I. WHAT IS RATIONALIZATION?

During the late 1920s, Prime Minister Hamaguchi Osachi’s Minseitō administration had implemented austerity policies in order to restore the gold standard (a.k.a. to lift the gold embargo), and accomplished its goal on January 11, 1930. Simultaneously, the Hamaguchi administration promoted a policy of industrial rationalization. However, with the onset of the Great Depression in the United States, continuation of such policies worsened the economic condition in Japan, and brought about a sudden and serious downturn in the Japanese economy, later called the Showa Depression.

This article will consider the major characteristics of the arguments for rationalization which became widespread during the Showa Depression and its philosophical underpinnings by examining the discussion in that appeared in public media. I argue that during this period, an anti-capitalist ideology, which treated planning and control as a replacement for inefficient capitalist systems, and a vulgar asceticism, which equated rationalization with economizing and industriousness, emerged by associating all things Seiyūkai with bad and Minseitō with good. Ōtake Hideo’s analysis of populist tendencies in 1990s Japanese
politics concludes that the media created a dualistic pattern in which structural reform was good and forces of resistance were bad. An analogous analysis of media’s judgment on government policy based on dualistic pattern of good and bad fits well with the Showa Depression period as well.

Today, the word “rationalization [gōrika]” is defined in Kōjien, a leading Japanese dictionary, as “to eliminate waste and to accomplish a goal efficiently; to adopt new technology or to adapt organizational structures in order to increase labor productivity,” but in the 1930s, this word was still seldom heard and had a sense of novelty.

The fundamental ideas of rationalization derive from methods of Scientific Management first advocated by Frederick Winslow Taylor (1856-1915) in late 19th century United States. His ideas, known as the Taylor System, sought to improve productivity in factory workers by strict management of time and procedures. One might argue that as the methods of Scientific Management were implemented in factories, mass production of industrial products became possible. Moreover, by the 1920s, rationalization began to be touted not only as a movement to increase productivity at a single factory, but to increase efficiency of whole industries. In other words, it was said to include even a way to eliminate firms that were not competitive and to protect some large firms through controls such as formation of cartels. The ideas of rationalization which originated in the United States were expanded in the early 1920s Germany as a philosophy of industrial rationalization, and by the end of the 1920s this was spreading in Japan.

One should, however, be very cautious in expanding the discussion of rationalization from efficiency of a single factory or a single firm to rationalization of whole industries. In rationalizing a single firm, the management takes responsibility for the process. And it is expected

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that, under competitive capitalism, each firm would be creative in reducing costs without any suggestions from the government. Firms that are unable to do so would lose out in the competition and exit from the market.

In the end, the industrial rationalization policy of the Minseitō governments under Showa Depression did not mean that individual firms, in pursuit of their own profits, would implement ways to reduce costs. A leading newspaper, Osaka Mainichi Shimbun, explained the fundamental philosophy of the government’s industrial rationalization as follows:

A truly rational industry produces products that are needed in daily life by measuring their demand and allocating appropriate machinery and labor so that there is neither too much nor too little. Industries must be controlled in this direction. This means that entrepreneurs must, first and foremost, understand the social meaning of their products. The fundamental condition behind rationalization is the recognition that the first property of a product is its usefulness in society, not profits.5

In other words, the rationalization mentioned here was closer to a socialist planned economy that denied the principle of competition or a firm’s maximization of profits in capitalism. Mutō Sanji, President of Kanebō (1921-30), once characterized the philosophy governing the Minseitō government’s policies as “a mixture of socialist philosophy and bureaucratism,”6 a statement that succinctly summarized the essence of rationalization.

Discussion in the daily newspapers expanded the interpretation of such philosophies of rationalization, simplified their meaning into a form that could be understood by the general public, and served to popularize these ideas. For example, a newspaper advertisement on soap (see Figure 1) stated the following:

What is: increasing the efficiency of soap?

It is to use Superior, Economical, and Inexpensive Mitsuwa Soap.

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That is, it dissolves just the right amount without any waste; Even dissolving a small amount produces suds in abundance; Its effect is superior and does not leave any residues behind; It won’t melt down too much or break down half way; It last three times as long and is the lowest price; Mitsuwa Soap.7

Figure 1: An Advertisement for Mitsuwa Soap

Soap manufacturers around this time included Mitsuwa Sekken Hompō, the producer of Mitsuwa Soap mentioned above, Marumya Shōten, Nagase Shōkai, selling under the brand name Kaō Soap, Raion Sekken Corporation, selling under the brand name Lion Soap, and Nakayama Taiyōdō of Kobe, selling under the brand name Club Cosmetics, which was popular with young girls following the latest fashion trends of the Taishō period. Among these manufacturers, Nakayama Taiichi of Nakayama Taiyōdō was especially interested in the movement for increased efficiency and scientific management from early on and was actively involved in their implementation. Nagase Shōten of the Kaō brand was similarly aggressive.8

7. Osaka Mainichi Shim bun, November 22, 1929, p. 4.
If one considers the advertisement in Figure 1 in the context of industry-wide attempt to increase efficiency that prevailed at the time, it is noteworthy that increased efficiency in soap manufacture had been cleverly replaced by increased efficiency in hand washing using the advertised soap. In contemporary Japan, this might be similar to a firm that is trying to survive through downsizing advertising, “try this downsizing product.” Just as the phrase “downsizing product” is unclear in its meaning, a “rationalizing product” is also unclear in its meaning. In summary, for the general public, the word “rationalization” became a buzzword with a positive image, even though its meaning may not have been well understood.

It should be noted, however, that “at this time, methods of ‘scientific management’ contributed some toward increased productivity by eliminating wasteful movements in the finishing process such as wrapping and packaging, but for the manufacture of oil and fats products such as soap, they were limited in impact.” Rather than focusing on rationalization, the highly spirited competition among soap manufacturers and distributors focused on how to get consumers to buy luxurious products that are not necessities in daily life.

For example, Kaô, under Nagase Tomirô II, implemented a new management strategy that included a thorough product quality improvement based on research and development as well as improvements to the packaging design of its products. Today, it is common knowledge that design greatly influences the product image as well as sales volume, but attention to product packaging and product design was just beginning to develop during this period. Nagase conducted a new product competition in the form of design competition open to the public. Participants in this competition included well known designers such as Sugiura Hisui and Murayama Tomoyoshi, but Kaô selected the design of Hara Hiromu, the youngest and unknown participant who was a teacher at a public industrial arts high school. The New-Style Kaô Soap [Shinsô Kaô Sekken] in an orange wrapper with “Kwao Soap [sic]” in white letters was introduced in March 1931.

9. Ibid.
10. Hara Hiromu later participated in the magazine FRONT as a graphic designer, and became the producer in charge of all designs for the Tokyo Olympics, thus becoming a major figure in design.
with a large-scale advertising campaign. This example highlights the fact enterprise management during this period cannot be reduced simply to austerity and rationalization.

The rationalization ideology that the government advanced and the large newspapers adopted and advertised essentially argued that “our economy, which until today has been running on the wrong track, be brought back to the right track” and asked for “new construction rather than destruction.”11 This meant, however, that restoring the gold standard, as the Minseitō government had done, by itself did not lead to prosperity. While the gold standard restoration policy was primarily the responsibility of government officials, the rationalization efforts extended to individual firms and people; structurally, it was difficult to assign their responsibility directly to the government. Therefore, while the newspapers called for “new construction rather than destruction,”12 it also pointed out the need for readiness to “seriously consider gradual reduction of production costs.”13 To quote a newspaper editorial on the day of the gold standard reinstitution:

In order to compete effectively [in the harsh international economic battles], first we must have a fiscal policy that reduces the burden on ordinary people, an economic policy that rationalizes industry and seriously considers a gradual reduction of production costs…. We sincerely hope that this memorable day of rebirth is a day to take a strong first step toward fundamental reform of public and private economies.”14

II. “THEORIES OF RATIONALIZATION” AND “LIQUIDATION-ISM”

One of the typical points made in these media discussions of rationalization was the argument that liquidation of poorly performing firms can only be done through “rationalization,” and that short term

improvements in the economy (i.e., a temporary boom) would hinder rather than help this process. This line of reasoning was actively circulated among the leading critics, primarily in the monthly magazines. Some of the strongest proponents of this argument included Katsuta Teiji, the head of economic analysis with Nomura Securities and later head of business conditions research at the daily newspaper *Jiji Shimpō*, and Horie Kiichi, a professor at Keio Gijuku University. Both were prominent proponents of restoring the gold standard at prewar parity.\(^{15}\)

Horie’s argument is most clearly stated in his article titled “Let Recession Go All the Way to the Extreme,” published in a leading monthly magazine *Chūō Kōron* in March 1925.\(^{16}\) As stated in the title, Horie argued that in order to “drive the recession to its extreme low point and to make recession thoroughly felt in our country’s economy,”\(^{17}\) the government needed to implement monetary and fiscal restraint as a process toward restoring the gold standard at prewar parity. This policy proposal was realized about five years later under the Minseitō government, but Horie himself, having died of illness in 1927, did not see it come to fruition.

On the other hand, during Showa Depression which followed the restoration of the gold standard at prewar parity, Katsuta Teiji was actively debating Ishibashi Tanzan, Takahashi Kamekichi, and others who advocated the reinstitution of the gold standard at current prices. At a Debate on the Problem of Reinstating Prohibition on Gold Export [*kin yushutsu saikinshi mondai tōronkai*], held in the midst of Showa Depression in 1930, Katsuta stated emphatically in front of Ishibashi and Takahashi that he “wanted to promote strongly a great depression.”\(^{18}\)

A haphazard policy to reverse deflation leads to a temporary boom.

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15. For more details of this line of reasoning, see Kikuo Iwata, ed., *Shōwa kyōkō no kenkyū* [*A Study of Showa Depression*] (Tokyo: Tōyō Keizai Shimpōsha, 2004), chapters 2 and 4.


17. Ibid.

and prevents a fundamental rationalization of firms and industries. Such arguments were heard not only during the Showa Depression but in the most recent worldwide recession. Noguchi Asahi of Senshū University strongly criticizes such arguments, calling it “liquidation-ism is inaction-ism.” He states:

I pointed out that the recent discussion that emphasizes “structure” is characterized by “fundamentalism” which argues that structure must be changed fundamentally and all at once, and “endurance-ism” which argues that structure simply must be endured and put up with. The recent discussion on structural recession is a typical example of such arguments.

In my opinion, liquidation-ism is precisely what I have called fundamentalism above. And, if I were to name a concept that would be the opposite of liquidation-ism, a concept that corresponds to what I have called endurance-ism above, I think it would be appropriate to name it “inaction-ism.” In other words, liquidation-ism is fundamentalism, and inaction-ism is endurance-ism. What this means is that just as the practical shape of fundamentalism, which called for a radical transformation, turned out to be enduring patiently for a chance for transformation, or endurance-ism, the practical shape of liquidation-ism turned out to be inaction-ism.19

If the Showa Depression reduced the cost of exported goods and created demand for exports, then a way to economic recovery through external demand may have been conceivable. However, under the worst kind of economic environment of worldwide depression, the American economy, which was the export market for Japanese silk, had collapsed. Furthermore, exports to silver standard countries, such as China, decreased due to the effective increase of the exchange rate (i.e., fall in silver prices), and Southeast Asian countries and India increased import duties. These factors further damaged Japanese industries that depended on exports. However, even in the face of these “external calamities,” arguments that saw this as a chance to increase competitiveness through efforts to cut production costs and that called for self-reliance rather

than government protection were popular in the newspapers. For example, an editorial in the *Osaka Mainichi Shimbun* argued:

> During the preparation period for restoration [of the gold standard], it must have been Providence that our country was blessed with good fortune with respect to external affairs. However, that the external affairs have turned to the worst once reinstitution was in place is indeed lamentable as cruel fate.... [However,] to ask desultorily for government protection is not only a wrong-headed way to rehabilitate industry, but will only increase the burden on national accounts and force our people to make sacrifices. First, decrease the production costs through a review and improvement of business content. There is no fundamental measure other than this.  

The argument that even in the face of external calamities that one should work even harder and more earnestly is not a policy proposal based on economic analysis. It is clear that such argument attempts to appeal mostly to the readers’ emotions.

The newspaper editorials of this period contain many admonitions of the form “At this time, we must do....” While this phrase suggests an image of decisiveness with conviction, it also stops all further thoughtful consideration. Similarly, a dualistic logic of the “either-or” type also limits thoughtful consideration. Whether such crude logic was commonly used during this period because the writers intentionally used them or because journalism was not yet mature requires further examination. However, even today, how media over-simplifies everything, works up an emotional response, and incites the public does not seem to have improved much.

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**III. NAKAJIMA KUMAKICHI’S VIEW OF THE ECONOMY**

During this time, there was a general fear that the capitalist system would not survive as is had gripped the populace. The socialist planned economy system had been introduced as an equally viable alternative to the capitalist system, or even as an idealistic system that far exceeds it.

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Of course, there were forces that cautioned that the Soviet regime that formed as a result of a revolution was dangerous, but there were also many that gave it a positive evaluation. Not just among the Marxists, there were many among entrepreneurs, managers, bureaucrats, and politicians that appreciated the positive aspects of a planned economy system. Among them was Nakajima Kumakichi, who served as an advisor to the Temporary Industrial Rationalization Bureau \[\text{rinji sangýô gôrikyoku}\], established during the Hamaguchi administration. This section examines Nakajima’s statements and philosophy.

Nakajima Kumakichi was the eldest son of Nakajima Nobuyuki, an activist in the People’s Rights movement and the first President of the House of Representatives. Nakajima Kumakichi was also a close associate of Gô Seinosuke, a central figure in the financial sphere who made a living by various deal making. As the fact that Nakajima, together with Gô and Inoue Junnosuke founded the Japan Economic Federation \[\text{Nihon Keizai Remmeikai}\] attests, Nakajima himself can be characterized as a financial deal maker. In 1931, Nakajima succeeded in the merger of the major steelmakers in Japan, and with Gô, played a central role in the establishment of Japan Steel in 1934. Later, Nakajima served as the Minister of Commerce and Industry in the Saitô Makoto administration, and resigned his post as a result of the Teijin Incident. Nakajima was a prolific writer; in an interesting incident at the time of his resignation, the rightist Kikuchi Takeo\(^2\) attacked an old essay by Nakajima that praised Ashikaga Takauji.

Thus, while Nakajima was a spokesperson of the financial sphere, he was in favor of a controlled economy, and his ideas closely resembled the socialist planned economy. In fact, based on his experience as an advisor to the Temporary Industrial Rationalization Bureau, he published an article on the theory of controlled economy in a journal of the Japan Economic Federation.\(^2\) In a way, the strong desire for control in the mainstream of the financial sphere, including Nakajima,

\(^{21}\) Kikuchi later garnered fame as an attacker of Minobe Tatsukichi’s theory of emperor as institution.

\(^{22}\) See Masataka Matsuara, Zaikai no seiji keizaishi: Inoue Junnosuke, Gô Seinosuke, Ikeda Shigeaki no jidai \[The Political Economic History of the Financial Sphere: the Times of Inoue Junnosuke, Gô Seinosuke, and Ikeda Shigeaki\] (Tokyo: Tokyo Daigaku Shuppankai, 2002), 113 and notes (10) and (11).
supported the industrial rationalization policy of the government. Then, let us examine the mainstream of the financial sphere and the government’s industrial rationalization movement from a slightly different angle, away from the large daily newspapers.

In the late 1920s and the 1930s Japan, urbanization and industrialization had established the large firms as well as an emerging new middle class of salaried workers. Under deflation, they were overjoyed by declining prices and became a driving force behind a new consumer culture. And while they worried about downsizing, they were at ease as long as their own jobs were secure. One economics magazine focused on the new salaried workers as the new middle class and predicted that they would play a central role in the political economy of the new mass society: The Salaryman [Sarariiman], founded in 1928 by Hasegawa Kunio.23 This magazine had been long forgotten, but recently, Tanaka Hideomi of Jōbu University and I have written on the magazine’s content and the circumstances surrounding its founding.24

The remainder of this section will examine the coverage of industrial rationalization following gold standard restoration in The Salaryman and consider the relationship between the life of a salaried worker and the problem of rationalization.

The opening editorial by the editorial board of The Salaryman, published shortly after the restoration of the gold standard in volume 3, issue 1 of 1930 states as follows:

At the time of our founding, it is very true that the word salaried worker [sarariiman] did not sound as appealing to the general public as it does today. However, now, it is no exaggeration to say every newspaper and magazine has taken up the salaried worker as a topic. This means that the salaried worker has come on stage with great confidence.

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23. Hasegawa Kunio was a publisher who founded Sarariiman-sha in 1928 and Jikyoku Geppō-sha in 1935. His publication was censored by the authorities, and in 1937 he was imprisoned for violation of the Martial Law. In 1949, the company was reorganized as Jiyū Kokumin-sha and he became its president. He has published Gendai yōgo no kiso chishiki [Basic Knowledge of Contemporary Vocabulary], among others.

1930: The year of gold standard restoration, the year of rationalization: a year in which it is likely a day will come when a heated discussion about the problem of the salaried worker will necessarily take place with respect to rationalization.

1930: Our third year of publication: the year in which the salaried worker is about to rise up.25

Thus, the editorial board sees 1930 as the year that industrial rationalization movement will be implemented in earnest and points out that by necessity, the problem of the salaried workers will heat up. In fact, in April of this year at Kanebō [Kanegafuchi Spinning Corporation], a company known for its paternalistic treatment of its workers, the company’s announcement of a forty per cent cut in pay led to labor strife, which was later termed the Great Kanebō Dispute [Kanebō daisōgi]. The workers at the Tokyo City Trolley Cars [Tokyo Shiden] went on strike in response to stoppage in pay and reduction in bonuses, but they were eventually defeated.

In volume 3, number 5 of 1930, titled “Explaining Liquidation Depression,” Hasegawa himself wrote in an editorial preface as follows:

The sacrifice of “unemployment” will affect most seriously the salaried class, the middle class who are not armed, either in terms of their consciousness or as a class. There is more than enough probability that a large part of the sacrifices due to financial liquidation will be borne by the differences that arise from the fall from the middle class to the proletariat. And the salaried worker camp will be divided clearly in two, between the tools of the ruling class and the comrade in arms of the proletariat.26

Furthermore, Aono Suekichi, who published the book The Era of Salaried Worker Depression27 in 1930, also contributed an opinion piece to this magazine titled “How the Salaried Worker Masses Should Behave” in which he stated:

It is the era of the salaried workers’ depression now. In sum, the

process of industrial rationalization is a pathway toward the hell of mass wage reduction and unemployment; those who are crucified in this process are not only the proletariat masses, but also the salaried worker masses. In fact, this process is unfolding before us now with the force of iron. If the salaried worker masses were to avoid being swallowed up into the deep abyss opening under their feet, they must unite solidly with the proletariat as a single anti-bourgeois force in the fight.28

And Hisashi Asō of the Japan Populist Party [Nihon Taishūtō] wrote on the Kanebō Dispute as follows:

The cause of the Kanebō Dispute is that they [the management] made the 30,000-plus textile workers they employ living sacrifices in the so-called industrial rationalization and enforced a forty per cent wage reduction. It is the complete fall and destruction of paternalism.29

As the daily lives of salaried workers were placed in crisis by the Showa Depression and the industrial rationalization movement, The Salaryman conducted an interview with Nakajima Kumakichi. Nakajima discussed the principles of rationalization in this interview, saying:

As I see it, there are three large principles in the industrial rationalization movement.

The first is that the market-price economy needs to be replaced by the production-cost economy. That is, by eliminating all waste in the production process and by controlling an industry among its constituent members using methods such as production control and cooperative sales, we must replace the traditional market-price economy with production-cost economy, and make this the first principle…. The second principle is that in all economic planning, the “profiteering economy” must be replaced by a welfare economy. In other words, the respect for the human element in industry must be the second principle…. The third

principle is that we must allow some degree of meaningful intervention by government in public and private economies. In order to develop the industrial structure of a nation, it is necessary to also nurture the consumer power of the general public. To nurture the consumer power of the general public, we must also increase employee wages. If employee wages are increased, then the production costs become high. If the production costs increase, then prices rise, so we won’t be able to export. If we cannot export, then in a place like Japan we cannot make payments to foreign countries for industrial raw materials…. As a method that matches Japan’s situation, here we absolutely need perfect cooperation between management and labor.

Thus, the problem of industrial rationalization is, on the one hand, a cold-hearted instruction on scientific management, but at the same time, it is, on the other hand, a spirited movement toward human cooperation…. Industrial rationalization is not a temporary solution, but a movement for creating a new Japan and a new life-style in industry.\(^{30}\) As Nakajima states, it is probably true that industrial rationalization was not just meant to clean up after the gold standard restoration policy. Rather, what he may have really wanted the government to do through the restoration of the gold standard was to implement decisively the dissolution of poorly performing firms and to move eventually toward a one firm per industry system, such as that implemented in the steel industry, and a planned economy that enables large-scale intervention of the government. It is possible to read from Nakajima’s interview his vision of implementing a planned economy, not in a bottom-up revolution like Russia, but in a top-down mobilization led by the government bureaucrats. And, as Asō Hisashi has written, the failure of paternalism, such as that of Mutō Sanji, served as a catalyst for the salaried worker class to develop an interest in ideas of a new generation of players in the financial sphere such as Nakajima. The traditional laissez faire economic perspective and traditional paternalism as

solutions to problems such as unemployment were now seen as old fashioned, and one might interpret this transition from these ideas as a pathway toward fascist control.

Nakajima later wrote an article on Russia’s planned economy\textsuperscript{31} in \textit{The Salaryman} and in December 1931 published a booklet titled “Current Events Explained, Volume 1: The Other Side of Russia”\textsuperscript{32} from Sarariiman-sha, the publisher of the magazine. Thus, such interest in planned economy and controlled economy arose during the Showa Depression as economic doldrums and unemployment came to the forefront as a significant problem for the general public.

\textbf{IV. DEFLATION AND “RATIONALIZATION” FOR THE SMALL AND MEDIUM ENTREPRENEUR}

How did the entrepreneurs see the Showa Depression? This section will examine the opinions of the small and medium entrepreneurs through a discussion among small and medium textile industrialists.

The source of this analysis is a serial article in the daily newspaper \textit{Osaka \textbf{\textit{Jiji Shimpō}}} titled “Listening to the Deep Truth of Recession.”\textsuperscript{33} As it is a published transcript of a discussion, there may be some embellishment on the part of the reporter. It is also difficult to separate statements of formal principle with closely held true feelings, but the discussion here will focus on deeply held thoughts.

\textit{\textbf{Jiji Shimpō}} was founded by Fukuzawa Yukichi himself with the thought of spreading the importance of newspapers, and had become a major daily. Fukuzawa’s nephew Nakamigawa Hikojirō later succeeded

\begin{itemize}
\item \textsuperscript{32} Kumakichi Nakajima, \textit{Jiji kōza dai-1-shū: Rōshia no ta no hammen [Current Event Explained, Volume 1: The Other Side of Russia]} (Tokyo: Sarariiman-sha, 1931).
\item \textsuperscript{33} “Fukeiki no shinsō wo kiku [Listening to the Deep Truth of Recession],” \textit{Osaka \textbf{\textit{Jiji Shimpō}},} July 22-31, 1930, in \textit{Kōbe daigaku fuzoku toshokan dejitaru ōkabu shimbankkiji bunko, menshi bōsekiyō [Kobe University Library Digital Archive Newspaper Article Collection, Cotton Thread Spinning Industry]}, vol. 16, article number 052, http://www.lib.kobe-u.ac.jp/das/jsp/ja/DetailView.jsp?LANG=JA&METAID=00215859. This collection consists of newspaper clippings with serial articles cataloged as a single entry without individual dates or page numbers.
\end{itemize}
him as the newspaper’s manager. However, by this time, due to the expansion of daily newspapers based in Osaka, such as Osaka Mainichi Shimbun and Osaka Asahi Shimbun, the readership of Jiji Shimpō had declined. Shortly after this period, in order to revitalize the newspaper, Jiji Shimpō hired Mutō Sanji as president. Under Mutō, Jiji Shimpō published a series of articles titled “Exposing the Banchō Group”34 that severely criticized the financial sphere.

As is well known, the textile industry was a mainstay of Japanese industry at the time, though it was beginning to face stiff competition from newly emerging textile factories located in China. As large capital moved into China to establish textile factories, the small and medium domestic textile firms tried to stay competitive through technological innovation and rationalization. However, the depression damaged them greatly.

Those present at the discussion included the following: Komuro Rikichi of Temma Spinning and Weaving [Temma Bōshoku], Hori Bumpei of Osaka Knit Spinning and Weaving [Osaka Meriyasu Bōshoku], Satō Rekijirō of Kinka Spinning [Kinka Bōeki], Harashige Hisao of Nagasaki Spinning [Nagasaki Bōeki], Ueda Mitsusaburō of Hattori Trading [Hattori Shōten], Mori Gorōbe of Ōmi Sailcloth [Ōmi Hāmpu], Kimura Yōzō of Hinode Spinning [Hinode Bōeki], Futamura Kenjirō of Temma Weaving [Temma Orimono], Itō Takenosuke of Itō Trading [Itō Shōten], Toyoshima Hisashichi, Abe Fujizo of Mataichi Company [Mataichi Kaisha], Kamisaka Seitārō, a director of the Textile Federation [Bōeki Rengōkai], and from Jiji Shimpō-sha, Morita Hisashi,35 the head of the economics group, Tsuchiya, the Editor-in-Chief, and Yamashita36 and other members of the economics group.

34. “Banchōkai wo abaku [Exposing the Bancho Group],” Jiji Shimpō, January 19, 1934 to March 14, 1934, in Kōbe daigaku fuzoku toshokan dejutaru akaihu shimbukijī bunko, menshi bōsekiyō [Kobe University Library Digital Archive Newspaper Clipping Collection, Cotton Thread Spinning Industry], vol. 25, article number 073, http://www.lib.kobe-u.ac.jp/das/jsp/ja/DetailView.jsp?LANG=JA&METAID=00484915. This collection consists of newspaper clippings with serial articles cataloged as a single entry without individual dates or page numbers.

35. Morita later became the editor-in-chief of Jiji Shimpō, and was in that position at the time of the Teijin Incident.

36. The given names of Tsuchiya and Yamashita were not identified in the original newspaper article.
Economics group chief Morita opened the discussion by explaining its purpose:

The real condition of the economic recession for the small and medium enterprises in industry and commerce is not reported much in the newspapers. But in terms of numbers, the economic condition of the small and medium enterprises in industry and commerce is not only a very important issue for the Japanese nation but how this develops is a large social problem as well…. Thus, it is important to listen to the opinions of the small and medium entrepreneurs and introduce them to the newspaper readers. It would be very fortunate if this discussion would educate not only us but the general public on the policies to counteract the recession, or to serve as an important background resource for government policymaking.”

While Morita comments later that the spinning companies in general are not small or medium, it is clear from the list of participants that the entrepreneurs selected did not include the very large-scale spinning companies that were building factories in China.

The first to comment on the recessionary conditions in the textile industry and the countermeasures needed was Komuro Rikichi of Temma Spinning and Weaving. Komuro pointed out that his understanding of the cause of the recession, as a textile industrialist, was that “the collapse of silver prices and India’s protectionist trade policy had immediate and significant impact on the textile industry as threats.” Thus, the impact of the falling silver prices on the China market and the protectionist tariffs implemented in India are given as primary causes of the poor performance of the textile industry in Japan. That is, as long as Japan were on the gold standard, exports to countries on the silver standard would be difficult. When Japan was on the silver standard during the Meiji period, it increased exports through the

37. “Fukeiki no shinsō wo kiku [Listening to the Deep Truth of Recession],” Osaka Jiji Shimpō, July 22-31, 1930, in Kobe daigaku facoku toshokan dejutaru shimbunkiji bunko, Nihon [Kobe University Library Digital Archive Newspaper Clipping Collection, Japan], vol. 16, article number 052, http://www.lib.kobe-u.ac.jp/das/jsp/ja/DetailView.jsp?LANG=JA&METAID=00215859. This collection consists of newspaper clippings with serial articles cataloged as a single entry without individual dates or page numbers.

38. Ibid.
decline in the exchange rate; now the opposite phenomenon was taking place.

On the other hand, new markets outside of China and India were small in terms of volume and could not be developed quickly. They lamented the condition, saying:

Our collective power is really small. For example, for something like the tariffs in India, we can alert the public or petition the Ministry of Foreign Affairs or the Indian government, but these attempts have been unsuccessful. As far as the silver problem in China, that is a result of worldwide turn of events and just like being hit by an earthquake.... These things are out of our control.”

The fall of silver prices and the rise of gold prices are two sides of the same coin, and their fundamental cause is the fact that Japan is on the gold standard, but the textile industrialists failed to recognize this fact.

In the end, the only thing that the small and medium textile industrialists could do was to “reduce production costs and to produce products cheaply in order to win in international competition,” but such efforts had reached their limits. While many tried “rationalizing the operation of machinery to reduce the per unit cost” and “to conduct as much research and experiments as possible on the rational operation of machinery in order to implement every possible rationalization method in production,” they could only lament that they “were only producing large amount of losses every day.” Of course, the production of large losses daily should lead to the closure of factories and liquidation of the business; this is process by which poorly performing firms exit the market.

However, in response to this point, Satō Rekijirō of Kinka Spinning stated that “if the losses are adding up, we would like to close [the factory], but if we close, then the labor problems arise.” He continued, “Ordinarily, it would be possible to implement work hour

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39. Ibid.
40. Ibid.
41. Ibid.
42. Ibid.
43. Ibid.
44. Ibid.
reduction immediately with an agreement within the Federation, but today, anything that would produce unemployment would cause a social problem so it must be avoided if possible.” 45 Thus, labor relations as a social problem were a bottleneck to production reduction.

Furthermore, with regard to production costs, one participant commented as follows:

[Various costs] are falling as prices fall in general, but as far as the cost of electricity, because it is a monopoly, lowering electricity prices is not easy. And the taxes, in comparison to the prewar years, are much higher. Interest rates are no different from the pre-gold standard restoration days. Plus, railroad fares can’t be lowered easily either. So it’s impossible for the cotton industry to survive.” 46

Another participant demanded, “Lowering the interest rate would support stock prices, so the government should implement a policy of low interest rates and rescue this recession of the financial sphere.” 47 It is noteworthy that these demands highlight the “structural problem” of high costs of highly regulated and monopolistic industries like electric power and railroad transportation that continue despite the recession. Solving these structural problems is an important part of combating the recession.

On the topic of cost reduction, Itō Takenosuke of Itō Trading stated:

On the other hand, if one thinks about it, since the war [World War I], production costs have continued to rise. Today, one bale costs fifty yen or more to produce. If we don’t have an opportunity such as this, production costs will never come down…. Of course, there may be labor problems, or problems with electricity. But if you united together on these issues and then made a sincere effort, there is a possibility to lower the production costs by five or ten yen…. Even if the price does not go down to twenty yen, but perhaps to twenty-five yen, this would give us an unbeatable competitive edge throughout the world. Factories producing in China today require at least twenty yen. Then, if we can lower our prices to twenty or twenty-five

45. Ibid.
46. Ibid.
47. Ibid.
yen, this would be a great chance for the textile industry.” 48
One might question whether such reduction, as Itô suggests, would be possible. Itô’s argument that “this era of calamity is a great chance to develop competitive ability” received heated opposition from the textile industrialists in attendance. The opposition was quite justified.

Whether textile industrialists in fact had made efforts toward production cost reduction and how successful these efforts were are topics beyond the scope of this discussion. The central concern here is what they thought were the fundamental causes of the recession and what they wanted the government to do in order to get them out of this crisis. Hori, thinking that the first necessary condition must be to remove the feeling of anxiety within the industry, stated as follows:

I believe that right now there are three fears within the cotton industry. The first is the fear regarding demand and supply for cotton thread and cloth; the second is the fear regarding finance; and the third is the fear regarding the price of raw cotton. I believe the primary problem is how the demand and supply of cotton thread and cloth will develop going forward. The reasons behind the emphasis on this fear regarding demand and supply are … the decline in domestic and foreign demand due to the restoration of the gold standard and worldwide depression; especially with respect to China, the decline of purchasing power due to the collapse of the silver prices and domestic turmoil; with respect to India, the rapid increase in tariffs and the rise of purchase boycott coalitions.49

Thus, he mentions the impact of the restoration of the gold standard as the first issue. However, he immediately follows this with a more publically acceptable statement, saying:

As far as lessening the effect of gold standard restoration, there are many arguments, including readjustment of the foreign exchange rate or change in government policy. But I believe that in this instance, although it is painful, a thorough liquidation and reconstruction of the fundamentals of industry is needed as a large-scale plan for the next hundred years.50

48. Ibid.
49. Ibid.
50. Ibid.
Whether he truly believes in this statement is questionable. With respect to the second fear of financing, he goes on to say:

While it may be difficult to remove [this fear] completely until the current conditions show some improvement, the root of our industry’s fear comes from the fact that the cotton textile industry is unstable. That is, if the product prices go up and down without any regard to economic principles but in response to fear, then the financiers cannot avoid being protective for self-preservation. However, for the industrialist, as the profitability of the facilities, which takes up a large portion of capital investment, becomes in doubt, and the finances tighten in response, then this becomes a really big problem.51

Thus, it is clear that he recognized that problems in the industry did not arise from access to financing and that the reason for tight financing comes from the fact that return on capital investment in facilities is in doubt due to deflation.

However, since the government showed no interest in reversing the gold standard policy and the problems of high costs such as electricity could not be resolved easily, some participants recognized the need to shut down some firms and reorganize the industry. As one participant commented,

In the end, the time to reduce capital has come. Domestically, we need to implement a significant liquidation to shore things up, and internationally, we need to make a significant effort toward exports. Unfortunately, this is a difficult path.52

However, another participant responded as follows:

The government’s attitude toward the cotton industry is very regrettable. If the anti-recession policy of the current cabinet absolutely necessitates liquidation of industrial companies now, then they should also provide some form of relief. While they won’t reduce taxes, they tell us producers to reduce costs; at the same time many are unemployed. They tie our hands but whip us to work harder. To stop consuming in order to increase production is an impossible demand and that must end soon.53

51. Ibid.
52. Ibid.
53. Ibid.
The impossible demand to reduce consumption in order to increase production expresses the essence of the austerity policy of the Minseitō administration. As the discussion continued, it seems that the participants became more comfortable in expressing their closely held opinions. For example, one participant criticized the Finance Minister Inoue Junnosuke, who was more concerned with the survival of banks rather than the revival of industry, saying “Mr. Inoue thinks only about helping the banks; if industry fails, the banks will fail, too.” This comment highlights the opinion those in private industry had of Finance Minister Inoue. The members of Jiji Shimpō who hosted this discussion were pleased with this comment. Morita Hisashi of Jiji Shimpō added fuel to the fire, saying “Mr. Inoue only repeats what is written in a textbook, and his anti-recession policy has little to do with reality. This is one of the reasons for our hosting this discussion.”

CONCLUSION

This article has considered the discussion surrounding “rationalization” during the Showa Depression period by examining the opinions expressed in the large newspapers and other media, the statements of Nakajima Kumachiki, an advisor at the Temporary Industrial Rationalization Bureau, and the voices of the small and medium industrialists who faced these severe rationalization policies. As the last section showed, the economic policies of the Minseitō administration created a harsh economic environment for the small and medium industrialists, but Finance Minister Inoue continued to argue for the need for austerity and liquidation even under these recessionary circumstances.

For example, at the national meeting of the saving banks in April 1931, Inoue stated as follows:

As a policy to break out of recession, if we increase consumption and increase demand, then overproduction will ease and the economy will turn upward. Some say that it is essential for the government to issue a large sum of bonds to invest in industry for this purpose. But to turn around the recession today into a boom

54. Ibid.
55. Ibid.
using such method is not only difficult but will leave a large damage for the future.\textsuperscript{56}

The \textit{Osaka Mainichi} newspaper, in response to this speech by Inoue, commented in an editorial as follows:

Today, the reorganization of public and private economies has yet to be completed. If the government adopts an aggressive policy and rampantly issues bonds, then it will lead to a similar result to a person recovering from illness suddenly adopting unhealthy habits.\textsuperscript{57}

Such argument in support of liquidation-ism eventually became the catalyst for strengthening economic control from above in an effort to resolve the contradictions of capitalism once and for all.

\textsuperscript{56} “Shasetsu: Zōsō no enzetsu/chogin taikai nite [Editorial: The Finance Minister’s Speech at the Saving Banks Meeting],” \textit{Osaka Mainich Shimbun}, April 3, 1931, p. 2.

\textsuperscript{57} \textit{Ibid.}