

# Quarterly Economic Review

(January-March, 1951)

**Production** The production index of the mining and manufacturing industry passed the prewar level by some 10 per cent, registering 110.5 on the basis of the 1932—36 average as 100, in November, 1950. Still continuing its upward trend, it hits a postwar new high of 116.7 in December. After the turn of 1951, the index indicated 112.8 in January, 112.8 in February. Although the February figure did not go over January, it revealed unexpectedly favorable production activities, for there were such minus elements as a fewer number of operation days, the aggravation of power supply and the outbreak of coal mine strikes in that month. Coal output in February dropped to 78 per cent of the previous month due to strikes, and power supply to 89 per cent on account of insufficient water.

Some ups and downs in production were discernible in various departments of industry in February. For instance, the textile and machinery industries in good demand showed a 10 per cent increase over the previous month, while the metal and chemical industries which are heavily dependent on power supply and the ceramics industry (especially sheet glass) which rests greatly on coal supply hit a snag. If more coal and power are available after March, these industries too are likely to produce more (The index was actually up to 126.9 by advance report).

Industry effected a considerable production increase during 1950. At the end of the January-June period, the production index rose to 93.6 from 82.4 in December, 1949, registering

a 14 per cent increase. The jump was more marked in the latter half of the year (July-December). As against 93.6 in June, the index soared to 116.8 in December or a 24 per cent rise chiefly due to an increase in demand arising from the world armament expansion race and the Korean outbreak. While production increase centered on the textile industry in the first half of the year, it was conspicuous in the ceramics and machinery industries in the latter half.

It was announced by the Government that the 1950 rice crop amounted to 64,338,000 koku (koku equals 4.96 bushels), exceeding the official estimate by 1,463,000 koku and showing a 3.9 per cent increase over 1949. But the 1951 crops of wheat, barley were estimated as of April 1 to be 23,930,000 koku, a 3.9 per cent drop from last year and a 5.7 per cent decrease from the production goal of this year.

**Prices** The rise of prices has been more conspicuous since December, 1950. According to the wholesale price index of the Bank of Japan based on the 1934—36 average as 1, the December figure of 281 rose to 296 in January, 311 in February and 328 in March; the index continued to zoom upward month after month and soared to 44 per cent over the April-June level of 1950 registered just prior to the Korean outbreak. In this trend, however, the movement of black market prices has not been reflected. The rate of price increase in March against the previous month was 6 per cent for producers' goods and 6 per cent for consumers' goods. If compared with the April-

June standard, the rate was 62 per cent for the former and 25 per cent for the latter.

Against the standard of 100 in 1948, the Consumers' Price index (all cities) was 139.0 for January, 142.2 for February and 147.0 for March; a rise of 2.3, 4.5 and 3.4 per cent over the previous months, respectively, or an 19 per cent jump over June. Partly responsible for the rise was a revision of the official staple food prices. The agricultural parity index, on the other hand, continued to rise, reflecting the upward trend of prices in general, and showed 207 for January, 227 for February and 234 for March as compared with the 1934—36 average of 1. Inasmuch as the index has greatly passed the budget estimate (197), the Government may be compelled to attempt another revision of the staple food consumer prices in the near future.

With the turn of March, however, the rise of prices became gradually less conspicuous. Although official data are not available, Economic Stabilization Board advance reports showed that the overall market price index which took a sharp, weekly upward rise of 2 to 3 per cent until the beginning of March slowed down its tempo to 1 per cent. Productwise, non-ferrous metals still continue a sharp rise, iron, steel, rubber, hides, leathers and paper apparently have hit their ceilings and such goods as textiles have taken a downhill turn. All this may be explained by the slowdown of price rises in the international market, this year's excess imports and amelioration of the demand and supply situation in the country.

**Labor, Standard of Living** The considerable rise in industrial production has had a certain effect on the industrial average wages. With the exception of ¥ 12,764 in December which included special allowances

given for seasonal reasons, the monthly average wage in January stood at ¥ 10,970, a new high in recent years and ¥ 10,150 for March. Putting special allowances aside, the regular pay has risen since June last year by 11 per cent in the manufacturing and dropped by 1 per cent in the mining industries but risen 7 per cent in commerce and dropped by 6 per cent in financial circles. Inasmuch as the Consumers' Price Index rose about 19 per cent during the same period, it must be said that in few departments of industry, real wages increased; some tax cut resulting from the taxation system reform was disregarded in this connection, however.

Household expenditure as revealed in the Consumers' Price Survey has not expanded despite the rise of prices. The index of the real consumption level gained by deflating the household expenditure by the Consumer Price Index (*prewar link, the Fisher's formula*), was 62 for January, 69 for February and 71 for March, a marked drop from the 1934—36 average of 100. Even taking it for granted that January was an abnormal month, it may be said that the standard of living prevalent among the urban population has been lowered despite a production increase, if judged from the 1950 average of 75 computed by the same method.

**Finance and External Account** The note issue of the Bank of Japan has not shown marked fluctuations since the turn of 1951; it was ¥ 397,700 million in January, ¥ 399,700 million in February and 396,300 million in March. But the March note issue marked a 21 per cent increase over September, 1950. Although the Bank of Japan note issue shrank by ¥ 44 billion from the end of 1949 to the end of March, 1950, the shrinkage during the same period this year was merely



¥ 25,700 million.

Most important reason thereof was the fact that while the Government excess withdrawal was totally ¥ 92,500 million during the period of January to March last year, it withdrew only ¥ 26,800 million during the like period this year. Small excess withdrawal resulted from such major causes as tax cuts, unfavorable collection of assessed taxes and excess payment in January-March of ¥ 79,100 million in the foreign exchange special account.

The total of excess payment to civilian circles out of the foreign exchange special account during fiscal 1950 amounted to ¥ 290,200 million. This meant that exports including special procurement demands, larger than the portion of imports that were not subsidized continued to drain the special account. As a result, the 1950 fiscal budget that was at first considered deflationary in nature by some ¥ 200 billion, was made to display an inflationary effect upon the national economy. Herein lies the reason why the post-Korea inflation is called an export inflation.

In response to radical changes in the world economy since Korea outbreak, the Government implemented the usance system through the Bank of Japan in September last year as a means to promote imports. The system is designed to permit importers to make three-month postponement in payment in yen and let the Bank of Japan take care of the payment into the foreign exchange special account for them. Under this system, the Bank of Japan makes payment into the foreign exchange special account as soon as the letter of credit is opened and yen funds thus paid are channeled back to civilian hands through an expansion in exports, and finance for imports is thus carried on automatically. But due to

the usance system, foreign exchange loans by the Bank of Japan have increased some ¥ 50 billion every month since its inception in September last year and such lending amounted to ¥ 209,600 million in January, ¥ 262,800 million in February and ¥ 280,200 million in March this year. As has been clearly seen from this fact, the balance in March, just about the same as ¥ 290,200 million, the balance of foreign exchange special account payment to civilian circles, has kept the special account in the black since September.

Then what were the causes offsetting an inflationary monthly increase of ¥ 50 million in foreign exchange loan extension? They were a ¥ 42 million decrease in Bank of Japan loans to civilian circles during the period of September to December and a radical rise in the Government's deposits during the period of January to March which amounted to ¥ 47,700 million in December, ¥ 89 billion in January, ¥ 139,200 million in February and ¥ 190,700 million in March.

Let us now look at the increase in the Government's deposits since the turn of this year from two angles, namely, the treasury's deposits at the Bank of Japan and American aid counterpart fund deposits at the Bank of Japan. During the period of January to March, the former increased ¥ 101,500 million and the latter ¥ 43,400 million. If we look at the situation for January to February, we find the former increased ¥ 42,100 million and the latter ¥ 49,500 million. Accordingly, the unused American aid counterpart fund can be said playing an important role in offsetting an inflationary cause of ¥ 79,300 million arisen from foreign exchange loans during the period of January to March. The American aid counterpart fund was carried over to fiscal 1951 with a surplus of ¥ 98,300

million. Of this amount, some ¥ 5 billion is believed to be expended in April, but some ¥ 90 billion has been reserved in anticipation of the suspension of American aid to Japan. In March, however, deposits at the Bank of Japan from the American aid counterpart fund decreased. The cushioning effect on the rise of inflation in March was achieved by the Government's excess withdrawal of the Finance Ministry Deposit Bureau funds.

Roots of the post-Korea inflation are found in the unbalance between exports and imports, but it must be said that the institution of the usance system by the Bank of Japan spurred this unbalancing tendency, though temporarily. But inasmuch as efforts to speed up imports are expected to come to an end and the settlement of usance during the period of April to June, the balance of foreign currency special account lending by the Bank of Japan thereafter is believed to stay on the ¥ 300 billion level.

When we look at trade on the basis of customs statistics, we find that exports in 1950 amounted to \$ 820 million, and imports 959 million (of which \$ 357 million was paid for aid imports). Excess receipt of foreign currency including special procurement demands rose to \$ 331 million, according to foreign exchange settlement statistics. A Ministry of International Trade and Industry survey, furthermore, reveals that the Ministry's attestation of exports amounted to \$ 80,800,000 in January, \$ 91,250,000 in February and \$ 179,080,000 in March and that the total of the three months was \$ 351,340,000 or a 2.5-fold increase over the previous year. Statistics on foreign exchange receipts and payments moreover reveal that foreign exchange receipts during the three months of January to March including invisible

income totaled \$ 443,710,000. Against such receipts, foreign exchange payments during the same period were \$ 498,030,000. Since the foreign exchange budget for the January-March period amounts to some \$ 900 million, there is little likelihood that imports will decrease for some time to come. As seen from the statistics of foreign exchange receipts and payments, imports reached \$ 101,870,000 in January, \$ 180,450,000 in February and \$ 208,940,000 in March. Showing a radically upward trend, imports hit a new postwar high of more than \$ 200 million. In some quarters, therefore, there is talk of the end of the export inflation. But it may be nearer the truth to say that there will be an interim slump in exports.

**The National Budget of 1951** The national budget of fiscal 1951 was passed by the House of Representatives and the House of Councillors on February 27 and March 28, respectively. In the general account of this budget, both outlay and income are ¥ 657,400 million, while in the special account, the total income is ¥ 1,275,700 million and the total outlay ¥ 1,240,500 million. Features of this budget as pointed out by the Government are the following four:

1. Maintenance of the balance between overall income and outgo, and retrenchment of finances.
2. Tax cuts designed to adjust and lessen the financial burden on the people and to facilitate the accumulation of capital.
3. Positive measures helpful for the stabilization of democratic government and the promotion of education.
4. Resources developments through effective use of the Government's funds, and securing of capital supply for the promotion and rationalization of industries.



In the first place, income and outgo in the general account are balanced and furthermore, it is inclusive of the transfer of ¥ 50 billion designed to cover a possible shortage of yen funds that is foreseen in the foreign exchange special account, thereby making it possible to maintain the whole budget in the black. In the special account, there is an excess income of ¥ 35,200 million.

Secondly, a glance at the financial shrinkage on the basis of figures reveals that there was a decrease of only ¥ 7,100 million in the outgo of the general account against ¥ 664,500 million in 1950. Effecting a notable drop was the price differential adjustment expense which went down to ¥ 22,500 million from ¥ 64 billion and the national bond outlay which dropped to ¥ 21 billion from ¥ 83,300 million. There was no drastic change in the total of the general account outlay. But when we look at statistics covering both the general and special accounts, we find there was a ¥ 618,200 million decrease in income and a ¥ 563,700 million drop in outlay. Such retrenchment resulted from the fact that while funds for purchase and sale of foreign exchange were added in the foreign exchange special account of the fiscal 1950 budget, fund settlements were not included in the budget but took the form of expenditure budget, the trade special account was abolished, the special account of the American aid counterpart funds was reduced in scope in fiscal 1951.

As for Item 2 concerning the lighter tax burden on the people, the Government effected a ¥ 74,300 million tax cut from a standpoint of the taxation law involving the alcohol tax, commodities tax and benzine tax which were reduced in a revision of the tax law in connection with the supplementary

budget of 1950 and provisional measures governing taxes on wages and allowances. (There was an increase in tax collection of ¥ 1,200 million in the tax revenue budget.) As a result of revisions to be made, there will be a ¥ 61,400 million drop in earned income tax revenue, a ¥ 2,900 million decrease in corporate tax revenue. But a ¥ 5,700 million increase in sugar consumption taxes is expected from the abolition of the temporary measure exempting taxes on imported sugar.

Other things worthy of attention are a slight fall in the public works expenditure, if limited to the general account and some 6 per cent increase in the total public works expenditure over the 1950 budget, if the shares of central and local governments are added. Furthermore, the foreign exchange special account has been allotted a total of ¥ 100 billion as operation funds, since it has received the transfer of ¥ 50 billion from the general account and authorization to borrow up to ¥ 50 billion. Funds of the Finance Ministry Trust Fund Bureau were offered not only for national and local bonds but for financial debentures (¥ 20 billion) as well for the first time in 1950. With funds doubled in 1951, **the Bureau** will lend to the tele-communications enterprise and the National Railway Corporation which formerly borrowed ¥ 32 billion from the American aid counterpart fund. Herein is found a new phase of lending by **the Bureau** which heretofore concentrated its investment in national and local bonds.

The special account of the American aid counterpart fund for 1951 decreased 55.2 per cent from 1950; a cut in aid funds is expected with the progress of national recovery and proceeds from sales of aid goods as estimated in the 1951 budget are ¥ 58,300 million. The

total of aid fund operation in fiscal 1951 is ¥119,400 million, together with a surplus of ¥52,700 million carried over from the previous year. There may be a change in the fund operation program during fiscal 1951 if the redemption of ¥50,000 million debts which was expected in 1950 but which was not realized then should be fulfilled this year. This is a point worthy of attention. Furthermore, there has been a decrease in lending to public enterprises from the American aid counterpart fund, but the lending of that sort will be performed by the Trust Fund Bureau of the Finance Ministry. In the 1951 budget are included Government investments in the Japan Export Bank and the Japan Development Bank.

When we look at the supply of long-term industrial funds as shown in the 1951 budget, we find that it totals ¥107,500 million including ¥35,000 million counterpart fund investments in civilian enterprises and ¥40 million

financial debentures to be underwritten by the Trust Fund Bureau. This is a 60 per cent increase over 1950. Coupled with a drastic cut in the redemption of debts, the fund supply expansion constitutes the most outstanding features of the 1951 budget. While there is no denying that emphasis has been made on national recovery in the budget, it cannot be overlooked that it strongly smacks of disinflation as is seen from the inventory finance of foreign exchange funds.

Developments at home and abroad have led to the need of formulating a supplementary budget within a score of days after the 1951 budget was completed. Important causes are a price differential subsidy for the imports of phosphate rock, expenditure for the National Police Reserve and a rise of the rice price resulting from the elevation of the commodity prices in general and the agricultural parity.

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## Résumé of Articles

### **UYEHARA, Senroku, "Problem of the *Strukturwandel der Wirtschaft* of Germany in the Middle Ages and Prof. Dopsch's Standpoint"**

Prof. Alfons Dopsch has done research work on the history of German agriculture and society in the High Middle Ages (10th to 13th centuries) with special attention to South-eastern Germany. In his work, "Herrschaft und Bauer" (1939), the professor bitterly criticizes various views expressed by other scholars and presents new conflicting opinions on

that particular subject. What has drawn attention from academic circles in Japan is its Chapter VIII, "Gab es im Hochmittelalter einen Strukturwandel der Wirtschaft?" In this chapter, Prof. Dopsch refutes the views expressed by economic historians ranging from K. Lamprecht to Th. Mayer in Germany and such French and English experts as Marc Bloch, Ch.-E. Perrin and E. Lipson. But to determine whether what is presented in Chapter VIII is right, one has to go a little deeper than Prof. Dopsch's arguments audible