

DIGEST OF STATISTICAL RESEARCH

The Korean Boom and its Reaction in Japan

The outbreak of the Korean war in June 1950 changed the economic picture of Japan enormously. For about one year starting from April 1949 there had been going on, under the name of "Dodge Line" a fairly strong disinflationary policy which succeeded in stabilizing prices though bringing about at the same time the levelling off in the recovery of productive activities. This disinflationary policy was continued again in the fiscal 1950 (from April 1950 to March 1951), resulting in that year in a large surplus in the ordinary accounts of the government budget.<sup>1)</sup> But the effects, both direct and indirect, of the Korean war were much stronger in turning the tide of the Japanese economy. The overriding factor in the situation turned out to be the foreign trade and the special procurement demand of the United Nations forces. The abrupt change in this sector of the economy can be observed from the following statistics of foreign trade including the special procurement: (in million dollars)

	Commodity exports	Special procurement (actual payment)	Commodity imports
1950 (Jan to Jun)			
monthly average	53.8	0	80.8
1950 Jul	63.0	1.9	63.2
Aug	71.9	5.5	69.6

1) The original budget for the fiscal 1950 stipulated the fund for liquidation of government debts to the amount of 127.6 billion yen (almost 20 percent of the total budget). Actually, this was not carried out in whole; but the excess of revenue over expenditures in the ordinary accounts turned out to be as large as 116.6 billion yen, comparable to the similar figure of 162.2 billion yen for the fiscal 1949.

	Sep	75.5	8.1	77.2
	Oct	85.8	14.0	84.1
	Nov	84.6	20.1	84.2
	Dec	116.6	26.3	107.0
1951	Jan	81.2	28.3	125.7
	Feb	81.4	29.6	157.7
	Mar	124.8	31.1	249.6
	Apr	112.4	21.5	227.9
	May	141.8	26.8	251.4
	Jun	120.2	29.6	216.3

For the first time since the end of the war, the commodity balance turned favorable in the latter half of 1950; and the value of commodity exports can be seen to have more than doubled between the first half of 1950 and that of 1951. Of course, imports shot up faster in 1951 reflecting the over-eagerness on the part of Japanese government to secure needed raw materials imports before their prices rose still more. Besides these items, for which the statistics are given above, there arose after the outbreak of the Korean conflict a sizable increase in the invisible dollar income in the form of "tourist" expenditures by American soldiers in Japan. Thus, even during the first half of 1951 when the commodity imports were almost twice as high as the commodity exports, Japan's foreign exchange holdings went down only slightly from 561 million dollars as of the end of December 1950 to 493 million dollars as of the end of June 1951.

The value figures of foreign trade given above hide behind them tremendous changes in unit prices. At first, prices of Japanese exports rose faster than those of imports and caused a boom situation in many of the Jap-

anese industries. And the subsequent narrowing of the gap between the two sets of prices was cushioned by government credit, which action caused the delay in the necessary adjustment in the cost-price structure of

various industries. The first round of price rise in the foreign trade field subsequent to the outbreak of the Korean conflict is given below in terms of specific price relatives for representative commodities:<sup>2)</sup>

Export goods		Import goods	
	Nov 50/May 50		Dec 50/Jun 50
Cotton yarn	164	Rice (Thailand)	106.8
Cotton piece goods	180	" (Egypt)	115.4
Raw silk	196	Wheat (Australia)	102.4
Rayon piece goods	160	Barley (Canada)	105.3
Steel bars	160	Sugar (Formosa)	132.3
Ordinary nail	225	" (Cuba)	101.5
Electrolytic copper	194	Soya beans (U. S. A.)	113.6
Aluminum sheets	190	Salt (Egypt)	130.0
Bicycles	113	Raw cotton (U. S. A.)	122.1
		Raw wool (Australia)	160.7
		Iron ore (Malay)	122.4
		Coking coal (U. S. A.)	128.7

Such is the background for turning of the tide in the business conditions of Japan subsequent to the outbreak of the Korean conflict; and we shall here present the month-

ly series of major economic indicators starting from June 1950.<sup>3)</sup>

	Bank of Japan notes outstanding billion ¥	Index of wholesale prices 1934-36=1	Index of consumer prices 1948=100	Index of industrial production 1934-36=100	Average monthly wage yen
1950 Jun	311.2	230.2	123.7	88.1	9,268
Jul	319.8	243.3	127.0	89.7	9,514
Aug	324.6	254.9	129.8	92.4	9,487
Sep	328.8	260.8	130.4	97.1	9,543
Oct	344.7	269.6	126.7	106.1	9,764
Nov	353.6	279.1	127.4	109.2	10,051
Dec	422.1	284.4	132.7	114.0	13,413
1951 Jan	397.7	295.9	138.4	106.2	11,047
Feb	399.8	316.2	141.6	110.8	10,239
Mar	396.3	334.0	146.5	125.8	10,347
Apr	410.0	349.6	149.3	127.8	11,043
May	399.0	349.1	154.1	131.5	10,933
Jun	407.7	343.8	148.4	131.4	12,433
Jul	409.0	339.7	148.8	131.1	12,671

2) These price relatives are taken from *Tsusho-Hakusho* (White Paper on Foreign Trade) for 1951, p. 22 and p. 28. Prices of import goods are in C. I. F. except raw cotton and raw wool which are in F. O. B.

3) The figures of bank-notes outstanding are as of end of the month indicated. The index of wholesale prices is the one for Tokyo constructed

by the Bank of Japan. The index of consumer prices is that of Cabinet Bureau of Statistics. The index of industrial production is the revised series recently published by the Economic Stabilization Board. "Average monthly wage" is the average for men and women in all the industries, based on the monthly survey by the Ministry of Labor; it covers only the cash payment to workers.



	Aug	414.7	348.2	158.6	128.9	12,348
	Sep	416.4	352.6	158.2	129.5	11,657
	Oct	425.9	358.8	154.6	126.9	11,785
	Nov	432.5	358.6	156.0	131.2	12,244
	Dec	506.4	356.2	162.8	137.4	19,658
1952	Jan	467.0	357.5	165.5	124.6	13,726
	Feb	457.3	357.4	163.6	128.0	12,709
	Mar	457.6	352.9	165.1	134.8	12,883
	Apr	462.5	348.9	165.0	134.4	12,959
	May	444.0	348.2	165.9	138.6	12,722

The boom condition which immediately followed the outbreak of the Korean conflict came to a halt quickly by the spring of 1951. We may observe this fact by dividing the two years under survey into two periods and comparing the percentage changes of the above series in them.

	From June 1950 to April 1951	From April 1951 to May 1952
Bank notes outstanding	31.7	8.3
Index of wholesale prices	51.6	-0.4
Index of consumer prices	20.6	11.1
Index of industrial production	45.1	8.5
Average monthly wage	19.1	15.2

The rapid rise in wholesale prices is especially marked in the first half of this period, rising by as much as 51.6 percent in ten months. Of course, there was an international upward tendency in prices at that time; but the rise in Japanese prices went far beyond this general international trend. During the same ten months, when Japanese wholesale prices rose by 51.6 percent, the American prices rose only by 17 percent, the British by 22 percent, the Italian by 23 percent, the Canadian by 13 percent, and the French by 36 percent. This markedly volatile character of the Japanese wholesale prices is quite characteristic of the peculiar position which the Japanese economy found itself at the time. The stimulus to Japanese prices came from the sellers' market in the international field, where Japanese exporters catered to the

excess boom demand which was willing to pay grey market prices. Once export prices rose, domestic prices for the same commodity were pulled up accordingly. This process may be illustrated by the manner in which export and domestic prices of two typical commodities changed during this period.<sup>4)</sup>

		Cotton yarn (one bale of No. 20 yarn)		Steel bar (one ton of 19 mm. bar)	
		Export price	Domestic official price	Export price	Domestic market price
		1,000¥	1,000¥	1,000¥	1,000¥
1950	Jun	88	64	21.6	17.0
	Sep	111	64	23.7	24.0
	Dec	138	83	33.8	29.5
1951	Mar	167	83	51.8	57.1
	May	158	142	55.5	53.1

The case of cotton yarn is that of official price catching up with the export price, and the case of steel bar is that of domestic market price rising pari passu with the export price.

There were of course other factors of price rise, such as the rise of international raw material prices and also the special impact of the rise in freight rates which affected the Japanese imports more severely than in other countries.<sup>5)</sup> The combined effect of these factors of price rise brought about an extre-

4) *Showa 26-nendo Nenji Keizai Hokoku-sho*, 1951 (Economic White Paper for 1951), Economic Stabilization Board, p. 46.

5) Between May 1950 and March 1951, the ocean freight rate on the Japanese import of wheat from Vancouver rose by 145 percent, of rice from Thailand by 188 per cent, of salt from the Red Sea by

mely varied pattern of price rise in this period of the Korean boom inflation. In the following table, various subgroup components

of the wholesale price index are classified according to the degree of price rise observed between June 1950 and April 1951.

A.	B.	C.	D.
Those which rose by more than 100%	Those which rose by 50—100%	Those which rose by less than 50%	Those which declined
Secondary steel products (188.2)	Non-ferrous raw materials (95.2)	Industrial chemicals (48.2)	Electricity (-1.2)
Primary non-ferrous products (182.7)	Rubber (9.22)	Processed marine products (46.2)	Barley & wheat (-2.7)
Secondary non-ferrous products (159.0)	Raw stage & yarn (8.78)	Hides & leather products (45.4)	Tea, tobacco & spirits (-10.4)
Primary steel products (151.0)	Misc. edible farm products (84.5)	Canned or bottled foodstuffs (41.1)	
Steel raw materials (132.7)	Misc. (77.1)	Fertilizers (38.6)	
Misc. metal products (112.7)	Lumber (75.4)	Charcoal, firewood, etc. (38.0)	
	Misc. cereals (71.0)	Chemical fertilizers (37.5)	
	Misc. chemical goods (70.8)	Livestock products (36.8)	
	Other build'g materials (70.3)	Seasoning (35.2)	
	Fabrics and other textiles (69.3)	Edible oils and fats (34.2)	
	Paper & pulp (51.6)	Gas (31.4)	
		Oil (28.0)	
		Fats & oils (23.4)	
		Coke (17.3)	
		Coal (16.2)	
		Rice (15.8)	
		Potatoes (8.7)	
		Flour & flour products (2.6)	

It is rather difficult to find a dispersion as wide as this in the general inflationary situation where most of the prices are not under administrative control. This only goes to suggest the volatile character of the Japanese price structure which even under a small temporary stimulus tends to become dislocated easily and then requires a subsequent adjustment.

Thus a reaction to the Korean boom came rather quickly in the spring of 1951. The international market began weakening about February 1951 and immediately reflected itself in the curtailment of orders for Japanese products. Thus the prices of export goods declined by about 20 percent between March and August. And yet optimism seems to have prevailed in the business world. The slackening of export demand was made up for by the increasing volume of new investment,<sup>6)</sup>

which fact implied an expectation of a stronger demand in the near future. But when this expectation turned out to be rather disappointing in the autumn of 1951, many of the industries which depended on the export market began engaging in the price-cut competition instead of cutting their rates of operation. To cut the rate of operation would have meant a higher cost which no individual firm could take initiative in accept-

229 percent, and of iron ore from Zungun by 208 percent. (*Ibid.*, pp. 89—90)

6) The loans for new investment by banks kept on increasing and hit the peak in the second quarter of 1951 and then started declining gradually.



ing. This tendency was further aggravated by the stringent credit policy of the Bank of Japan, which, though successful in discouraging further new investment which was uncalculated for, at the same time forced many of the firms to liquidate their inventories. The inventory-carrying capacity of Japanese manufacturing firms had not yet recovered its pre-war level.<sup>7)</sup> The policy of curtailing imports by sterling countries affected the Japanese situation still more unfavorably. Thus finally, on 25 February this year, the government issued a formal advice for curtailment of operation by forty percent in the cotton spinning industry.

A factor which worked both as a cause and effect of the general prosperity of 1950 and 1951 was the new investment activities in many of the industries. The following table, giving percentage increases of capacity in major industries between the end of 1949 and the end of 1951, tells us the extent of the new investment activities which occurred during those two years.<sup>8)</sup>

	Capacity at the end of 1951	Percentage increase from the end of 1949
Pig iron (1,000 tons)	3,667	120
Steel ingot (1,000 tons)	9,709	60
Electrolytic copper (1,000 tons)	102	50
Caustic soda		
Ammonium method (1,000 tons)	301	20
Electrolytic method (1,000 tons)	270	60
Ammonium sulphate		
Electrolytic method (1,000 tons)	751	60

7) Most of the manufacturing and trading firms in the pre-war time used to carry inventories of two to three months selling volume. But nowadays the one month volume seems to be the average. See *Nihon Keizai Nempo*, No. 3, 1952, p. 123.

8) *Nihon Keizai Nempo*, No. 3, 1952, p. 118; *Asahi Keizai Nenshi*, 1951, p. 78, *Asahi Keizai Nenshi*, 1952, p. 72.

Gas method (1,000 tons)	1,762	70
Carbide (1,000 tons)	1,137	80
Cement (1,000 tons)	7,200	30
Cotton spinning (1,000 spindles)	6,366	70

Such expansion in capacity, which has been stimulated by the Korean boom and the subsequent increase in export sales, now appears to have gone too far. Weakness lies further in the fact that, as in the case of cotton spinning industry, expansion in capacity took the form of the multiplication of small establishments whose efficiency is generally lower than the big ones.<sup>9)</sup> In the spring of 1952, the Japanese economy seems to be in the process of adjustment where some casualties are observed in smaller establishments both in manufacturing and trading field. Unless the generally slackening trend in effective demand is reversed either through a shift in the cost curve (which could be brought about if the access to nearer raw materials market is permitted) or the expansion in defense demand at home and abroad, the outlook for the economy cannot be very bright. (by Shigeto Tsuru)

9) As of the end of June 1950, there were 35 cotton spinning companies, of which 9 having each 200,000 spindles or more occupied 86.2 percent of the total capacity of the industry. By the end of February 1952 however, the number of companies increased to 103, of which 10 having each 200,000 spindles or more occupied 72.2 percent of the total capacity. When the administrative advice for the curtailment of the rate of operation was given to the industry in February 1952, the criterion used was to limit the production of cotton yarns to seven lbs. per day per spindle. This uniform criterion, when applied generally, meant 17 percent decrease in production (relative to the actual production in February 1952) for the big ten, whereas it actually enabled the increase of 10 percent for the 68 smaller firms. Such was the discrepancy in the per spindle efficiency between the big plants and the small ones. See, *Nihon Keizai Nempo*, No. 3, 1952, pp. 127-8.