Between Crisis and Militarism: Japan's Interwar Struggle for Economic Stability and Democratic Survival

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Abstract. This study examines Japan's socioeconomic and political dynamics during the interwar period (1918–1939), revealing the interplay of global economic dislocation and internal institutional fragility. Despite post-WWI industrial growth, Japan faced domestic overproduction, inflation, and rising inequality, exacerbated by the Great Depression and the 1927 Shōwa Financial Crisis. Rural areas suffered from plummeting commodity prices and debt, while urban unemployment and labor unrest soared, eroding trust in democratic governance. Politically, democratic experimentation coexisted with entrenched patronage systems, enabling military influence and corruption. Policy responses evolved from fiscal austerity and gold standard adherence to expansionary measures and structural reform proposals, including land redistribution, financial regulation, and industrial diversification. However, implementation faced elite resistance and geopolitical constraints, leading to militarist escalation. Comparative analysis with Sweden's social democratic model highlights alternative pathways to stability. The study concludes that Japan's failure to enact inclusive reforms propelled it toward total war, underscoring the critical linkage between economic equity, political legitimacy, and social cohesion in avoiding fascist-militarist trajectories.

Keywords: Japan, Economic crisis, Interwar period.

1. Introduction

Following World War, I, Japan plunged into a highly complex timespan, marked by many-faceted disruptions at the economic, social, political, and international levels. On the surface level, Japan appeared to sit among the triumphant nations: industrial exportation in textiles, shipsyards, and the production of steel grew at a very rapid pace and generated handsome profits for the giant conglomerates. Yet underneath this veneer of affluence, the home fronts were far less secure. Most ordinary households continued living in tight spaces with unreliable incomes, and the increasing gap between the wealthy elite and the urban and agrarian poor served to widen social antagonisms. Out in the agrarian areas, rice and silk-dependent farmers found their activities subject to the vicissitudes of world markets. Meanwhile, in urban centers, young worker flocked to factories only to confront hazardous working conditions, meager wages, and sporadic industrial unrest, thereby exacerbating societal disparities and fostering an atmosphere of instability [1].

Politically, Japanese government endeavored to project an image of democratic governance, replete with political parties, elections, and parliamentary debates. However, in reality, the military retained formidable clout, with many politicians entwined in the tentacles of influential business conglomerates. Corruption, scandals, power struggle became endemic, leading to a schism in public sentiment: while some clung to the tenets of democracy, others grew disillusioned, convinced that the government was incapable of addressing substantive issues [2]. Within the military, a younger generation of officers began to envision an expanded role for themselves in shaping Japan's future.

Compared with the domestic situation, internationally, Japan sought recognition as a major power. It joined League of Nations, adhered to a series of multilateral agreements, but also confronted constraints imposed by Western powers, exemplified by the Washington Naval Treaty of 1922, which curtailed the size of Japan's navy and stoked feelings of resentment and humiliation among its leaders. In East Asia, Japan sought to augment its influence in China and Korea, exploiting the chaos wrought by warlord rivalries in China to advance its own position [3]. Regional conflicts, such as those in Manchuria, further strained relations with other nations.

Against this backdrop, Japan's interwar trajectory was shaped by both aspiration and crisis. The population sought stability and prosperity, yet natural disasters such as the Great Kantō Earthquake of 1923, intensifying political divisions in Tokyo, economic dislocation, and an unsettled international order combined to produce a volatile environment. The convergence of economic distress, political factionalism, and intensifying geopolitical competition decisively influenced Japan's path in the interwar years, laying the foundations for its subsequent course in the turbulent decades ahead.

2. Description of Japan's economic crisis

2.1. Dilemmas, policy responses, and far-reaching impacts

Since early 1920s, Japan has exhibited characteristics of both robustness and fragility. During the World War I, the export of industries such as textiles, shipbuilding, and steel brought substantial profits to enterprises, creating an appearance of economic prosperity in Japan. However, with the rapid recovery of European industries after the war, Japan soon lost a significant portion of its overseas markets. This abrupt transition resulted in severe domestic overproduction, leading to factory production cuts and worker layoffs. Simultaneously, high inflation further exacerbated the instability of the living conditions of the general populace.

The government attempted to implement various economic policies, but with limited success. One of the most representative measures was the restoration of the gold standard implemented by Finance Minister Junnosuke Inoue in 1930 [4]. This policy aimed to stabilize the yen and enhance international credibility, yet it had the opposite effect: export costs rose, demand plummeted, companies laid off workers en masse, and the unemployment rate soared. By 1931, Japan was compelled to abandon the gold standard once again to devalue the yen and stimulate an export rebound [5, 6]. Overall, however, this series of policies demonstrated the government's constant shifts in strategy, with the general public bearing the heavy costs throughout.

The rural economy also found itself in dire straits. Prices for rice and raw silk continued to decline, yet farmers' debts remained unrelieved [1]. Many farming households were forced to sell at a loss, with some struggling to make ends meet. The situation of tenant farmers deteriorated, and the gap between landlords and tenants widened. Although the government occasionally implemented rice price controls or relief measures, their effects were limited, and the rural crisis thus became one of the key reasons for the public's loss of trust in democratic politics.

The financial system also demonstrated a high degree of vulnerability. The Showa Financial Panic that erupted in 1927 led to the collapse of numerous small and medium-sized banks, resulting in significant losses for depositors and the rapid spread of social panic [4, 7, 8]. Despite the government's attempts to provide assistance, it failed to prevent the comprehensive collapse of the financial system, and public trust in banks evaporated. This incident revealed the fundamental weaknesses of Japan's financial system.

Entering 1930s, affected by the global Great Depression, Japan's export volume plummeted by nearly half. The government then turned to another path: significantly expanding military expenditures, focusing on supporting heavy industries such as steel and military manufacturing, and attempting to create new economic demands through war [9, 10, 11, 12]. At the same time, those in power also cast their eyes overseas, particularly towards Manchuria, seeking resources and markets to alleviate domestic contradictions. However, these policies were not peaceful in nature; instead, they further strengthened the power of the military and paved the way for Japan's march towards external warfare.

2.2. The multi-faceted devastation in Japan

In the economic crisis that beset Japan during the 1920s and 1930s, the most profound devastation manifested itself in both rural and urban areas. In the countryside, farmers confronted severe predicaments as the prices of rice and silk, their primary commodities, plummeted precipitously. With

the market collapse, they experienced a near-total loss of income, while the prices of daily necessities remained stubbornly high. Consequently, they were compelled to sell their rice and silk at rock-bottom prices, yet still had to purchase expensive clothing, tools, salt, and other daily essentials. Numerous households found themselves unable to service their debts, with some even forfeiting their land or homes. In extreme cases, impoverished families resorted to selling their daughters for survival, underscoring the depth of the rural crisis.

Urban areas were similarly plagued by a host of challenges. The sharp decline in exports following the global economic depression prompted many factories to curtail production or shut down altogether. Workers lost their jobs, and in major urban centers such as Tokyo, Osaka, and Nagoya, unemployment rates soared. The unemployed individuals, devoid of social security, found themselves in a precarious situation. In economically disadvantaged neighborhoods, the living conditions were both squalid and overcrowded, thereby facilitating the proliferation of diseases and an increase in crime rates. Furthermore, a rise in protests, strikes, and intermittent acts of violence served to exacerbate social instability and undermine the democratic fabric.

The financial system also sustained significant damage. The Shōwa financial crisis of 1927 precipitated the collapse of numerous small banks. Depositors, unable to retrieve their savings, experienced panic. A surge of rapid withdrawals exacerbated the situation, leaving businessmen, shop owners, and ordinary citizens alike in a state of financial ruin. This debacle engendered a pervasive sense that the government was ineffective, incapable of managing the economy or safeguarding its citizens.

Consequently, the most serious damage inflicted by the crisis reached beyond simple financial losses; it included a significant deterioration of trust. In rural areas, farmers began to lose confidence in the parliament; in urban centers, workers perceived democracy as inadequate; and within the financial sector, the collapse of banks indicated governmental inadequacy. These conditions created an environment conducive to the dissemination of militant and extremist ideologies that offered assertive slogans, pledging employment opportunities and national pride. As a growing number of people heeded their call, the true magnitude of the destruction became apparent: the shattering of societal confidence.

3. Policy responses and economic reforms

3.1. Diverse policy responses to Japan's economic crisis

As Japan's economy plunged into severe crisis, scholars and politicians proposed a spectrum of solutions reflecting divergent ideological priorities. One faction advocated for maintaining the gold standard and enforcing strict fiscal austerity, arguing that monetary stability and balanced international accounts were essential to restoring global confidence [6, 13, 14]. Drawing parallels with Western nations like Britain and the United States, which prioritized currency stability, this group contended that international credibility should supersede domestic welfare considerations. However, critics condemned this approach as overly idealistic, as it exacerbated civilian suffering by perpetuating industrial stagnation, agricultural collapse, and persistent unemployment, thereby neglecting urgent social realities.

An alternate view called for Japan to leave the gold standard, devalue the yen, and adopt expansionary fiscal policies by means of government expenditure. This policy would seek to stimulate home demand, increase exports by competitive valuation of the currency, and bring about rapid recovery. For example, a lower yen could reinvigorate silk exports and allow companies to recall employees, while public works projects—roads, harbours, and schools—could provide instant jobs. Japan partly adopted this policy in 1931 and obtained short-term successes; too much expenditure on the military warped the recovery process by strengthening the armed forces and heightening geopolitical tensions. Critics warned that identification of economic revival and militarization created the threat of cataclysmic collapse if warlike circumstances should stop and, consequently, created a fragile dependence upon continued war.

A third, reformist view stressed systemic reforms to remedy structural weaknesses. Analysts pinpointed the economy's weakness as stemming from excessive dependence on silk and rice exports and a disjointed banking system vulnerable to crises. They recommended land reform to reduce tenant farmer exploitation by lower rents, cooperative or collective farm ownership, and balanced distribution of resources to calm rural dissent. At the same time, they recommended consolidation in the banking system under state guidance, accompanied by deposit insurance schemes to avoid panics. Diversification of industry was seen as vital to the diminishing exposure to shocks in commodities, and suggestions to move on from low-value textiles to high-technology industry such as machinery, chemical products, and steel. Social protection measures such as unemployment insurance and welfare provisions were recommended to buffer the economy and people against shocks. Although slow to introduce, the reformist platform sought to provide a stable foundation to support sustainable development while avoiding the risky path of militarist expansion. According to the reformists, only through such structural reforms would Japan be able to balance democratic governance and economic stability and warned that failure would seal the cycles of extremism and instability.

3.2. Diverse economic reforms to Japan's economic crisis

One of the central reform initiatives dealt with landholding and agrarian well-being at the rural level. The proponents contended that reducing exploitative rents and the redistribution of landholding in a more equitable manner would reduce the socioeconomic gap among landlords and tenant farmers, a chief cause of rural protest growing out of the feudal-era agrarian relationship. By securing the peasants' incomes, the reforms were theorized to reinforce urban purchasing power and thereby induce industry growth. The implementation of such reforms, however, met stiff resistance by a landed elite stubbornly rooted in the power structure through seats in parliament and patronage networks. Even while bearing the promise of reducing rural poverty through development, the reform agenda became politically unsustainable through elite challenge and exposed the conflict between balanced development and powerful interests in prewar Japan.

Rural cooperative movements became an alternative model to empower smallholders. Such initiatives sought to release peasants from exploitative landlords and local moneylenders through the collective marketing of rice and silk and the granting of low-interest credit by way of cooperative banks. Efficient implementation had the promise to reduce cycles of debt and improve social stability, while the cooperatives had the potential to share methods of agricultural modernization. Yet their effectiveness depended on the nurturing of long-run trust among poor farmers who had many on the brink of survival crises in the 1920s and 1930s. The temporal misfit of slow institutional development and sudden rural crises restricted the transformative power of the approach.

Banking reforms formed a third plank by focusing on the stabilization of finance through the adoption of deposit insurance and central regulation [10, 15, 16]. The intention remained to avoid bank runs such as those seen during the 1927 Shōwa Financial Crisis by re-establishing public trust in fractional-reserve banks. Increased centralization would also potentially allow the shifting of credit in the direction of industrialization and diversify lending patterns beyond the zaibatsu cartels to include medium-sized businesses. Theoretically viable, the agenda did call for a strong regulatory state able to overcome bureaucratic divisiveness—an impediment during Japan's growing political polarizations. The military ambitions preoccupation by the government served only to limit the capacity to foreground reforms to financial governance.

To reduce exposure to volatile global markets, advocates called for industrial diversification beyond silk and textiles. Policymakers sought to cultivate heavy industries—such as machinery, chemicals, and steel—to foster economic self-sufficiency, increase productivity, and raise real wages. Although this shift aligned with military modernization goals, it encountered a fundamental constraint: Japan’s scarcity of key natural resources, including iron ore and oil, compelled reliance on colonial acquisition. As a result, industrial policy became entangled with imperial expansion, revealing a fundamental contradiction in the attempt to achieve peaceful modernization under an authoritarian regime.

Social welfare reforms—such as unemployment insurance and poverty relief programs—were also advanced as measures to mitigate social unrest. By providing a buffer for workers during economic downturns, these policies aimed to sustain democratic stability amid rising labor activism. Inspired by welfare models in Western Europe, supporters contended that such safety nets could ease class tensions. However, fiscal constraints—intensified by military spending and opposition from elites reluctant to fund redistributive policies—left these proposals chronically underfunded. The state's prioritization of control over equity underscored the ultimate failure of interwar reforms to reconcile economic modernization with social fairness.

4. Lessons from the crisis

The preceding analysis uncovers systemic vulnerabilities within Japan's prewar economic framework. In order to mitigate risks associated with crises or to accelerate the pace of recovery, a fundamental reform necessity is found in the equitable redistribution of land tenure. By enhancing the security of tenant farmers through institutionalized land rights, one could achieve stabilization of rural livelihoods while simultaneously increasing domestic consumption capacity—an essential factor for sustained economic resilience, particularly in light of the entrenched relationship between rural poverty and macroeconomic instability. In addition to this, the establishment of a state-regulated banking system equipped with deposit insurance mechanisms is essential for restoring public confidence in financial intermediaries and for democratizing access to credit beyond the confines of zaibatsu conglomerates, thereby addressing the structural financing biases that have intensified industrial imbalances.

Diversification into heavy industries—such as machinery, chemicals, and steel—represents another strategic priority, as an overreliance on silk and rice exports has rendered Japan's economy particularly vulnerable to global commodity shocks. Importantly, this industrial deepening must go beyond militarized applications to include civilian infrastructure projects in transportation, energy, and utilities, thereby fostering productivity gains while grounding growth in peaceful technological modernization. Simultaneously, the state should establish a basic welfare apparatus, where even minimal unemployment insurance or primary healthcare provisions could mitigate socioeconomic grievances among the proletariat, thereby diminishing the allure of radical ideologies.

This reform pattern has historical precedent in the interwar experience of Sweden. Faced by the identical 1930s crisis, Sweden eschewed militarist aggression in favor of slow social democratic reform steps such as unemployment insurance arrangements and cooperative housing initiatives that fortified democratic institutions while bringing about nonviolent economic revival. Even if Japan's unique imperial context and natural endowment constraints preclude direct application of the Nordic pattern, Sweden's experience underscores the theoretical coherence of structural reform, welfare entitlement, and democracy preservation—three-pronged pattern at variance with Japan's subsequent development toward authoritarian-militarism.

If such alternatives had actually been considered by Japan's policy-makers, the nation very well might have averted military expansionism even as political considerations made it challenging to carry out such notions owing to elite resistance and geopolitical tensions. However, such alternatives very much stand as a tenable option for brokering economic stability and social consensus—something that constitutes a timeless insight in the historical and contemporary application of developmental deadlocks [17, 18, 19].

5. Conclusion

This study has examined the socioeconomic and political dynamics of Japan during the interwar period (1918–1939), contextualizing its trajectory within the dual pressures of global economic dislocation and internal institutional fragility. The introductory framework established three interrelated crises: socioeconomic instability rooted in agrarian distress and urban unemployment;

political paradoxes arising from the coexistence of democratic experimentation and entrenched patronage systems; and geopolitical constraints imposed by a fragmented international order that simultaneously offered opportunities for expansion and risks of marginalization. The analysis traced Japan's wartime economic mobilization, characterized by rapid industrialization and export-led growth, and its postwar unraveling into hyperinflation, industrial overcapacity, and a collapse of overseas markets, which collectively precipitated systemic shocks manifesting as rural indebtedness, urban labor unrest, and banking sector panic.

Divergent policy responses emerged across three distinct phases: the initial adherence to the gold standard as a means of establishing credibility; the subsequent adoption of expansionary fiscal policies through the abandonment of gold convertibility; and, ultimately, the proposal for a structural overhaul that included agrarian reform, financial regulation, the construction of a welfare state, and industrial diversification. The analytical section systematically evaluated the theoretical efficacy of each reform in addressing specific vulnerabilities—such as the potential of land redistribution to alleviate rural poverty or the role of deposit insurance in stabilizing financial confidence—while also critically assessing the barriers to implementation, which included elite opposition, fiscal constraints, and deficits in institutional capacity. The discussion contextualized these findings within comparative frameworks, particularly by highlighting Sweden's social democratic model as a counterfactual pathway wherein welfare provisions and democratic consolidation mutually reinforced stability, thereby offering Japan an alternative to fascist-militarist escalation.

The Japanese case demonstrates the irrevocable connection among economic reform, political legitimacy, and social cohesion. The inability to follow through on thorough structural change—compounded by the state's growing use of militaristic solutions to internal tensions—necessarily directed the nation along the road to conflict. Historical counterfactuals show, however, that different paths were institutionally feasible even if burdened by path dependencies and power asymmetries. This study identifies methodological limitations: policy analysis is inconclusive owing to the few available sources in the archives, particularly on records of grassroot views by the agrarian and industrial labor movements; comparison using Sweden and other regimes are representative and not exhaustive and function as a heuristic tool rather than the definitive standard. Subsequent scholarship can reinforce causal inferences by means of cross-national quantitative researches on reform and denser qualitative examination of subaltern primary evidence.

In spite of such limitations, the major finding of the research retains validity in the present-day discussion. Peaceful developmentalism grounded in democratic governance and social equality offers a better alternative than militarized expansionism. Japan's interwar period serves both as a cautionary experience and a hopeful standard—reminder that the pattern of fascism-militarism is not inevitable but instead dependent on policy decisions. Amid the period of democratic regression and the new major-power conflicts that threaten world stability, the historical lesson continues to be applicable: the kind of societies that privilege inclusive economic institutions, contain military prerogatives, and insist on pluralistic politics can avoid the catastrophic reprises of the twentieth century. The interwar period then constitutes not just a decade of failure but also a bank of undeveloped potentialities whose applicability endures in the present-day deliberations on sustainable development and peace.

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