

Quarterly Economic Review

Summary The post-war inflation in Japan was virtually over and corrective adjustments had already gone a long way by June 25, 1950, when the Korean Incident broke out.

The War in Korea The swift action, however, of the United States and the United Nations in the defence of the Republic of Korea has given a fillip to the Japanese economy. Statistics are not yet available to show what has happened to prices, production, incomes, etc. since June 1950. It is common knowledge, however, that prices are no longer declining, bank credit is expanding, and business expectations are favorable. Few people are now warning of imminent financial crises. The main topic of conversation in business circles is now of procurement contracts and the speed with which they are being concluded. Business planning consists principally of speeding up production and obtaining quick financing for military contracts and of maintaining export markets which have slowly been recovered since the end of the war. Business planning also consists of obtaining as much of a share in other United States aid programs in Asia by supplying goods to the recipient countries.

The effect of all these plans and expectations will depend, of course, on the extent of American spending in this area. Businessmen hope that they will be better able to meet international competition and have higher levels of domestic purchasing power to help keep capacity utilized and unit costs down after international stability is restored than they are now.

External Position of Japan Exports

of Japan were only seven percent of the national income in 1949 compared with 23 percent in 1935. Japan's share in world trade was .9 percent in 1949 compared with 4 percent in 1935. During 1934—36, forty-four percent of the value of Japanese exports went to China, Korea, Formosa and Saghalin; during 1949 this figure was only 11 percent. The drop in exports to these neighboring countries in Asia was made up in part by an expansion of the share of exports to Southeast Asia. During 1934—36, seventeen percent of her exports went to Southeast Asia; during 1949 this figure was 35 percent.

Japanese visible trade in 1949 showed an overall deficit of 335 million dollars consisting of a deficit with the dollar currency area of 479 million and a surplus with the rest of the world of 144 million dollars. The dollar deficit was financed by American Aid. This aid amounted to 1,752 million dollars through the U. S. fiscal year 1950. This aid is being reduced sharply and may even be eliminated entirely if Japan is able to expand exports to other countries that may receive U. S. aid.

Exports during the year ending March 1950 were twice the volume during the preceding year. The proportion of the value of exports to imports increased from 38 percent to 56 percent over this period. Also the actual deficit declined by 7 percent. Japan's foreign exchange reserves, moreover, increased substantially so that revolving fund loans from the United States were repaid and no longer needed.

Production Industrial production during the year ending March 1950 was 33 percent

above the average for the preceding year. The level of industrial production in 1949 was 80 percent of the 1932—36 level. In addition to this, the level of electric power generation in 1949 was 180 percent of 1932—36 due to the use of electric power as a source of heat in electric furnaces, and in electrolysis. The chemical fertilizer industry was expanded in order to make up for the loss of soybean imports whose cake was used for organic commercial fertilizer. There has been a displacement of coal by electricity. Before the war coal imports were 8 million tons per year.

In May 1950, industrial activity, including production of utilities, reached 108 percent of 1932—36 compared with 93.6 in May 1949. Coal production was 109.2 in May 1950 compared with 92.0 in May 1949; ferrous metals reached 131.9 compared with 80.1; machinery was lower at 94.3 compared with 117.0; textiles were 36.4 compared with 23.0; and, chemical fertilizer was 238.2 compared with 175.3.

Production, however, was substantially less than capacity. Production of rubber products in May 1950 amounted to 5,983 metric tons compared with a monthly capacity in 1949 of 11,083; rayon yarn production was 3,658 metric tons compared with a capacity of 10,980 metric tons. The story is similar in pig iron, steel ingots, electrolytic copper, freight cars, motor trucks, soap, etc. In the case of textiles, although current production is low relative to prewar, the operational rates are still high because 80 percent of spinning equipment was scrapped during the war.

Agricultural Production and Supplies

One of the principal factors in ending the inflation was the improvement in the food situation resulting largely from increased food

imports, especially of rice. Rice imports used to average more than 1,800,000 metric tons annually during the ten years preceding the outbreak of the Pacific war. These imports were virtually nil until USFY 1949 when they amounted to only 92,000 metric tons. They increased to 663,000 metric tons in USFY 1950 and are expected to reach almost twice this figures during the coming US fiscal year.

Largely as a result of these imports and generous imports of wheat plus the gradual restoration of agricultural production to prewar levels, the distribution of food has been highly satisfactory, especially with respect to the maintenance of a fairly constant proportion of rice to other grains in the ration. Stocks have been built up to assure against local shortages and uneven distribution. The level of officially held stocks of grain was 3,709,000 metric tons as of 1 June 1950 compared with only 1,592,000 metric tons as of 1 June 1948. The present stock level constitutes an important reserve against political or military contingencies.

Standard of Living The improvement in the food situation contributed greatly to a restoration of the prewar standard of living for the bulk of Japanese. Various estimates have been made by Japanese Government agencies. Very roughly the standard of living in 1948 was somewhat above 70 percent of the standard in 1934—36; and since then it may well have increased by about ten per cent. These estimates are based on estimates of supply of goods and, in the case of housing, of floor space per individual.

Prices and Wages Average monthly wages of permanent paid employees in manufacturing establishments employing 30 or more persons in May 1950 was 163 times the level in 1934—36 compared with a figure of 139 in

May 1949 and of 84 in May 1948. Consumer prices, however, in May 1950 were 192 times the same prewar period, as measured by average prices in Tokyo. These prices were 222 times the prewar base in May 1949. The decline in prices has been continuous largely as a result of the declining blackmarket price of rice. Food prices in Tokyo during May 1950 were 256 times the 1934-36 level compared with a high of 374 times in May 1949.

Preliminary figures for June 1950 indicate a continuation of the price decline. Price quotations in July, however, are higher. The average blackmarket price of rice in cities remained fairly stable between April 1948 and April 1949 when it was 129 yen per kilogram; in April 1950 this average was 79 yen per kilogram.

While blackmarket prices of almost all foods, especially rice, were declining, the official prices were being increased with the result that the gap between official and blackmarket prices has narrowed substantially. This fact is reflected by special index numbers of wholesale prices beginning in October 1949. The index (January 1948=100) for free market prices declined from 251 to 233 by March 1950; the index for controlled prices rose from 252 to 283 over the same period.

A principal reason for the rise in official prices has been the desubsidization program. The level of wholesale prices during the first quarter of 1950 was 222 times the 1934-36 level. When all price subsidies are removed, the index should be about 250 unless, of course, there is cost absorption. This, however, has been difficult to date as a result of rising unit labor costs. During 1949 these costs in the mining industry, for example, were 313 times the 1934-36 level compared with 253 times in 1948. Product prices for this industry,

however, were 223 times in 1949 and 146 times in 1948. The mining industry absorbed a great deal of the increases in unit labor costs by inadequate allowances for depreciation and low prices paid for raw materials.

Internal Finance The inadequacy of allowances for depreciation is reflected in the general low capacity of industry to reinvest. In the iron and steel industry, for example, external liabilities for capital financing were only 19 percent of all capital in 1935 but was 86 percent in April-Sep 1949. The reduced capacity to save is reflected in the percentage of time and savings deposits to total deposits. This percentage was reduced from 56 in 1934-36 to 27 as of the end of 1949. New share and debenture capital in 1949 was only one-third that in 1934-36; it was five times the loans advanced by financial institutions in 1934-36 compared with only one-fourth in 1949. Even this level of capital increase and debenture issue was too much for the stock market. Prices of stocks on the Tokyo exchange declined from 236 yen per share in May 1949 to 79 yen per share in May 1950.

A tight money situation is reflected in the note issue relative to the volume of industrial production. While industrial production has been increasing steadily, the note issue as of the end of May 1950 was 310 billion yen compared with 306 the year before. The money supply (cash plus deposits) was only about five percent above last year. The capacity to continue expansion of bank credit is declining. The ratio of loans to total assets of all banks increased from 52 in March 1949 to 63 in March 1950. The ratio of loans to outstanding deposits increased from 73 to 85 over this period.

Loans to industry were expanded by 40

percent from 387 billion yen in the year ending 31 March 1949 to 537 billion yen during the year ending 31 March 1950. This had the effect of offsetting a change in the government budget from a deficit of 72 billion yen to a surplus of 65 billion yen in these two years. In addition, it offset using about one-half of the Yen Counterpart Fund for the retirement of national debt.

The national debt is low, moreover, espe-

cially as compared with the United States. As a percent of national income the national debt of Japan was 23 percent in 1949 compared with 76 percent in 1934-36. In the U. S. the 1949 percentage was 114 while the 1934-36 percentage was 53. The per capita national debt of Japan as of 31 March 1950 was \$ 22 compared with \$ 1,706 as of 30 June in United States.

Résumé of Articles

ITO, Han-ya, "Certain Problems Arising from the Value Added Tax"

Although general discussion on the value-added tax, to the extent dealt with in the Shoup Mission Report, can be found in the western literature, such concrete problems of its application as Japan is now confronted with do not seem to have yet become an object of detailed study. The analysis of the value added in the national income studies is of course related, but cannot be utilized directly in this connection because of the different objective it has.

The value-added tax finds its rationale in the benefit principle according to which business enterprises pay their taxes as *quid pro quo* for the benefits they receive from governmental bodies. The tax is said to have the following merits: (1) The benefits which an enterprise receives from governmental bodies are proportional to its business activities. As an index of such activities, we can use the volume of transactions or the value added. But the former is gross of value created by other enterprises and cannot be considered

as representing the net production of any particular enterprise. In this sense, the value added is better suited for the purpose. (2) The value-added tax can avoid the pyramiding of taxation..... a defect which the sales tax, in particular, the turnover tax, suffers from. (3) In comparison with the case of taxing net profit, the calculation is simpler, and can be applied to small enterprises as well. (4) It does not especially work hard on enterprises which make a great use of capital equipment. This point is especially important in the present day Japan where the modernization of plant and equipment is of greatest importance. (5) The revenue from this tax is comparatively stable.

On the other hand, we can mention the following shortcomings of the value-added tax: (1) The value added as ratio of gross receipt differs greatly among different industries. This situation may be dealt with by applying different rates of taxation; but such a solution is administratively cumbersome. It is said sometimes that the problem is not so serious as it may appear because the tax is