Inoue, thus forcing the bank to distribute relief loans to business firms.

The 58th and 59th Sessions of the Diet were thrown into confusion due to the controversies between the government and opposition parties

in which both sides engaged using fair means and foul, concerning such matters as the controversy over the Prerogative of Supreme Command, the Japan-China tariff agreement, various scandal cases, a slip-of-the-tongue case involving acting Prime Minister Shidehara, and so on. The mudslinging brought on by the parties' interests and schemes not only disenchanting the crisis-ridden people with party politics and parliamentary government but also provided a hotbed for fostering rightist and militarist forces. Criticism of the lifting of the gold embargo was gradually mounting, but because the government's relief measures were projected as mentioned above, financial circles gave their support to the government measures during 1930. But on November 14, Prime Minister Hamaguchi was shot at Tokyo Railway Station and seriously wounded, with the result that his cabinet's unity and leadership were heavily shaken.

The 1930 "debt-free budget" which was balanced by savings and deferments was obliged towards the year-end to cover the shortages of revenue caused by depression by the floatation of government bonds for the relief of earthquake damage. Thus the Inoue sound finance policy collapsed in short order. The budget for fiscal 1931 too was organized on an austerity basis, but the outbreak of the Manchurian Incident in September, 1931 necessitated the floatation of government bonds after all.

In 1931, the money market encountered an era of almost unprecedented low interest rates which stimulated the bond markets, where a scramble for Ministry of Finance bonds and fine debentures became common. The rates of interest for bank deposits were also lowered in March. The major city banks had superfluous reserves of unemployed capital for which during the depression there were no investment opportunities in enterprise; on the other hand, small-scale banks in local districts were suffering from decreased funds and as of March, 1931, as many as 58 were actually doing no business.

In the latter half of 1931, banks, trust companies, insurance companies, securities dealers and even individual investors began to buy foreign currency bonds as a means of clearing superfluous funds from their hands and the demand for dollar funds increased. To meet this, the government employed so-called controlled sales of overseas specie holdings and balanced the budget by borrowing from foreign banks on the New York market where interest rates were low. With the spread to the United States, however, of a financial crisis which took place in Germany in June, 1931, the procurement of foreign funds became difficult and the Specie Bank started specie shipments. Unrest grew about the foreign exchange policy of the government and the Specie Bank which

had been forced to meet the shortage of dollar funds. With the outbreak of the Manchurian Incident on September 18, and with Great Britain's suspension of the gold standard on the 20th of the same month, speculative sales of yen and purchases of dollars grew intense from forecasts of an imminent gold re-embargo.

Speculative dollar purchases were started off with the rush to the Specie Bank on September 21 by Japanese and foreign banks and the controlled dollar sales rose to over ¥200 million in just one week.<sup>3</sup> In addition to specie shipments, however, the government and the Bank of Japan raised the official rates of the Bank of Japan by 0.2% to curb the drift of yen funds to speculative operations and discouraged such dollar purchases. The Bank of Japan tightened lending and maintained high interest rates while the Specie Bank imposed restrictions on exchange speculations or import exchange transactions. This meant nothing other than virtual exchange control.

The confrontation between the government and dollar purchases was sharpening towards the end of the year when a campaign for a co-operative cabinet by Home Minister Adachi Kenzō 安達謙藏 led to disunity within the cabinet, which suddenly fell on December 11. On the 13th of the same month, the Seiyūkai cabinet under Inukai Tsuyoshi 犬養毅 came to power and Takahashi Korekiyo 高橋是清 took office as Finance Minister. On the same day the government immediately reimposed the gold embargo and also suspended specie payments.

The Mitsui 三井 *zaibatsu*, which had purchased a huge amount of dollars, became the target of people's criticism. However, as stated later by Ikeda Shigeaki (Seihin) 池田成彬, then managing director of the Mitsui Bank, it can be said that the transaction was a reasonable one to enable the banks to make up for the damage they had suffered from the suspension of pound sterling specie payments.<sup>4</sup> However, this is an

<sup>3</sup> The total amount of dollars bought from this Specie Bank by private exchange banks, major traders, trust companies, insurance firms, securities companies, etc., since Great Britain's suspension of the gold standard was ¥510 million. With the addition of dollar purchases made in July, 1930, in anticipation of a political change in connexion with the London Disarmament Conference, the total is estimated to have reached the huge sum of about ¥750 million. The calculations by *Jiji shimpō* (March 24, 1931) were as follows:

Total value of dollars sold by the Specie Bank in yen—¥760,000,000: specifically, National City Bank, ¥273,000,000; Sumitomo 住友 Bank, ¥64,000,000; Mitsui 三井 Bank, ¥56,000,000; Mitsubishi 三菱 Bank, ¥53,000,000; Hong Kong and Shanghai Banking Corporation, ¥40,000,000; Mitsui & Co., ¥40,000,000; Bank of Korea, ¥34,000,000; Mitsui Trust, ¥13,000,000; others, ¥187,000,000.

<sup>4</sup> Yanagisawa Ken 柳澤健 ed., *Zaikai kaiko* 財界回顧 (Memories of the Economic

example of the old and always recurrent proposition concerning capitalist economy that the rationality of individual capital becomes irrational and anarchic in the aggregate, and leads the national economy to destruction.

Inoue believed in a textbook-like theory of automatic gold standard adjustments, and for that reason, enforced the policy of lifting gold embargo highly characterized by capitalist rationality, compared with the rest of the successive cabinets. The theory was, however, in itself uncertain, and in addition, for a capitalist economy that had entered the monopoly stage and had lost the elasticity it held in the days of *laissez-faire*, the effort to restore equilibrium by the lifting of the gold embargo and by the employment of tight finance was unsuccessful and resulted in intensification of the economic and social crises.

Mitsuchi Chūzō of the Seiyūkai, former Finance Minister, gave an over-all appraisal of the lifting of the gold embargo by stating :

“When I think quietly of the opinions of Prime Minister Hamaguchi or Finance Minister Inoue, it seems that they consult only the interest of big bankers or big businessmen and do not pay extensive and close attention to the benefit of the public. As far as big capitalists or businessmen go, it might be possible to withstand the blow for a considerable period of time and then recover, but there are many people who by that time would have become poor, gone bankrupt, suffered hunger, and fallen down.”<sup>5</sup>

### III. TAKAHASHI FINANCIAL POLICY AND ECONOMIC MILITARIZATION

The period of the Inoue and Takahashi financial policies is described characteristically as “the mature period of radical fascism”<sup>6</sup> or as “the first stage of Fascism . . . attempting the removal of non-Fascist men.”<sup>7</sup>

Democracy was trampled on step by step by the military and rightist terrorism and the political parties dug their own graves by corruption and mudslinging among themselves. Parliamentary government was taken hold of by the Fascist forces in conspiracy with the military. The nation ran ineluctably deep into the swamp of war fought on the China continent, and became internationally isolated. By this process, the Japanese economy overcame the Shōwa economic crisis and promoted

Circles), Tokyo, Mikasa-shobō, 1952, Chapter 6.

<sup>5</sup> Mitsuchi Chūzō, *Kin-kaikin to kinshuku-seisaku no hihan* 金解禁と緊縮政策の批判 (Criticism of the Lifting of the Gold Embargo and the Retrenchment Policy), Tokyo, Hōbunkan, 1929, pp. 15-16.

<sup>6</sup> Masao Maruyama, *Thought and Behaviour in Modern Japanese Politics*, edited by Ivan Morris, London, Oxford University Press, 1963, p. 26.

<sup>7</sup> Tanaka Sōgorō 田中惣五郎, *Nihon fasshizumu shi* 日本ファシズム史 (The History of Japanese Fascism), Tokyo, Kawadeshobō-shinsha, 1960, p. 14.

the recovery of business through export and war demands. Meanwhile, resistance to the expansion of the war was attempted by the Takahashi financial policy in the form of resistance to the war economy's unlimited encroachment on the peace economy.

With the reimposition of the gold embargo, the currency system shifted to virtually a managed currency system. The aim of the Takahashi financial policy was to make this monetary system function to the full advantage of the policy for easing the financial crisis and quasi-war-time economy. That is:

(1) Low interest-rate policy was adopted, lowering the official rate of the Bank of Japan from 1.6% to 1.5% (rate of discount for commercial papers) on three occasions, March, June and August, 1932; while also lowering the interest rate for postal savings from 4.2% to 3% in October, and thus promoting the formation of a low interest system favourable for the floatation and absorption of government bonds.

(2) In July of the same year, the limit of the fiduciary issue of the Bank of Japan was expanded from ¥120 million to ¥1,000 million to prepare for an increase in the issue of notes.

(3) The Deposit Bureau deferred redemption of loans to agricultural villages and expanded its various types of loans.

(4) Relief projects were carried out.

(5) It was decided to cover the expenditure of the Manchurian and the Shanghai incidents by the floatation of government bonds; the government commenced both issuing bonds, beginning February, 1932 to be subscribed by the Bank of Japan, and the selling of bonds to commercial banking institutions through market operations.

(6) In order to prevent the flight of capital overseas due to inflation and the decline of exchange rates, the Capital Flight Prevention Law (promulgated in June, 1932) and the Exchange Control Law (enforced in May, 1933) were set up along with a wide revision of tariffs (in June, 1932).

The two factors, that is, the reimposition of the gold embargo and the political unrest caused by the Manchurian Incident and the Incident of May 15, brought about a heavy decline of exchange rates, and consequently exports increased remarkably. The stimulation of effective demands in the government sector by the floatation of bonds and the low interest-rate policy led to a mounting war boom. Due to these two factors, the Japanese economy began, from 1932, to recover its prosperity, ahead of the foreign countries which were still afflicted by the Great Depression; and by about 1936 it realized very smooth economic expansion.

During the period of the lifting of the gold embargo the level of commodity prices in Japan had been higher than those in other countries since the rate of domestic price decline caused by the lifting of the gold embargo was smaller than that of the price declines in foreign countries following the Great Depression. The Japanese price level, however, became lower than that in foreign countries as a result of the fall of the exchange rates, so that exports increased and foreign trade expanded rapidly. It provoked international criticism of "social dumping." But this favourable growth of exports was brought about not only by the decline of exchange rates but also by the progress of rationalization and the fall of wages under the pressure of surplus capital and unemployed labour arising from the Shōwa economic crisis. The wage level of Japanese workers was obviously much lower, in nominal terms, than that in advanced capitalist countries such as Great Britain, but if compared in terms of real wages, the difference would be narrowed considerably, because of the lower price level of farm products and other daily necessities in Japan. The low wage level in Japan was not a characteristic of this period alone; it was a phenomenon of long-standing, maintained by the peasants' low wage level which had been based on the landlord system and minute-scale farming. This had been an instrument of capital accumulation since the Meiji era. The reason why the Japanese low wage level was criticized internationally for the first time at this particular period may be seen in the fact that the productivity of Japanese export industries had caught up with the international level by that time, and the traditional cheap labour strengthened Japanese international competitive power; as a result, her exports, in spite of a world-wide depression, made a striking advance in the world market.

The low interest-rate policy and deficit financing which depended on government bonds jointly contributed to the recovery of business. The low interest-rate policy alleviated the burden derived from government bonds and made it easy to support the price of the bonds. Financial deficits mitigated the shrinking money market and helped realize low interest rates.

Revenue obtained from the sale of government bonds was thrown into the national economy as cash purchasing power to increase the national income with a given multiplier effect. This economic expansion would inflate the amount of currency required to finance it, but the necessary sum could be drawn from the deposits left dormant by under-employment and be supplied by the creation of credit. (Furthermore, cash disbursements by the government would circulate into the financial

institutions to reinforce their payment reserves.) Moreover, the recovery of business eliminated frozen loans and increased collection of funds by the banks. On the other hand, the demand for additional credit was not large at the initial stage of activating superfluous money and speeding up the turnover rates of business operation, so that surplus funds existed in the hands of financial institutions and these funds facilitated the absorption of government bonds. Such was really the state of things in the years 1932-1935; the absorption of government bonds was carried out very smoothly.

Next let us examine the actual nature of the Takahashi financial policy. In the 1931 budget, Inoue's balanced budget policy collapsed because current revenue ran short due to the depression. At the end of the fiscal year it was necessary to make up a deficit of ¥64 million by suspending ¥44 million of transfers into the amortization fund and issuing ¥20 million of earthquake relief bonds and telegraph-telephone bonds. However, since the Manchurian Incident escalated to Shanghai in January, 1932, the government issued 5% interest bearing Manchurian Incident bonds worth ¥63 million on three occasions, January, February, and March, 1932, by emergency Imperial Ordinance while it also borrowed about ¥15 million. A Special Diet Session in March gave *ex post facto* approval to the above-mentioned activities and at the same time decided on the floatation of Manchurian Incident bonds, of which ¥67.5 million was issued to cover an additional expenditure for 1931 and the April-May expenditure of the 1932 supplementary budget. In May, 1932, Prime Minister Inukai was assassinated (the so-called May 15th Incident) and the Saitō 齋藤 cabinet took over. Thenceforth pressure from the military was heightened and the agricultural crisis intensified the sense of social crisis. In these circumstances, the 1932 budget was greatly expanded by Manchurian Incident expenditures and expenditures for relief projects, which were financed by revenue covering bonds. Thus, including the expenditure of about ¥47 million incurred by the fall of exchange rates, the 1932 operating budget rose to ¥2,012 million (of which government bonds and loans accounted for ¥684 million.)

In the 1933 budget, military expenditures including those for the Manchurian Incident and armament improvements expanded to put pressure on the expenditures for relief projects. A sum of about ¥88 million caused by the exchange slump was also appropriated in the budget and the issue of revenue covering bonds grew to huge sums. The 1933 budget reached ¥2,309 million, an increase of ¥300 million compared with the previous year, with government bonds and loans amounting to



**Table 4. VALUE OF BONDS ISSUED AND AMOUNT OF BONDS SUBSCRIBED AND SOLD BY THE BANK OF JAPAN (Face Value, Excluding Government-Transferred Bonds)**

Year	Amount Issued		Those Subscribed by the Bank of Japan		Those Sold by the Bank of Japan	
	New	Conversion	Amount Subscribed by the Bank of Japan (A)	Percentage of the Total Amount (%)	Amount Sold by the Bank of Japan (B)	(B)/(A) (%)
1932	200	0	200	100	164	82
1933	1,162	53	1,115	92	789	71
1934	660	256	701	77	900	128
1935	780	268	751	72	655	87
Total	2,802	577	2,767	82	2,360	85

Source: Compiled from Bank of Japan, *Manshū jihen igo no zaisei kinyū shi* 滿洲事變以後の財政金融史 (Fiscal and Monetary History after the Manchurian Incident), pp. 58-59.

**Table 6. BREAKDOWN OF REVENUE AND EXPENDITURE OF THE GENERAL ACCOUNT**

	1930	1931	1932	1933	1934	1935	1936
<b>ANNUAL REVENUE</b>							
Total	1,597	1,531	2,045	2,332	2,247	2,259	2,372
Taxes	835	736	696	749	843	926	1,052
Stamp Revenue	70	65	67	74	78	79	94
Revenue from Government Enterprises & Properties	488	473	467	495	265	281	308
Miscellaneous Revenue	76	98	102	136	241	211	256
Public Bonds & Borrowings	38	120	660	783	743	678	610
Surplus in the Preceding Fiscal Year	90	39	54	95	77	84	53
<b>ANNUAL EXPENDITURE</b>							
Total	1,558	1,477	1,950	2,255	2,163	2,206	2,282
Expenditure for Imperial Household	5	5	5	5	5	5	5
Annuities & Pensions	149	154	160	164	170	174	180
Administrative Expenditure	689 (39)	650 (44)	858 (44)	879 (39)	685 (32)	623 (31)	656 (29)
Military Expenditure	443 (29)	455 (31)	686 (35)	873 (39)	942 (43)	1,033 (47)	1,078 (47)
National Debt Expenditure	273	214	241	335	361	372	363

Source: Bank of Japan, *Hompō keizai tokei* 本邦經濟統計 (Economic Statistics of Japan), 1951 edition, pp. 221-222.

**Table 5.** SELLING OF NATIONAL BONDS BY THE BANK OF JAPAN IN 1932-1935 (Face Value)

(in million yen)

Sold To	Amount Sold	
	Value	Percentage
Financial Institutions		
Banks	2,533	65
Trust Companies	177	5
Insurance Companies	173	4
Others	127	3
Total	3,010	78
Security Dealers	356	9
Others	119	3
Total of the Above	3,485	90
Deposit Bureau and Other Government and Public Institutions	390	10
Grand Total	3,875	100

Source: *Mansha jihen igo no zaisei kinyū shi*, p. 59.

**Table 7.** COMPARISON OF MILITARY EXPENDITURE WITH EXPENDITURE FOR RELIEF PROJECTS

(in million yen)

Fiscal Year	Total Amount of the General Account of the Budget	Military Expenditure	Expenditure for Relief Projects
1931	1,334	406	—
1932	1,850	696	163
1933	2,129	850	213
1934	2,233	941	145
1935	2,215	1,021	10

Source: Ministry of Finance, "Yosan kaisetsu" 豫算解説 (Introduction to Budget), reprinted in Kazahaya Yasoji 風早八十二, *Nihon zaisei ron* 日本財政論 (Treatise on Japanese Public Finance), Tokyo, Mikasa-shobō, 1937, p. 158.

¥950 million.

As for the 1934 budget, the government curtailed current expenditures and repressed new expenditures. However, in reality, the budget had a notably military character because the Army and the Navy insistently demanded expenditures for armament repairs. The 1934 budget consisted of annual revenue and expenditure of ¥2,163 million with a government bond issue of ¥811 million; consequently, the scale of the budget was reduced by some ¥100 million; this was due to cuts in such civil administration expenditures as those for relief projects.

The fundamental policy behind the 1935 budget was to balance revenue and expenditure and to reduce the issuance of government bonds. This policy was inherited by Fujii Masanobu 藤井眞信 of the cabinet of Okada Keisuke 岡田啓介 that came to power after the Saitō cabinet resigned *en masse* on account of the Teijin 帝人 affair. In accordance with the principle of former Finance Minister Takahashi, Fujii endeavoured to carry on the cause of "sound finance." To accomplish that purpose, however, no other way was left to him than to terminate the appropriations for relief projects, curb the appropriations for civil administration, and institute a temporary profit tax for those industries which had benefited from the circumstances at that time. The 1935 budget provided for a revenue of about ¥2,215 million from taxes and about ¥771 million from government bonds. A retrenchment of about ¥8 million in taxes and a decrease of about ¥109 million in government bonds were realized in the budget. Fujii, a man of delicate constitution, resigned after the passage of this budget bill and soon fell ill. Thus, the budget became the bequest of Fujii, who had volunteered to protect the cause of "sound finance" against the military's stiff demands.

Again Takahashi Korekiyo appeared on the scene in spite of his old age. In the 1936 budget, the temporary profit tax programme was continued but an attempt was made to avoid a general increase in taxes and yet retain the policy for gradual reduction of bonds. However, various ministries demanded new appropriations amounting to ¥1,155 million, more than half of which were from the Ministries of the Army and the Navy. Takahashi, estimating the new appropriations at about ¥646 million (of which the Army and the Navy accounted for two-thirds), submitted the original budget plan to a cabinet conference. The military was dissatisfied with the budget and demanded strongly restitution of appropriations. Takahashi, however, refused their demands on the ground that the appropriations were unacceptable under the existing economic circumstances even if they had been necessary from the view-

point of national defence. Thus, he stood firm against the military until at last a settlement was reached with a total of ¥10 million for the Army and the Navy. The budget amounted to ¥2,270 million; and the bond issues, to ¥719 million.

However, before this budget was put into practice Takahashi fell victim to terrorism in the February 26th Incident. Under the succeeding cabinet of Hirota Kōki 廣田弘毅, Finance Minister Baba Eiichi 馬場鐵一 followed the policy of Takahashi as far as the 1936 operating budget was concerned, but the 1937 budget organized by Baba himself was quite an inflationary one providing for a large increase in taxes, large bond issues, and a wide expansion of military appropriations. Now the "lifeline of finance" which Takahashi had tried to protect was totally abandoned; the upholding of a sound finance policy was ended, and the nation was bound to race straight towards a military inflation.

A survey of the course of events described above indicates that the principle of gradual reduction of bond issuance was carried out after fiscal 1933 when the general account of the budget reached a peak of ¥793 million. For that reason, the total annual expenditure was held below the 1933 level in 1934 and 1935. In 1936, it increased somewhat but by no more than ¥30 million compared with 1933. That the gradual reduction of bonds could be realized despite the increase in military expenditures was due to the curtailment of civil administration expenditure including appropriations for relief projects and to the institution of the temporary profit tax. Therefore, the share of military spending in total annual revenue grew from 31% in 1931 to 43% in 1934 and 47% in 1936 while the share of general administration expenditure declined to 44%, 32%, and 29%. The quantitative soundness of finance could only be maintained at the cost of qualitative illness (that is, militarization). What, then, was Takahashi's idea of "sound finance"?

At the 28th Session of the National Federation of Clearing Houses on April 21, 1933, Takahashi gave a lecture entitled "Kokusai keizai jōsei to waga-kuni no hijōji taisaku" 國際經濟情勢と我國の非常時對策 (The International Economic Situation and Our Country's Emergency Measures), in which he liberated national finance from the concept of equilibrium of *laissez-faire* economy sense and stipulated a financial policy as a positive economic programme.

In this lecture, Takahashi supported positive financial policy by quoting from the views held by Fisher of Yale University and members of a research society at the University of Chicago, the letter from more than 30 British economists to the editor of *The Times* (March 10, 1933), etc.

He also made reference to a report of the MacMillan Committee. He went on to state:

"Professor Keynes and others have said that the gold standard has become an autocrat, and therefore this system needs to be revised so that hereafter the autocrat may be rendered a constitutional king and may be made to behave with primary consideration for the national interest and the public welfare. The general situation today seems to be proceeding in accordance with those remarks."<sup>8</sup>

It is noteworthy that Takahashi was apparently under the influence of Keynes' *A Treatise on Money* of 1930, as well as his "The Means to Prosperity," an article carried serially in *The Times* on March 13-16, 1933, and other works by the same author.

At the time when the Takahashi financial policy commenced, the United States was in the whirlpool of an economic crisis and President Hoover was extremely passive about business policy. Even President Roosevelt, who took office in 1933, did not favour Keynes, and despite the resounding cause of New Deal, he adhered to balanced finance as before and could only carry out a spending policy extremely meagre compared with the amount required. In contrast, the Takahashi financial policy can be said to have been much more active in accepting the prescription of Keynes. However, the reason why deficit financing was boldly conducted was probably due to the fact that in the background the political conversion to a war-time state had been quickpaced following the Manchurian Incident; and as Keynes himself stated:

"It is, it seems, politically impossible for a capitalist democracy to organize expenditure on the scale necessary to make the grand experiment which would prove my case—except in war conditions."<sup>9</sup>

However, Japanese capitalism—which had placed its last hope for sound finance on Takahashi—was not necessarily willing from the outset to accept unreserved expansion of the war. The Finance Ministry led by Takahashi had depended on the "limit of government bond absorption" as a breakwater against the expansion of military expenditure.

Standing on the Shidehara diplomatic line of "pacifism" and co-operation with the United States and Great Britain supported by the senior statesmen and the leading members of financial circles, Takahashi had planned, as a means of diplomacy, to strengthen defence power just enough to maintain the country's vested rights and interests in East

<sup>8</sup> Takahashi Korekiyo, *Takahashi Korekiyo keizai ron* 高橋是清經濟論 (Takahashi Korekiyo's Treatise on Economy), Tokyo, Chikura-shobō, 1936, p. 568.

<sup>9</sup> J.M. Keynes, "The United States and the Keynes Plans," *The New Republic*, Vol. 103, No. 5 (July 29, 1940), p. 158.

Asia, working within the framework of agreement with the United States and Great Britain. He had thought of national defence as a diplomatic instrument to back up economic debouchment, not as aggressive territorial expansionism as was intended by the military.<sup>10</sup> The military, shielded by the "Independence of the Prerogative of Supreme Command," had forcibly invaded Manchuria and North China in defiance of opposition by the government and parliament, and exploited international tension as an expedient excuse for expansion of armaments. Furthermore, rightist terrorism by the military was often carried out against the background of the people's disappointment with and indignation against the political parties in view of the handling of the economic crises including the agricultural one, and thus parliamentary democracy was swept towards Fascism. Under these circumstances, therefore, it was difficult to keep national defence at a level favourable to the financial circles. In drawing up the 1936 budget, Takahashi stated:

"The budget must be built up in accordance with the people's income. If we are preoccupied with national defence only, cause a vicious inflation, and destroy the trust of the people, national defence itself will never be secure. If we look at the situation at home, meanwhile, we will find the people hard hit by a series of natural disasters. There are many things to be considered from the standpoint of social policy. I want the military to give a great deal of consideration to this. I have stretched what little money I have to approve an appropriation of ¥100 million each for the Army and the Navy. I can hardly offer more."<sup>11</sup>

Saying so, Takahashi resorted to his last argument with the military, speaking of what he called the limit of the people's bond absorbing power or the lifeline of finance.<sup>12</sup> The life strings of the aged finance minister, however, fell into the hands of assassins in the February 26th Incident and a military inflation proceeded without limit over his corpse.

When Takahashi refused to increase the defence expenditures, stating that "there are many things to be considered from the standpoint of social policy," he might have envisaged a welfare state or a revised

<sup>10</sup> Takahashi, *Keizai ron*, pp. 656 and 659.

<sup>11</sup> *Asahi shimbun* 朝日新聞, November 27, 1935.

<sup>12</sup> With the first half of 1935 as the turning-point, the trend of bank lending shifted from decrease to increase, and the total amount of superfluous capital and surplus productive power diminished, so that the situation moved towards the expansion of productive power and of demand for industrial funds. In 1935, the absorption of government bonds by the city banks began to slow down. The government had taken preferential steps enabling government bonds to be treated at their standard price of issue in inventories (in July, 1932) and (after April, 1932) the Bank of Japan had applied the lowest rate to loans provided on the security of government bonds. In October, 1935, however, an additional preferential step had to be taken—buying the government bonds held by customer banks with a resale clause.

capitalism. But that way was cut off. As Hansen has remarked :

“The twin scourges that afflict the modern world—Depression and War—are not altogether unrelated. Bad as the Treaty of Versailles was, a steady improvement in international political relations could have been expected had we had the vision and courage to stop the Great Depression dead in its tracks and to move forward to higher levels of real income and employment. . . . But [the war] has, nonetheless, an economic basis—the inability of the great industrial nations to provide full employment at rising standards of real income. The disastrous economic breakdown of the thirties let loose forces which have set the world in flames. The ultimate causes of the failure to achieve a world order in the political sphere must be sought in the facts of economic frustration.”<sup>18</sup>

The Inoue financial policy, which in 1930 lifted the gold embargo at the former parity to enforce deflation, managed to impose on the people an unbearable burden of “economic frustration” and to foster the war force spearheaded by right-wing terrorism which was directed at Hamaguchi Osachi 濱口雄幸, Dan Takuma 團琢磨, and Inoue Junnosuke himself. When Takahashi attempted by his deficit financing to enable production and employment to recover and expand, the increase in expenditure could by then only be realized in the form of quasi-wartime financing led by the expansion of military expenditure.

What attitudes did the working classes hold under these circumstances? The socialists, who upheld the sound finance policy, did nothing from beginning to end but criticize the social influence of inflation on the distribution of income and prophesy the forthcoming failure of deficit financing and the hazards of inflation. That was correct in so far as it virtually was criticism of the increasing military expenditure. They failed, however, to propose any constructive plan like a policy for public investments through the expansion of finance and banking, to present a united “national policy” to the people, to organize a united anti-Fascist front, to form and protect a democratic government, and maintain peace.

#### IV. ZAIATSU—OLD AND NEW

The progress of conversion of the structure of industry to heavy and chemical industries as described in Part I was supported by the promotion of exports and by a war boom. In the meantime, what form did the concentration and accumulation of capital assume? What form was assumed by the *zaibatsu*, that played a decisive part in the Japanese economy?

The general trend of capital concentration and accumulation is

<sup>18</sup> A. H. Hansen, *Fiscal Policy and Business Cycles*, New York, W. W. Norton, 1941, p. vii.

**Table 8.** INCREASE OF THE PROPORTION OCCUPIED BY THE MILITARY SECTOR IN FIXED CAPITAL FORMATION

(in million yen and %)

	Aggregate Figures	Private Capital Formation	Government Capital Formation	Military	Military Expenditure as Percentage of Government Capital Formation
1930	1,923.8 (100.0)	946.3 (49.1)	977.5 (50.9)	172.8 (9.0)	17.7
1931	1,605.4 (100.0)	697.1 (43.4)	908.3 (56.6)	175.4 (10.9)	19.4
1932	1,824.8 (100.0)	569.9 (31.2)	1,254.9 (68.8)	353.0 (19.3)	28.1
1933	2,191.2 (100.0)	858.9 (39.2)	1,332.3 (60.8)	354.9 (16.2)	26.6
1934	2,546.9 (100.0)	1,217.5 (47.6)	1,329.4 (52.4)	451.6 (17.7)	34.0
1935	2,930.6 (100.0)	1,501.1 (51.2)	1,429.5 (48.8)	471.9 (16.1)	33.0
1936	3,328.1 (100.0)	1,837.9 (55.1)	1,490.2 (44.9)	532.3 (16.0)	35.8
1937	4,809.3 (100.0)	1,848.8 (38.2)	2,960.5 (61.8)	1,964.5 (48.8)	66.4

Source: Henry Rosovsky, *Capital Formation in Japan, 1868-1940*, New York, Free Press of Glencoe, 1961.

shown in Tables 9 and 10. This period is characterized by the increase of minute-scale firms and factories with capital funds of less than ¥50,000 or with 5-10 employees, and by the increase of large firms and factories with capital funds of more than ¥10 million or with over 1,000 employees.

The Shōwa economic crisis of 1930 on the whole brought a large-scale decrease in the number of employees compared with the pre-war level, and bigger enterprises suffered an exceedingly acute blow, with both the number of factories and employees decreasing to a great extent in the over-500-employee group. The number increased, on the contrary, in the less-than-15-employee group. This phenomenon should be referred to as the "growth of indigence" caused by the economic dullness of the times, rather than the "development of small-scale industries," for it indicated only the increase of small industries based on semi-unemployed labour. In this may be seen clearly the so-called "dual structure" of industry, which was maintained during the quasi-military economic expansion, and statistically, it represented in the low level of average wage. It goes without saying that this dual structure worked



Table 9. AMOUNT OF CAPITAL FUND BY SCALE OF INDUSTRY (in million yen and %)

Year	Aggregate Figures		Less than ¥50,000		Less than ¥100,000		Less than ¥500,000		Less than ¥1 Million		Less than ¥5 Million		Less than ¥10 Million		More than ¥10 Million					
	(A)*	(B)*	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)				
1915	17,149	(100)	2,185	(12.7)	1,694	(9.9)	305	(1.8)	575	(3.3)	197	(1.1)	473	(2.8)	102	(0.6)	533	(3.1)	981	(5.7)
1920	29,917	(100)	8,234	(27.5)	3,855	(12.9)	641	(2.1)	2,076	(7.0)	577	(1.9)	2,182	(7.3)	531	(1.8)	2,013	(6.7)	4,696	(15.7)
1925	34,345	(100)	11,157	(32.5)	4,458	(13.0)	881	(2.6)	2,091	(6.1)	660	(1.9)	2,189	(6.4)	619	(1.8)	2,299	(6.7)	6,922	(20.2)
1930	51,910	(100)	19,634	(37.8)	5,809	(11.2)	332	(0.6)	2,048	(4.0)	1,117	(2.1)	2,217	(4.3)	327	(0.6)	3,643	(7.0)	1,890	(3.6)
1931	57,229	(100)	19,552	(34.2)	6,034	(10.5)	344	(0.6)	1,985	(3.5)	1,085	(1.9)	2,164	(3.8)	319	(0.6)	3,549	(6.2)	1,838	(3.2)
1932	65,041	(100)	19,491	(30.0)	6,262	(9.6)	358	(0.5)	1,931	(3.0)	1,059	(1.6)	2,190	(3.4)	312	(0.5)	3,605	(5.5)	1,811	(2.8)
1933	71,196	(100)	18,960	6,599	(9.3)	379	(0.6)	1,995	(2.8)	1,093	(1.5)	2,198	(3.1)	308	(0.4)	3,637	(5.1)	1,789	(2.5)	
1934	78,198	(100)	21,127	(27.1)	7,196	(9.2)	413	(0.5)	2,066	(2.6)	1,136	(1.5)	2,269	(2.9)	328	(0.4)	3,783	(4.8)	1,904	(2.4)
1935	84,146	(100)	22,852	(27.2)	7,941	(9.4)	455	(0.5)	2,180	(2.6)	1,193	(1.4)	2,287	(2.7)	356	(0.4)	3,986	(4.7)	2,066	(2.4)
1936	87,511	(100)	23,978	(27.5)	8,548	(9.8)	491	(0.6)	2,292	(2.6)	1,251	(1.4)	2,512	(2.9)	385	(0.4)	4,182	(4.8)	2,216	(2.5)
1937	85,042	(100)	26,912	(31.6)	8,760	(10.3)	503	(0.6)	2,405	(2.8)	1,312	(1.5)	2,766	(3.3)	421	(0.5)	4,635	(5.4)	2,438	(2.8)

Notes: \*(A) Number of Companies, (B) Amount of Investment or Authorized Capital.

\*\*Figures for 1915-1925 in this column are those surveyed under "More than ¥5 Million."

Source: Calculated from Ministry of Commerce and Industry, *Dai-ikkai Nihon tôkei nenkan—Shôwa nijû-yon nen* 第一回日本統計年鑑—昭和24年 (Statistical Yearbook of Japan—1st Edition [1949]), pp. 766-767.

Table 10. NUMBER OF FACTORIES AND WORKERS BY SCALE OF EMPLOYMENT

	Aggregate Figures		Companies with 5-10 Workers		Companies with 10-15 Workers		Companies with 15-30 Workers		Companies with 30-50 Workers	
	(A)*	(B)*	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)
1929	59,887 (100)	2,066,642 (100)	33,187 (55.4)	225,172 (10.9)	8,008 (13.4)	105,696 (5.1)	9,279 (15.5)	210,223 (10.2)	3,917 (6.5)	167,120 (8.1)
1930	62,234 (100)	1,885,518 (100)	35,876 (57.6)	234,875 (12.5)	8,049 (12.9)	105,386 (5.6)	9,118 (14.6)	202,654 (10.7)	3,761 (6.1)	157,576 (8.4)
1931	64,436 (100)	1,852,799 (100)	38,142 (59.1)	239,481 (19.9)	8,226 (12.8)	106,816 (5.8)	9,007 (14.0)	197,593 (10.7)	3,725 (5.8)	157,080 (8.5)
1932	67,318 (100)	1,931,785 (100)	39,352 (58.5)	249,776 (12.9)	8,685 (12.9)	111,978 (5.8)	9,754 (14.5)	217,269 (11.2)	4,091 (6.1)	172,294 (8.9)
1933	71,940 (100)	2,112,869 (100)	41,348 (57.5)	262,785 (12.4)	9,438 (13.1)	121,101 (5.7)	10,783 (15.0)	237,147 (11.2)	4,517 (6.3)	188,500 (8.9)
1934	80,311 (100)	2,402,812 (100)	45,404 (56.5)	285,325 (11.9)	10,769 (13.4)	137,253 (5.7)	12,565 (15.6)	277,641 (11.5)	5,098 (6.3)	211,125 (8.8)
1935	85,174 (100)	2,631,366 (100)	46,831 (55.0)	289,167 (11.0)	11,785 (13.8)	149,102 (5.7)	13,883 (16.3)	303,833 (11.5)	5,637 (6.6)	234,488 (8.9)
1936	90,602 (100)	2,875,672 (100)	48,293 (53.4)	293,943 (10.2)	13,102 (14.5)	165,976 (5.8)	15,331 (16.9)	337,489 (11.7)	6,495 (7.2)	268,953 (9.4)
	Companies with 50-100 Workers		Companies with 100-200 Workers		Companies with 200-500 Workers		Companies with 500-1,000 Workers		Companies with More than 1,000 Workers	
	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)	(A)	(B)
1929	2,831 (4.7)	218,414 (10.6)	1,369 (2.0)	214,201 (10.3)	801 (1.3)	279,665 (13.5)	295 (0.5)	232,357 (11.5)	200 (0.3)	413,794 (20.0)
1930	2,839 (4.6)	217,675 (11.5)	1,376 (2.2)	213,752 (11.3)	802 (1.3)	274,643 (14.6)	270 (0.4)	209,506 (11.1)	143 (0.2)	269,451 (14.3)
1931	2,778 (4.3)	208,846 (11.3)	1,343 (2.1)	203,930 (11.0)	791 (1.2)	266,822 (14.4)	281 (0.5)	215,771 (11.6)	143 (0.2)	256,460 (13.8)
1932	2,841 (4.2)	214,245 (11.1)	1,392 (2.1)	211,661 (10.9)	779 (1.2)	262,783 (13.6)	277 (0.4)	208,004 (10.8)	147 (0.2)	283,775 (14.7)
1933	3,085 (4.3)	232,801 (11.0)	1,474 (2.0)	222,535 (10.5)	828 (1.2)	287,468 (13.6)	305 (0.4)	231,055 (10.9)	162 (0.2)	329,477 (15.6)
1934	3,456 (4.3)	258,413 (10.7)	1,615 (2.1)	241,373 (10.0)	869 (1.1)	289,776 (12.0)	333 (0.4)	254,220 (10.6)	202 (0.3)	447,686 (18.6)
1935	3,757 (4.4)	284,616 (10.8)	1,754 (2.0)	266,487 (10.1)	947 (1.1)	319,450 (12.1)	355 (0.4)	269,123 (10.2)	225 (0.3)	515,100 (19.6)
1936	3,872 (4.3)	293,050 (10.2)	1,825 (2.0)	274,294 (9.6)	1,047 (1.8)	351,548 (12.2)	378 (0.4)	283,134 (9.8)	259 (0.3)	607,285 (21.1)

Note: \*(A) Number of Factories, (B) Number of Employees.

Source: Compiled from *Kojō tokai hyō*, 1936 edition.

most favourably for the accumulation of capital in the 1930-36 period, during which, it might be suggested, the capital power to meet the full-scale military inflationary economy after 1937 was built up.

Numerous cartels were organized during the Shōwa economic crisis to strengthen the control of giant enterprise centred on the *zaibatsu*. (Refer to the figures in Tables 9 and 10.)

How did the *zaibatsu* develop in this period? Attention may be called first to the transformation of the existing *zaibatsu* such as Mitsui, Mitsubishi, and Sumitomo; second, to the growth of new *zaibatsu*. The existing *zaibatsu* were characterized by the following:

(1) The same families, through holding companies, controlled enterprises, and the enterprises themselves were run by an exclusive system of organization and management by family members and clerks united by strong feudalistic bonds.

(2) The enterprises under the *zaibatsu* did not necessarily form organized bodies based on technically interlocking requirements. The *zaibatsu* groups formed "Jack-of-all-trades" concerns embracing a great variety of industries, "ranging from steel industries to chicken raisers."

(3) In these enterprise groups, the sectors of distribution—banking, commerce, and shipping—and mining formed the nucleus.

(4) The procurement of funds took the form of self-financing within the *zaibatsu* groups, done through the head offices of commercial divisions, and the *zaibatsu* did not wish to obtain capital from the public.

The above characteristics began to disappear with the progress of conversion to heavy and chemical industries. The feudalistic and distribution-biased *zaibatsu* started to transform themselves into monopolies in the proper sense of the word—monopoly based on the concentration and accumulation of production. (It can be said that dissolution of the *zaibatsu* after World War II eliminated the pre-war characteristics which had fettered them and provided conditions permitting the *zaibatsu*-controlled enterprises to grow as modern monopolies.) This process of transformation has been called *zaibatsu no tenkō* 財閥の轉向 (conversion of *zaibatsu*). To be sure, the donation of funds to social works, the retreat of *zaibatsu* family members from enterprises under direct control of the holding companies, the opening of stocks to the public, etc., might have been a disguised conversion—little more than a gesture towards a public reformation of the *zaibatsu*, reorganizing their enterprises on a mass basis to meet the masses' criticism which culminated in right-wing terrorism. The disappearance, from the foreground of enterprises, of the *zaibatsu* family members as they became complete rentiers of the

holding companies meant the progress of separation of ownership and management, the latter of which had literally become "clerk administration." Namely, the clerks, of whom Ikeda Shigeaki, for example, was typical, were becoming practically the mainstay of management. The opening of stock ownership to the public was very limited, however; it can hardly be said to have dissolved the *zaibatsu's* control of stock holdings and socialized the capital. However, this secession from old forms openly carried out before the public must be evaluated not as a mere gesture necessitated to ease the anti-*zaibatsu* public opinion but as an initial step taken towards rationalization of the *zaibatsu* themselves to provide for the stage of conversion to heavy and chemical industries—the stage of full-scale monopoly.

While conversion to heavy and chemical industries made progress after World War I, it was the "new *zaibatsu*" that played the role of pioneers venturing on new industries and new techniques despite the risks involved. As they continued to advance sturdier than ever after the Manchurian Incident, the *zaibatsu* which had so far stood on the fence stepped forward this time positively and came to gain the upper hand among the new *zaibatsu* by recourse to their abundant financial power. The progress of conversion to heavy and chemical industries—which required modernized management and vast investments in fixed equipment on the part of *zaibatsu*-controlled enterprises—had been the real cause of the "conversion of the *zaibatsu*."

On the other hand, new concerns such as Nippon sangyō 日本産業, Nippon sōda 日本曹達, Mori 森 (Shōwa denkō 昭和電工), and Nippon chisso 日本窒素 rapidly gathered strength, drawing on the funds of national banks such as the Industrial Bank, since they did not have banking institutions of their own. Forming combines centred on the electric industries and laying stress on the chemical industries (while Nippon sangyō covered a wide range of mining, machine, agricultural, forestry, and fishery industries, there also arose the Nakajima 中島 Aircraft which did not have over-all power as a concern), they linked themselves with the production of munitions and found their way into the colonies.

In order to compete with the existing *zaibatsu* as well as to advance into the colonies (Manchuria, Korea, etc.), the new *zaibatsu* kept themselves closely connected with the military and acted as "shadow" sponsors to promote militarism and the Fascist movement. The military-industrial combination shook politics. The existing *zaibatsu* also never protested thoroughly against the stream of Fascism. Rather, they shifted their course to co-operation with the military during the period leading to

the Sino-Japanese Incident. They thrust themselves in the military-industrial combination and soon won a stronger position than the new *zaibatsu*. It is interesting to note that the United States Strategic Bombing Survey pointed out :

“Participating only half heartedly in the aggressive undertakings of its imperialist wing, influenced strongly by its big-business and traditional bureaucratic components, the Tokyo cabinet did not pursue a determined policy of economic expansion. The first 5 years of Manchurian occupation thus hardly resulted in any significant economic advantages to Japan. . . . Japanese big business moved very reluctantly, if at all, into Manchurian industrial enterprises. Some entrepreneurs, like Aikawa and his Nissan group, assumed the pioneer function. . . . Nonetheless, the Manchurian expedition lived up to the political expectations of the radical wing. . . . In addition to the direct beneficiaries of army rule over Manchuria, thousands of small businessmen, traders, and dealers of all kinds, established themselves under the wings of the military and furnished powerful support to its claim to power. Many a politician, originally cautious and doubtful as to the wisdom of the expansionist drive, became swayed by the political advantages of close cooperation with the army.”<sup>14</sup>

Therefore, when Takahashi stood up against the expansion of military expenditure and was maintaining his last stand against the expansionist policy of the military, the statesmen virtually deserted him.

“If the political parties had been sound, they should have literally ‘abandoned minor differences for major common interest,’ convoked a Special Diet Session, and clearly protested against the military. In particular, the Seiyūkai earlier left Inukai to his fate, and this time again made a sacrifice of Takahashi, its former president. Yet it was obedient and eager to curry favour with the [right-wing] renovatory faction.”<sup>15</sup>

The military-industrial combination set Japan on the road towards a war economy. The hazard of such a military-industrial combination does not merely belong to past history. We should be reminded even today that the hazard remains a very dangerous factor to the peace of mankind.

<sup>14</sup> *The United States Strategic Bombing Survey: The Effects of Strategic Bombing of Japan's War Economy*, Over-all Economic Effects Division, U.S. Government, December, 1946, pp. 7-8.

<sup>15</sup> Imamura Takeo 今村武雄, *Hyōden Takahashi Korekiyo* 評傳高橋是清 (The Life of Takahashi Korekiyo), Tokyo, Zaiseikeizai-kōhōsha, 1950, pp. 316-317.