

Quarterly Economic Review

(October-December, 1950)

Summary The general economic situation in Japan continued towards greater production and prosperity under the stimulus of expanded exports in a strengthened world market and steady direct procurement in Japan by the UN Armed forces and ECA. The effects of this expanded activity more than offset the effects of nearly imposed restrictions in trade with China. In fact, the principal effects of these restrictions were mainly in the form of revised calculations as to the medium term outlook for Japanese attainment of a self-supporting and balanced economy. Economic collaboration between Japan and China can no longer be counted on to the same extent as prior to the Chinese intervention in the Korean conflict.

In addition, revisions in the appraisal of inflationary pressures in Japan have become necessary. The outlook for complete decontrol has changed. Limited recontrol may be necessary for iron and steel and perhaps to a lesser extent for fertilizer. Finally, the increased tension in the international situation plus the world armament race have the effect of stimulating investment activity in Japan in an effort to capture part of the expanded market and to increase her own self-sufficiency in the face of possible cuts in available supplies of necessary imports, such as food, fertilizer, and certain minerals.

Recent Economic Indicators The most conspicuous movement in current economic indicators is that of industrial production, which increased beyond expectations. The index which stood at 98.9 in September 1950 rose to 108.4 in October and to 115.0 in December. Continued increases are very likely and the 1936 level of 120 is expected to be reached in the not too distant future.

The second most striking economic trend has been in the expansion of exports with a concomitant displacement of imports financed out of U. S. aid funds with imports financed

out of commercial funds. The value of exports increased from \$ 52 million in May, to \$ 75 million in September, to \$ 85 million in November. The balance of trade changed from a deficit of \$ 28 million in May to one million in September and to a surplus of 12 million in November. Imports financed from U. S. aid declined from \$ 35 million in May to 17 million in October and imports financed from commercial funds rose from \$ 42 million in May to \$ 53 million in October. The real volume of Japanese exports during the first six months of 1950 was still only one-third of the 1934—36 level, however.

Prices continued to increase in all categories but at a decreasing rate. The wholesale price index in December 1950 stood at 330 of January 1948, 1.5 percent above the preceding month compared to increases of 5.7 percent in July and 5.0 in August. The December level is 22.7 percent above the June level; and the highest rise was registered in the component of metals and products group where the percentage increase was 52.8.

Average industrial wages continued to rise and an increase of approximately 20 percent was recently granted to the large number of public servants. The index of industrial wages which stood at 153 in June 1949 (1934—36 average as one) and rose to 181 in June 1950 rose to 196 in October. Consumer prices had actually declined between June 1949 and June 1950 with the result that the ratio of wages to prices increased from 66 to 75. However, consumer prices since June rose by slightly more than wages with the result that by October the ratio declined to 73 relative to 1934—36.

Employment and manhours worked remained fairly constant in manufacturing and mining in the face of the sharp increases in output resulting in substantial increases in productivity. As compared with 1947 employment in October was about 6 percent less and

manhours about 6 percent more; yet, the volume of production was 170 percent greater.

The increase in industrial production without commensurate increases in employment is of some concern in Japan where the population engaged in agriculture hides a great deal of concealed unemployment, except perhaps at the peak of the farm season. The labor force in agriculture increased from 18.7 million in November 1948 to 19.4 million in November 1949. This increase was serious in view of the already excessive number in 1948. A level of 12-14 million would be far more desirable for Japan. The labor force in nonagricultural industries rose slightly from 18.1 to 18.2 million over this period. Between November 1949 and November 1950, the movement was more favorable. The labor force in agriculture declined to 17.2 million and that in nonagriculture increased to 19.2 million. This entire increase, however, occurred in trade and finance.

The Medium-Term Outlook of Japan

While the long-term outlook for Japan raises the serious question of the support of the growing Japanese population, the medium-term outlook covering the next few years poses no such serious question. Production and trade are still recovering to prewar levels and the world armament program puts Japan in a position not too dissimilar from that of the first world war. The principal difference is that her population today is much larger than that during the first world war.

The Economic Stabilization Board of the Japanese Government, which is a central planning agency, has recently completed an analysis of the known economic and political factors at present and ventured a forecast of the Japanese economy for the next three years extending from the 1951 through the 1953 Japanese fiscal years, which begin 1 April of the year indicated.

The forecasts assume no war and an increase in the standard of living of about 7 percent between the fiscal year beginning 1 April 1951 and 1 April 1953. In terms of prices prevailing as of September 1950, national income is expected to increase about 10 percent and industrial production about 15 per-

cent. Production of agricultural, forestry, and fishery products may increase about 10 percent. Exports are expected to increase more than 20 percent and imports less than 15 percent. Private investment in equipment may increase by 25 percent and private funds used as working capital may decline slightly.

The over-all balance of payments is expected to be virtually in equilibrium with about 8 percent revenues consisting of net invisibles, including direct procurement of services by U. S. military establishments. About \$ 53 million in U. S. aid is estimated to be necessary to finance the dollar deficit during JFY 1953. Inconvertibility of currencies is assumed for about one-half of anticipated surpluses with the nondollar area.

Restrictions to increased output in Japan are principally imported raw materials, long-term capital, and electric power. Programs for expanding the latter include the creation of new power sources to provide 970,000 KW of hydro-electric power and 320,000 KW of thermal-electric power in the next three years, also an attempt to decrease the rate of power loss from the present 30 percent to 25 percent.

Attempts will be made to increase accumulations of loanable funds for long-term capital by appropriate tax policy, savings drives, and by raising the interest rate in time deposits. However, the lack of private funds is expected to be made up by government funds. The national product is expected between JFY 1951 and JFY 1953 to include an increase of more than 20 percent in public capital formation but less than 8 percent for private capital formation. In fact government expenditures on consumption items, capital items, and a food import subsidy (amounting to 22 billion yen) are expected to equal one-third of the total value of goods and services consumed by individuals in JFY 1953.

Efforts will be exerted to maximize necessary imports, by greater use of free dollars, increase of "swing" limits in trade agreements, increase in foreign exchange banking facilities, reducing the interest rate on borrowings for the financing of imports, dispatch of buying missions abroad, possible investment

abroad to assure imports of specific commodities, encourage the government to stockpile imports on its own account for later resale to users, and finally expansion of ocean going vessels.

The ship program will consist mainly of new ship construction in the amount of 320,000 gross tons annually, but will also include re-conversion of certain old war-types, purchase and charter of foreign ships, salvage and repair, and maximization of the efficiency of operation of the existing fleet. About 40 billion yen is expected to be spent on the entire program in JFY 1951. This amount may be increased in the future, for the program by JFY 1953 will still result in an ocean-going fleet of only 40 percent the 1937 level. It is expected that the ratio of trade in Japanese bottom may increase from 20 percent in JFY 1951 to 38 percent in JFY 1953, as a result of an increase from 740,000 gross tons to two million gross tons.

An additional program to facilitate imports

and to minimize their cost is that of port improvements. At the present time on-shore loading is restricted requiring costly off-shore loading and unloading. By JFY 1953, about 65 percent of the estimated 33 million tons of cargo to be handled may be on-shore loading. Finally, warehousing facilities will be improved.

The realization of the above programs by JFY 1953 will make possible a higher standard of living perhaps to within 10 percent of the prewar level for a growing population whose labor force must be absorbed in non-agricultural industries, especially as paid workers in manufacturing. In JFY 1953 it is expected that while employment in agriculture and forestry may be the same as in 1949, employment in manufacturing may be 12 percent higher; moreover, while the number of proprietors and family workers may be only slightly higher than 1949, the number of paid employees will be 12 percent higher.

Résumé of Articles

YAMAGUCHI, Shigeru, "The Soundness of Banking Business and the Banking Structure"

Japan's banking structure has undergone a radical change along the path of economic democratization since the war's end. All financing facilities have been turned into ordinary banks with the exception of the Bank of Japan after the division of banking business framed in the first part of the Meiji era was eliminated. As a result, no distinction is made between short-term and long-term loans or among commercial, industrial and agricultural financing. Although the Japanese national economy shrank as a result of Japan's surrender to the Allied powers, the shrinkage could not have been so bad as to render the division of banking business unnecessary.

It is quite natural that the country, depri-

ved of the division of banking business, should feel inconvenient, once it reaches a certain stage in the process of economic stabilization and rehabilitation. It is also quite natural that consideration should be given to the need for long-term financing in connection with the issuance of financial debentures and to the need for the division of banking business or the specialization of banking houses as undercurrents of financial problems.

There is no denying that the basis for the radical transformation of the nation's financial structure after the war lay in the banking organization marked primarily by the division of banking business and effected in the first part of the Meiji era. But the nation's banking structure underwent a notable change in its substantial operation because of wartime economic controls. As a result of such controls,