How Did Takahashi Korekiyo Rescue Japan from the Great Depression?

神戸大学　　柴本昌彦
早稲田大学　　鎮目雅人

Abstract

A veteran finance minister, Takahashi Korekiyo, achieved an early recovery for Japan from the Great Depression of the 1930s by prescribing a combination of expansionary fiscal, exchange rate, and monetary policies. To explore the comprehensive transmission mechanism of Takahashi's macroeconomic policy package, including the expectation channel, we construct a structural vector auto-regression (S-VAR) model with three state variables (output, price, and the inflation expectations) and three policy variables (fiscal balance, exchange rate, and money stock). Our analysis reveals that the exchange rate adjustment undertaken as an independent policy tool had the strongest effect, and that changes in people's expectations played a significant role for escaping from the Great Depression. During the second half of 1931, in particular, speculation on Japan's departure from the gold standard and the inflation that was likely to follow reversed the existing expectations: instead of expecting deflation, people began to expect inflation, months ahead of the actual departure from the gold standard, which occurred in December of that year. As a whole, the choice of the level of the exchange rate was crucial for changing people's expectations as well as promoting exports.

Keywords: Great depression; Japanese economy; Macroeconomic policy; Expectation; Vector auto-regressive model; Commodity futures

JEL Classification: E52, E63, N15.