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Note: "Volume of production" is production index computed with the weight of 1947 average wage payment by industry groups as compiled in the "Monthly Labour Statistics" of the Ministry of Labour. The purpose of using such weight is to contrast the production with wages. This production index, therefore, is different from the ordinary index based on the weight of pre-war industrial structure. It is to be noted also that the weight of medium and small enterprises is very small due to the afore-mentioned nature of "Monthly Labour Statistics."

The average per capita wage in October 1948 was 3.6 times as high as the 1947 average. The production was roughly doubled during the same period without much change in the amount of employment. That is to say, the labour productivity was raised at the rate roughly similar to the rate of production increase, so that the wage per unit of products was raised by only 80% over the 1947 average. It was only 30 to 40% rise till around September. Meanwhile, the official price was doubled in June compared with the 1947 average by October. The effective price of productive materials was 1.6 times and 3.0 times as high respectively. The capacity of enterprises to pay, therefore, was considerably increased in spite of the rapid rise in per capita wages, thus making it possible to sustain the wage rise.

c. Effect of the rise of real wages

(a) Rise of consumption level.

According to the research on the household budget of the working class in Tokyo-to made by the Tokyo-to government, the consumption level of October-November 1948 was by 20 to 30% higher than the 1947 average.

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	1947 average	Jan.-Mar. 1948	Apr.-Jun. 1948	Jul.-Sept. 1948	Oct.-Nov. 1948
Household expenditure (A)	100	164	207	257	283
Consumers' effective price (b)	100	148	172	206	209
Real household ex- penditure (A/B) (Consumption level)	100	111	120	125	137

Again, as seen in the following table, the household expenditure of the working class is approaching the household expenditure of the urban population in general as compiled in the "Tokyo-to Consumers' Price Survey (CPS) (Both in terms of household of 4.5 members).

	1947 average	Jul.-Sept. 1948	Oct.-Nov. 1948
Household expenditure of working class (A)	4,120 yen	10,449	11,544
CPS (B)	5,357	10,454	11,705
A/B	77%	100%	99%

(b) Improvement of household budget

According to the Tokyo-to research on the household budget of working class, the un-earned income occupied 20% of whole income in 1947, but that percentage was reduced to 10% by September 1948. The household deficit has also been decreased, and the balance was almost restored by July to November as seen below.

Percentage of deficit expenditure as against the whole expenditure

1947 average	Jan.-Mar. 1948	Apr.-Jun. 1948	Jul.-Sept. 1948	Oct.-Nov. 1948
* 3	* 11	* 4	3	* 1

(* shows deficit.)

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(c) Improvement of labour efficiency

Such rise of real wages and improvement of living standard and household economy naturally increased labour stability and rate of attendance, thereby increasing labour efficiency.

3. Actual Situation Underlying the Superficial Improvement

The Japanese economy has shown some improvements in the past few years, as are seen in rising production level and, real wages, slowing down of inflation, etc., but we should not forget the fact that there are various draw-backs concealed in the back of these superficial favourable phenomena, e.g., (1) accumulation of import excess, (2) whittling down of actual assets of enterprise caused by unsound management, (3) depreciation of national wealth by devastation of land, and (4) deterioration of labour efficiency resulting from low living standard.

(1) Accumulation of import excess

a. Outline of export and import

According to the returns on export and import in terms of U.S. dollar since January 1948, import increased by 28 per cent in monthly average against that in the corresponding period of 1947, while the monthly export in the January-April remained only 65-80 per cent of the monthly average in 1947. The result is that although the exports in May and June were 100 per cent and those in July and August were 170 per cent as compared with those in the corresponding months of the previous year, the monthly average export in January-August period was only by 9 per cent over the monthly export average in the preceding year. As a result, the amount of import excess has already reached 324 million U. S. dollars and it is expected to reach 500 million U. S. dollars for the whole year.

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Trade Balance since War End

(in 1,000 U.S. dollars)

	Export	Import	Import excess
War End - End of 1946	103,292	305,393	202,101
1947	173,568	526,130	352,562 ✓
1948 (Jun-Aug)	126,001	450,360	324,359

Ratio of average export and import from January through August of 1948 against average export and import of 1930-1934 converted into present dollar price is 34 per cent in import and only 9.8 per cent in export.

A comparison of the scale of our foreign trade in 1947 with that of other countries will tell how small our export has been since the end of the war as shown in the following table.

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	1947		1936	
	Export	Import	Export	Import
Japan	173	526	1,037	1,053
Philippine	266	608	81	60
China	239	656	125	217
Malaya	611	643	217	175
Hongkong	317	390	108	139
France	1,787	2,909	548	899
Italy	768	1,702	235	259
United Kingdom	4,821	7,203	1,475	2,490
U.S.A.	15,363	6,547	1,454	1,434

(in 1,000 U.S. dollars)

The following table shows, for reference, the export and import from January through August 1948 broken down by main categories as compared with that of 1947 and 1934.

Export (in 1,000 U.S. dollars)

	1948 (Jan-Aug)	1947	Percentage in 1934
Aquatic Products, Canned Food (incl. Fats and Oil)	6,349 (5.0)	5,717 (3.3)	(7.9)
Leather and Hide Goods	4,237 (3.3)	345 (0)	-

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Chemical and Rubber Goods	7,998 (6.4)	4,749 (2.8)	(4.6)
(Chemical Fertilizer	: 42,000 tons)		
Textile	70,748 (56.1)	133,399 (76.5)	(58.4)
(Cotton Yarn	5,625,000 lbs)		
(Cotton Fabrics	262,559,000 yards)		
(Raw Silk	43,733 bales)		
(Rayon Yarn	6,882,000 lbs)		
Mine Products, Ceramics and Metal Goods	16,616 (13.3)	14,039 (7.8)	(9.4)
(Coal	653,000 tons)		
(Cement	13,000 tons)		
(Sheet Glass	48,000 cases)		
Machineries and Instruments	6,812 (5.4)	7,073 (4.1)	(5.8)
Miscellaneous Goods (incl. lumber and paper)	13,666 (10.8)	8,146 (4.7)	(13.7)
Total	126,001 (100)	173,568 (100)	(100)

 Import (in 1,000 U.S. dollar)

	1948 (Jan-Aug)	1947	Percentage in 1934
Foodstuff	198,874 (44.1)	307,436 (58.4)	(7.6)
Fats and Oil	8,478 (1.9)	5,130 (1.2)	(6.6)
Chemical Products and Rubber	39,335 (8.8)	80,132 (15.4)	(2.5)
Textiles	120,860 (26.8)	82,823 (15.7)	(43.0)

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(Raw Cotton	345,000 bales)			
Lumber and Paper	1,519 (0.3)	1,780 (0.3)	(3.4)	
Mine Products, Ceramics, Metals and Machineries	67,117 (14.9)	48,414 (9.2)	(28.6)	
(Iron Ore	163,000 tons)			
(Phosphate Rock	328,000 tons)			
(Coal	585,000 tons)			
Hide and Leather	3,101 (0.7)	221 (0)	(0.9)	
Others	11,076 (2.5)	194 (0)	(7.4)	
Total	450,360 (100)	526,130 (100)	(100)	

b. True picture of export slump and its causes

Comparison of ratio between production and export during the period of January through August 1948 with that in 1937 is shown in the following table, which indicates the fact that present export of all the commodities except cotton fabrics is relatively small.

	Rate of production recovery in Jan-Aug, 1948 against monthly aver- age of 1937	Rate of Export recovery for the same per- iods	Ratio of export against pro- duction	
			1937 (monthly average)	1948 (Average for Jan- Aug)
Steel	17.0%	0.3%	17.1%	0.3%
Amm. Sulphate	97.0	15.3	20.2	3.2
Cement	25.9	2.0	17.4	1.3
Sheet Glass	35.7	13.1	13.4	5.0

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Raw Silk	16.2	13.8	61.9	55.4
Cotton Yarn	17.3	12.8	4.2	3.1
Rayon Yarn	9.8	7.3	17.7	15.2
Cotton Fabrics	18.0	24.8	32.9	48.3

This is the result of the limited export capacity caused by the necessity to secure minimum domestic requirement at present when production level itself is very low.

But as it has become the supreme requirement of the time to improve the balance of trade by increasing export, we can furthermore increase the export both by increasing production and restricting domestic consumption.

Causes for the export slump are as follows:

(i) Low purchasing power in abroad

Because of dollar shortage of foreign countries caused by the import excess against the United States since the end of the war, their importation is being concentrated on essential materials such as foodstuffs, basic reconstruction materials, etc., with the result that textiles and sundry goods which used to be our leading export items do not sell well abroad. On the other hand, Far Eastern countries which used to be our main export market do not have sufficient

purchasing

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purchasing power because of civil wars and war damages. As a result, market for Japanese goods has considerably shrunk after the war.

(ii) Lack of free exchange of Currency

As the free exchange between U. S. dollar and sterling has been suspended again since July 1948, we cannot balance import excess from dollar area with export excess to sterling area, as we did before the war. For the trade with non-dollar area, therefore, barter system or bilateral settlement system will have to be adopted, thus limiting the export within the amount of the import. The extraordinary slump of export in the first half of the year was partially attributable to the fact that many countries had withheld the purchase of Japanese goods pending the conclusion of such agreements. These factors together with those mentioned in (i) above have caused recent export slump of textile goods. (Stock of cotton fabrics for export at the end of September amounted to 300-400 million yards and that of raw silk at the end of November to 90,000 bales. These stocks are equivalent to several months production respectively.)

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(Reference)

Export and Import by Areas.

(in 1,000 U.S. dollars)

	1948 (Jan-Aug)		1947		1934			
	Price		Ratio		Ratio			
	Ex.	Im.	Ex.	Im.	Ex.	Im.		
U.S.A.	35.000	298.039	27.5%	66.2%	11.6%	91.9%	18.4	34.2
Other American Countries	1,000	67,066	0.8	14.9	0.4	0	5.2	3.5
Asia & Australia	66.659	69,213	52.9	15.4	68.3	5.9	57.5	45.6
Europe and Africa	22.959	16.035	13.2	3.6	19.2	2.2	13.9	16.7

(iii) Small export capacity of basic materials.

Although basic materials have a big market; their export capacity is limited because of unsatisfactory recovery of their production and heavy demand for domestic reconstruction. But in case the export of textile goods fails to increase, it will become necessary to make "hunger export" of these materials.

(iv)

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(iv) Unsatisfactory procurement of materials and fund.

Industries whose products are being exported at weak yen ratio are having difficulties in obtaining necessary fund in view of their precarious future export.

It is desired in this connection that some protective measures be taken for them.

(v) Absence of exchange rate.

Under the present setup in which yen and dollar are not connected directly, there is no sufficient incentive for exporters to maximize dollar proceeds from export. The absence of exchange rate is furthermore impeding business transactions in various respects.

(vi) Deteriorated international competitive capacity of enterprise.

High cost of production caused by worn out equipment and over employment in the inflationary economy, together with deterioration of quality caused by lowered technique, has weakened international competitive capacity of our exports.

(vii) Other causes.

Because of the ignorance on the part of Japanese traders regarding overseas market, they are prevented from having information on the trend of foreign demand and on the commodity prices abroad and are unable to form their own judgement about adequate "offer price".

Too much complicated export procedures should also not be overlooked in this regard.

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C. Other factors for accumulation of import excess.

It is needless to say that increase of import and the export slump are the direct causes of accumulated import excess, but there is hardly any room for reducing import as it is limited to only minimum necessities. But the absence of exchange rate and the ignorance of overseas market are affecting our import in a way to increase it more than actually required.

Worldwide rise in price should not be overlooked as one of the factors for big increase of import excess as compared with the prewar time. (wholesale price in U. S. A. in June 1948 was 2.9 times that in 1933). When import and export are well balanced, the effect of high price could be nullified, but as it is, it would only increase the import excess.

The more important factor is the deterioration of trade conditions. Price rise in imports is higher than that in exports. Particularly, this is the case with foodstuff which occupies major part of imports. Wholesale commodity price index in U. S. A. shows that agricultural commodity price in June 1948 was about 2.8 times that in 1933, in contradistinction to 2.1 times rise in non-agricultural commodities.

The increase of freight is also one of the main factors for import excess. The present percentage of freight in the price of imported goods is 32% in salt from the Mediterranean, 50% in crude oil from U. S. A., 37%

in

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in coal and 30% in iron ore from Hainan Island.

The total freight in 1947 is estimated at no less than 100 million U. S. dollars out of the import of 700 million U. S. dollars.

(2) Unsound management of enterprise.

a Real state of unsoundness.

Postwar economic policy has been focussed on overcoming under-production and prevention of catastrophic inflation. To attain this objective, it has become inevitable to enforce production increase even by disregarding profitability of enterprise and low price policy at the expense of maintenance of real capital of enterprise. The fact that such a policy has been continuously adopted after destructive war economy has undermined soundness and self-support of enterprise.

(i) Suspension of depreciation

Whittling down of real assets of enterprise is due, on the one hand, to the actual shortage of capital accumulation in the hard up economy and on the other, to the treatment of depreciation under the existing tax law.

At present when the assets acquired in the past are very much under-valued through the progress of inflation, under-depreciation will result from the application of the existing tax law which stipulates a fixed rate of depreciation against the old book value of the assets. The following

table

table shows the comparison between the prevailing depreciation and depreciation based on current price in main industries.

Ratio of depreciation against total cost			
	prevailing Depr.	Depr. made on current price (B)	Ratio of (B) against(A)
Iron & Steel			
A Co.	0.132%	4.20%	32.9 times
B Co.	0.070	2.05	29.7
C.Co.	0.235	4.59	44.8
Machine Mfg.			
A Co.	0.467	12.65	30.9
B.Co.	0.230	4.97	21.5
Automobile Mfg.			
A.Co.	0.550	9.32	19.7
Paper Mfg.			
A Co.	0.296	7.83	20.8
Ship Bldg.			
A Co.	0.300	7.80	23.3
B Co.	---	---	29.5
Electricity			
Nipponatsu & 9			
Edison Co.	1.170	41.53	51.2

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As is shown in the above table, present depreciation is only about one thirtieth of that which would be made on the basis of current price. This is a virtual suspension of depreciation. The ratio of depreciation based on current price to total cost is between 5 and 10 percent, as is also shown in the above table, excepting such industry as electricity whose capital expense is exceptionally large.

It is imaginable that enterprises would not leave their real assets to whittle away but that they take some steps for the maintenance of their capital by various manipulation in book-keeping, etc. But the question lies in that these manipulations can only be made by illegal method.

(ii) Accumulation of deficit loan.

Another indication of unsoundness of enterprise management is the accumulation of deficit loan. Although such loan is to be restricted drastically in accordance with the "Three Principles" which became effective since the end of 1948, total amount of deficit loan out of all RFB loan is estimated at 19,300 million yen at the end of August 1948 and there is no possibility of repayment thereof.

Moreover, the composition of capital in enterprise shows that the borrowed money is too big compared with its own capital. Inability of enterprises to enlarge their own capital and their dependence upon borrowed money are important causes for the loss of soundness and independence of enterprises.

(iii)

(iii) Huge amount of price adjustment expenditure.

A huge amount of price adjustment expenditure for key industries has also to be considered as indication of unsound enterprise.

In the 1948 budget (including the supplementary budget), the total of price adjustment expenditure, administrative expenditures for materials and price adjustment and subsidy to CMC amounts to 30,600 million yen or 17 per cent of the total budget, the breakdown of which by industrial categories shows high per centage of such subsidies in the total cost as is shown below:

Subsidy per ton	Ratio of subsidy against production cost	Ratio of subsidy against consumers price
Coal (special price) *	99%	234%

* For 1948, 8,230,000
 Special price of coal for 8 key industries is 1,000^{yen} per ton, while production cost is 2,388 yen per ton and price for general consumer is 3,344 yen per ton.
 Subsidy for special price for 8 key industries is 2,344 yen per ton.

Although the payment of such subsidies has been caused by factors for which enterprises should not be held responsible. e. g., low price policy of the Government, low operational rate of industry, change in raw material supply conditions, etc., nevertheless, these subsidies will constitute a difficult question in the alignment of internal and international price levels through the establishment of a single exchange rate.

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	Subsidy per ton	Ratio of subsidy against production cost	Ratio of subsidy against consumers price
Coal (special price) *	¥2,344.86	49% 99%	234%
Pig Iron			
For forging	9,930,000	71	193
Others	11,480,000	82	320
Ordinary steel	10,299,000	57	106
Copper	79,030,000	45	78
Soda Ash	11,684,000	58	105
Liquid Caustic Soda	11,017,000	42	59
Ammonium Sulphate	9,940,01	53	78

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(iv)

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(iv) Increased ratio of labor cost.

The fact that the proportion of labor cost has increased considerably in the total cost is also an important factor for unsound management from the viewpoint of profitability of enterprise. This is due to such factors as low productivity of labor, deterioration of mechanical equipments, low engineering technique, etc. In other words, it clearly shows that labor productivity has been lowered more than decrease of real wage.

The following table shows some examples of the ratio of labor cost to the total cost.

	June 1948	Prewar
Certain Paper Mfg.Co.	25%	8%
Certain Automobile Mfg.Co.	25	10
Several Cement Mfg.Co.	27	8

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b. Turning point for sound management

Such unsound management as mentioned above should not be allowed to continue indefinitely. In fact, new factors in management of enterprises can be seen since last year, making progress toward sounder management.

For instance, as has been mentioned in connection with the improvement of real wages, better condition of management may be pointed out to have been brought about by raising operational rate in essential industries and the upward revision of official price. In connection with this, resumption of capital accumulation in some enterprises is reported. It should not be ignored that, in proportion as the stock market becomes active, a way has been opened for the raising of own capital and the capital composition of enterprises is getting improved. They are, however, improvements in a relative sense and it is undoubtedly far from being really sound management. Furthermore, manipulations such as raising of official price, grant of subsidy, deficit financing, etc., which have so far temporarily concealed or postponed various managerial contradictions inherent in enterprises have now reached their limit through the narrowing of gap between official price and blackmarket price levels and the requirement of the Three Principles for enterprise. It is now a high time that in conjunction with the setting up of a single exchange rate, the rationalization of enterprises and their self-support be energetically promoted.

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In connection with the above, tax laws concerning business enterprises should be reconsidered from various viewpoints. For example, unless the principle is established to the effect that price differential profit levy be imposed only on the amount exceeding normal stock, reacquisition of liquid assets would become impossible, and the result would be to penalize the industries, for the products of which official prices have been set up. With regard to the progressive income tax, the ratio of income to the capital in the case of an old company whose capital is booked at the old money value will be much greater than that of a new company, thus resulting in an unreasonably unbalanced taxation between them. In order to realize the self-support of enterprise and to let them have a sufficient competitive power in international market, attention should be paid to the maintenance and expansion of productive power. These problems require to be reconsidered from the long range point of view in conjunction with the problem of depreciation.

C. Limit of self-supporting management

It should be noted, however, that there is a certain limit on self-support of enterprise. Industries can be classified from the standpoint of self-support into three categories; i.e., (i) industries which, even when left unprotected, can become self-supporting and stand international competition, (ii) industries which can become self-supporting in future, if temporary protection is given, (iii) industries which have no possibility of becoming self-support.

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As regards (i) no harm will be done if self-support policy be enforced but (ii) and (iii) above may require different treatment. It will be necessary that some temporary protection be given to maintain such industries which are now temporarily handicapped under the extraordinary post-war conditions through the extreme deterioration of operational rate, wear and tear of equipments and drastic change in raw materials conditions. An easy-going protective policy will, of course, not be allowed in view of the spirit of the International Trade Charter. But it will be necessary to set aside an indiscriminate application of a uniform method and prepare such countermeasures as will meet the requirements of individual industries.

(3) Deterioration of National Land and Eating Up of National Wealth.

a Cumulative increase of disaster.

Almost no efforts to conserve or maintain national land have been made during the war and subsequent inflation period with the resultant cumulative increase of disasters. For instance, flood damages are estimated as follows.

(In Million Yen)

	Flood control expense	In terms of 1946 official Price Level
1944	183	1,118
1945	979	3,654
1946	2,435	2,435
1947	16,499	3,794
1948	52,897	6,850

The

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The damages done by floods to agricultural products, housing, household articles, etc. are estimated to be far more than the direct damages done to river constructions shown in the above. Thus, every one will understand how huge proportion of national wealth is being lost annually by floods. In addition to the national damages stated above, deterrent effects on production activities such as agricultural production and transportation resulting from recurrent floods can not be overlooked. Total damages in rivers, farm lands, forestry and harbour during 1948 fiscal year amount to 86,300 million yen and, on top of this, rehabilitation requirement for the damages amounting to 20,200 million yen in the preceding year was carried over to this fiscal year. Of the above, total appropriation for this year is 26,600 million yen including 18,400 million yen in the national budget, leaving the damage amounting to ⁷89,900 million yen unattended. As this will weaken the resistance of land against natural disasters, even a small rain-fall would cause flood, aggravating natural disaster such as farm land devastation, destruction of forestry, etc. Thus rehabilitation of damages caused by natural disaster is giving heavy pressure on the public finance, and in the appropriation for public works, rehabilitation occupies about 35 per cent, thus necessitating reduction of expenditures for preventive works such as mountain and flood control. This in turn is causing progressive increase of disasters. On the other hand, it is also restricting construction works

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works required to meet new situation such as rehabilitation of harbours necessary for increasing foreign trade.

b Exhaustion of forestry

As for forestry, continuous over-cutting of trees has created even widening gap between deforested area and aforested area since 1930.

	Deforested area	Aforested area	Over-cutting
1944	729,000 cho	434,000 cho	295,000 cho
1945	488,000	193,000	295,000
1946	587,000	300,000	287,000
1947	522,000	434,000	88,000
1948	661,000	283,000	378,000

Especially forestry near villages is being almost wiped out as timbers therefrom can more easily be transported. This is aggravating the devastation of forestry areas near villages which is mainly responsible for disasters. In order to maintain timber production while conserving forestry resources, efforts have to be made to plant saplings and to exploit forestry in distant mountains heretofore unutilized. Inasmuch as, however, these efforts are not economical, the over-cutting of forestry near villages is still going on for timber production.

c Underreplacement of housing

In pre-war days, 70-80% of urban population was living in rented-houses, paying 17-20% of their total living expenses

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as house rent. While housing expenses occupy only 4% of the total living expenses (house-rent proper is only 0.6%) presently because of the control on house and land rents since war time, the rise in construction cost of new houses is particularly remarkable as compared with the rise in other prices. Thus, the proper rent for new houses is as high as 25 times of the present C.P.S. rental. Such being the case, almost no new rented-houses are being constructed. The present housing economy may be said to depend on the eating up of old rented-houses, and this is one of the deterrent factors to the advancement of labour productivity.

d. Insufficient repairing of transportation
and communication facilities

The whittling down of capital in railways is indicated clearly in the following records of steel consumption in railways.

	<u>Equipments</u>			<u>Vehicles</u>			<u>Grand Total</u>
	<u>Repairs</u>	<u>Con- struc- tion</u>	<u>Total</u>	<u>Repairs</u>	<u>Con- struc- tion</u>	<u>Total</u>	
1936	59,710	97,910	157,620	26,969	34,093	61,062	236,682
1937	52,210	92,830	145,040	26,606	40,414	67,020	212,060
1945	13,058	2,040	15,098	17,180	13,905	31,085	46,183
1946	19,280	8,732	28,012	28,012	35,794	58,749	86,761
1947	25,906	4,000	29,906	29,405	31,879	61,284	91,190
1948(plan)	57,300	33,910	91,210	35,000	55,193	90,193	181,403

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As indicated above, the steel consumption is reduced to less than one half as compared with that in the pre-China-Incident period when the Government railways were operated more or less on a normal basis. It is furthermore noted that as regards the allocation of such small amount of steel available, the greatest reduction is made in the repair of equipments while a comparatively big amount is given to the repair and construction of vehicles in order to meet the more urgent requirement of transportation capacity increase.

Although the allocation of steel for railways has been increasing materially recently, such increases are not yet sufficient to counteract the effects accumulated by insufficient repairs in the past. The efficiency of communication has extremely declined as a result of the crippling war damages and the unsatisfactory maintenance. For instance, only one out of ten electric poles requiring replacement is being actually replaced, and 30% of automatic telephone exchanges is over-aged. Thus, only 37% of city telephones in big cities is usable, and we will find that the line is busy once out of three calls. This, in turn, tends to lower the business efficiency. As seen above, the fact that the basic factors of economic activities such as railway and communication are not yet fully recovered from the war-damages, but are still eating their capital, tend to lower the efficiency of industrial activities and to increase the cost of production of our exports.

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(4) Privation sustained by the Japanese people.

2. Present standard of living as compared with that in pre-war period.

The Japanese people are compelled to sustain privation as a result of the low production level and increased population after the war. The recent standard of living as compared with that in pre-war period on the basis of statistics is roughly as follows.

	1934-1936	Jul.-Sept. 1948
Family expenditure (A)	100	12,700
Effective consumer price (B)	100	27,400
Real family expenditure (A/B)	100	46

Note:

(a) "Family expenditure"

The pre-war figures are based on the survey of the Statistics Bureau, while the post-war figures are based on the survey of workers' family expenditure made by the Tokyo Metropolitan Government.

(b) "Effective consumer price"

This is a tentative computation made on 80 items chosen from the Consumer Price Survey of Tokyo-To made by the Statistics Bureau, taking into account difference in the weight of each item before and after the war.

The family expenditure is 127 times as high as the prewar level, while the price level has risen 274 fold, with the result that the consumption level is below 50% of the pre-war level.

Further,

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Further, the consumption level by items as compared with the pre-war level is as follows:

Staple food	90%
Non-staple food	70%
Fuel and light	90%
Clothing	10-20%
Housing	10-20%
Others	50-60%

Comparatively little fall is seen in the consumption level of those indispensable goods, such as food, staple food in particular, fuel and light, while a marked decline is recorded in clothing and housing. The proportion of food in the family expenditure, i.e. the Engel's index, is now strikingly large. It was about 35% before the war but it is now about 65%. This fact shows the deterioration in the composition of expenditure.

b. Recent trend.

We have pointed out the fact that, as a result of the rise in real wages, the workers' consumption level rose by 30- % over that of 1947 towards the end of 1948. But this means only that the consumption levels of working and other classes have been levelled at the expense of the latter. There is as yet no sign of improvement in the consumption level of town-dwellers as a whole or of farmers.

	1947	1948			
	Average	Jan-Mar.	Apr-Jun.	Jul-Sept	Oct-Nov.
Family expenditure (A)	100	140	161	195	217
Consumer price (B)	100	158	174	215	220
Real family expenditure (A/B)	100	89	93	91	99

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Note:

(a) "Family expenditure":-

The figures are based on the monthly expenditures of a family as given in the "Consumer Price Survey, (the average of all cities)" of the Bureau of Statistics.

(b) "Consumer price":-

The figures are based on the "Consumer Price Index" (the average of all cities)" of the Statistics Bureau.

Under the circumstances the workers' consumption level itself is more than likely to come to a standstill.

This continued low standard of living will not only have a negative effects on the workers' will to work, but also cause decline in labour productivity in the long run.

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4. Newly arising problems.

With the implementation of the Nine Economic Objectives on the above economic ground, some new problems are expected to arise, i.e., unveiling of unbalance between the domestic and the international price structures, relative over production, distress of farmers and small and medium enterprisers, unemployment, etc. Constant study and review of the effectiveness and methods of economic control is necessary in connection with the implementation of the Nine Economic Objectives. Furthermore, moments for spiraling of inflation are still at work, consequently the Japanese economy will have to travel a thorny path for the time being, being exposed to the danger of inflation and deflation simultaneously.

(1) Unbalance between domestic and international price structures.

There is a wide gap between our price structure and the international one. The yen-dollar price ratios applicable to export and import goods (F.O.B. for exports and C.I.F. for imports), indicate an extremely wide variety from ¥25 for hydrochloric acid to ¥350 for celluloid brooches. Roughly weighted averages in accordance with trade volume are ¥315 for exports and ¥131 for imports.

Yen-dollar ratio of major commodities - yen value of one dollar as of October 31, 1948.

(Compiled by Foreign Trade Bureau, ESB)

Exports

Textile products	Cotton yarn	¥85.	Cotton fabric	110-133
------------------	-------------	------	---------------	---------

Raw

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Raw silk	370	Silk fabric	160-280
Rayon fabric	200-220	Staple fiber fabric	100
Woolen yarn	150	Woolen fabric	230-270
Machinery			
Motor-vehicle	¥275	Motor, transformer, etc.	200-350
Bicycle	450-500	Steel vessel	350
Locomotives	240-320		
Metal products.			
Electric wire	¥195-220		
Fuel			
Coal	¥280		
Agricultural products.			
Canned goods	¥150-300	Tea	290
Mandarin	360		
Aquatic products ¥100-250			
Timber ¥280-450			
Fertilizer			
Superphosphate	¥380	Ammonium sulphate	570
Chemical products.			
Caustic soda	¥170	Hydrochloric acid	25
Colours	650	Tyres for motor-vehicle.	220
Tyres for bicycle	370	Celluloid products	650-850
Hide and leather	250-350		
Sundry goods.			
Lacquer tray	¥480	Metal-lacquer flower Vase	
Pottery	270-350		700

Import

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Imports

<u>Mineral ores and metal</u>			
Iron ore	¥135	Pig iron	110
Steel	120	Bauxite	190
<u>Fuel</u>			
Coking coal	¥160-270	Heavy oil	170
<u>Foodstuff</u>			
Wheat	¥140	Rice	66
Sugar (refined)		Sugar (Cuba)	110
	240		
<u>Raw textiles</u>			
Raw cotton	¥75	Wool	225
<u>Rubber</u>			
Raw rubber	300		
<u>Hide and leather</u>			
Raw hide and leather	140		
<u>Fertilizer</u>			
Phosphate ore	¥150	Potassium	120
<u>Timber</u>			
Luan	130		
Salt	90-130		
Chemicals	210-470		

The main factors responsible for this wide differentiation of yen-dollar price ratio are believed to be as follows:-

I. Under economic isolation during the war, the industrial structure was reorganized with an emphasis on war production.

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II. Since the end of the war, there has been an unbalance between industrial and agricultural production.

III. The extent of war-time enterprise reorganization or war damages and of fall in operation rate due to short supply of power and raw materials widely varies by industry and by size of enterprise.

IV. Dependence on black-market varies by industry and by size of enterprise.

The reason why the average yen-dollar rate of import goods has been maintained at a lower level than that of export goods as mentioned above is that imported staple food which is the biggest item of all the imports has been released at low price compatible with that of domestic agricultural products. This is a sort of subsidy and constitutes the major reason why there has been left no surplus in the Trade Fund Special Account which ought to have a huge amount of surplus in consequence of that huge import excess over export. If these price adjustment subsidies are reduced together with appropriation for Special Accounts for Government enterprises on account of financial necessity, the price boost centering on the higher prices of pig iron and steel may be extended **unevenly**, resulting in a still further unbalanced price structure.

The fact that the yen-dollar ratio gets worse in proportion as the goods are processed, e.g., from yarn to fabric as shown in the above table, is partly due to the greater dependence upon blackmarketing for acquisition of raw materials, etc. of small and medium enterprises which do the most of processing. But fundamentally it

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shows the higher labour cost, i.e., the fact that the degree of decline in labour efficiency in Japan vis-a-vis that in foreign country is greater than the degree of decline in real wages of Japanese labourers vis-a-vis that of foreign labourers. Thus it testifies to the urgent need of restoring labour productivity in a country like Japan which has to import raw materials and export processed goods.

As prerequisite to the return of Japanese economy to international economy, the unbalanced price structure in Japan has to be aligned to the international price structure. For that purpose it is necessary to reorganize industrial structure, rationalize enterprises and to improve labour productivity. In the meantime the elimination of inefficient industries and the resulting unemployment will be inevitable. And yet a drastic decline in production and export should be prevented, and the decline of yen value due to the aggravation of inflation should be prevented in order to maintain the established exchange rate. Thus it must be admitted that great many problems are involved in connection with the impending establishment of a single exchange rate.

(2)

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(2) Emergence of new phase with the progress of economic stabilization.

With the slowing down of inflation and the gradual stabilization of economy, basic problems of Japan's economy which have been veiled by inflation will be exposed to the light one by one. Most characteristic of them will be the appearance of insufficient domestic purchasing power, problems concerning farmers, small and medium enterprisers, and unemployment problem.

a. Insufficient purchasing power

With the reduction of fictitious purchasing power created by inflation, purchasing power has already begun to be stalemated at a comparatively low level, due to the limited home market and the decline of national income in post-war days. Since last year a series of deflationary measures such as enforcement of tax collection and control of industrial financing have been put into practice for the purpose of checking inflation. This, together with the large-scale raising of official prices in 1947 and 1948 which has had the effect of almost cutting a portion of purchasing power, has led to further decrease in purchasing power. On the other hand the restoration of agricultural and industrial production and the increase of economic aid from foreign countries have increased the supply of materials, thereby giving rise to the fictitious over-production. The following table represents the sales of department stores as an index of falling purchasing power and indicates that these sales have a tendency to decrease when the price increase is taken into account.

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	A Sales index	B Retail price index	A/B x 100
Apr.-Jun. 1947	100	100	100
Jul.-Sept. "	118	160	74
Oct.-Dec. "	186	277	67
Jan.-Mar. 1948	205	325	63
Apr.-Jun. "	268	352	76
Jul.-Sept. "	282	535	53

In addition, inasmuch as the sales of department stores have been getting relatively advantageous compared with those of small and medium shops, the total sales including the latter must show a still greater decrease.

Another index of the falling purchasing power is furnished by the increase in the stocks of products.

The following table shows the monthly indices of the stocks in business warehouses in big 8 cities, indicating a notable tendency of the stocks to increase.

	Jan. 1947	Mar. 1948	Jun. 1948	Sept. 1948
Textiles	100	120.7	124.2	137.4
Paper & pulp	100	142.2	172.5	195.4
Metals	100	80.6	91.1	98.6
Chemicals	100	154.3	157.3	191.5
Sundry goods	100	169.3	195.5	229.3
Average	100	124.1	132.3	156.0

The

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The decline of marketability is conspicuous with respect to radio sets, electric bulbs, books, etc. while insufficient purchasing power is seen for basic materials, such as, low-grade coal, cement, ammonium sulphate, electric wires, etc.

How should the above fall of purchasing power be interpreted? As regards consumers' goods, the above phenomenon is attributable to the fact that the production has increased relatively speedily when the real income of the people remained at a low level, that the pent up demand for consumers' goods during the war has been satisfied to some extent, that the surplus purchasing power created by inflationary income has been curtailed by the slowing down of inflation, etc. However, in view of the fact that consumption has been eating capital since the end of the war, it should be regarded as a sign of sound economy that consumption be so curtailed as to be dovetailed with production, and it is a requirement of the Nine Economic Objectives that the saved consumption be shifted for export. As for productive materials, the fall of purchasing power for them is to be attributed to the reduction of financial expenditure and industrial investment on the one hand and to the increase of supply on the other. The problem is that despite the huge potential demands for productive materials for the replenishment of worn out and obsolete equipment, for the repair of devastated national resources, etc., they cannot become effective ones through the insufficient accumulation of capital. One of the important economic policies to be taken up hereafter will be to maintain effective

demand

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demand for productive materials in the fields necessary for the restoration of economic capacity and the promotion of export.

B. Problems of farmer and small and medium enterprisers.

Even in the past, agriculture and small and medium commercial and industrial enterprises were the fields where various contradictions of Japanese economy were expressed in a concentrated form. For some time after the war they were placed in a relatively advantageous position, thanks to the progress of inflation and to the absolutely insufficient supply of foodstuffs. With the slowing down of inflation, however, they show the possibility of being confronted with more serious problems than in pre-war days. The strengthening of economic stabilization program, with an emphasis upon the rationalization of enterprises, balancing of budget and promotion of export, has the danger of bringing the accompanying contradictions into the economics of farmers as well as of small and medium enterprisers.

To begin with, let us consider agriculture. The agricultural production in 1948, favoured with good weather and increased supply of fertilizer and other productive materials, could attain more than 10% increase over that in the preceding year. In spite of the above production increase, however, the post-war boom seen in farming economy shows a sign of gradual decline, due to the stagnant prices of agricultural products, the relatively higher

prices

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prices of commodities essential to agricultural economy, enforcement of tax collection, etc. The post-war movement of the black-market prices in the following table indicates that the prices of staple foodstuffs have gradually been placed in an unfavourable position.

	Staple food-stuffs	Textile goods	Daily necessities
September, 1945	100	100	100
April, 1946	214	208	121
October, "	141	251	141
April, 1947	238	678	261
October, "	411	913	363
April, 1948	608	1,218	500
June, 1948	784	1,303	580
August, "	676	1,361	649
October, "	575	1,355	671

(Blackmarket price index of consumer goods in Tokyo, compiled by the Bank of Japan.)

The following table shows the fact that the tax burden per each farmer household has been on the gradual increase.

	Taxes & levies	Ratio of taxes to income
1924	57 yen	8%
1941	56 "	3%
1945	618 "	13%
1946	5,764 "	15%
1947	10,045 "	22%

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Inasmuch as the ratio of general tax burden to the national income has sharply increased since the end of the war, the tax burden upon farmers cannot necessarily be said to be too heavy. But owing to the relative decline of farmers' income since 1948, the levies on farmers are becoming a heavy burden. Under these circumstances, the economy of farmers has gradually worsened as shown, for instance, by the findings of the currency holding survey which show that the currency holding in agricultural and fishing villages in June, 1947 was 28.5% whereas it had declined to 20.1%. The deposit in the agricultural associations all over the country shows distinctly a decreasing tendency when the price change is taken into account.

Furthermore, the discount of agricultural bills, inaugurated last year to cope with the tight money conditions for farmers, amounted to 2.4 billion yen in total as of September 30, 1948. The regional distribution of the above sum is 54% for Hokkaido, 25.5% for Tohoku and 16.5% for Hokuriku totalling 96%, indicating the worse economic condition of the single-crop areas.

In addition to the recent economic conditions of farmers mentioned above, there are such fundamental problems as rapid increase of agricultural population since the end of the war and the shrinkage of farming unit. The agricultural population as of August 1, 1947 is a little over 36,500,000 or 46% of the total population, indicating an increase of 2,370,000 or

6.7%

6.7% over the population as of April, 1946. The number of farmers as of August, 1947 shows a 2% increase over that as of 1940. As a result, the average area of cultivation per farmer has been reduced considerably as shown in the following table.

	No. of farm units	Cultivated area	Average area per farm unit
Aug. '41	5,499,000	5,860,000 cho	1.07 cho
Apr. 26, '46	5,698,000	4,986,000 "	0.88 "
Aug. 1, '47	5,909,000	5,011,000 "	0.85 "

On the other hand the expansion of arable lands, or reclamation has not necessarily progressed satisfactorily as shown by the fact that the total area reclaimed after the war is merely 318,000 cho or 52.8% of the plan. Particularly the actual reclamation during April to August, 1948 was 19,000 cho or 8.5% of the plan. The above unsatisfactory progress of reclamation is not only due to the insufficient supply of funds and materials, but also to the relative decline in prices of agricultural products.

As regards the small and medium enterprises, which have been dependent very much upon blackmarket, they are adversely affected by the slowing down of inflation and the gradual alignment of official and blackmarket prices. The strengthening of competitive power of large enterprises against small and medium enterprises as a result of the increased operation of equipment and the increased

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creased supply of officially priced goods due to the production increase in large enterprises have further aggravated their situation. In combination with these factors, financing for them is getting more and more difficult. The distressing conditions of small or medium enterprises are revealed by the fact that there have recently been relatively more labour disputes in them and by trend of movements of wage levels in large enterprise and small or medium enterprises. According to the survey made in Osaka by the Osaka Chamber of Commerce and Industry, the average wage of male workers in small and medium enterprises employing 30 to 100 workers in Osaka in January-June, 1947 was 102.1% of that in large enterprises employing over 200 workers but the percentage fell to 99.2% in July-December, 91.3% in January-June, 1948, 93.6% in July-August and 75.7% in September-October 1948.

Thus the distress of farmers and small and medium enterprises which entail a huge number of the unemployed will constitute the new problems to be raised in consequence of the economic stabilization.

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(3) New problems of economic control.

a. Economic control in general.

The increase of production and the slowing down of inflation have raised some questions for economic control. The most conspicuous of them is the increased prestige of "price". In price control it will become necessary to take such elastic measures as will make possible an effective adjustment functions of "price" based on demand-supply relation.

On the other hand, in proportion to the enforcement of the Three Principles of enterprises in preparation for the return of Japanese economy into international economy, stress should be laid on the self-support of enterprises, which in turn makes it necessary to modify the present control formulae in such a way as will permit more room for the principle of competition and independence of enterprises. In addition, constant improvement as well as well-planned execution of supervision is required in order to prevent inefficiency and corruption on the part of the government agencies concerned with economic control. As an example of the review of working of the former control formulae, the achievement of vegetable control (of perishable foods controls) will be studied on the basis of the analysis of the household expenditure as below:

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	Percentage of ration in the total purchase of household	Actual receipt of ration against allocation by the Government	Ratio of the black-market price to the official price	Percentage of increase in household expenditures when all are procured in black-market
1st period July-Dec., '47	6.5%	10.9%	3.00 times	0.3%
2nd period Dec., '47 when strengthening measure of control was enforced June, '48	55.5%	61.9%	2.00 times	1.6%
3rd Period July-Aug., '48	55.8%	51.8%	1.20 times	0.1%

The above figures show that during the first period the rations were less than 10% of the total purchase, reflecting the negligible effect of control, that during the second period control achieved some degree of success due to the great efforts made and that during the third period the increase of supply combined with the narrowing of gap between blackmarket and official prices caused by the raising of the latter lessened the effect of control again. As for the third period, it is to be noted that, the increased supply caused conspicuous decline

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decline of the blackmarket price and the free whole-sale prices of most vegetables fell by 20-30% below the official ones, thus reducing the necessity of depending upon rations, that despite the decline of the wholesale price the blackmarket retail price was prevented from falling by the official retail price. It may be regarded as a noticeable case in the new economic stage that the above contradiction has taken place in such seasonal products as vegetables whose official price cannot correspond to the price fluctuation based on demand-supply relation. In such a case, it is considered that the way has been paved by actual facts for making the control formulae elastic or reducing the scope of control.

So much for the problems of economic control caused by the change in domestic economic conditions. Turning to problems of economic control from the international point of view, it is found that the slowing down of inflation and the increase of production have not been achieved by our own efforts alone but also by increasing foreign aids. The Nine Objective Economic Stabilization Program has made the necessity of control clear in its five items, i.e., vigorous limitation of credit extension, wage stabilization, strengthening of existing price control programs, improvement

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improvement of the effectiveness of the present allocation and rationing system to the end of maximizing export and improvement of the efficiency of the food collection program. Above all, it will be required for the Japanese economy to be able to support itself without foreign aid that the allocation and rationing designed to eliminate all wastes and maximize the availability of goods for export be executed effectively as the pivot of future economic control.

Time has now come for us to formulate, and execute with greater vigour, such devices as will assure effective control without interfering with the principle of free competition so that the necessity of control may not conflict with the revision of the control formula called for by the new development of the domestic economy as mentioned above.

b. Problems of price control

A few problems particularly to be confronted with in the future in connection with price control which is the main aspect of economic control will be as below:

(a) Diminution of difference between official and black-market prices.

As a natural consequence of the raising of the official price as well as the stagnant trend of the blackmarket price,

difference

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difference between official and blackmarket prices has recently been reduced gradually. According to the survey made by the Bank of Japan, the ratio of the official to the blackmarket price, which was 1 to 30 in September, 1945 shortly after the end of the war, was reduced to 1 to 3 in October, 1948 due to the fact that the official price had been raised about 60 folds during the intervening three years while the blackmarket price had climbed up merely 7-8 folds. In addition, difference is less than 150% with regard to one-fourth of the main commodities while the blackmarket price is below the official with regard to about 5% of the commodities. This reduction of difference is particularly noticeable with regard to production materials.

According to the Tokyo C.P.S., the ratio of the average price of rationed food to that of non-rationed food was reduced from 3.2 to 1 during August to October, 1947 to 1.8 to 1 during August to October, 1948.

(b) Official price and demand-supply relation

Official price and demand-supply relation as such were not a big problem in the past when the disparity between the official and blackmarket prices was wide enough. However recently as the disparity between the official and black-

market prices

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market prices has generally been reduced gradually while blackmarket price has begun to vividly reflect demand-supply relation due to fall in purchasing power and increase in production, the official price has come to be placed in a delicate relationship with demand-supply relation. The above relationship is particularly delicate in cases where demand is highly elastic, where supply has come to exceed demand, or where demand-supply relation shows a strong seasonal fluctuation. This indicates that Japanese economy has entered into a new stage where the official price structure made by merely piling up production costs should be revised and demand-supply relation should be taken into account. These circumstances, together with the problem concerning the reduction of difference between the domestic and international prices mentioned already, call for the review of the official price system based mainly on cost accounting.

(c) Limit of official price raise

The reduction of difference between the official and blackmarket prices and the stagnation of blackmarket prices involve problems relating to the general official price level. For example, if the official price is doubled in the near future by raising the wage scale from ¥3,700 to ¥7,400 (the prevailing wage level will have reached approximately to this height at the beginning of 1949) along the present procedure, there will take place a strange state of affairs that the blackmarket price of 30-40% of the main

commodities

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commodities will perhaps be below the official. This indicates that the general official price level has now approached the limit.

The above explained state of affairs testifies to the fact that Japanese economy has entered into a new stage where it is no more possible to take such easy-going measures as whitewashing of the basic unsoundness of the post-war Japanese economy by the operation of official prices, and in this sense we are faced with the necessity of fundamental solution by means of frontal attack.

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(1) A spur for inflation . . .

a. One-sided wage-rise

As we have already indicated, the wage is rising while all the other inflation indices such as currency and prices are showing a sign of stabilization. This one-sided wage rise is bound, sooner or later, to have an effect on currency and prices, and to give a spurt to inflation . . . , in the following manner.

(a) It has been shown above that the wage per unit of product has not risen in spite of the rise in the wage per employee. From this fact, it may be concluded that the wage-rise does not work as a financial burden upon enterprises and, therefore, will not be followed by price rise. This may be true if the whole industry is seen as a whole, but a careful study of details reveals that there lie problems worthy of attention. The most noteworthy of all is a remarkable divergence of production trends among industries. The production level in November, 1948 as compared with the average for 1947 show a striking divergence among industries, while the volume of employment remained unchanged during this period (i.e. labour productivity has risen in proportion to production increase). There is no noticeable difference of the wage per employee among industries. The . . . 1 increase of production and per capita wage

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wage by industry in November, 1948 over the average for 1947 is as follows.

The average of manufacturing industry	(1947 average = 1) production *	Wage
	2.2 *	3.6
Metal	3.4	4.0
Machinery	2.3	3.8
Chemical	1.7	4.1
Ceramic	1.6	3.9
Textile	1.4	3.3
Food Manufacturing	1.2	3.6
Coal mining	1.3	2.5
Electrical industry	1.1	3.3
Avil service		1.9

(3.1 in Dec.)

* Note: The figures show the weighted average of industries within each category based on the average total pay-roll by industry in 1947 as given in the monthly labour statistics.

The movement of wage per unit of product varies widely among industries. The official prices have, however, been raised uniformly at the same rate as the raise of per capita wage, giving a sizable margin to certain industries and stimulating wage-raise in them. This wage-raise gives the cue to workers in other industries operating with little margin, giving rise to the pay problems in coal-mining, electrical industry and civil service and increasing

the

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the danger of reprussions on prices. This vicious circle is partly due to the present method of revising official prices but mainly due to a difference of production trend among industries. Anyhow, it cannot be denied that the rise in wage has possibility of reacting upon prices in the above-explained manner. In the future, its reaction may take the form of a spur for the revision of official prices.

(b) Suppose the wage-rise does not raise price by its pressure upon the economy of enterprises. Even then, unless the availability of consumers goods is increased, the price-rise is more than likely to follow the wage rise at least in view of the present relatively stagnant supply of consumer goods (including agricultural products) compared with industrial products. In this case, however, if the consumption level of workers is raised at the expense of that of other classes, the effect of wage-rise will be offset by increased availability of consumer goods even without any increase in the total volume of consumer goods. As a matter of fact, until recently, the consumption level of workers has been raised to a considerable extent in this manner, but this process seems to be no more possible.

After all, it may well be said that we are now standing at the crossroads whether the inflation would be accelerated by increased wages such as mentioned above, or a rise in wages could be checked by the enforcement

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ment of a sound financial policy. The average wages in November last has risen only by 5.3% as against the preceding month. There are signs today that the very rise of wages tends to be kept in check.

b. Difficulty of achieving a real balance of the national finance.

(a) Exhaustion of sources of revenues.

The revenue of the general budget for the current fiscal year including supplementary budget amounts to as high as 473,100 million yen. This consists of taxes and stamp duties (37%), Monopoly Bureau profits and income of other government enterprises and properties (22%), price differentials (5%), and other (6%).

The collection of taxes and stamp duties as of end of October is only 33% of the annual target, amounting to 102,200 million yen. This delay is due to the unsuccessful collection of self-assessed taxes. The collection of self-assessed taxes is only 23% while that of withheld taxes is already 79%. Not only withheld income taxes are proving to be a heavy burden upon the workers' family budget, but also self-assessed taxes are increasing its pressure upon proprietary entrepreneurs, partly because of unavoidable unfair allocation of self-assessed taxes resulting from difficulty of assessing proprietary entrepreneurs' income, but fundamentally because of decreased nominal income as a result of the curbing of inflation. The tax paying capacity of

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the people seems to have approached its limit. Heavy local taxes are levied without coordination with the national taxes, which is necessitated by the difficulty of the local government finance. Rational coordination between them is considered to be necessary.

(b) Necessity of curtailing expenditures.

In the future, it will be more and more difficult to increase revenues. The only way of achieving a real balance of the public finance will, therefore, be the curtailment of expenditures. The breakdown of the expenditure by item for the current fiscal year is as follows:

	Sum (in 100 mil- lion yen)	Percentage (%)
Total expenditure	4,731	100
Expenses for termination of war	1,141	24
Expenses for price adjustment	806	17
Expenses for local finance	672	14
Expenses for public works	495	10
Expenses for reconstruction of government enterprises	430	9
Investment to Reconstruction Finance Bank	180	4
Others	1,007	21

The expense for termination of war occupies one-fourth of the total, but it must be assumed that its curtailment is out of the question. The expense for price adjustment is 17% and is the second largest item. But,

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inasmuch as the expense for reconstruction of government enterprises is, in reality, to be transferred to the Railway and Communication Special Accounts, it can be called expense for price adjustment. The expense for price adjustment, therefore, will total 26% of the total expenditure and be greater than the expense for termination of war. In view of the present extreme unbalance among prices, it is inconceivable totally to eliminate this expense for price adjustment, but it is believed to be urgent to effect a considerable cut in this item even for no other purpose than of making enterprises self-supporting. The cut in the government pay-roll is of urgent necessity pending since some time ago from the viewpoint of curtailment of public expenditure. On the other hand, the pay scale of the Government employees has been raised and there will arise need for public expenditure in some form or other to take care of the rapidly increasing unemployment. There lie many difficulties in the way of achieving the real balance of public finance which is apt to run into deficit.

c. Requirement of funds for rehabilitation.

The capital payment for rehabilitation has been a spur to inflation even up to now in the form of increased public expenditure for disaster rehabilitation and other public works and of inflation caused by the Reconstruction Finance Bank loans.

As the Economic Rehabilitation Program is put into operation this year, investment will be required for production increase and export expansion in opening-

up

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up of new coal mines development of new hydraulic power plants, repair and improvement of government railway, railway electrification, improvement of harbour installations, increase of newly built ships, flood control, soil improvement, reclamation and other agricultural enterprises. The first collection of data made by the Economic Rehabilitation Committee reveals that the reconstruction works alone will require 2,700 billion yen (at prices as revised in July, 1948) in 5 years and the industry will require 3,500 billion yen (equipment funds plus increased operation funds) if the requirement made by each demanding group is to be met to a certain extent. This estimate may involve some padding and double counting, but it shows how enormous a capital investment is required for the reconstruction of the war-torn Japanese economy. For the 1949 fiscal year alone, according to the same estimate, the new investment of 480,000 million yen is required for reconstruction works and that of 520,000 million yen for industry, while the estimated national income in the same year at the same price level is 2,300 billion yen. As not more than 20% of this income is estimated to be available for capital investment, the capital payment as indicated above will perhaps be impossible. Here lies the conflict between stabilization and reconstruction. Too hasty effort for reconstruction is feared to become a cause of new inflation.

- 2 -

5. Conclusion

The Japanese economy is in an extremely abnormal and unsound state partly due to its structural deformation caused by the long war and the defeat and partly due to the progress of inflation that followed. It is difficult to restore a normal and sound economy with one stroke even in connection with the establishment of a single exchange rate, for such an attempt would cause serious disturbance and confusion in the domestic economy. However, we will never attain a self-supporting economy if we rest idly in such a state of affairs as we are now in. We should take advantage of the establishment of a single exchange rate by all means to normalize our economy step by step within as short a period as possible.

Economic measures from now on should primarily aim at the normalization of economy through the stabilization of currency and restoration of normal function of price. The national economy should be rationalized in this process, thereby building the basis for economic self-support on which sound enhancement of production and export can be realized.

One of the important factors in the normalization of economy is the restoration of the independence of enterprises. As distinct from the past days of economic isolation, enterprises in future will first of all be required to stand international competition. They are required to manage themselves independently and rationally clearing themselves of inefficient management which depended on the state, and to accumulate capital necessary for repairing and modernizing deteriorated equipment in conformity with principles of economic stabilization urgently required for our national economy.

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Our aim after the restoration of a stabilized and normal economy will be the attainment of a self-supporting economy which no longer requires foreign assistance. Saving of consumption is essential and indispensable in order to overcome various difficulties ahead of us. The standard of living may rise after the economy has become self-supporting. But until then the Japanese people will have to sustain privation under the burden of stabilization of currency, accumulation of capital, promotion of export, etc. The objective of economic self-support, however, is not alone a requirement of the Allied Nations but essentially a target, which the Japanese people desiring national independence and future prosperity should choose to work for at any price. This is a high time for the Japanese people to prove to the world that they are determined as well as above courageously to accomplish this hard task given to them.

Enclosure No. 2 to Despatch No. 238 dated April 20, 1949 from the United States Political Adviser for Japan, Tokyo, on the subject "Transmitting copies of Memoranda on Japanese Economic Situation Prepared by Economic Stabilization Board".

ANALYSIS OF CURRENT
ECONOMIC SITUATION OF JAPAN

March 12th, 1949

Economic Stabilization Board

894.50 / 4-2049

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5. Conclusion

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1. Foreword

On 18 December 1948 the State and War Departments of the United States issued an interim directive to General MacArthur concerning the stabilization program of the Japanese economy, and the Public Relations Office of the General Headquarters, Supreme Commander for the Allied Powers released the following day a letter of General MacArthur addressed to Premier Yoshida based on the directive. The aim of the directive is to cause the Japanese Government to stabilize the Japanese economy in the fiscal, monetary, price, wage and other aspects as quick as possible and to maximize the production of exports. The letter of General MacArthur specifically points out that "there can be no political freedom so long as a people's livelihood is dependent upon the largess of others" and calls for vigorous efforts on the part of the Japanese people.

Three years after the termination of hostilities, the world economy is steadily making progress toward recovery in spite of the underlying basic conflicts. The production levels of most European countries, for instance, have come to surpass the pre-war levels, and their economies are in a stage in which, freed from the state of emergency when they were pre-occupied with food, coal and transportation, efforts are being made to maintain and develop the economic circulation on the sound currency and credit system.

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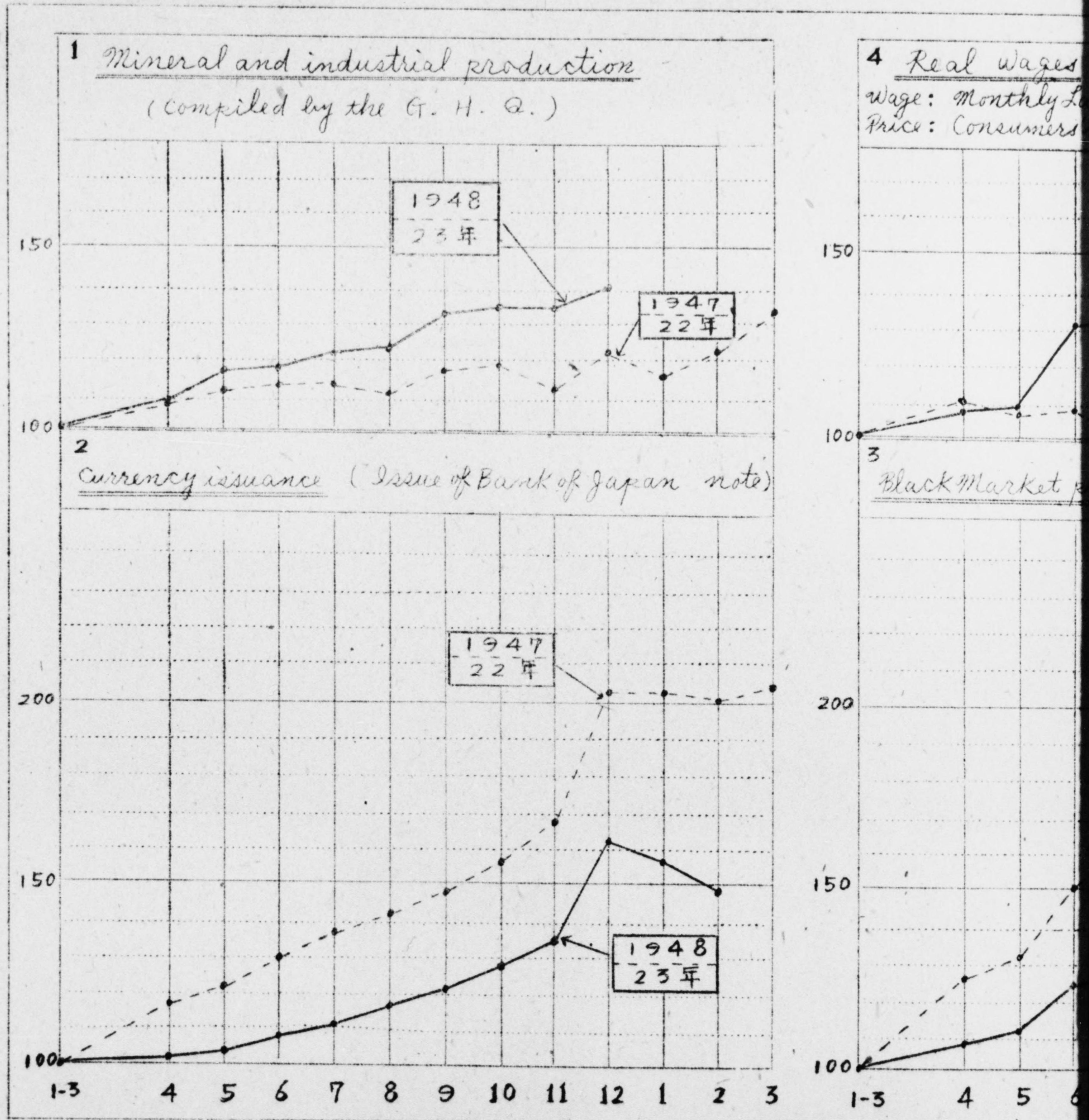
Under such circumstances of the world economy, the Japanese economy has come to show some signs of stabilization, e.g., relatively steady increase in production, slowing down of inflation, gradual rise in real wages of workers, etc. However, a close observation of the Japanese economy will immediately indicate that there are lots of unsound elements underlying the current economic situation. One and the foremost of them is the trade deficit which runs into about \$400,000,000 yearly, which means that the signs of economic stabilization are sustained by nothing but this large amount of foreign assistance. On the other hand, the depletion of national resources has not ceased in the form of the consumption of real assets of enterprises and the increased damages from natural disasters. Prompt increase in production and exports, and the arrest of inflation as its prerequisite, is essential and indispensable in order to eliminate those unsound elements. The inherent contradictions of the Japanese economy have, since the termination of the war, been hidden from our eyes on account of the progress of inflation and the isolation from the international economy. Now that the time is coming when bold efforts should be made to spot the essential problems and to seek for their fundamental solution.

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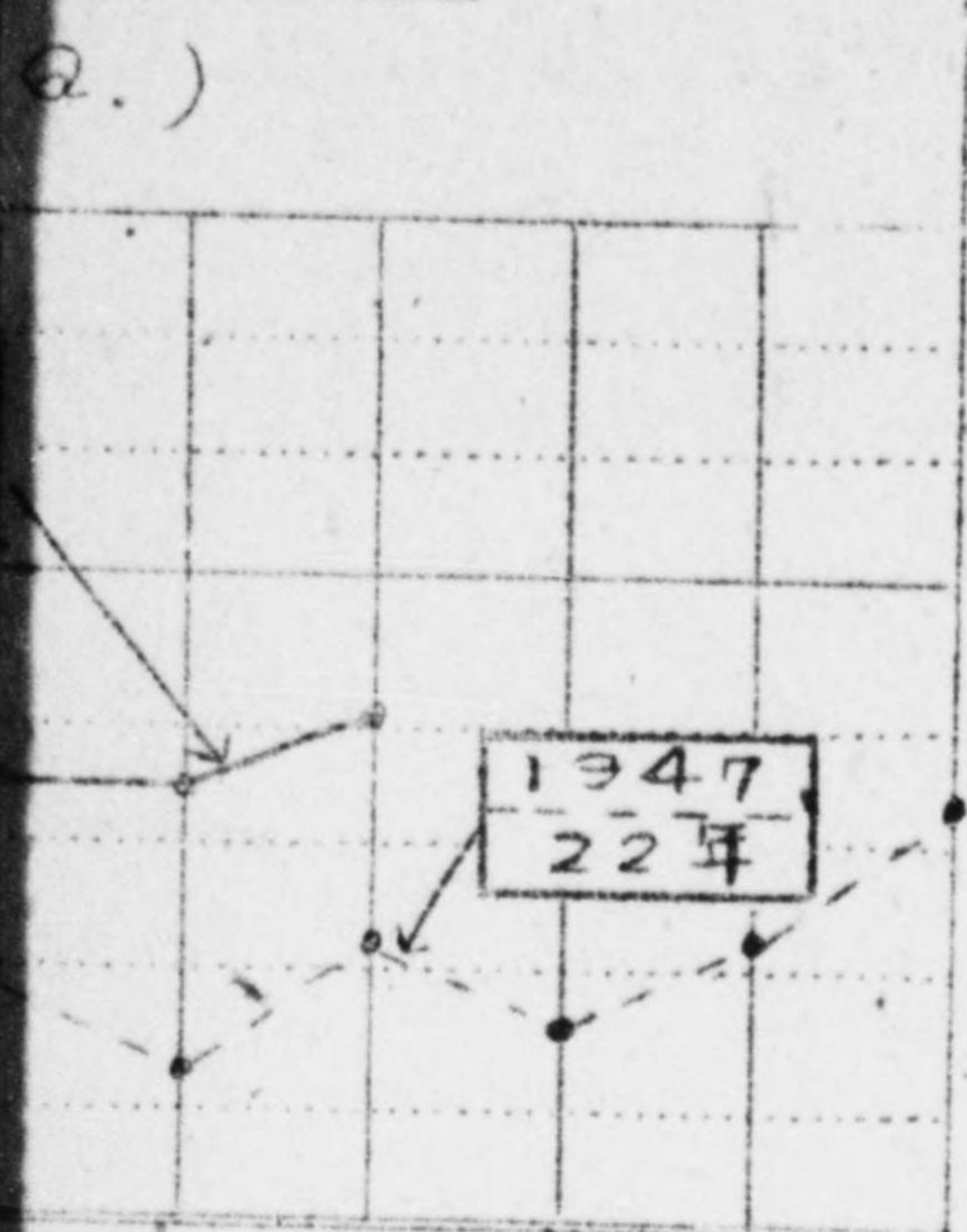
2. Signs of economic stabilization

As stated before, the Japanese economy in 1948 is showing signs of economic stabilization in (1) the steady increase in production, (2) the slowing down of inflation, and (3) the rise in real wages.

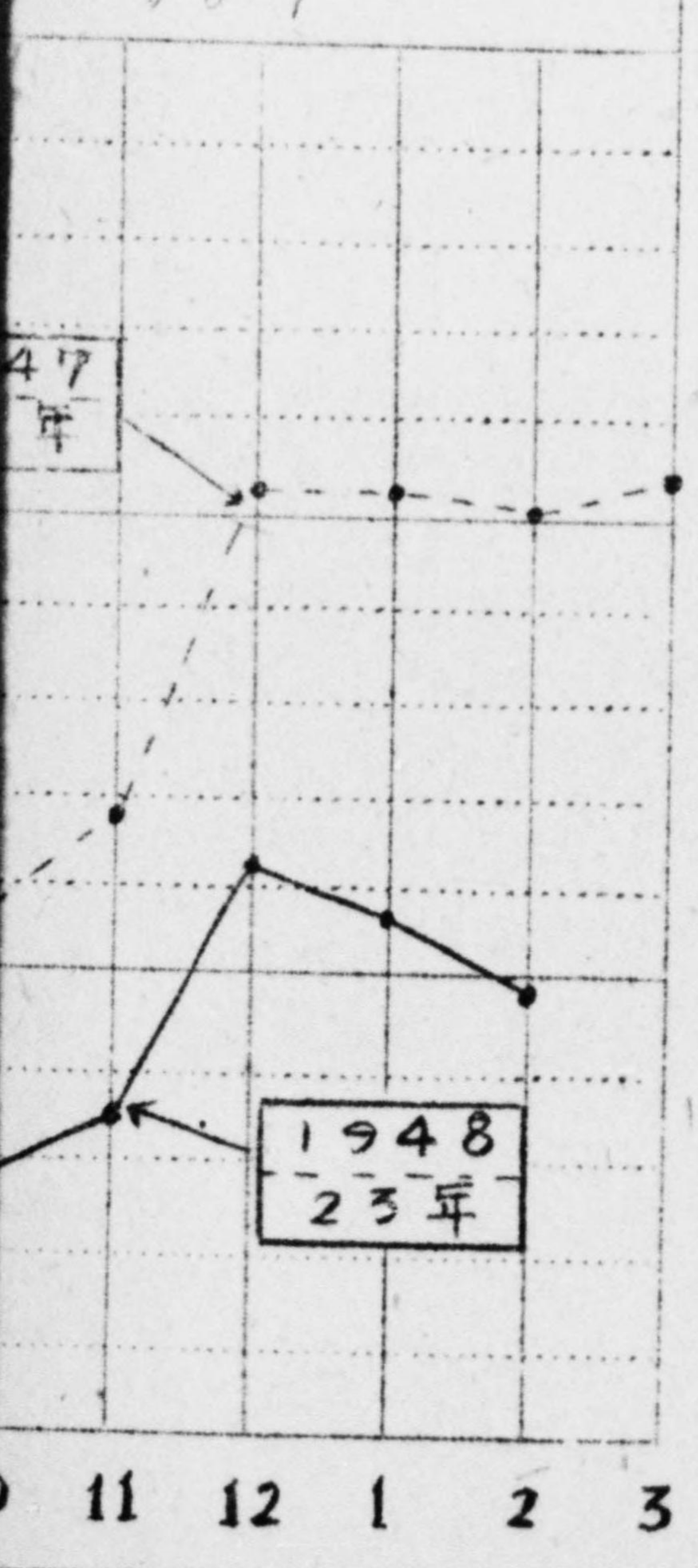
The following chart shows the trend of these three indices for the years 1947 and 1948, -e.g., the production index of the mining and manufacturing industries shows the trend of (1) above, the month-end outstanding issue of Bank of Japan notes and the Tokyo blackmarket consumer's goods price index shows the trend of (2), and the real wages index the national average industrial wages (tax deducted) divided by consumer's price index) shows the trend of (3). (Average January-March being 100)



Production

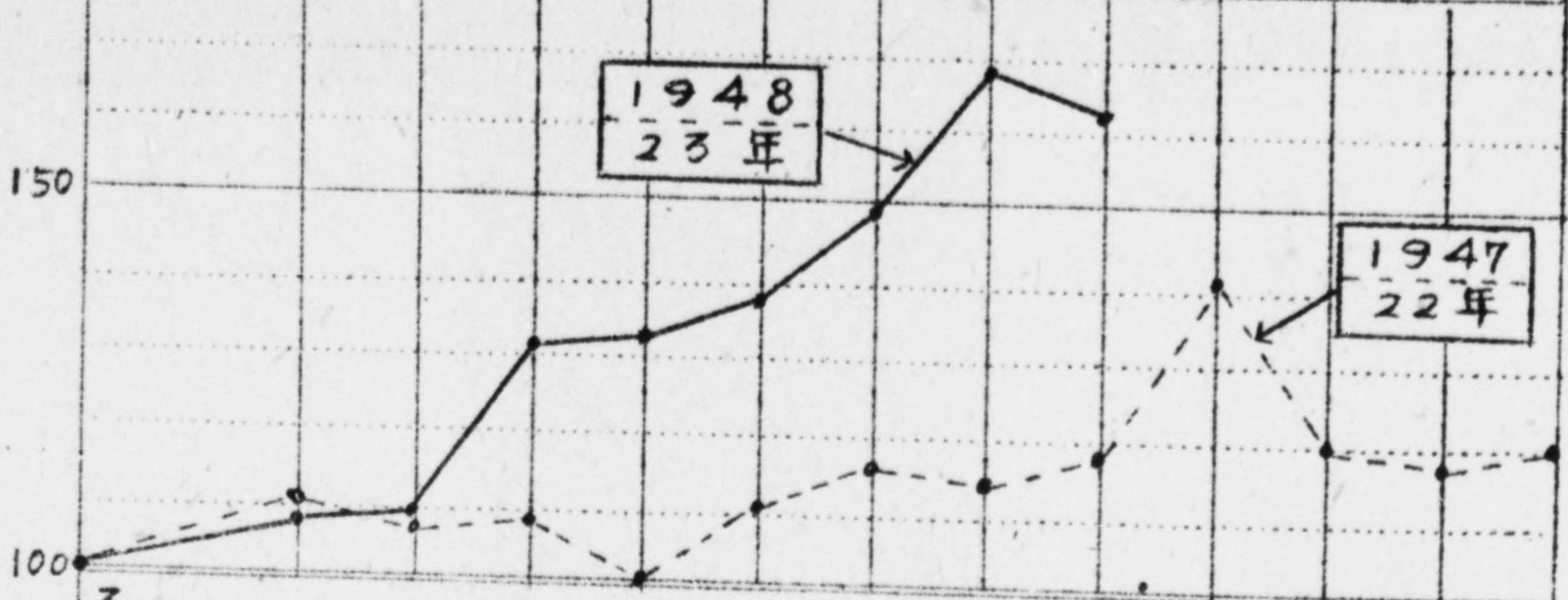


Bank of Japan note)

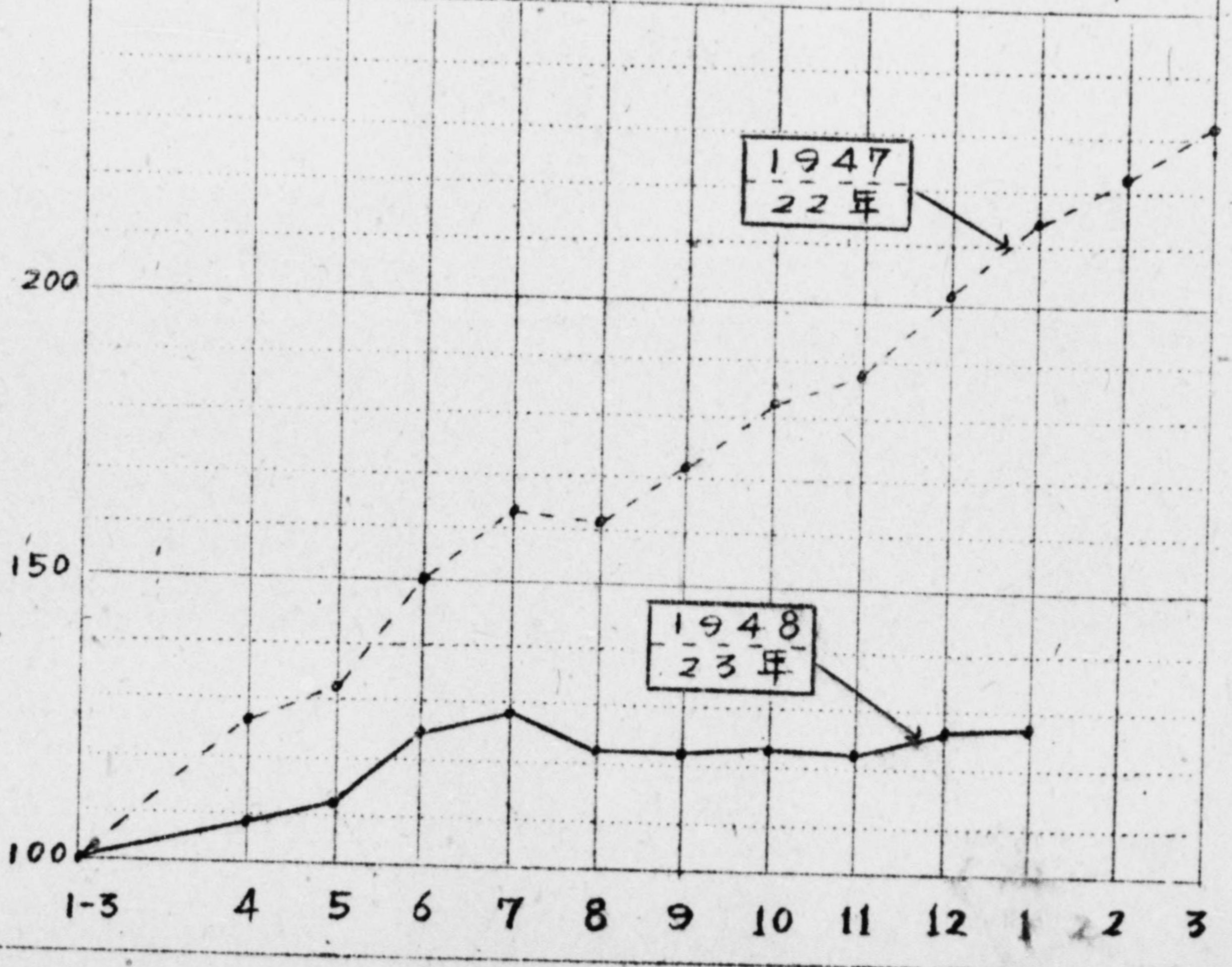


4 Real wages

Wage: Monthly Labor Statistics by the Labor Department
 Price: Consumers' Price Index by the statistics Bureau



Black Market price (Compiled by the Bank of Japan)



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(1) Rise in production level and its causes.

a. General observation on the increased production of mining and manufacturing industries.

The production of the mining and manufacturing industries in recent months shows a steady increase as seen in the following table and has reached the level some 35% higher than that a year ago.

Production Index of mining and manufacturing industries.

(Monthly average 1930-34 = 100)

F.Y.	April	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
1947(A)	39.9	42.2	42.3	41.7	41.3	43.1	43.6	41.8	44.6	42.5	45.5	49.3
1948(B)	49.8	51.7	52.9	55.1	55.6	60.6	61.4	61.9	64.4			
B/A (%)	125	123	125	132	135	141	141	148	144			

The comparison of the actual production in the April to December period with that in the corresponding period of the preceding year shows that there was a considerably great increase in production in most branches with only such few exceptions as cotton yarn, rayon fabrics, lumber, railway passenger car, etc. The following are the branches which showed large increase.

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Railway freight car	5.3	(or by 4.3 times increase)
Aluminum	2.7	
Caustic soda	2.5	
Ordinary finished steel	2.2	
Rayon yarn	2.2	
Bicycle	2.1	
Pig iron	2.0	
Soda ash	1.9	
Electrolytic copper	1.8	
Truck	1.6	
Ship	1.6	
Cement	1.6	
Ordinary paper	1.5	
Ammonium sulphate	1.5	
Cotton fabrics	1.4	
Carbide	1.4	
Zinc	1.4	
Pyrites	1.4	
Sulphuric acid	1.3	
Calcium cyanamide	1.2	
Calcium superphosphate	1.2	

The rate of increase in the above table may not necessarily reflect the actual state of industry as the production in the preceding year itself was extremely unbalanced and

abnormal

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abnormal. It is to be noted, however, that the processing of imported materials (iron and steel, aluminum, soda, etc.) and the production of related industry (railway freight car, ship, truck, rayon yarn, etc.) are among the branches which showed great increase.

As seen above, the textile industry showed a relatively slow recovery on account of the stalemate of the cotton spinning industry caused by the insufficient import of raw cotton and the lack of purchasing power in the foreign markets, while the metal, chemical, machinery and other industries showed marked increases as seen in the following table.

Industrial Production Indices by industries
(1930-34 = 100)

	Min- ing	Tex- tiles	Metal	Machi- nery	Cera- mics	Chemi- cal	Food
Apr.- Dec.							
1947(A)	87.1	19.9	38.4	45.2	46.0	48.8	44.5
"							
1948(B)	100.5	24.2	71.1	76.4	65.4	78.1	60.2
B/A(%)	115	122	186	169	142	160	135

As to the textile industry, not only its rate of increase in production but also the production level itself is low, thus lowering the general production index as it occupies 45% in the weight of the 1930-34 general index. Excluding textile industry from the general index, the monthly production index in December last reached 96% of the 1930-34 level.

Industrial

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Industrial Production Index Excluding
Textile Industry

(1930-34 = 100)

	Apr.	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
1947(A)	54.0	57.9	58.8	58.8	59.9	63.3	63.9	62.5	67.8	64.4	66.5	72.0
1948(B)	71.8	75.2	78.4	81.3	81.8	89.3	90.6	90.2	96.0			
B/A	132	130	134	138	137	141	141	144	142			

b. Causes of production increase.

(a) Improved supply of fuel and power.

The production of coal and the generation of electricity in the months April to December last year were 121 % and 105% respectively of those in the corresponding period of the preceding year, and the allocations of coal and electric power to mining and manufacturing industries were 138% and 110% respectively.

As to the electric power supply, a marked decrease was experienced in the hydro power generation during the summer and autumn seasons in 1947. However, due to an exceptional increase in river-water during the last autumn and winter, the hydro power generation has come up to 135% of the average level. Furthermore, the thermal power generation is encouraging owing to an increased supply of coal, thus resulting in a great improvement in the electric power supply. At the same time, due to the rationalization of electricity consumption, the electricity requirement per unit of output has become less, thus rendering the rate of production increase greater than that of electricity supply increase.

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(1930-34 = 100)

	F.Y. 1946(A)	F.Y. 1947(B)	1948(C) (Apr.- Dec.)	B/A	C/B
Production index of mining and manufacturing industries	35.5	43.1	57.0	121	132
Electricity generation index.	161.0	178.0	201.0	110	113

(b) Increased import of raw materials.

The imports of iron ore and coal which had been practically nil in 1947 were 410,000 tons and 980,000 tons respectively in 1948, resulting in the increase in iron and steel production.

The same is true with the import of salt for soda industry. The import of salt in 1947 was 820,000 tons while it was 1,180,000 tons in 1948. The chemical fibre industry and other industries which use soda prospered as a result. The three-fold increase in aluminum production was caused by the increased import of bauxite. Meanwhile the import of raw cotton in the months April to October of last year was 74,000,000 lbs. or 91% of the import in the corresponding period of the preceding year, which was one of the reasons why the cotton industry remained stalemate.

(g)

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(c) Improvement of transportation.

The goal of railway transportation for F.Y. 1948 is 130,000,000 tons. The volume of transportation in the months April to December of last year was 95,900,000 tons i.e. 97.5% of the goal of the period and 13% over the transportation in the corresponding period of the preceding year. The increase was even greater with respect to maritime transportation. The domestic transportation by steam-boats in the months April to December of last year was 9,970,000 tons or 117% of the target and 61% more than that in the preceding year. The increase in marine transportation of coal was especially remarkable, showing an effective shifting of coal transportation from land to sea.

(d) Other causes.

One of the other causes was the decreased demand of the Occupation Forces. In case of coal, for instance, the allocation for the Occupation Forces diminished to 3.0% of the entire supply in the months April to December of last year, compared with 4.6% in the corresponding period of the preceding year. As to cement, the demand was only 11% of the entire supply in the months April to December of last year, compared with 66% in the corresponding period of the preceding year.

Further causes which increased the production were the improvement of labor efficiency and stability induced by the

Improved

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improved food situation and the rise in real wages as stated below. The effect of the price revision in July last year is clearly observed in the increased production of, for example, non-ferrous metals and others. The release of stock of materials following the upward price revision no doubt gave favorable effect upon production.

c. Bumper crop of major agricultural products.

The major agricultural production has surpassed the production in the preceding year by about 10% due to the favorable weather and the increased supply of fertilizer and agricultural implements. The production increase of wheat and sweet potatoes was especially remarkable. The bumper crops in the three consecutive years of 1946, 1947 and 1948 no doubt contributed a great deal to the recovery of the Japanese economy.

	Unit	1948(A)	1947(B)	A/B
Rice	10,000 <u>koku</u>	6,234	5,865	106
Wheat	"	1,947	1,496	122
Sweet potatoes	1,000,000 <u>kan</u>	1,617	1,177	136
Potatoes	"	572	584	98
Total	In terms of rice, 10,000 <u>koku</u>	9,054	8,128	111

The

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The delivery has also been very satisfactory. The ratio of delivery to the collection quota at the end of December as compared with previous 2 years was as follows:-

	1946	1947	1948
Rice	58%	68	83
Wheat	90	108	106
Sweet potatoes	70	74	107
Potatoes	81	108	115

The delivery of rice reached its planned goal on 17th February of this year and the ever-quota delivery is also being made steadily. The reasons are that the delivery price including various incentives approached the level of the blackmarket price, that the pre-planting allocation caused farmers to prepare for delivery, that the blackmarket profit has been reduced due to the improvement of the urban food situation, and that farmers were forced to deliver their products on account of the cash shortage caused by the rise in tax and prices of farmer's necessities.

(2) Slowing down of inflation.

a. Indices showing the slowing down.

The Bank of Japan note issue which did not undergo much change in the first six months began to increase after July and reached ¥ 355,300,000,000 by the end of December.

The

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The monthly rate of increase, however, is lower than that of the preceding year as shown below, and the increase in a year of 1948 was 62% as compared with 135% of 1947. As to the issuance during each month, normal pattern is gradually re-appearing i.e. the issuance decreased in the early part of the month and increased in the latter part of the month.

	Month-end issue of Bank of Japan note	Percentage in- crease over the preceding month	Percentage increase over the preceding month in the preceding year
April 1948	¥ 220.4 billion	0.8	5.8
May	223.5	1.4	6.0
June	230.6	3.2	5.1
July	241.4	4.7	5.4
August	254.2	5.3	4.8
September	262.1	3.1	3.8
October	279.5	6.6	7.3
November	294.7	5.4	6.2
December	355.3	20.6	23.0
January 1949	341.5	* 3.5	*0.5
February	322.4	* 5.5	*1.2

The blackmarket price which had tended to be stagnant since about August 1947 has almost been pegged at the level 60% higher than the 1947 average as to the productive materials

and

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and 80% higher as to the consumer's goods on account of the aforementioned currency situation, increase of production, elimination of delayed or dishonored rationing, reduction of blackmarket margin caused by price revision, etc. While the rate of price rise of productive materials was greater than that of consumer's goods in the preceding year, the rate of price rise of the latter was greater in the first half of 1948 as price of staple food and other consumer's goods showed seasonal rise while the price rise of productive materials were less remarkable because of the increase in production and the difficult financial condition of enterprises.

The official price was almost doubled from June to November. The difference between the official and blackmarket prices was thereby greatly reduced, and in some instances the blackmarket prices became even lower than the official prices.

The consumers' price index (CPI) which had gradually come to be stagnant since August 1947, keeping pace with the blackmarket price, rose temporarily around July and August due to the revision of the official price, but the rising tempo became slow thereafter due to the increase of the staple food rationing and other favourable circumstances.

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	Official price index		Blackmarket price index		Effective price index
	Bank of Japan; Tokyo-wholesale	Bank of Japan; Tokyo-Retail	Bank of Japan; Tokyo-Productive materials	Bank of Japan; Tokyo-Consumer's goods	
April	187	210	158	164	166
May	189	219	157	173	164
June	196	222	158	186	187
July	275	277	158	191	200
August	331	336	160	183	208
September	356	383	162	183	209
October	375	409	161	184	199
November	404	428	164	185	217
December	408	430	165	189	225

b. Reasons for the slowing down.

(a) Improvement in the fiscal and monetary situations.

The scale of the General Account for 1948 fiscal year is ¥473,100,000,000, or 2.2 times as big as that for the preceding fiscal year while tax collection through last December was as much as 50% of the target, a substantial increase although not sufficient by any means, as compared with 33% in the corresponding period of the preceding fiscal year. The excessive disbursements in the period from April through December last year was 40.5 billion yen as against 40.9 billion yen

in

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in the corresponding period of the preceding fiscal year, which is a good improvement if we consider the expansion of budgetary scale for 1948 fiscal year as against that for the fiscal year. In the Special accounts, the net increase ^{preceding} in bond issue and borrowing in the period from April through December last year runs as high as ¥ 139,400,000,000, or 2.7 times as much as that in the corresponding period of the preceding fiscal year. This, coupled with the increase of bond issue for local finance, accounts for the expansion of total excessive disbursements in public finance for 1948 fiscal year as much as 2 times as against that in the ^{preceding} fiscal year. However, the increase in excessive disbursements in the Special Accounts is mainly attributable to the increase of payments for the delivery of rice quotas. Out of the total excessive disbursements in the Special Accounts in the period from April through December 1947, ¥ 28,700,000,000 is attributed to the Special Account for Food Control while the excessive disbursements attributed to the said Special Account in the corresponding period of 1948 run as high as ¥ 90,000,000,000. The excessive disbursements of this kind are to be collected in due time. Furthermore, inasmuch as the long term bonds in 1948 were fully absorbed, the aforementioned excess disbursement in the Special Account did not take ~~the~~ form of note issuance in its entirety. If we consider such factor as this, we may conclude that the issuance of bank notes ^{/for public} has been more restrained than in the ^{preceding} fiscal year. ^{financial reasons}

Although

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Although the increase in industrial finance in the April-June period remained comparatively small, following the revision of official prices in July, loans particularly from general financial institutions expanded sharply, and the total industrial loans in the period from April through December run as high as ¥293,100,000,000, or 2.6 times as much as that in the corresponding period of the ^{preceding} fiscal year. The greatest reason why the rate of currency expansion has decreased as previously stated in spite of such large excessive disbursements as stated above in both public finance and money market is that general deposits have increased substantially. The amount of general deposits has increased steadily month by month and especially since August the rate of increase has been conspicuous. Thus, the increase in general deposits in the period from April through December runs as high as ¥ 306,500,000,000, or 3 times as against that in the corresponding period of the ^{preceding} fiscal year. Such increase in deposits as stated above is mainly explained as follows:

(a) People's will to save has been enhanced since last year by such factors as the shrinkage of blackmarket economy, slowing down of inflation, etc.

(b) Enterprises have been inclined to deposit greater part of their cash in hand.

Quarterly

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Quarterly demands and supplies of funds are shown in the following table and the ratio of public finance as against industrial finance (40% to 60%) is somewhat decreased as compared with that in the preceding fiscal year.

(in 100 million yen)

	1948			A Total	B 1947		$\frac{A}{B}$
	Apr.-Jun.	Jul.-Sept.	Oct.-Dec.		Apr.-Dec.		
I. Fund Demand	614	1,325	2,787	4,726	2,087	2.3	
1. Public Finance	141	409	1,425	1,975	958	2.0	
National	64	339	1,255	1,658	931	1.7	
Local	77	70	170	317	27	11.7	
2. Industrial Finance	553	1,016	1,362	2,931	1,429	2.5	
R.F.B.	166	158	191	515	381	1.3	
3. Duplication (Government Investment in RFB)	*80	*100	0	*180	0	--	
II. Fund Supply	528	936	1,875	3,339	1,055	3.1	
1. Increase in General Deposits	394	1,069	1,602	3,065	1,014	3.0	
2. Other Deposits	87	140	230	457	149	3.0	
3. Capitalization of Financial Institutions and Increase of cash in hand (*)	47	*273	43	*183	*108	*1.7	
III. Shortage of funds I-II	86	389	912	1,389	1,032	1.3	
IV. Currency Expansion	118	315	931	1,362	1,033	1.3	
Revolving Rate	II/I 85%	70%	67%	70%	50%	--	

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- (b) Increased supply of materials, especially of rations.

The increase in production as stated above increased the supply of productive materials and consumer's goods, thereby contributing to the slowing down of inflation. In particular, the full rationing of staple food in the seasonal deficit period the 2.7 go rationing since November, the increase in supplementary rationing to the workers, etc. are the contributing factors to the slowing down of inflation.

According to the consumer's price survey, (Tokyo), the percentage of the physical volume of rationed staple-food in the volume staple food purchase by household was only 57% in July 1947 when the delay and dishonor of rationing was worst but it has improved to about 70%-80% recently.

- (c) Increase in psychological stability.

The shrinkage of blackmarket and the slowing down of price rise have given a sense of stability to the general public. The weakening of rush for goods, enhancement of the will to save, increased activity of capital market, relative decrease in cash transaction-- these contributed to the slowing down of inflation. It is noteworthy that such sound circulation has come to be seen.

(3)

9-19 -

(3) Rise in real wages.

a. Movement of wages.

The movement of the national average per capita monthly wages of industrial employees as shown in the "Monthly Labour Statistics" of the Ministry of Labour is as follows.

	1947 average	Jan.-Mar. 1948	Jun.	Oct.	Nov.	Dec.
Wages of industrial employees (A)	1,819 yen	3,050	4,395	6,574	6,921	9,038
Index of above	100	168	242	361	381	497
Consumer's effective price (all cities) (B)	100	158	180	213	227	239
Real wages (A'/B)	100	104	137	176	171	205

Note: A' is the index of A tax deducted. Sharp rise in December was caused by year-end bonus. While the average nominal wages increased from ¥ 1,819 in 1947 to ¥ 6,921 or 3.81 times as high by November 1948, the price level went up during the same period only 2.27 times so that the real wages went up by 70%.

It is to be noted, however, that "Monthly Labour Statistics" is based on the research mainly in large enterprises (all plants and work places with more than 100 employees and 10% of plants and work places with not less than 30 nor more than 99 employees) and that the movement of wages in the smaller enterprises is not represented therein. The real wages above-mentioned denote those mainly large enterprises.

b.

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b. Reasons for the rise in real wages.

The rise in real wages is attributed to the fact that the nominal wages rose by demands of labour unions more than the price level did and is examined in details below.

(a) Demand of household budget.

The wages rose to 3.2 times during the half year period immediately after the war. Since then the rate of rise has steadily been 8 to 9% every month (1.6 times in half a year; 2.8 times in a year) regardless of the pace of price rise.

The remarkable rise in nominal wages was due to the fact that the real wages in the immediate post-war period was **extraordinary low** level and there has been very strong demand from the household economy for the wage rise. While the curve of price rise was sharp, however, the rise in wages necessarily lagged behind the price rise. As the tempo of price rise gradually slowed down, the real wages gradually increased, especially after August 1947. The tempo of the rise in real wages has recently been remarkable.

(b) Changes in income distribution.

The slowing down of inflation reduced the inflation income in favor of the earned income. This is one of the important reasons why the price level remained stagnant in spite of the rise in nominal wages. The household budget of the working class showed some 30% improvement in the last one year while the

level

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level of consumption of the urban ordinary household in CPS remained practically unchanged. It is to be noted also that the decrease in income of the rural population contributed to the improvement of the real wages of the urban workers. As stated below, the widening gap in wages in the large enterprises and those in the medium and small enterprises served to raise the real wages as seen in the "Monthly Labour Statistics".

(c) Capacity of enterprises to pay wages.

The changes of wages as seen from the accounting of enterprise are as follows.

	1947 average	Jan.-Mar. 1948	Apr.-Jun. 1948	Jul.-Sept. 1948	Oct. 1948	Nov. 1948	Dec. 1948
Average per capita wages (A)	100	168	217	299	361	381	497
Volume of employment (B)	100	100	101	104	106	107	106
Volume of production (C)	100	129	169	221	216	222	228
Wages per unit of products (AB/C)	100	130	130	141	176	183	230

* (Note: "Volume of production" is production index computed with the weight of 1947 average wage payment by industry groups as compiled in the "Monthly Labour Statistics" of the Ministry of Labour. The purpose of using such weight is to contrast the

production

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production with wages. This production index, therefore, is different from the ordinary index based on the weight of pre-war industrial structure. It is to be noted also that the weight of medium and small enterprises is very small due to the aforementioned nature of "Monthly Labour Statistics.")

The average per capita wage in November 1948 was 3.8 times as high as the 1947 average. The production roughly doubled during the same period without much change in the amount of employment. That is to say, the labour productivity increased at a rate roughly similar to the rate of production increase, so that the wage per unit product increased by only 80% over the 1947 average. It was only 30 to 40% rise till around September last year. Meanwhile, the official price was doubled in June compared with the 1947 average and was raised to as much as 4 times by November. The effective price of productive materials was 1.6 times and 3.0 times as high respectively. The capacity of enterprises to pay, therefore, relatively increased in spite of the rapid rise in per capita wages, thus making it possible to sustain the wage rise.

c. Effect of the rise in real wages.

(a) Rise in consumption level.

According to the research in the household budget of the working class in Tokyo-to made by the Tokyo-to government, the consumption level of October-November 1948 was by over 30% higher than the 1947 average.

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	1947 average	Jan.-Mar. 1948	Apr.-Jun. 1948	Jul.-Sept. 1948	Oct.-Nov. 1948
Household expenditure (A)	100	164	207	257	283
Consumer's effective price (B)	100	148	172	206	209
Real household ex- penditure (A/B) (Consumption level)	100	111	120	125	137

Again, as seen in the following table, the household expenditure of the working class is approaching the household expenditure of the general urban population in the "Tokyo-to Consumers' Price Survey (CPS) (Both in terms of household of 4.5 members).

	1947 average	Jul.-Sept. 1948	Oct.-Nov. 1948
Household expenditure of working class (A)	4,120 yen	10,449	11,544
Household expenditure of urban population (CPS)	5,357	10,454	11,705
A/B	77%	100%	99%

(b) Improvement of household budget.

As was stated in the Report on Japanese Economic Conditions published in May, 1947, in the household budget of working class, the supplementary income occupied 20% of the whole income in 1947, but that percentage was reduced to 10% by September 1948 to the improvement of the income composition. The household deficit averaging 7 per cent in 1947 also decreased and the balance has been almost restored since July 1948.

(c)

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(c) Improvement of labour efficiency.

Such rise in real wages and improvement of living standard and household economy naturally increased labour stability and rate of attendance, thereby increasing labour efficiency.

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3. Actual Situation Underlying the Superficial Improvement

The Japanese economy has shown some improvements in the past few years, as seen in rising production level and real wages, slowing down of inflation, etc., but we should not forget the fact that there are various draw-backs behind these superficial favourable phenomena, e.g., (1) accumulation of import surplus, (2) whittling down of actual assets of enterprise caused by unsound management, (3) depletion of national wealth by devastation of natural resources, and (4) stalemate in standard of living.

(1) Accumulation of import surplus.

a. Outline of export and import

According to the returns on export and import in terms of U.S. dollar since January 1948, import increased by 30 per cent in monthly average against that in the corresponding period of 1947, while the monthly export in the January-April remained only 65.80 per cent of the monthly average in 1947. However, the exports recovered to 100 per cent in May and June, 170-180% in July-September and as high as 324% in December. On an yearly basis, the exports in 1948, reached a level 49% higher than that in 1947. However, the surplus imports amount to 420 million dollars and are still increasing.

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Trade Balance since War End

(in 1,000 U.S. dollars)

	Export	Import	Import excess
War End-End of 1946	103,292	305,393	202,101
1947	173,568	526,130	352,562 ✓
1948	258,621	682,612	423,991 ✓

Ratio of average export and import in 1948 against average export and import in 1930-34 in terms of present dollar price is 343% in import and only 13.5% in export.

A comparison of the scale of our foreign trade in 1947 with that of other an Eastern countries will tell how small our export has been since the end of the war as shown in the following table.

	1947		1936	
	Export	Import	Export	Import
Japan	173	526	1,037	1,053
Philippines	266	608	81	60
China	239	656	125	217
Malaya	611	643	217	175
Hongkong	313	390	108	139
Siam	93	135	81	49
India	1,143	1,521	410	276
Netherlands East India	128	284	202	109

(in 1,000,000 U.S. dollars)

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The following table shows, for reference, the export and import from January through September 1948 broken down by main categories as compared with that of 1947 and 1934.

As you can see in the table, the weight of each export category has almost recovered to prewar level, but that of import shows a remarkable increase in "Foodstuff" category compared with that in the prewar year (though that of 1948 (Jan.-Sept.:47.0) decreased compared with that of 1947:58.4). That means import weight of production materials and materials for export has become relatively small.

Export (in 1,000 U.S. dollars)

	1948(Jan.-Sept.)	1947	Percentage in 1934
Aquatic Products, Canned Food (incl. Fats and Oil)	7,179(4.7)	5,717(3.3)	(7.9)
Leather and Hide Goods	4,246(2.8)	345(0)	--
Chemical and Rubber Goods	8,938(5.9)	4,749(2.8)	(4.8)
Textile	85,976(56.6)	133,499(76.5)	(58.4)
Mine Products, Ceramics and Metal Goods	22,483(14.8)	14,039(7.8)	(9.4)
Machineries and Instruments	8,652(5.7)	7,073(4.1)	(5.8)
Miscellaneous Goods (incl.lumber and paper)	14,577(9.6)	8,146(4.7)	(13.7)
Total	152,051(100)	173,568(100)	(100)

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Import (in 1,000 U.S. dollar)

	1948(Jan.-Sept.)	1947	Percentage in 1934
Foodstuff	241,630(47.0)	307,436(58.4)	(7.6)
Fats and Oil	8,592(1.7)	5,130(1.2)	(6.6)
Chemical Products and Rubber	42,059(8.2)	80,132(15.4)	(2.5)
Textiles	124,294(24.2)	82,823(15.7)	(43.0)
Lumber and Paper	1,522(0.3)	1,780(0.3)	(3.4)
Mine Products, Ceramics, Metals and Machineries	80,421(15.7)	48,414(9.2)	(28.6)
Hide and Leather	3,543(0.6)	221(0)	(0.9)
Others	11,173(2.2)	194(0)	(7.4)
Total	513,144(100)	526,130(100)	(100)

Note: Trades with Korea and Formosa are excluded from "Percentage in 1934".

Turning to the export and import situation by areas, it is shown in the table below. It shows that the trades with non-dollar area are balanced because barter or bilateral settlement agreements are adopted or while the balance of trade with dollar area is unfavorable. The conclusion of these agreements is mainly responsible for recent export increase, and for that reason it is gratifying. But it must be noticed

that

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that we are still far from the stage in which, as in pre-war days, our surplus import from dollar area is affect by surplus export to sterling area.

Export and Import by Areas (in 1,000 U.S. dollars)

	1948(Jan.-Sept.)		1947		1948			
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
	Ex.	Im.	Ex.	Im.	Ex.	Im.	Ex.	Im.
U.S.A.	42,400	341,700	27.9%	66.5%	11.6%	91.9%	18.4	34.2
Other American Countries	2,200	72,000	1.4	14.1	0.4	0	5.2	3.5
Asia & Australia	75,200	76,000	49.4	14.8	68.8	5.9	57.5	45.6
Europe and Africe	32,300	23,300	21.2	4.5	19.2	2.2	18.9	16.7

b. Factors causing surplus import.

(a) Low level of export.

Our export in the first half of 1948 was very discomaging. One of the reasons is the lack of free exchange of currencies. As the free exchange between U.S. dollar and sterling has been suspended again, sterling area countries have restricted their imports, for fear of having surplus import, from Japan. Textiles, in particular, which used to be our major exports ceased to be so as foreign countries limited their imports to foodstuffs and basic materials with the

result

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result that stock for export amounted to a volume equivalent to several months production. On the other hand, the export of basic materials for which there were demand from foreign countries has been limited because of unsatisfactory recovery of their production and heavy demand for domestic reconstruction. Furthermore unsatisfactory supply of materials and funds for export industries, lack of information regarding overseas market conditions, too much complicated export procedures, deteriorated quality of commodities resulting in less competitive capacity in world market, etc. contributed to the unusally small export. However, as mentioned above since July last export situation has much improved and the total export in 1948 C.Y. is estimated at 258 million dollars, 49% increase over that in the preceding year. This export increase in the latter half of 1948 is considered to be attributable to the conclusion of trade agreements with British Commonwealth of Nations, Netherlands, etc. which made bilateral settlement without directly using dollars possible, steady rehabilitation of indigenous production and smooth price ratio operation.

It is needless to point out that the recent import increase is only in relation to the export in the first half of the year and the present export has by no means obtained a satisfactory dimension.

Comparison

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Comparison between production and export during the period of January through September 1948 on the one hand and those in 1937 on the other is shown in the following table, which also indicates that present export of all the commodities except cotton fabrics is of very small dimension.

	Rate of production recovery in Jan.-Sept.1948 against monthly average of 1937	Rate of Export recovery for the same periods	Ratio of export against production	
			1937 (monthly average)	1948 (Average for Jan-Sept.)
Steel	21.4%	0.3%	17.1%	0.2%
Amm.Sulphate	111.5	13.7	20.2	2.5
Cement	30.2	2.0	17.4	1.6
Sheet Glass	42.6	11.9	13.4	3.7
Raw Silk	19.2	12.9	64.9	43.6
Cotton Yarn	19.1	15.0	4.2	3.3
Rayon Yarn	11.4	6.7	17.7	10.4
Cotton Fabrics	18.4	25.5	32.9	45.7

The above decline in export was caused by the necessity to satisfy minimum home requirements under the present low level of production. But at present when the improvement of trade balance by the increase of export has become a paramount necessity it would not be said that there is no further room to increase export by production increase and saving of domestic consumption.

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(b) Other factors.

It is needless to say that increase in import and the export slump are the direct causes of import surplus, but there is hardly any room for reducing import as it is limited to only minimum necessities. But it cannot be denied that the lack of information on overseas market, etc. tend somewhat to increase the amount of import.

Worldwide rise in price should not be overlooked as one of the factors for big increase of import surplus as compared with the prewar time. (wholesale price in U.S.A. in June 1948 was 2.9 times that in 1933). When import and export are well balanced, the effect of high price could be nullified, but as it is, it would increase only the import excess.

The more important factor is the unfavourable trade terms. Rates in price rise in import items are higher than those in export items. Particularly, this is the case with foodstuff which occupies major part of imports. Wholesale commodity price index in U.S.A. shows that agricultural commodity price in June 1948 was about 3.8 times that in 1933, in contrast with 2.1 times rise in non-agricultural commodities.

The increase of shipping charges is also one of the main factors for import surplus. The present percentage of shipping charges in the CIF price of imported goods

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is 82% in salt from the Mediteranean, 56% in crude oil and 37% in coal from U.S.A. and 30% in iron ore from Hainan Island.

The total freight charge in 1948 is estimated at more than 100 million U.S. dollars out of the import of 700 million U.S. dollars.

(2) Unsound management of enterprise.

a. Real state of unsoundness.

Postwar economic policy has been focussed on overcoming under-production and prevention of catastrophic inflation. To attain this objective, it has become inevitable to enforce production increase in disregard of profitability of enterprise and low price policy at the expense of maintenance of real capital of enterprise. The fact that such a policy has been continuously adopted after destructive war economy together with the lack of will to make an independent and efficient management on the part of entrepreneurs has undermined soundness and self-support of enterprise.

(a) Inadequate amortization.

Whittling down of real assets of enterprise is due, on the one hand, to the actual shortage of capital accumulation in the hard up economy and on the other, to the treatment of amortization under the existing tax law.

At

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At present when the assets acquired in the past are very much under-valued through the progress of inflation, under-amortization will result from the application of the existing tax law which stipulates a fixed rate of depreciation against the old book value of the assets. Furthermore, inadequate amortization is attributable to the low price policy which, as a principle, does not permit to incorporate into official price more than a fixed amount of amortization based on the old book value of the assets.

The following table shows the comparison between the prevailing amortization and the amortization to be made in case assets are reappraised at current price in main industries.

Ratio of amortization against total cost			
	At book value(A)	At current price(B)	Ratio of (B) against (A)
Iron & Steel			
A Co.	0.132%	4.20%	32.9 times
B Co.	0.070	2.05	29.7
C Co.	0.235	4.59	44.8
Machine Mfg.			
A Co.	0.467	12.65	30.9
B Co.	0.230	4.97	21.5

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	At book value(A)	At current price(B)	Ratio of (B) against(A)
Automobile Mfg.			
A Co.	0.550	9.32	19.7
Paper Mfg.			
A Co.	0.396	7.89	20.8
Ship Bldg.			
A Co.	0.300	7.80	28.8
B Co.	--	--	29.5
Electricity			
Nippatsu & 9 Haiden Co.	1.370	41.53	51.2

As is shown in the above table, present amortization is only about one thirtieth of that which would be made against current price. This means a virtual suspension of amortization. The ratio of amortization based on current price to total cost is between 5 and 10 percent, as is also shown in the above table, excepting such industry as electricity whose capital expense is exceptionally large.

It is imaginable that enterprises would not leave their real assets to whittle away but that they take some steps for the maintenance of their capital by various manipulation in book-keeping, etc. But the question lies in that these manipulations can only be made by illegal methods.

(b)