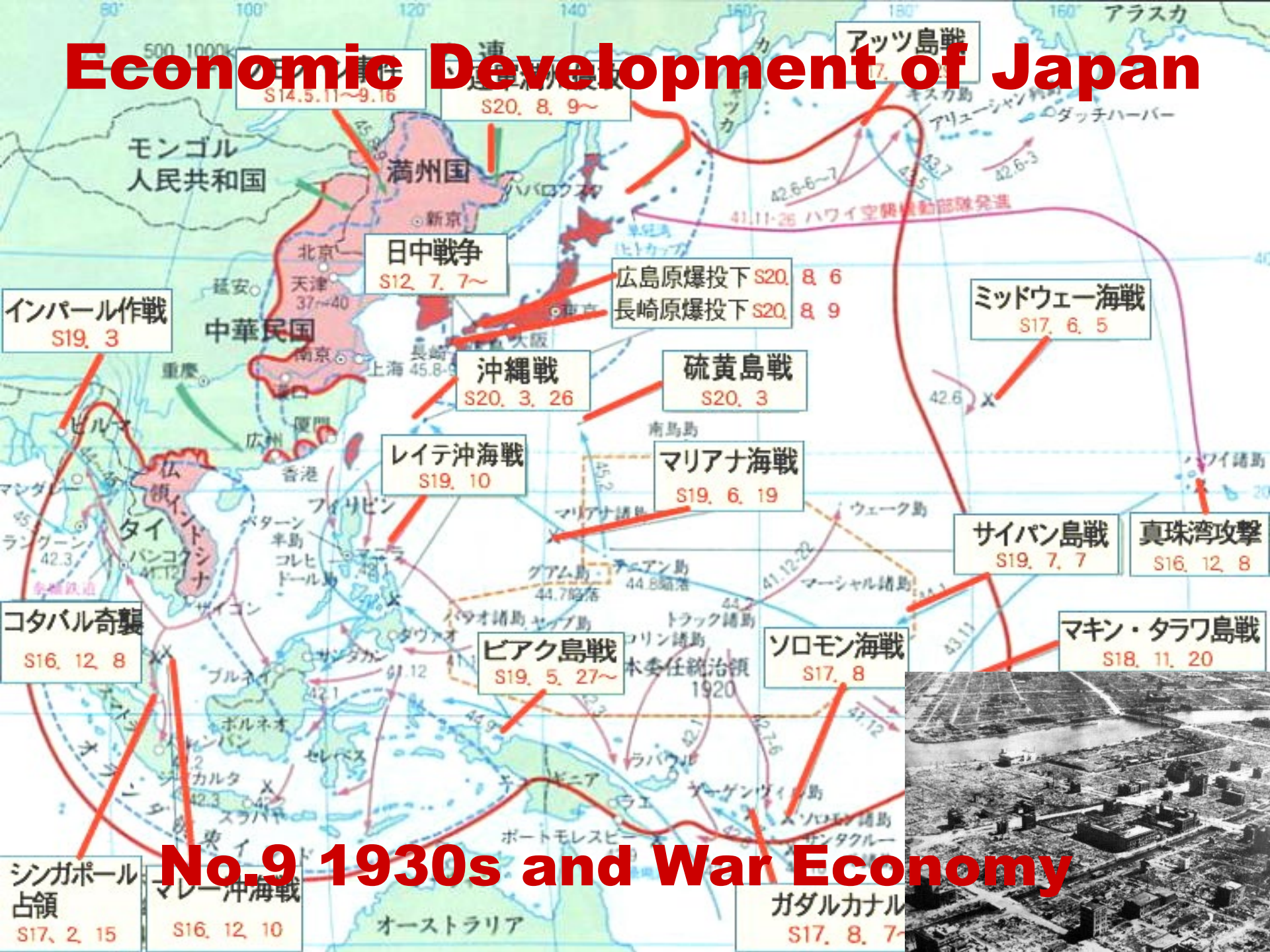


# Economic Development of Japan



## No.9 1930s and War Economy



# Topics for Discussion

- ❑ Explain Japan's path that led to the invasion of neighboring countries and ultimately to total war with China and the US. Do all rapidly emerging nations tend to become externally aggressive?
- ❑ What were the causes and consequences of Showa Great Depression?
- ❑ Explain the roles played by political parties to deter militarism and external invasion. How did media and people react? Was there any chance to stop wars?
- ❑ Discuss how Japan tried to manage the war economy from 1937 to 1945. How was the economic system transformed to execute the war?

# The 1930s and the Road to Total War

- ❑ From Meiji onward, Japan regarded Korea and Northeastern China as areas vitally important for Japan's security and prosperity. Outward expansion proceeded in steps with demands, provocations, wars and colonization.
- ❑ An economically rising nation tends to be aggressive outward, and people and media often become more nationalistic than government. In the 1930s, popular support for militarism increased due to economic depression and disappointment with existing political parties (Seiyukai and Minsei Party).
- ❑ Japanese prewar politics had many actors with no one group dominating (unlike Hitler's one-man rule in Nazi Germany). Political parties and the military were split internally, generating constant competition and coalition building. Joint attempts to oppose fascism were tried but ultimately failed.
- ❑ Manchurian Incident (1931), establishment of a puppet state in Manchuria (1932), withdrawal from the League of Nations (1933) and a series of political assassinations and coup attempts (1932-36) gradually nudged Japan toward a total war with China, and a war with the US and other Western powers.
- ❑ Parliament and the press were permitted and able to criticize the military until 1937 when the Japan-China War broke out. After that, all dissenting voices were silenced for war execution.

# History of Outward Aggression

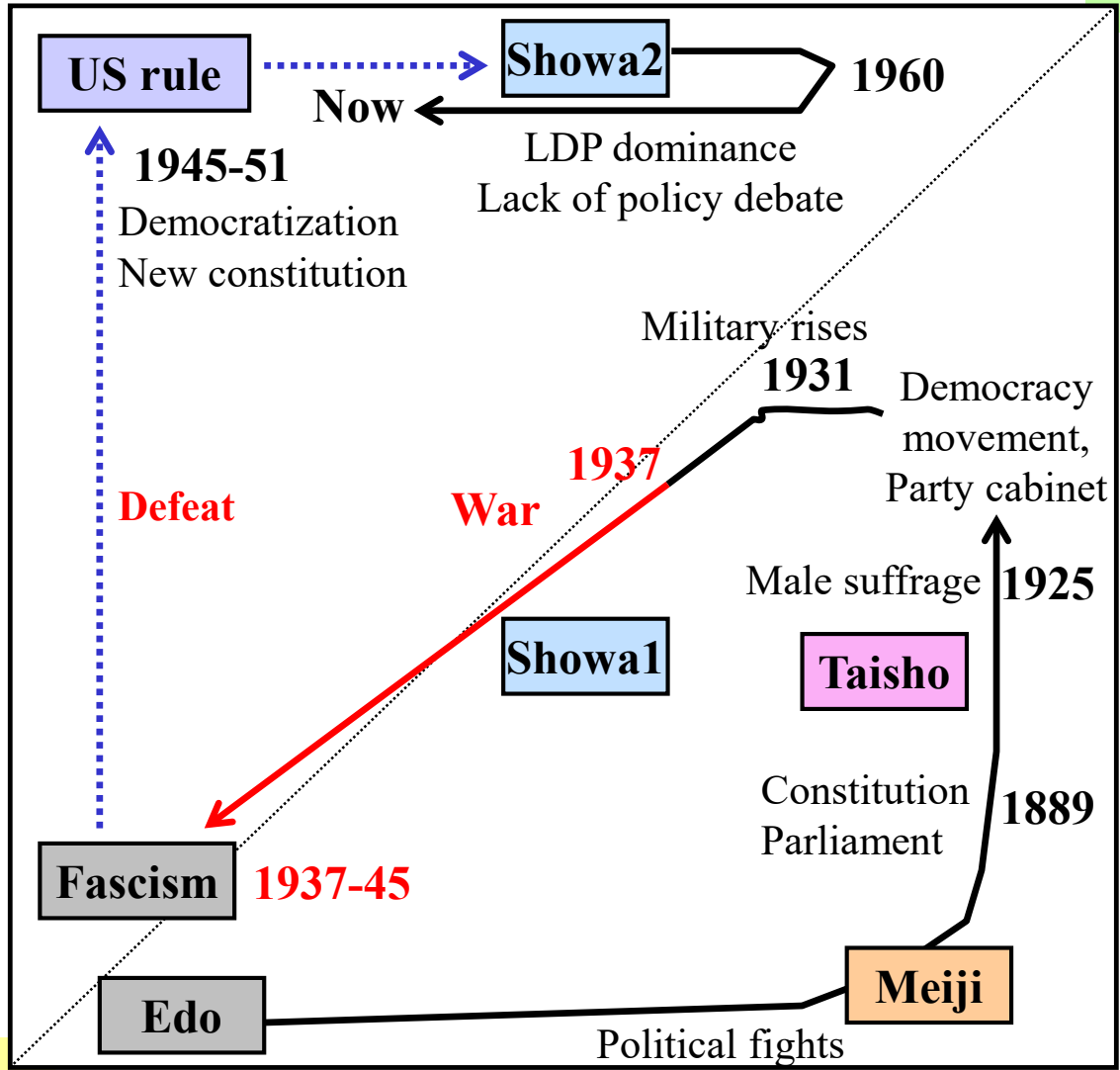
1868	Meiji Government is established
1875	Ganghwa-do Incident, Japan forces an unequal treaty on Korea (1876)
1882	Jingo Incident, Korean army and people attack Japanese diplomats in Korea
1884	Koshin Incident, a failed coup attempt in Korea assisted by Japanese
1894-95	Japanese victory in Japan-China (Qing) War, colonization of Taiwan (1895)
1904-05	Japanese victory in Japan-Russia (Romanov Dynasty) War
1910	Annexation (colonization) of Korea
1915	Twenty-one Demands to China, for expanding Japanese interests
1927-28	Military intervention in China to deter Chiang Kai-shek's army
1931	Army invades Manchuria (N.E. China) and creates a puppet state (1932)
1933	Withdrawal from the League of Nations over Manchuria
1936-39	Japan-Germany-Italy Tripartite Axis formed (in steps)
1937	A total war with China begins
1941	The Pacific War begins
1945	Japan is defeated and occupied by US forces (until 1952)

**Democratic institution (Form)**



Constitution  
Laws  
Parliament  
Election  
Court

**Full democracy**



**US rule**

**Showa2**

1960

Now

1945-51

Democratization  
New constitution

LDP dominance  
Lack of policy debate

Military rises

1931

Democracy movement,  
Party cabinet

**Defeat**

**War**

1937

Male suffrage

1925

**Showa1**

**Taisho**

Constitution  
Parliament

1889

**Fascism**

1937-45

**Edo**

**Meiji**

Political fights

**Pure dictatorship**

Reform vs conservatism, big vs small government, capitalism vs socialism, etc.

**Political competition (Content)**

# Two Parties Alternatively Form Government, 1924-1932

	<b>Minsei Party 民政党</b> (Kenseikai until 1927)	<b>Seiyukai 政友会</b> (Established in 1900 by Ito Hirobumi)
<b>Economy</b>	Small government, free market, fiscal austerity and industrial restructuring for return to gold	Big government, fiscal activism, public works for securing rural votes
<b>Foreign policy (*)</b>	Oppose militarism, protect Japan's interest by diplomacy, promote disarmament	To attack Minsei Party, support military and fascism if necessary, even deny democracy
<b>Rights of working class</b>	Elevate the rights of farmers and workers	Not interested
<b>Problem</b>	Deepening economic crisis	Opportunistic alliance with military

(\*) Foreign policy positions prior to 1925 were reverse of what is shown; Kenseikai was more externally aggressive than Seiyukai.

## Seiyukai's opportunistic behavior undermines democracy

“Professor Minobe's theory [Emperor must operate within constitution] denies the supreme dignity of the Emperor. Just banning his books is not enough.”

“Go, go, Japan, the leader of Asia, the vast land of Manchuria and Mongolia is waiting for you!” (election campaign song)



# Shidehara Diplomacy (Minsei Party)

Shidehara Kijuro, Foreign Minister 1924-27, 1929-31; Prime Minister 1945-46

- Maintain good relations with US and UK.
- Respect Washington Naval Disarmament Treaty (1921-22).
- Avoid military intervention in China; secure Japan's economic interest in China through diplomacy and negotiation.
- His policy was criticized by opponents as Coward Diplomacy.



# Tanaka Government (Seiyukai)

Tanaka Giichi, Prime Minister 1927-29

- The Oriental Conference was convened to declare Japan's interests in Manchuria-Mongolia.
- Japanese troops were sent to China twice to prevent Chiang Kai-shek's army from unifying China (1927-1928).
- Suppression of communists and "proletariat" parties.

# Hamaguchi Cabinet (Minsei Party), 1929-31



**Finance Minister  
Inoue Junnosuke**



**Prime Minister  
Hamaguchi Osachi**



**Foreign Minister  
Shidehara Kijuro**

- ❑ Accept fiscal austerity and painful business restructuring for returning to the gold standard (fixed exchange rate) at the old parity of \$1=2 yen
- ❑ Participate in international naval disarmament and ratify the treaty in Japanese parliament even against Navy's opposition
- ❑ Effort to give more rights to workers and farmers

Hamaguchi Cabinet is regarded as the crown of pre-WW2 democracy movement. However, its stubborn deflation policy ignited fascism and militarism despite the Minsei Party's peaceful orientation.



# Promoting Naval Disarmament

- ❑ Washington Naval Disarmament Treaty (1922) restrained the tonnage of capital ships of US, UK, Japan, France and Italy (5 : 5 : 3 : 1.67 : 1.67).
- ❑ London Naval Disarmament Treaty (1930) further restricted the tonnage of cruisers and submarines. With strong resolve and political maneuver, the Hamaguchi Cabinet succeeded in signing and ratifying the Treaty against the opposition of the Navy and the Privy Council.
- ❑ The Navy criticized Hamaguchi for “violation of Emperor’s supreme command authority”(統帥権干犯). Seiyukai supported the Navy to undermine the Minsei Party government.
- ❑ Hamaguchi was shot by a right wing terrorist at Tokyo Station in 1930, and died in the following year.

Before WW2, many incumbent or former Japanese prime ministers were assassinated: Ito Hirobumi (1909), Hara Takashi (1921), Hamaguchi Osachi (1931), Inukai Tsuyoshi (1932), Takahashi Korekiyo (1936) and Saito Makoto (1936). Okuma Shigenobu was thrown a bomb in 1898 and lost one leg.

# Showa Economic Crisis

Starting around 1930

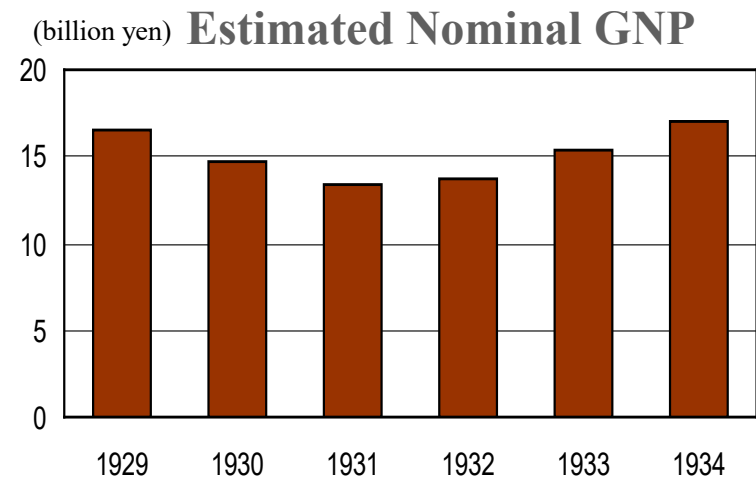
**This was the deepest economic depression Japan ever experienced.**

**There were external and domestic causes:**

- ❑ Global contagion of Great Depression started by the Wall Street Crash in the United States (October 1929)
- ❑ Deliberate austerity measures implemented by Prime Minister Hamaguchi and Finance Minister Inoue

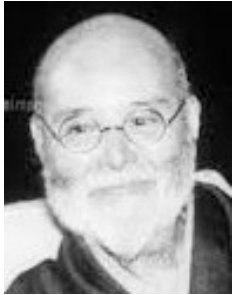
**Consequences:**

- ❑ Severe price deflation (prices fell more than output declined)
- ❑ Rural impoverishment which was worsened by crop failure and famine
- ❑ Promotion of cartelization and rationalization of industries (“free market doesn’t work” “Soviet Union is superior to USA”)
- ❑ Rise of fascism and “Reform Movement” advocating military readiness, a totalitarian state and promotion of welfare of farmers and workers



# Takahashi Budget and Recovery, 1932-36

Takahashi Korekiyo, Finance Minister of Inukai Seiyukai Cabinet (1931-32) and two subsequent cabinets (1932-36); previously, he also secured foreign loans for Japan-Russia War (1905-06) and rescued Japan from the 1927 banking crisis.



Takahashi Korekiyo  
1854-1936

- ❑ Dec. 1931—Reversed Minsei Party’s economic policy by (i) ending the gold standard and letting the yen fall; (ii) central bank monetization of fiscal deficits; (iii) lowering interest rates; and (iv) *Spending Policy* on public works.
- ❑ He argued that active spending by everyone would contribute to economic recovery. He is dubbed as “Japanese Keynes.”  
[John M. Keynes was a British economist and founder of macroeconomics who argued in 1936 that fiscal spending of any kind would help push the national economy out of recession. But Takahashi practiced this policy even before Keynes published his theory.]
- ❑ When the Japanese economy recovered sufficiently, Takahashi began to curb expenditure including military budget, but this angered the Army and the Navy. He was assassinated by the rebellion army in the February 26 Incident of 1936.

# Manchurian Incident (1931)

## (September 18 Incident)



- ❑ *Kantogun* (関東軍 Japanese army stationed in China) initiates well-planned invasion of Manchuria without informing Tokyo.
- ❑ Tokyo Government & Army Headquarters try to stop it but fail.
  - ➔ *Kantogun* is now uncontrollable.
  - ➔ Violating “Open Door & Equal Opportunity” doctrine (any country can do business with and invest in China freely without restriction).
- ❑ US Secretary of State Stimson’s press statement undermines Foreign Minister Shidehara (regarding Jinzhou bombing).
- ❑ Inukai Government (Seiyukai) declares the “independence” of Manchuria (1932), accepting the Army’s invasion.
- ❑ The League of Nations determines that Manchuria is not an independent state and Japan’s action cannot be regarded as self-defense. ➔ Japan withdraws from the League of Nations (1933)

# Northeastern China



League of Nations mission reviews the incident.



Japanese Army advances.



# Japan's Road to Militarism

1920s

Taisho  
Democracy  
movement

- Naval disarmament
- Peaceful diplomacy (Minsei government)

Weak  
economy &  
banking crisis

- Defending Japanese interests in China
- Military intervention in China (PM Tanaka)

Kantogun  
(army in China)

Uncontrollable



1930s

**Fascism vs. democracy:  
politics-economics nexus**

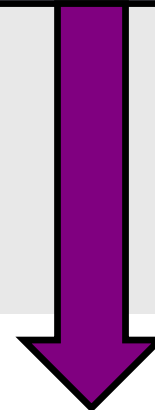
Military vs. political parties



Economic depression

Starts invasion  
& occupation of  
Manchuria  
(1931-32)

- Political terrorism
- Coup attempts
- Exit League of Nations
- Japan-Germany-Italy military alliance

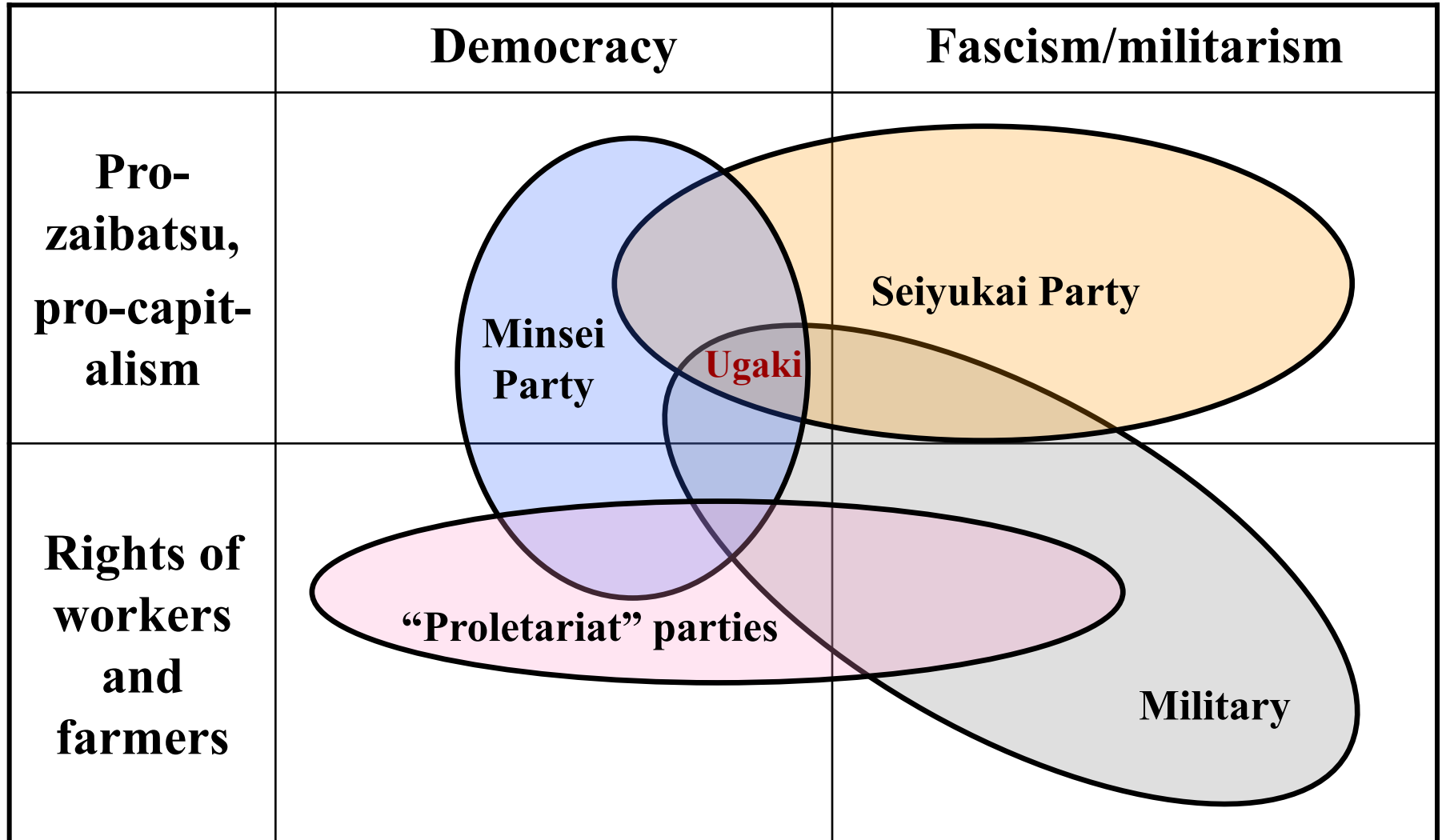


**Full-scale War**

**Japan-China War 1937-1945**  
**Pacific War 1941-1945**

# Multiplicity of Political Players and Policy Positions

Situation in the 1930s until the outbreak of Japan-China War in July 1937



Many attempts were made to join forces among various anti-militarism factions. Ugaki Kazushige 宇垣一成 was an army officer and former Army Minister who remained sympathetic to political parties and preservation of democracy.

# Political parties in parliament

無産政党

**Proletariat parties**

Gain seats under broadened voter base, demands social policies

Dissatisfied with two major parties, sympathetic to "social reform" advocated by fascio groups

民政党

**Minsei Party**

Opposes fascism, promotes social policies

Anti-military criticism in parliament

政友会

**Seiyukai**

Supports fascism to undermine Minsei Party

Lose election Feb. 1936

# Army factions

陸軍統制派

**Discipline Faction**

Social reform through parliament

Rivalry among fascio groups

**Dominant & suppressive**

陸軍皇道派

**Imperial Faction**

Social reform by coup & terrorism

Political terrorism 1931-36

Failed coup attempt Feb. 26 Incident, 1936

**X**

**Navy**

**R Wing**

**DEMOCRACY**

**Japan-China War, 1937**

**FASCIO**



# Why People and Media Supported Military?

(Some, not all of them)

Three reasons can be cited:

1. **The Sense of “Crisis in Manchuria and Mongolia”**—the idea that Japanese interests in China must be guarded against anti-Japanese movement in China; Shidehara Diplomacy is regarded as too soft.
2. **Showa Economic Crisis**—workers and farmers face severe difficulties while “big businesses made money.”
3. **Disgust with political parties**—both Seiyukai and Minsei Party are regarded as corrupt and unfriendly to the welfare of workers and farmers (actually, at least Minsei Party tried to promote their rights)

However, there were some journalists who boldly and consistently criticized militarism and expansionism. But such voices were too few to alter the general trend, and they were also silenced during the war.

- **Ishibashi Tanzan** 石橋湛山, a journalist and later, prime minister in 1956 (but only for two months).

- **Kiyosawa Kiyoshi** 清沢洌, a free journalist who secretly kept the *Diary in Darkness* during the Pacific War, which was published after the war.

# Collective Social Psychology

## Lessons from Prewar Japan



- ❑ A nation with rapidly rising economic power often becomes arrogant and militaristic toward its neighbors. This is a collective human instinct, for which convenient justification is later invented.
- ❑ Initially, people and various groups take diverse positions on external aggression, from passionate support to strong opposition (there is even a split of opinion within army and navy).
- ❑ Over time, however, appeal to patriotism and hatred against insolent “enemies” suppress pacifist voices. Mass psychology and emotion begin to rule. Pacifists continue to fight but eventually lose.
- ❑ Media and general public are often more belligerent than government which initially prefers a diplomatic solution.
- ❑ Finally, government also gives in to militarism, leads war effort and restricts people’s freedom, ideas and life.
- ❑ Once such social momentum sets in, it becomes very difficult to stop.

# War Economy 1937-45

- ❑ After the outbreak of Japan-China War (July 1937), political debate and democracy were suddenly and completely suppressed.
- ❑ Economic planning to mobilize people and resources intensified. Private ownership was maintained (no nationalization) but all business activities were under state command.

**1937-39** Planning Board; National Mobilization Law; State Management of Electric Power Law

**1939-41** Control over civil life becomes pervasive

**1941-44** Total war with US; Ministry of Military Demand; Military Needs Company Act

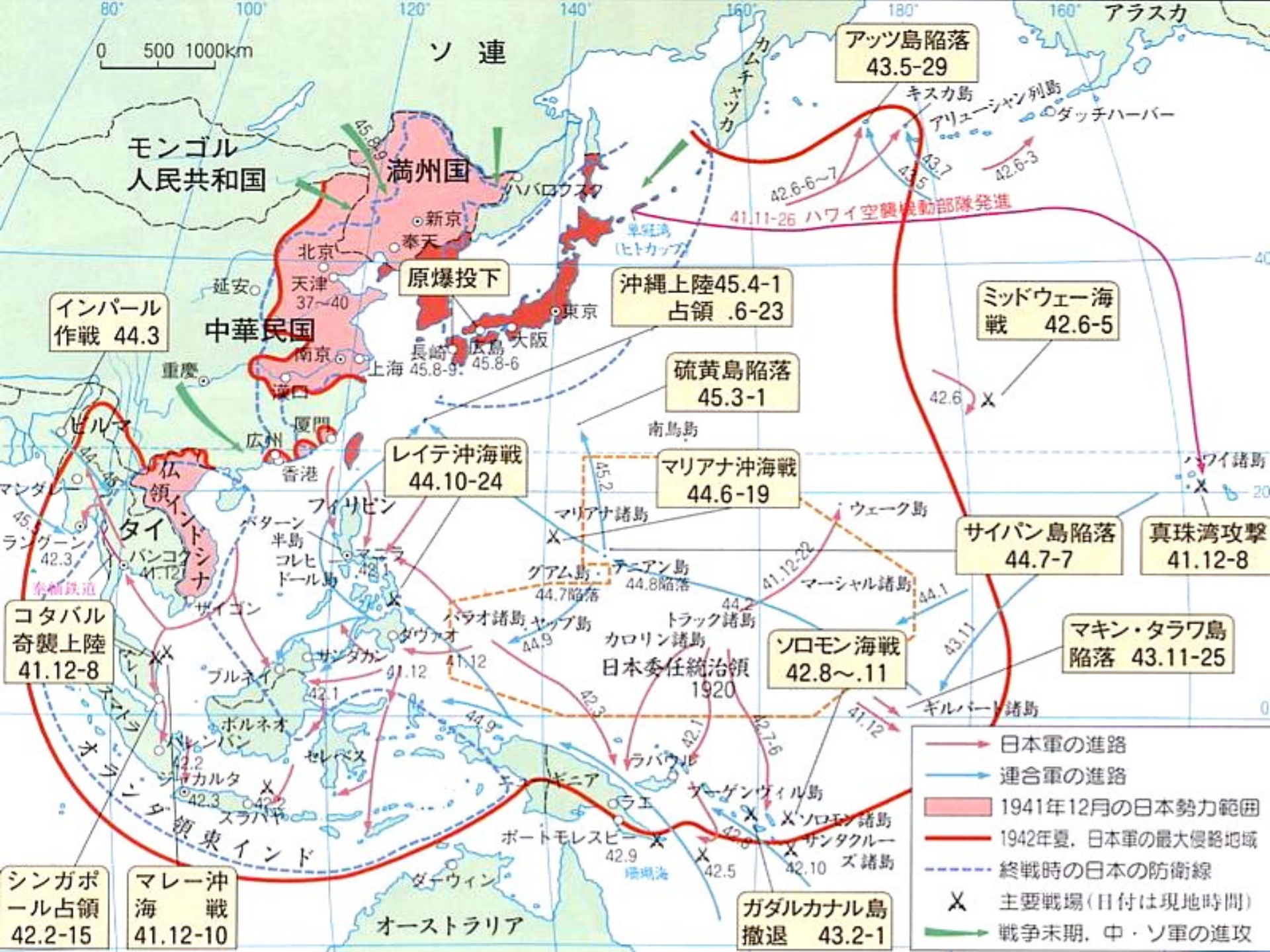
**1944-45** Economic collapse due to lack of material inputs

**War escalates: War with China prolongs**

➔ Resource shortage within “Yen Bloc” (occupied Taiwan, Korea & part of China)

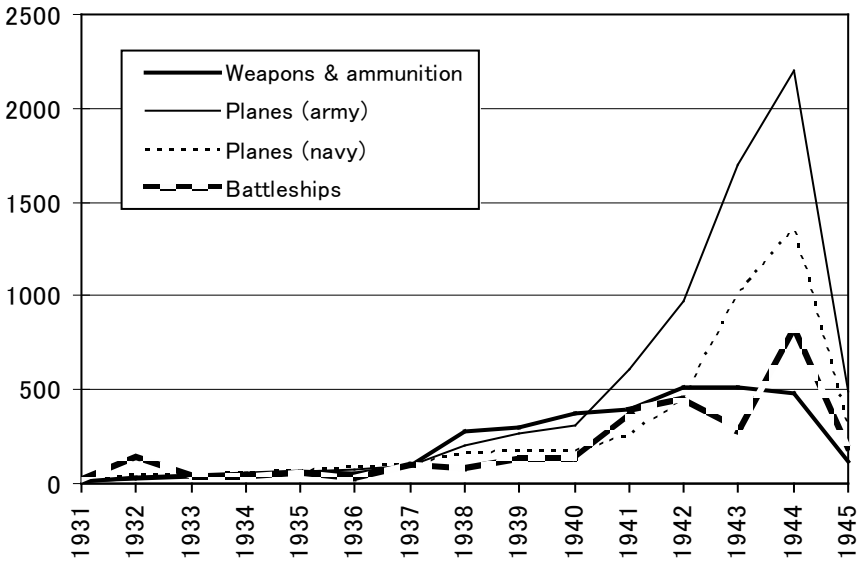
➔ Invade Southeast Asia for resources (N & S Vietnam, later more)

➔ This angers US and leads to total war with US and its allies



# Military Production

(1937=100)



# Consumer Product Supply

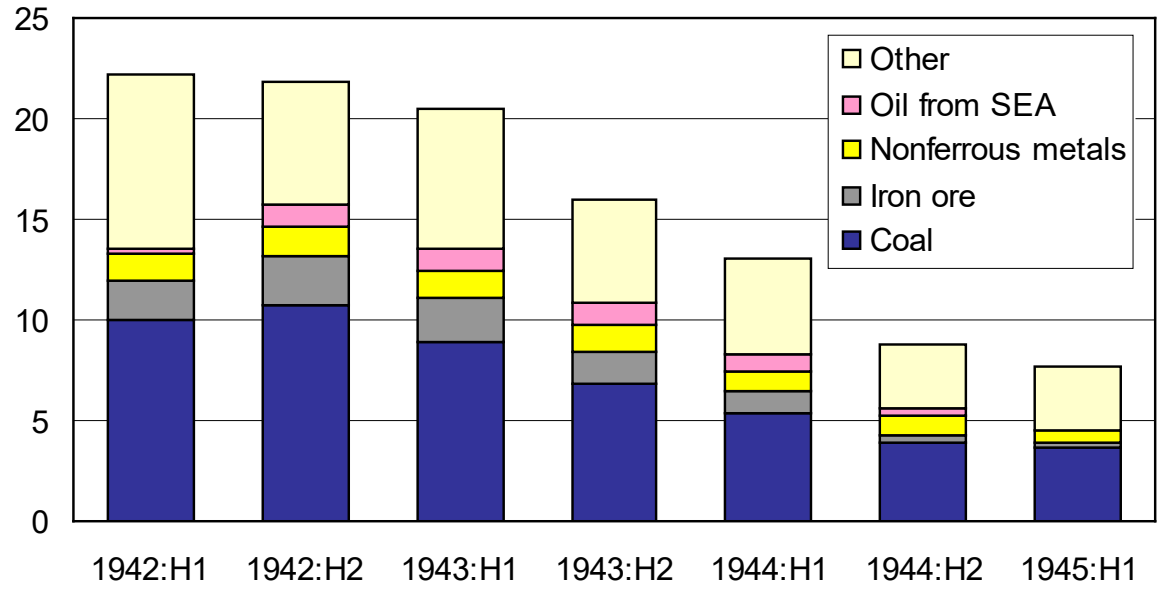
(1933=100)



- Production of battleships and airplanes is prioritized.
- Consumer goods are suppressed.
- Ships are sunk by American attacks; Japan loses means of material transport.

## Maritime Transport during Pacific War 1941-1945

Million tons



# Origin of the Post-WW2 Japan System

Some people argue that the economic model of Post-WW2 Japan featuring **long-term relationship** and **official intervention** was artificially created during the war years.

Government-led industrial drive, administrative guidance, subcontracting, lifetime employment, keiretsu groups, friendly trade unions, mainbanks, MOF's control over commercial banks, Bank of Japan window guidance, etc.

**Negative view**—this system was forced after 1937 to execute war, and survived into the postwar period. It continued to work reasonably well to generate high growth in the 1950s-60s, but it is now completely obsolete. It has to be dismantled.

**Positive view**—any advanced industrial economy requires such features. Free markets do not automatically promote high-tech or heavy industries. Japan needed such a system in the mid-20th century with or without war.