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Bank of Japan

**Remarks at a Symposium
in Honor of Korekiyo Takahashi**

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Introduction

It is my great pleasure to speak at such a distinguished symposium. I would like to take this opportunity to express my sincere gratitude to the people of Yamaguchi Prefecture for your cooperation with the activities of the Bank of Japan, especially of our Shimonoseki Branch.

I was invited to appear today at this symposium in honor of the eminent statesman Korekiyo Takahashi (1854-1936). Today, Japan's monetary and fiscal policies are at a critical juncture with regard to overcoming the deflation that has lasted for nearly 15 years. It is indeed timely for us to look back on the great achievements of our predecessor, who faced and addressed policy challenges similar to those of today, notwithstanding the differing historical circumstances of his time.

Takahashi lived through a very turbulent period, and his life contained enough adventures for any number of episodes on the big screen or television. To give just a few examples, after leaving for the United States as a youth in the late 1860s, he endured a period of indentured servitude. Later he became involved in developing mines in Peru, but was forced to return to Japan after the mine scheme was discovered to be a fraud and his financial resources were exhausted. These episodes show us that the first half of his life contained many challenges, but he remained a man of determination and liberal spirit.

Toward the end of his 30s, he was assigned to this very place, Shimonoseki, as the first general manager of the Bank's West Branch. It was at that time that he began his career as a banker as well as a financial administrator. In the second half of his life, he went on to assume a number of important roles -- such as Governor of the Bank of Japan, finance minister, and prime minister -- and left a record of many historic accomplishments.

Here in Shimonoseki, there are many reminders of Japan's long history. It likewise enjoys an important place in Japanese economic history, having nurtured a great statesman like Takahashi.

Takahashi Economic Policy

As I mentioned at the start of my remarks, among Takahashi's many achievements we are particularly interested in a series of macroeconomic measures -- called the Takahashi Economic Policy -- which were put in place to respond to the Showa Depression of 1930-31.

Looking back at economic developments around that time, the 1920s were a period of persistent depression following the economic boom during World War I, the Great Kanto Earthquake of 1923, and the Showa Financial Crisis of 1927. Then, in 1930, Junnosuke Inoue -- finance minister under Prime Minister Osachi Hamaguchi -- returned Japan to the gold standard, lifting the gold embargo that had been in place since World War I.

Japan's return to the gold standard meant a shift to a deflationary regime, with current deficits and price declines as a result of tight fiscal and monetary policies. In addition, in returning to the gold standard Inoue set the exchange rate between gold and the yen at its former level, which was equivalent to excessive appreciation of the yen. All of this served to produce a deflationary recession in Japan. In addition to these developments, the spillover of the Great Depression in 1929 into the domestic economy was regarded as the central cause of the Showa Depression.

Against this background, in 1931 Takahashi assumed the post of finance minister for the fifth time in his career. Under Prime Minister Tsuyoshi Inukai, he implemented a package of accommodative macroeconomic policies combining fiscal and monetary policies. This became known as the Takahashi Economic Policy.

On the first day of his return to office, he took the dramatic step of ordering an exit from the gold standard and a restoration of the gold embargo. As a result, foreign exchange rates became able to move in tandem with actual developments in the economy. In terms of fiscal policy, he increased fiscal expenditures, supporting the economy from the demand side. On the monetary policy front, the Bank pursued accommodative measures by cutting its official discount rate and underwriting Japanese government securities directly from the government.

The Takahashi Economic Policy -- combining fiscal, monetary, and exchange policies effectively -- led to the adjustment of the yen's excessive appreciation and counteracted declining price levels. As a result, among the major world powers, Japan became the first to succeed in achieving an economic recovery and escape from deflation during that period.

The key to the Takahashi Economic Policy's success was a shift in economic policymaking from the deflationary regime of Inoue to the reflationary one of Takahashi. This overcame the public's deflationary expectations, generating inflation expectations. The need for a reversal of expectations through a change in policy regime is likewise inherent in the thinking behind the Bank's quantitative and qualitative monetary easing of today.

Indeed, macroeconomic policies initiated by Takahashi have many similarities with the economic policies under Prime Minister Shinzo Abe; namely, the first and second "arrows" of "Abenomics." It is for this reason that the Takahashi Economic Policy is viewed as playing a pioneering role in Abenomics.

The basic thinking behind the Takahashi Economic Policy was to manage aggregate demand through both fiscal and monetary policies, and this coincided with Keynesian principles. What is noteworthy about Takahashi's policy package is that it was put in place before Keynesian economics became established. For instance, in the United States it was only from 1933 that President Franklin D. Roosevelt called for an exit from the gold standard, adopted a monetary easing policy, and introduced the New Deal, which was considered to embody the essence of Keynesian theory.

By 1935, Takahashi judged that Japan's economy had returned to a stable course. While tightening fiscal expenditure, he tried to stop the Bank from underwriting government securities; otherwise, this would lead to hyperinflation. His actions were opposed by the military, which sought a further expansion in military spending. He was eventually assassinated by young military officers on February 26, 1936. After his death, the Bank's underwriting of government securities was mismanaged, which led to hyperinflation after World War II. The important point to remember is that it was not the Takahashi Economic

Policy itself but the mismanagement of the Bank's underwriting of government securities after Takahashi's death that led to hyperinflation.

Based on the lessons learned from history, subsequently the Public Finance Act prohibited the Bank from extending credit to the government by underwriting government securities. Moreover, under quantitative and qualitative monetary easing, the Bank has set its price stability target at 2 percent, based on the recognition that neither deflation nor hyperinflation is desirable.

To conclude, the Takahashi Economic Policy was consistent with economic theory and Takahashi implemented his policy package expeditiously. It was indeed a successful macroeconomic policy of which Japan should be proud, and his great achievement still stands as exceptional when compared with the contemporary episode of deflation that lasted for nearly 15 years.

Concluding Remarks

At today's symposium, I understand that there will be a series of presentations highlighting the relationship between Shimonoseki and Korekiyo Takahashi. Looking back at the mission accomplished by this great predecessor, I believe that we may be able to find a number of insights as we conduct new policies going forward. With this in mind, I very much look forward to participating in the symposium.

Thank you.