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## The effect of the Great Depression on the economic policies of USSR, India and Japan.

The great depression officially started in 1929 with the crash of the stock market. Its effects were detrimental to global trade slashing the prices of agricultural produce and deregulating the market for commercial and capital goods. Most countries, including the Soviet Union, India and Japan responded to the sudden loss in foreign investment as well as a fall in export revenue by raising tariffs, which had the benefits of protecting industries from cheaper foreign imports.

Tariff regulation in India was made largely independently of Great Britain following the 1919 Fiscal Autonomy Convention. Initially it only covered industries with natural advantages enabling them to compete with foreign goods (Roy, 2006:229). However, given the competition from Japan in textile exports, and the excess global capacity in other essential produce, elevated tariffs proved to be stabilising factors in saving India from falling into a deep recession. Despite this being the dominant global trend Japan started to lower its tariffs post 1930. This was accompanied by a shift from predominantly export oriented primary produce, namely silk, the trade in which had collapsed as a result of the depression, and re-establishing itself as an exporter of consumer goods. The USSR found itself on the opposite side of the protectionist scale having shut its borders to almost any trade. Although the brake with NEP happened a year prior to the great depression, the return to a centrally planned closed economy may have seemed like a wise move. It prompted a rapid industrialisation (10% annually) under the 5-year plans, without the fear of competition. Most notably the reduced access to energy sources gave rise to the rapid expansion in the coal and energy industries. The concentration of the industry was reduced as steel plants and machinery production (both military and agricultural) spread to include areas in the Urals and Ukraine as well as central areas.

Following the World War I, all three economies embarked on a mission to expand their military forces. This was especially true for Japan and the Soviet Union. Not only was

Exactly  
to  
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## → Good use of materials!

this an answer to the unstable political climate, but also a way of stimulating the domestic economy. The Soviet Union increased its social spending dramatically, especially in health care and education and by the end of the first 5-year plan education was almost universal (Davies:1998:46). This contrasts starkly with the purges, which exterminated large sections of the bourgeoisie, suggesting that one of the government's policies was the creation of the model soviet citizen. Moreover, the Soviet Union saw a change in labour distribution with over 63% living in urban areas at the time. However, the imbalance towards industrialisation lead to a fall in the availability of agricultural produce as well as consumer goods leading to drop in the standard of living despite higher wages and lower taxes.

Imperial Japan followed a similar pattern. A decline in private industrial capital formation was offset by the growth in construction and infrastructure investment most of which was government funded. (Francks:1999:67) Also Japanese imperialistic ambitions were threatened by the Soviet Union and China reviving the race for military expansion. The new jobs in construction drew in labour from the dilapidated agricultural sector while further modernisation of manufacturing helped to maintain the level of aggregate demand (Nakamura 1983: 173) thus enabling Japan to keep its head above the water. Although Indian military expansion was smaller and mostly strategic for Great Britain, the slowdown in global demand enabled it to diversify its industrial sector. It remained a low-tech oriented country with the production of cement, match, paper, steel and some electrical appliances.

The period after the First World War saw the disintegration of the Gold Standard, which was largely seen as a prerequisite to an increase in global trade. At the start of the Great Depression Japan remained in this belief, and fought hard to re-join at a pre war parity. However, the depression as well as a failed effort to keep a positive balance of payments led to the outflow of gold reserves and a subsequent turnaround in economic policy. Post 1932 the new finance minister Takashi Korekiyo pursued policies, which are often cited as being Keynesian before Keynes. Firstly the gold standard was abandoned and then Yen was

devalued through an imposition of a gold embargo. The government embraced deficit spending funded through bond sales thus stimulating rapid growth, modernisation and the upkeep of the empire. Thirdly, the Bank of Japan reduced the interest rates from 6% in the 1920's to 3% in 1935 increasing private investment. Excess capacity and an agricultural recession stopped policies from becoming inflationary, which was a major problem during the period. (Howlett) It may have been beneficial for India to follow a similar course of action. However its monetary policy was still dictated by British interest, which required it to retain a balance of payments surplus. Furthermore the Rupee was tied to the Sterling, meaning that, as the global demand for goods contracted India saw a sharp monetary contraction and subsequent deflation unlike Japan. This was followed by an increase in real interest rates, leading to a shortage in liquidity, a fall in production and a rise in unemployment (Roy). Unlike the strong Soviet stimulation, the Indian government was powerless to increase spending and it was up to the people to balance the economy. Eventually this was semi-achieved through large gold exports and vast unemployment.

The greatest influence the Great Depression had on Soviet Economic Policy was to reassure it in its belief that capitalism is dead and that Socialism is the new way forward. It enabled development of industry at the cost of both living standards and agriculture. Japan reaped the greatest benefits from the temporary slowdown in the global markets, and was able to manipulate its fiscal policies so that it could redefine itself as a modern global power. If ever the British rule could be blamed for impeding Indian growth it would be during the Great Depression. It could have followed Japanese path by breaking with orthodox economic policies and modernising through deficit spending, but its ties with the sterling proved exactly how handcuffed it was. This resulted in another 15 years of policy, which effectively worked against Indian development.

VERY GOOD WORK.