

# The Depression Crisis and Responses

Economy and Society right before  
WWII

# The Structural Reform of the Economy

- The Hamaguchi cabinet, set in power in July 1929, took on a “structural reform” of the economy by implementing two policies:
  1. Cut government expenditures in order to stop inflation.
  2. Return to the gold standard at the fixed exchange rate that prevailed before the war.

# The timing was the worst

- Japan suspended the gold standard during WWI.
- Strong demand during the war caused sharp inflation in the domestic economy, and devalued the yen.
- The government finally decided to return to the gold standard at the prewar rate in 1930.
- The world economy has been hit by the Great Depression, which started with a stock market crash at NY in October 1929.
- The high value of yen under the gold standard deeply damaged Japan's export industries.

# Leaving the gold standard

- The government had no choice but to abandon the gold standard.
- Japan left the gold standard in 1931, and the yen devalued dramatically by half against dollar.
- Most industries fairly benefited from this decision.
- The agricultural commodity prices fell by 43% during the depression, and did not rise after the devaluation.

# People in Depression

- In villages, it was widely believed that capitalists and politicians were greedy and selfish. Land disputes increased in number.
- In cities, jobless people criticized the leading political parties as the “running dogs of big capital”.
- Hundred students suspected of communist membership had been arrested by 1928.
- Leading authors reported that Japanese society faced unprecedented crisis.

# The right-wing mind

- Through the 1920s, groups of young military officers became increasingly frustrated with the Japan's foreign and domestic policies.
- They and their civilian comrades were angry at the military budget cuts pursued by the cooperative diplomacy with US and UK.
- They viewed the cozy relations between zaibatsu and political parties as an emblem of the capitalist system that was driving the families of young soldiers into poverty.

# The Kwantung Army in Manchuria

- The army was created in 1906 to guard Japan's leased territory and rail lines in southern Manchuria.
- In late 1920s, they no longer saw the army's role as the simple defense of Japan's interests in Manchuria, but as the vanguard to prepare a coming war between Japan and the West, with a mission to build a new society.

# The blow-up of Zhang Zuolin

- (It was told that) in 1928 the army blew up the railroad train carrying the Chinese warlord Zhang Zuolin (who had been cooperative with the Kwantung Army), and blamed the attack on the Chinese Nationalists government led by Chang Kai-shek.
- The Kwantung army hoped that Japan's Prime Minister Tanaka would take a more aggressive policy against China, but he did not.
- Emperor Hirohito's displeasure forced him to resign.



# The heightened tensions with US and UK

- In the Washington Conference, Japan agreed to maintain the navy capacity at ratio of 3:5:5 with US and UK.
- The treaty was revised in 1930 at London, rejecting Japan's request to raise its capacity.
- The press and the navy condemned the results of the negotiation as a betrayal of national interests.

# Assassinations and Victims

- Prime Minister Hamaguchi Osachi, who led the cooperative diplomacy, was shot in 1930 and died in the next year.
- Former Finance Minister Inoue Jun'nosuke, who led the economic reform and the return to the gold standard, was assassinated in 1932.
- Mitsui Zaibatsu leader Dan Takuma was murdered in 1932.



# Colonel Ishihara Kanji

- He was a operation officer of the Kwantung army from 1929 to 1932.
- He developed an apocalyptic view of the upcoming “final war” between Japan and the US.
- According to him, to prepare for Japan’s victory, Japan had to take Manchuria and exploit the region’s rich mineral resources.



# The Manchurian Incident

- In 1931, his force blew up the railway and announced it as the work of Chinese military forces.
- They achieved what their assassination of Zhang Zuolin had failed to gain in 1928.
- Japanese army acquired the full control of most of southern Manchuria.
- The military leadership of Tokyo was in question with this incident.

# The Manchukuo (満州国)

- Japan decided to create an independent state in the conquered territory, reflecting the ideology of Pan-Asian liberation and anti- (Western) Imperialism.
- Japan placed the last emperor of the Qing dynasty, Puyi, on a newly created throne of the Manchurian Empire (*Manchukuo*).
- The Manchurian Incident 1931-32 is seen by today's historians as the start of the so-called the Fifteen-Year War.

# Public Voice in the Empire

- The government was not in need to intensify to suppress dissenting voices at home.
- The press described the takeover of Manchuria not as an act of capitalist imperialism but as an heroic deed to liberate Asia from the Western Imperialism.
- On May 15, 1932, a group of young naval officers assassinated Prime Minister Inukai Tsuyoshi. This is the end of parliamentary rule in imperial Japan.

# International Challenges to Japan's Expansion

- In February 1933, the League of Nations accepted the Lytton Report, a document that condemned the Manchukuo as an illegitimate puppet state.
- Japan withdrew from the League of Nations in March 1933.
- The Kwantung Army continued to conquer China.

# Colonial Policies during the War

- Japanese rulers redefined Taiwan and Korea as places where human and material resources should be mobilized to the expanding empire.
- In Korea, Japan put forward an increasing coercive program of ethnic assimilation, through compulsory Japanese language instruction and limitation on teaching Korean language in schools.



# The Economic Recovery

- The Manchurian invasion coincided with a dramatic recovery of the domestic economy.
- In 1931-34, industrial output rose by 82%. Exports nearly doubled from 1930 to 1936.
- In 1937 a famous economist, Arisawa Hiromi, described the 1930s as a time of “economic miracle.”

# Takahashi Korekiyo

- The dramatic economic recovery was driven by the non-traditional economic policy engineered by Finance Minister Takahashi Korekiyo.



# Takahashi's economic policies

- Takahashi took the nation off the gold standard, which allowed for the yen devaluation and the export-driven economic boom.
- The weak yen was condemned by American competitors as “social dumping”.
- They blamed the export surge not on the exchange rate but on low wages paid to exploited workers, and raised tariffs or imposed quota on Japanese goods.
- These objections validated the military leaders' opinion that Japan needed to carve out a self sufficient empire in a hostile world.

# Keynesian Policy without Keynes

- JM Keynes published his famous *General Theory of Employment, Interest, and Money* in 1936, which argued that deficit spending could stimulate the economy in slump.
- Takahashi took such a policy without reading Keynes.
- He financed an enormous public projects and tax cuts by issuing deficit bonds, which is a typical Keynesian prescription on an ailing economy.

# Distrust of Free Market

- Increasing number of bureaucrats formulated plans to organize economy in a more “rational” fashion.
- In 1931 the Important Industries Control Law was passed by the Diet.
- They are oriented toward an economic system somewhere between the rigidly planned state-run socialism of the Soviet Union, and the laissez-faire economic liberalism of the US.

# Turbulence within the Military

- There are two opponent factions within the army.
  - The *Imperial Way* faction (*kodo-ha*) wanted to eliminate the influence on the emperor, not only of the parties and zaibatsu but also of status-quo minded senior statesmen (*jushin*) and court figures.
  - The *Control* faction (*tosei-ha*) preferred to collaborate with existing elites and rejected terrorist violence. Their goal was to concentrate power in military hands.

# February 26, 1936

- Conflict between the two groups came to a final head in the most shocking political upheaval.
- 1500 soldiers murdered most of the cabinet and senior statesmen, including Takahashi.
- In their vague reform plan (“Showa Restoration”), they wanted to restore Japan’s glory by honoring the emperor.

# The Emperor

- The coup collapsed when the emperor issued an order for them to surrender.
- 19 leaders of the conspiracy were tried and executed swiftly and secretly.
- But the army emerged stronger than ever.



# Control on Ideas

- Communists were most harshly punished. Kobayashi Takiji, a Marxist and eloquent writer of proletarian fiction (“A Factory Ship”) was murdered in jail by police in 1933.
- Even conservative ideas were attacked: Minobe Tatsukichi, a well-respected law professor at University of Tokyo, was accused of slandering the emperor by his *emperor-as-state-organ* theory.



# The emperor-as-state-organ theory

- According to Minobe, the emperor was an *organ within* the state structure, rather than a sacred source of legitimacy that stood outside and above the state.
- For several decades, this interpretation had been taught to students at the elite imperial universities without serious dissent.
- Accused of the slandering, he was forced to resign from the House of Peers.

