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Ratio of black market and free prices to official prices.

(Survey by the Bank of Japan)

	Mar. 49.	Apr. 49.	May. 49.	Jun. 49.	Jul. 49.	Aug. 49.	Sept. 49.	Sept. 48.	Sept. 47.
Producer goods	2.8	2.7	2.6	2.5	2.4	2.1	2.0	2.9	2.1
Consumer goods	2.8	2.6	2.6	2.6	2.5	2.3	2.1	3.5	8.1

Note: Producer goods = average of 25 commodities.

Consumer goods = average of 50 commodities.

This situation is being reflected upon price control which is rapidly narrowed in coverage. 64,506 items (subclassification) were under price control in April this year. But they rapidly decreased month after month and items placed off control up to the end of September totalled 26,023 or 40% of the total. Decontrolling is expected to continue also in the future.

Distribution control is also being narrowed in coverage. There were 284 designated production materials in April this year. Since then 148 items have been decontrolled, used copper and 19 other items being the first, and coal and coke being the last to be decontrolled. Control is still maintained on 136 items. In the near future, however, more items may be decontrolled leaving basic and imported materials. Rationing control on consumer goods covered 70 items at first. But 39 items including fruit and vegetables have been decontrolled, leaving 31 items including staple food and textile goods. Along with relaxation of control, method of control has been modified. Consumers selection, returned coupon system, advance order system etc. leaving greater room for free competition, have been adopted. Moreover, to cope with the lack of purchasing power,

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measures have been taken to relax control on small-lot demand for iron and steel, caustic soda, cement, plate glass etc.

As a result of this changing situation, the Kodans which are successors to the war-time control organizations were gradually abolished. Of 15 kodans, five Kodans including the Scild Fuel Distribution Kodan have already been abolished. It is moreover planned to abolish 3 kodans and consolidate kodans into one leaving only five Kodans.

Control is being gradually relaxed also in other fields such as transportation and credit. The question now discussed is not what to decontrol but what control to maintain. The basis of free economy based on the principle of producers competition and consumers choice is being gradually enlarged.

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4. Some progress in rationalization of enterprises

The slowing down of inflation toward the latter part of last year has urged enterprises to gradually tighten their loose management. Various new circumstances of this year, such as cessation of inflation, shift from sellers' market to buyers' market due to the widening of free economy, establishment of the single exchange rate, reduction of subsidy, and devaluation of pound, etc., have forced enterprisers to improve the quality of their products and reduce their costs of production. Serious efforts for the rationalization of enterprises have thus achieved considerable results, and the objective of the economic stabilization program was attained to a certain extent. Following are some examples set out in items.

a. Improvement in quality

Materials	Unit	Pre-war	1948	1949	Remarks
Coal	Calorie	(1940) 5,986	(average) 5,685	(July) 5,869	National Average
Calcium cyanamide	Nitrogen content	23.0%	(") 18.2%	(August) 20.8%	"
Pulp	Alpha Cellulose content	-	(") 89.5	(Jan-Aug) 90.6	One company

The improved quality of coal rendered possible the economy of coal consumption. For example, the National Railway, using average 6,000 calorie coal in August this year, transported 91% of the man/ton/kilometers of August last year with only 84% of coal consumption for the latter period when the coal was of average 5,540 calories. This is an average 400,000 tons (roughly equivalent of National Railway consumption in August this year) economy of coal per year. Again, improvement in quality of a certain product contributes to the reduction of its amount consumed per unit of secondary products manufactured from it.

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b. Reduction in the amount of materials absorbed per unit of products.

Products	Materials	Pre-war	1948	1949	Remarks
Cement (per ton)	Coal	(1940) 320 kg	(average) 427	(July) 380-410	National average
	Fire brick	(") 2 kg	(") 5.5	(") 4.5	"
	Lubricating oil	(") 0.21 l	(") 0.42	(") 0.3	"
Sheet glass (per case)	Coal	(1939) 65 kg	(July) 107 kg	(") 80	Average for 5 plants of 2 companies
	Soda ash	(") 9.4 kg	(") 9.7	(") 9.4	"
Iron (per ton)	Coke	(1942) 1.0 ton	1.13	1.04	National average
Soda ash (per ton)	Coke	(") 0.16 ton	(1947 average) 0.34	0.25	"
	Electric power	(") 330 kWh	(") 485	450	"
	Salt	(") 1.70 ton	(") 2.0	1.70	"

It is assumed that in addition to the improvement in the quality of raw materials and intensive utilization thereof, the rise of operation rate has contributed a great deal to the reduction in the amount of materials consumed per unit of products. The fact cannot be disregarded either that materials were consumed often in smaller amount than their indicated amount around 1948 owing to mixtures, loss in real contents, etc.

c. Improvement in labor productivity

Materials	Unit	Pre-war	1948	1949	Remarks
Coal	Monthly production per miner (all miners)	(1935) 17.6 tons	(April) 5.8	(July) 7.8	National average
"	Daily production per face miner	(") 2.14 tons	(July) 1.44	(July) 1.67	"

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Copper ore	Monthly production per worker	(1940) 14.9 tons	(Sept) 8.7	(June) 11.7	A company
Alumina	Daily production per direct worker	355 kg	(average) 178	(Aug) 252	"
Crude Steel	Monthly production per worker	(1941) 2.8 tons	(Aug) 1.0	(Aug) 1.7	National average
Cotton yarn	"	-	(") 431 lb.	(") 557	"
Sheet glass	Monthly production per employee	(1935) 135 cases	(") 54	66	National average
Automobile	Monthly production of standard model car per worker	(1941) 0.379	0.159	0.207	A company
Shipbuilding	Welding per hour per welder	-	(Sept) 99.5	(June) 105	Average for two companies
"	Nailing per hour per nailer	-	(") 11.7	(") 14.2	"

Note: The amount of monthly or daily production depends to considerable extent on the number of daily working hours and other factors. The post-war decline in labor productivity shown above is largely due to these factors, as will be explained in the text.

The improvement in labor productivity is evident and exemplified in many instances. That is in most cases improvement as regards labor productivity in broad sense, namely, amount of production per worker. The recent improvement in labor productivity in this sense has largely been attained through the rise in operation rate resultant from concentration of production, etc. and the elimination of excessive employment. The current level of labor productivity is still very low as compared with the pre-war level. Such shrinkage is due, it is assumed, to the lowering of operation rate, shortening of working hours after the effectuation of the Labor Standard Law (roughly 10 hours to 8 hours), wear and tear of equipment and inferior quality of materials, deterioration of natural conditions such as seen in coal mining in deeper pits, etc., rather than to the fall in the labor productivity in narrow sense, such as degradation in skill and deterioration of will to work.

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d. Normalization of employment structure

Branch	Job	Pre-war	1948	1949	Remarks
Coal	All miners	(June 1935)	(April)	(July)	National average
	Underground	73.2%	55.3	58.6	
	Surface	26.8%	44.7	41.4	
Sheet glass	All employees	(1935)			"
	Operatives	90%	82	83.5	
	Officials	10%	18	16.5	
Rolling stock	Operatives	(1935)			A company
	Direct operatives	85.5%	56.3	65.6	
	Indirect operatives	14.5%	43.7	34.4	

The normalization of employment structure is not very evident because of special circumstances after the war, such as the lowered operation rate for example and of the difficulties in changing jobs. Nevertheless, it may be observed from a comparison of this year with last year that the percentages of factory workers and direct operatives have gradually increased in contrast to those of officials and indirect operatives. It is true that the prospective extensive curtailment of control will render those employees who have been engaged in business vis-a-vis the Government agencies no longer necessary, but there will not be great change in the employment structure as manufacturers will have to expand their own selling organization in future.

e. Normalization of cost structure

The cost structure of the post-war enterprises is quite abnormal as compared with that of pre-war, in that the cost of labor for example has extremely expanded and that of appreciation been reduced. The increase in the cost of labor is due to such factors as the lowered

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operation rate, excessive employment, and it has placed the management of enterprises at great disadvantage. Normalization in this respect may take some time to be realized. The cost of labor, however, has generally decreased, though slightly, since last year. In coal, mining, for instance, the cost of labor occupied 60.1% of the total costs for coal production in the national average in the former half of last year, while the corresponding percentage for the period from April to June this year was 55.1% (34.3% in 1940). The percentage of the cost of labor in the total production costs in a certain ccppor mine declined from 54% in September last year to 46% in June this year. Though actual cost figures are not available for the iron and steel industry, the data for the calculation of official prices indicate that the percentage of the working costs (costs of labor and other expenditures for operation) has declined from 27.6% in June last year to 24.3% in September this year in the case of iron and from 23.4% in September last year to 19.6% in September this year in the case steel bar.

f. Reduction of costs

The various approaches to rationalization as are evidenced in b to e above aim ultimately at the reduction of the costs of production, and it is assumed that all enterprises have achieved more or less results in their efforts at this goal. For example, the national average cost of production of coal went down from ¥2,968 in January to ¥2,591 in June this year, or 13% reduction in half a year. In particular, in the Yamaguchi area centering around Ube coal mine, the reduction was striking, the production costs having declined from ¥2,746 in February to ¥2,338 in April and to ¥2,291 in June. The recent average cost of production for all the glass makers is about 10% less as compared with a year ago. The aluminum industry has curtailed its price by 20% in spite of the abolition of the subsidy on bauxite and the rise in wages.

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The rationalization of enterprises has made headway, as seen above, as the stabilization program progressed. However, it has so far been achieved mainly through such measures as elimination of excessive employees, concentration of production, cutting down of purchase prices of products of medium and small sub-contractors, etc., but scarcely through such fundamental means of rationalization as modernization of equipment, introduction of new technique, etc. More often, enterprises are endeavoring to improve their immediate financial status, at the sacrifice of their future competitive power, by sparing repair and maintenance of existing equipment and closing or reducing research and experiment institutes. On the other hand, the current rationalization has entailed various social problems by reducing employment and increasing unemployment or part-time employment.

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III. Stagnation of economic rehabilitation

1. Slump of foreign trade

Foreign trade is an indispensable mainstay of the economic rehabilitation program in that the basic idea of the program is to maximize export by restraining domestic consumption and urging export, thereby inducing rehabilitation and self-support of the national economy. Much depends, therefore, on the export, and it has been the focus of attention of the nation. The state of foreign trade is reviewed in the following pages.

a. Current state of export

The amount of export (in dollars) has been gradually increasing since the beginning of the year up to the month of May, as seen in the following table, reflecting the increase in the amount of export contracts prior to the establishment of the single exchange rate. Although the export has gradually fallen from the peak of 57 million dollars in May to 41 million dollars in September, the total from January/September was 408 million dollars, the monthly average (45.4 million dollars) ^{/through} being 2.1 times as much as that of the preceding year of 21.6 million dollars.

Amount of Exports

Months	In dollar (\$ 1,000)	In yen (¥ 1,000,000)
January 1949	37,121	11,453
February	36,962	10,998
March	45,776	13,876
April	44,837	13,902
May	57,081	17,975
June	56,709	14,453
July	47,048	15,464
August	42,146	14,224
September	40,559	14,703

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- Note: 1. Dollar price: Economic and Scientific Section GHQ,
SCAP (July/being estimate)
/and thereafter
2. Yen price: Taxation Bureau, Ministry of Finance
(July and thereafter being tentative).

The problem, however, lies in the changes in the amount of recent export contracts. While the export contracts reached in the first four months of the year as much as 240 million dollars, or 93% of the total for the preceding year, on account of the prospect of the establishment of a single exchange rate and some speculations, they fell down to 25 million dollars in the month of May immediately after the establishment of the exchange rate. Although the contracts restored 35 million dollar level in the months of June, July and August, the trend is still downward. The increase to 42 million dollars in September was due to such temporary factors as the prospect of the devaluation of pound and contract approval carried forward (Even after the devaluation of pound, contracts with the sterling area which had been agreed to were allowed to be made at the old pound-yen rate during the month of September.). Thus the contracts in the month of October (1st-20th) were only 18 million dollars, reflecting the effect of the pound devaluation and the insecurity of the current yen rate. The impact of such shrinkage of export contracts will appear with the time lag of two to three months and that with some reduced figures due to cancellations, etc.

Amount of Export Contracts (Private and Government)

Months	In dollar (\$ 1,000)
January, 1949	111,304
February	40,753
March	43,267
April	45,083
May	24,881

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June	38,833
July	33,422
August	32,244
September	41,785
October (1st-20th)	18,088

Note: Data: International Trade Research Section, Ministry of International Trade and Industry (Export Section after August).

The following table shows the changes in export contracts by commodities..

Export Contracts by Commodities (\$1,000)

	Monthly average for Feb.-Apr. 1949	May	June	July	Aug.	Sept.	Oct. (1st-20th)
Textiles	16,451	15,805	20,656	13,623	13,778	15,286	7,295
Machinery & metals	12,715	4,824	9,871	11,047	10,420	16,837	5,456
Chemical products	1,121	66	82	139	141	398	55
Agricultural, forestry and marine products	3,049	2,287	3,980	3,716	3,938	4,449	1,858
Miscellaneous goods	9,306	2,849	5,147	5,224	3,967	4,815	3,424
Total	42,625	25,829	39,736	33,748	32,244	41,785	18,088

Note: Data: Export Section, Ministry of International Trade and Industry.

That the figures of the Total for the months of May, June and July differ from those in the "Amount of Export Contracts" above is because they are based on different sources.

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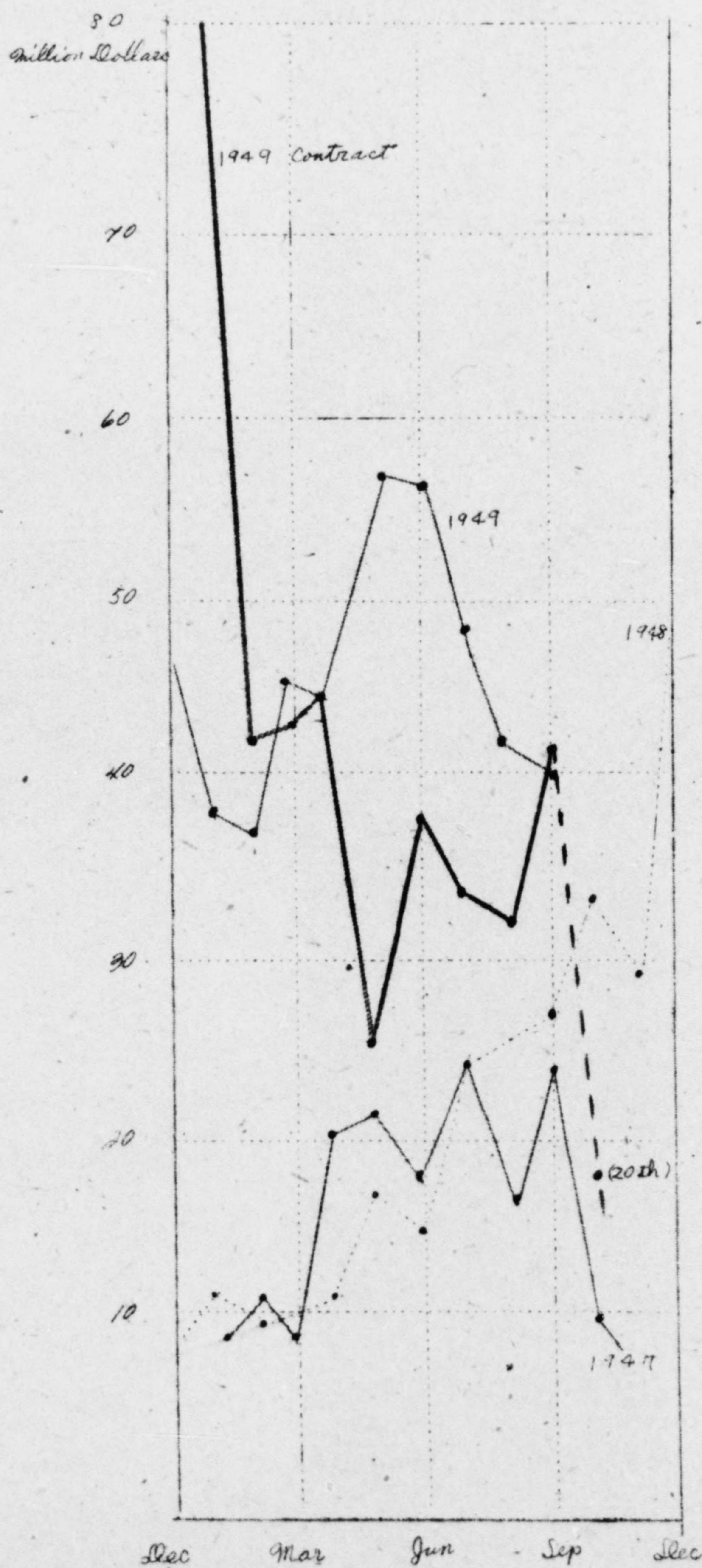
Comparing the February-April period preceding the establishment of the exchange rate with thereafter, agricultural, forestry and marine products show steady increase of 30% and machinery and metals some recovery, but all the rest of commodities remain in slump, textile products remaining at 80 to 90% level, miscellaneous goods at 50%, and chemical products which once dropped to 10% at less than 40%.

The establishment of the single exchange rate may have disturbed the export of those commodities whose yen rate was weak, but generally speaking, it has not been a very serious disturbance to export, the costs of production having been reduced to a considerable extent in the current year partly as a result of the shrinkage of domestic purchasing power. As a matter of fact, the export of some of the formerly strong yen-rate commodities, such as rayon staple, yarns, caustic soda, etc. has dropped, while the export of such formerly weak yen-rate commodities as communication machinery, bicycles and parts, china-ware and porcelain, celluloid products, etc. has steadily been increasing and that of papers, rubber products and toys has shown remarkable increase.

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Export Value &

Contract Number



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The amount of contract cancellations during the two months immediately after the establishment of the single exchange rate was equivalent of the total cancellations since the opening of private trade up to the establishment of the exchange rate in April. The increase was ten-folds in the monthly average, and most of the cancellations were deemed to be caused by the fall in prices in foreign market. There is no doubt that such cancellations rendered serious blow to the export industry. As stated before, enterprises have considerably adapted themselves to the new exchange rate through rationalization, but the quality of export commodities is still to be much improved. Out of some 33 million dollars worth of claims made since the end of the war up to September this year, 77% of which is still unsettled, about one half was on account of inferiority in quality. Such inferiority in quality which is caused by the wear and tear of equipment, lowering in the level of technique and skill, inferiority of production materials, etc. is no less serious a disturbance to export than the lack of adaptability to taste and likings of foreign customers caused by the ignorance of foreign market situation under the "blind trade". Under such insecure state of exports, export financing is not necessarily easy. As to the financing through the foreign trade bill, the most predominant form of export financing, the ratio of the amount of these bills rediscounted by the Bank of Japan to the amount certified by the Government declined from 60% during last year to forties percent in the current year, constituting another factor in the export slump. There is much to count on the functioning of the export financing compensation system which is expected to be effectuated in the near future.

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In addition to the aforementioned obstacles to export on the domestic side, there are other obstacles of foreign origin which should not be overlooked. The foreign market competition has been intensified on account of the slump in world market lead by the American economy, shift from "sellers' market" to "buyers' market" induced by the economic recovery of European countries, import restrictions of various countries necessitated by the shortage of dollar, political and economic unrest in Asia, and so forth. The impact of such deterioration of foreign market is all the more serious for Japan on account of her handicaps in competition, such as the absence of independence in foreign trade, lack of means to adapt herself to foreign market, complication of trade procedures. The devaluation of pound on 18 September and subsequent similar steps taken in other areas added further difficulties to the export trade. The amount of export contracts concluded between the sterling area for the period from 19 September to 16 October was only 1.2 million dollars, or 8% of the monthly average of 15.4 million dollars for the period from May to August. The export to the sterling area which occupied 45% of the total export during the latter four month period dropped to 4% in the 19 September to 16 October period. Such remarkable shrinkage in the export to the sterling area is, of course, an immediate reaction to the pound devaluation, and the export contracts with the pound area during the period from 1st to 25th of October has restored to 2.5 million dollars. The future changes, therefore, call for careful attention.

b. Current state of import

The following table shows the current state of import.

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Amount of Imports and Import Contracts

Month	Amount of imports		Amount of import contracts (\$ 1,000)
	In dollar (\$1,000)	In yen (¥ 1,000,000)	
January 1949	73,552	6,571	72,131
February	65,415	9,772	55,710
March	88,496	11,910	38,024
April	74,710	14,821	97,542
May	96,945	22,331	52,738
June	105,875	27,610	52,299
July	86,623	33,910	43,657
August	73,344	33,133	84,708
September		29,660	39,985

Note: Data: Amount of imports in dollar: Economic and Scientific Section, GHQ, SCAP. (July and thereafter being estimate).

Amount of imports in yen: Taxation Bureau, Ministry of Finance (July and thereafter being tentative).

Amount of import contracts: International Trade Research Section, Ministry of International Trade and Industry.

The amount of imports from January through August was 665 million dollars, the monthly average (83.1 million dollars) being 46% more than that of the preceding year of 56.9 million dollars, during which period the amount is falling after the peak in June. The amount of import

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contracts from January through September was 537 million dollars (monthly average being 60 million dollars), which is considerably small in the light of the import goal of 680 million dollars (monthly average being 74 million dollars). Such decrease in the amount of import contracts indicates lowering of the amount of imports in future.

The amount of import contracts for the nine month period is 1.3 times as much as that of 412 million/dollars export contracts for the same period. It can be said that the balance of trade has turned to our favor as the import contracts were 2.6 times as much as export contracts during last year, but such improvement does not necessarily mean that the independence of the national economy has that much been promoted. Rather, when the total exports are, in real terms, not more than 20% of the pre-war exports and our industrial structure is such that all or substantial portion of supply of such essential materials as cotton, wool, iron ore, high coking coal, foodstuffs, petroleum, etc. depends on import, the stagnation of import at such level is nothing but a reflection of the recent shrinkage of purchasing power and slump in production activities. The fact that the import stockpiles which have no prospect of disposition in the near future amounted to as much as 7.1 billion yen at the end of June this year attests to the aforementioned situation. Moreover, the Government trade system has been one of the disturbing factors for import in that prices, kinds and quantities of commodities as well as timing and market of purchase cannot often be appropriate under it, but the extension of the private trade system is expected soon to eliminate these difficulties.

The general state of foreign trade has not taken a favourable turn as stated above, the export having come to decline and the import showing signs of shrinkage. Such slump in foreign trade has been at once cause and effect of the recent stagnation of production activities and has delayed the tempo of progress toward economic rehabilitation and self-support of the national economy.

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2. Decrease of Investment

Decreased supply in equipment funds due to the curtailment of construction expenditures (for National Railway and Tele-communications and for public works) in the budgets for the present fiscal year and suspension of RFB loans, counterbalanced neither by the ^{Aid} Counterpart Fund, the release of which for industrial investment was so delayed, nor by equipment funds, which the general financial institutions could afford to provide only in limited amount, are inviting the accumulation of inventories and the stagnation or lowering of production in the industries manufacturing capital goods.

a. Industrial Investment.

The budget for National Railway construction for the present fiscal year is 16.5 billion yen or about 48% decrease as against 21.3 billion yen for the last fiscal year if the price rise in the period were considered while the budget for Tele-communication construction for the present fiscal year is 19.2 billion yen or 27% decrease in substance as against 17.6 billion yen for the last fiscal year. The amount of materials required for Railway construction for the present fiscal year is 5.5 billion yen, or 47% in substance of 7 billion yen for the last fiscal year, while the expenses for rolling stock for the present fiscal year is no more than 4.3 billion yen or 48% in substance of 6.3 billion yen actually expended in the last fiscal year. The total sum of orders for wired communication apparatus included in the budget for the present fiscal year is 2.8 billion yen or 23% decrease as against the record in the last fiscal year (3.6 billion yen in terms of the prices in the present fiscal year.).

The reduction in construction of National Railway and Tele-communications as stated above not only retarded the improvement of transportation and communication equipment but also affected the related

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industries greatly. As stated below the industries manufacturing railway rolling stock and wired communication apparatus were forced to reduce their current production, to carry out reduction of the size of plants or shutting down of some plants, and cut in personnel, repercussions of which have reached such industries as electric wire, copper and machine tool.

Furthermore private equipment investment, greatly affected by the suspension of operation of RFB which accommodated approximately 60% of the total equipment funds loaned in the 1948 fiscal year and the delay in the operation of the Aid Fund, sharply decreased in the 1st half of the present fiscal year. Thus such industries as electricity, coal, chemical fertilizer, shipbuilding greatly dependent on RFB heretofore were most severely affected. For example, the supply of equipment funds for coal mines decreased sharply from 10.2 billion yen (RFB loans only) in the 1st half of the 1948 fiscal year to about 1.7 billion yen in the 1st half of the present fiscal year, thus affecting the related industries greatly through the decrease of orders for machinery and materials for coal mines, while that for electricity decreased from 4.8 billion yen in the 4th quarter of the last fiscal year to 2.5 billion yen in the 1st quarter of the present fiscal year, thus bringing about a great hitch in the maintenance and improvement construction.

While ~~35.2~~^{11.4} billion yen of equipment funds was supplied from RFB in the 1948 fiscal year for shipbuilding, only about 900 million yen was supplied from city banks (in addition 229 million yen for the increase of capital in shipping industries) in the 1st quarter of the present fiscal year. Lastly, for chemical fertilizer about 5 billion yen of equipment funds (2 billion yen from RFB and the remainder from general financial institutions inclusive of capital increase) were accommodated in the last fiscal year.

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But in the 1st quarter of the present fiscal year not much credit extension, capital increase or debenture issue was made.

Thus, as indicated in the following table, the estimated supply of equipment funds (exclusive of the supply of equipment funds from corporate reserves) in the 1st half of the present fiscal year is decreased from 38.3 billion yen in the corresponding period of the last fiscal year to 26.9 billion yen or 70% (50% if the price rise in the period were considered). As stated above this decrease was mainly caused by the decrease in the supply of equipment funds for such basic industries as electricity, coal, chemical fertilizer, shipping, etc.

Supply of Equipment Funds

(In Millions of Yen)

	1st Half 1949 FY	1st Half 1948 FY
(1) Banks, Trust Co., Central Bank for Agriculture and Forestry, Central Bank for Commerce and Industry	11,403	8,287
(2) Stock Issue	11,565	2,453
(3) Debenture Issue	5,621	10
(4) RFB	-1,705	27,517
Total	26,884	38,267

Note: (1) The figures for 1949 FY are based on the increase of equipment loans outstanding included in the Actual Record of Industrial Fund Supply investigated by the Bank of Japan. The figures for 1948 FY were obtained by applying 7.7% (the ratio of equipment funds in the total loans outstanding as of the end of January 1949 shown in the above data) to the increase of total loans for the year.

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- (2) The figures for 1949 FY were obtained by deducting the portion used for the repayment of borrowing from the total stock issue. But such repayment on new account as for equipment funds borrowed should not be deducted. The figures for 1948 FY were obtained by applying 17.3% (ratio of the portion used as equipment funds in the total stock issue) to the total stock issue from July 1948 to March 1949.
- (3) The figures were obtained by estimating the portion used as equipment funds in the total sum paid in investigated by the Industrial Bank of Japan.

The decrease of supply of equipment funds to the basic industries was aggravated further by the delay in the operation of the Aid Fund. As shown in the following table, the direct industrial investment expected to be made from the Aid Fund amounts to 36.4 billion yen in the operational program formulated by the Japanese Government for the year, 80% of which are for coal, electricity and shipbuilding. However, the direct industrial investment released from the Aid Fund up to the end of October is only 389 million yen for the Japan Nitrogenous Fertilizer Manufacturing Company (Nihon Chisso K.K.) and the Line Shipping Company (Line Kaifu K.K.)

Operation of Aid Fund
(Direct Industrial Investment)

(In Millions of Yen)

	Yearly Program		Applications received by the Bank of Japan		Applications received by GHQ		Release	
	Number	Sum	Number	Sum	Number	Sum	Number	Sum
Coal	36	8,700	26	3,891	4	217		

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Iron and Steel	10	3,983	2	2,179	1	639		
Electricity	16	14,500	11	6,578	4	5,628	1	170
Shipbuilding	43	7,000	19	3,012	1	219	1	219
Chemical Fertilizer	7	430	6	223	1	32		
Aquatic Industry	6	100	3	51	1	18		
Petroleum	1	250						
Pyrites	4	400	3	271				
Chemicals	9	1,070	4	456				
Total	128	36,433	74	16,061	12	6,733	2	387
							1	170

Note: As of the end of October, the sum applied for is about 80% of the schedule.

The applications so far received by the Ministry of Finance amount to 16.0 billion yen, 6.7 billion yen of which was transferred to GHQ for approval. If prompt actions were taken for its release, it would be helpful for the relief of capital good manufacturing industries.

However, with due progress in the release of the Aid Fund being taken into account, the total supply of equipment funds for the year is estimated at the level of 80 billion yen or about 40% decrease as against that in the last fiscal year.

Since the most part of equipment funds required is for the repair and improvement of existing facilities except in the cases of development of electric power sources and shipbuilding, the decrease of equipment fund supply for the present fiscal year would not only retard industrial rationalization but also make difficult the maintenance of production capacity, thereby making more difficult the self-support of Japan's economy to be attained in future.

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b. Public Works and Agricultural Investment.

It is natural that Japan is liable to natural calamities on account of her geographical position and the damages left unrehabilitated because of the reduction of disaster prevention expenses since the China Incident have been gradually accumulated with the result that rivers are liable to flood even by slight rainfall every year causing to river works, crops and farms, houses and other constructions, household articles, etc. the damages amounting to several times as much as the prevention expenses required. The total damages caused by natural calamities amounted to approximately 200 billion yen in the last fiscal year and it would not be the exaggeration to say that the rehabilitation of calamity-stricken areas and the disaster prevention are of the basic requirements for the reconstruction of Japan's economy.

However, in the budget for the 1949 fiscal year the public works expenses were reduced to 50 billion yen or 67% in substance of those in the 1948 fiscal year along the policy of reducing public investment.

Thus even the expenses for the rehabilitation of calamity-stricken areas on which the greatest importance was placed in assessment were reduced to 16.9 billion yen or 62% in substance of those in the last fiscal year. These expenses are for the rehabilitation of the damages caused in the preceding years and no expenses for the rehabilitation of the damages in the present fiscal year are included in the present budget.

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In the meantime as much as 68.5 billion yen of State grant is estimated to be required for the rehabilitation of the damages caused by the typhoons (Della, Fay, Hester, Irma, Judith, Kitty, etc.) in the present fiscal year. Thus dilapidation of the national land is still being aggravated, affecting productive capacity, especially that of agriculture.

Although the public works expenses were considerably reduced as stated above, special stress was placed on such disaster prevention items as river works, anti-torrentials, afforestation, etc. in the reduced public works expenses in view of the magnitude of repeated calamities with the result that such items as agriculture (provided for the present fiscal year with only 52% of the expense for the last year), housing (58%), city rehabilitation (46%), and educational facilities (13%) were most severely reduced. In the case of educational facilities, such severe reduction is almost tantamount to the total suspension of construction of new facilities for 6-3-3 educational system.

The public works expenses by items for the present fiscal year are compared with those for the last fiscal year as follows:

Public Works Expenses for 1948-49 Fiscal Years

(In Millions of Yen)

Items	1948 F.Y.	1948 F.Y. in terms of 1949 F.Y. Price (A)	1949 F.Y. (B)	B/A
Rivers	14,220	21,198	16,874	79.6

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Anti-torrentials	581	858	766	89.3
Agriculture	11,704	17,294	9,937	57.5
Forestry	2,226	3,247	3,690	113.7
Aquatic	626	944	869	92.1
Road	2,015	2,996	5,638	188.0
Harbors	3,339	5,091	3,796	74.5
Beacons	0	0	242	--
Private Railway	80	1123	0	0
Educational Facilities	6,028	9,328	1,196	12.8
Public Peace & Prison	598	932	1,300	139.8
Housing	3,425	5,316	2,957	55.6
Construction and Repair	2,006	3,110	1,699	54.6
City Planning	1,475	2,212	945	46.3
Labor	592	906	0	0
Welfare	129	221	138	62.5
Commerce & Industry	14	21	0	0
Administrative Expenses	459	647	0	0
Total	49,517	74,447	50,000	67.2

Next, how the reduction of public investment as stated above is affecting agriculture will be studied. Farming in Japan is extremely small-scale and it is being intensified by ever increasing population.

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Thus, as the result of the reduction of agricultural investment in the budget for the present fiscal year, the farmers, unable to bear the burden with their own small economic resources, was forced to look forward to local public finance and private loans. However, it is almost impossible for them to obtain loans from general financial institutions as their sums are substantial and their terms are required to be low interest and long term (7 to 20 years) in order to make repayment with crop while farm land is not allowed to be used as security at present. Furthermore, the Deposit Bureau funds are not made available for agricultural investment while not much can be expected from the Aid Fund (2.5 billion yen is listed for agricultural investment in the operational program of the Aid Fund for the present fiscal year).

In this way, the reduction of public works expenses and the failure to cover the resulting gap with long-term agricultural financing by the Central Bank for Agriculture and Forestry, etc. are causing considerable stagnation in various agricultural constructions in the present fiscal year. For example, while construction is either delayed or suspended in 18 areas out of 26 areas under national land reclamation program, construction is entirely stopped in 15 areas out of 925 areas under land reclamation program in Hokkaido and 1,224 areas out of 1,874 areas under prefectural reclamation program. Furthermore, construction is suspended in 28 areas out of 90 areas under

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sea and swamp reclamation program. Even in the field of irrigation, drainage and land improvement which are very effective in the expansion of agricultural productive power the effects were considerable and while the area to be placed under irrigation and drainage works in the present fiscal year is expected to be reduced to 120,000 "cho" (300,000 acres) or one third of that in the last fiscal year the area to be placed under land improvement program in the present fiscal year is estimated to be reduced to 3,000 "cho" or one eighth of that in the last fiscal year. Thus, the expansion or maintenance of agricultural productive power indispensable to the reconstruction of Japan's economy is coming to impasse.

As seen in the case of agriculture stated above, local finance is also affected by the reduction of public works expenses and local governments are endeavouring to tide over the situation with the increased collection of local taxes and contributions. However, it would be almost impossible to expect much from the local governments highly dependent on the national Government especially as the local bond issue is limited at 23 billion yen (19.7 billion yen exclusive of the issue for the last fiscal year) in the present fiscal year. Therefore, the investment for construction, both national and local, for the present fiscal year will be forced to remain at the level of about 70% of that in the last fiscal year. In this way it would be impossible not only to stop further dilapidation of the national land

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and make a step toward the reconstruction but also to improve much the present circumstances in which housing is short as many as 3,600,000 units because of war damages and population increase and 30% of schoolboys cannot be sufficiently accommodated.

It may be added that resignation or recall of many chiefs of cities, towns and villages in connection with the suspension of various construction programmes and financial troubles was one of the repercussions caused by the reduction of public works expenses.

3. Shortage of effective demand

The curtailment in purchasing power of the public finance and disbursement of equipment fund consequential of the promotion of the stabilization program on the one hand and the slump in export trade on the other have brought about the shortage of effective demand and invited a state of relative excess of production throughout the whole economy. The present situation may be called "plenty in poverty", not "poverty in plenty", when the fact is taken into consideration that the level of mining and manufacturing production stands only at 70 to 80% of the pre-war level. Following are some of the indications of the shortage of effective demands.

a. Increase in stockpiles

The stockpiles of such basic production materials as coal and iron and steel, the supply of which had been extremely short up to last year, those of export commodities, as well as those of consumption goods which have come to be stockpiles since the latter part of last year, have been increasing.

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According to a research made by the Research and Statistics Division of the Ministry of International Trade and Industry, the recent trend of production and stockpile at plants of 203 items of important materials is as follows.

Increase of Stockpiles

(Research and Statistics Division,
Ministry of International Trade
and Industry)

	January-March 1949: 100	April	May	June
Stockpile	Increase (over 110%)	73 items	98 items	107 items
	Stagnant (90-110%)	77 "	52 "	43 "
	Decrease (less than 90%)	53 "	53 "	53 "
Production	Increase (over 110%)	100 items	98 items	97 items
	Stagnant (90-110%)	67 "	53 "	50 "
	Decrease (less than 90%)	36 "	52 "	56 "

The above table indicates that in number of items of those materials the stockpiles of which are accumulating is gradually increasing and that the production is decreasing on account of the pressure of such stockpiles. The following table shows the state of production and stockpiles of some of important materials.

Indices of Plant Stockpiles and
Production (Average for January-
March 1949: 100)

(Research and Statistics Division,
Ministry of International
Trade and Industry)

		April	May	June	July	August
Ordinary steel	Production (A)	114	120	124	122	133
	Stockpile (B)	113	118	112	129	81
	B/A	99	97	89	114	61

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Electrolytic copper	A	102	100	104	100	114
	B	237	351	442	300	400
	B/A	102	153	186	121	153
Aluminium	A	136	175	176	186	181
	B	161	251	351	724	589
	B/A	83	100	139	273	228
Electric wire	A	103	77	81	70	74
	B	113	110	105	103	104
	B/A	134	174	158	179	173
Rayon staple yarn	A	127	132	131	130	138
	B	106	160	191	217	245
	B/A	179	260	313	360	382
Caustic soda	A	100	107	110	107	104
	B	128	147	168	215	79
	B/A	75	80	89	117	44

Both the absolute amount of stockpiles and their ratio to the amount of production has remarkably increased in the recent months. It is to be noted that the decrease in the amount of stockpiles of steel, soda, etc. in the month of August is deemed to be due to the increase in the purchase thereof in the prospect of their price rise due to reduction of subsidies. In other words, stockpiles of these materials were transferred from makers to consumers. It is true that increased stockpiles are not more than two months' production even in the case of most prominent increase, but the weakness of enterprises lies in that they lack in their own funds enough to maintain such stockpiles and therefore have to depend on stockpiles financing from financial institutions.

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The following table shows the increase in stockpiles of coal, which will indicate the general trend of accumulation in the hands of makers as well as consumers and other enterprises.

Increase of Coal Stockpiles
(1,000 ton)

	Amount of pro- duction (A)	Amount of allo- cation	Stockpiles at			Total (B)	B/A (%)
			Mines	Port	Market		
April 1949	3,279	3,020	508	937	856	2,301	70
May "	3,297	2,436	439	949	1,111	2,499	92
June "	3,334	2,462	418	1,124	1,442	2,984	91
July "	3,132	1,986	472	1,462	2,108	4,042	122
August "	3,029	1,784	423	1,437	2,750	4,610	152
Sept. "	3,200	2,302	628	1,144	3,784	5,556	160

While the normal amount of running stock of coal is said to be the amount of ten days' production, or roughly one million tons, the actual amount of stockpiles has reached as much as five times the amount of normal stockpiles as a result of the shrinkage in the amount of distribution, which fact indicates general stagnation of production activities. The disposition of these stockpiles is an urgent problem after the abolition of the Solid Fuels Distribution Kodan.

Larger in monetary amount than the coal stockpiles are those of export commodities, and in particular, of textiles products. The stockpiles held by the Textiles Foreign Trade Kodan at the end of June were as much as 33.1 billion yen, of which cotton products were 8.8 billion yen and raw silk and silk products 8.4 billion yen. In addition, there are

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17.6 billion yen stockpiles in private hands which accrued from failure and cancellation of contracts, making the total textiles stockpiles well over 50 billion yen. In order to dispose of these stockpiles, the Government has established the Measures for Disposition of Export Rejects, through which 170,000,000 yd. of cotton cloth, 5,000,000 lb. of rayon staple yarn, etc. were released to the domestic market. It has further been decided recently to release all the textiles stockpiles, including 170,000,000 yd. of cotton cloth and 7,000,000 lb. of cotton yarn, to the domestic market by next spring. However, even though textiles products have large potential demand, it is doubtful if the release of more than 30 billion yen worth of products be absorbed in the market easily. The increase in export stockpiles is also seen in the stockpiles of the Minerals and Industrial Products Foreign Trade Kodan. The latter has increased from 4.9 billion yen at the end of March this year to 8.2 billion yen at the end of July and to 9.3 billion yen at the end of August, of which 1.7 to 1.8 billion yen is said to be dead-stock, being either rejects or of no export prospect. Moreover, there is considerable amount of import stockpiles. The import stockpiles at the end of June were as much as 7.1 billion yen, consisting of metals, minerals products, chemical products, etc. 70 billion yen export and import stockpiles, as well as the delay in the collection of selling proceeds of imported commodities, have rendered the Kodan financing extremely difficult and caused the increase in borrowings.

According to a research made by the Ministry of International Trade and Industry, the aggregate stockpiles of materials under its charge, both for export and for domestic consumption, were 70.4 billion yen at the end of June, of which 33.1 billion yen, or 44%

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being deemed to be abnormal stockpiles. The Japan Industry Association reported, as the result of its research into the Coal Association and thirty other minerals and manufacturing associations, the aggregate stockpiles at the end of June were 83.5 billion yen, of which 59% was textiles products, 8% iron and steel, 8% coal, machinery 3.1 % and mineral products 2.7%. In the light of these data, and adding thereto the stockpiles of agricultural, forestry and marine products, the aggregate stockpiles are estimated to be as much as 90 billion yen, of which 70% is estimated to be export products.

b. Increase in uncollected proceeds.

Parallel with the increase in stockpiles, uncollected proceeds and outstanding debts of enterprises are increasing substantially. According to a research made by the Production Bureau of the Economic Stabilization Board, the uncollected proceeds of 16 important industries increased from 52.1 billion yen at the end of January this year to 64.7 billion yen at the end of April (at the end of May for some of the industries). As to 11 of these 17 industries of which subsequent data are available, 46.7 billion yen uncollected proceeds at the end of April increased to 60.6 billion yen at the end of June but slightly decreased to 51.5 billion yen at the end of July. Such increased amount of uncollected proceeds is estimated to be 2.5 to 3 times as much as the normal amount. Following are some of the examples of remarkably large amount of uncollected proceeds and outstanding debts.

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Uncollected Proceeds and Outstanding Debts

(Production Bureau, Economic
Stabilization Board)

	Uncollected proceeds (¥1,000,000)			Outstanding debts (¥1,000,000)	
	April	June	July	April	
Coal	19,478	19,973	16,480	Coal (excl. Kodan)	6,661
Coke	2,381	2,039	875	Electric Power	6,315
Electric power	2,329	2,385	2,351	Iron and steel	4,585
Ordinary steel	3,041	4,025	4,030	Textiles	5,672
Electric wire	3,783	3,840	3,784	Metal machinery	4,468
Machinery	10,547	-	-	National Railway	4,595
Imported Com- modities (at the end of March)	13,971	27,111	22,714	Export commodities	4,543

The considerable decrease in the uncollected proceeds of coal, coke and imported materials toward June and July is attributed to the strengthened efforts on the part of the respective Kodans to collect its selling proceeds and to the progress of Government payment and credit extension to coal and electric power industries for the clearance of outstanding debts. It is assumed that uncollected proceeds do not increase in the electric wire and machinery industries because stockpiles and sale on credit have reached the limit in these order-making industries, and they are curtailing production in consequence of the shrinkage in the amount of orders.

c. Stock prices

The stock prices are another index of economic activities. The trend in the level of stock prices has been steadily upward, though with slight vicissitude, since the "goods in preference to money" times of inflation, stock having been one of the most

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profitable object of investment. However, stagnation, or even decline, in stock prices has been evident recently since the early part of September.

Stock Price Index (August 1946: 100)

(Research Section, Tokyo
Stock Exchange)

Months	General stock price index
April	607.2
May	700.3
June	675.8
July	565.0
August	628.8
September	620.0
October	

The index for the month of October is not released yet, but it dropped from ¥163.3 in September to ¥124.11 in October in the general average stock prices according to the Research Section of the Yamaichi Securities Co.

It is true that the selling of stocks urged by the enforcement of changing of stockholders' names as recommended by the Shoup Mission and other market situation have induced the fall of stock prices, but the more fundamental cause for such fall of stock prices is the excess of stock supply in relation to the investment capacity of the public, resultant from public sale of the reconstruction and reorganization capital-increase stocks and the release of stocks of restricted concerns by the Securities Disposition Adjustment Council. The security market has since the end of the war induced considerable amount of fund in the hand of public into the industrial fund through the investment in securities.

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Recently, however, many stockholders sell their parent stocks in order to pay for new capital-increase stock-issue; many stocks to be sold to general public remain unsold; and stocks of major companies are often quoted below their face value.

d. Fall in residential housing construction.

The decline in the building activities is another evidence of the shrinkage of investment capacity of the public. The residential housing construction had been increasing, surpassing the Government program, up to March-April period of this year, with seasonal fluctuations of rise in spring to summer and fall in autumn to winter. However, the building activities after June which used to be the peak period are extremely inactive this year. The following table shows the comparison of the building activities this year with those of the preceding year.

Residential Housing Construction

(Residential Housing Research Association)

	Application for building (Number of houses)		Completion (Number of houses)	
	1948	1949	1948	1949
January	79,673	64,307	40,098	48,464
February	92,524	83,185	40,993	44,654
March	124,965	97,203	46,158	88,794
April	119,412	80,825	57,232	60,757
May	107,800	73,972	67,315	52,146
June	87,234	63,524	78,644	49,976
July	73,122	41,336	68,781	41,802
August	72,955	48,508	62,694	44,823
September	70,508	53,552	56,449	35,059
October	70,992		56,913	
November	61,116		46,386	
December	62,012		46,169	

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The decrease in the number of application for building foreshadows further decrease in the housing construction in future. It is to be noted in this connection that while the building floor space was larger in the rural area than in urban area last year, the relation is vice versa this year, reflecting the end of the farm prosperity.

f. Decrease in transportation of commodities.

The movement of goods decreases seasonally in the summer months and increase toward autumn and winter. The monthly amount of freight transportation of the National Railway after July this year is smaller as compared with the respective months of last year. Stockpiles at stations decreased from 2.6 million tons in September last year to 0.75 million tons in September this year. Only last year the shortage of railway transportation capacity was one of the major bottlenecks of production increase, but it has rapidly come to surpass transportation demand. The 140 million ton transportation goal of the National Railway for this year can hardly be attained due to the shrinkage in the amount of delivery of products. It is expected that the total freight transportation of this year will be 130 million tons at best, with the resultant decrease of 1.3 billion yen in the estimated freight income of 30.8 billion yen.

The similar situation prevails in the passenger transportation, partly due to the raising of passenger rates. The transportation goal of 3.5 billion passengers was forced down to 3.1 billion, and the estimated income from passenger rates of 74.3 billion yen will be failed by 7.3 billion yen.

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The shrinkage of transportation is particularly remarkable as to coal, lignite, charcoal and firewood, lumber, etc. At the same time, the demand for small-sized waggons is increasing in consequence of the decrease of magnitude in transactions.

As to marine transportation, domestic coastal transportation has been declining after April, while ocean transportation has shown little increase. Wooden vessels, in particular, transported only 40% of cargoes as compared with the corresponding period of last year, due partly to the reduction in fuel allocation. The result of the decrease in marine transportation is that despite the shortage of ocean-going vessels, 227 coastal steamers of 730 thousand tons and 62% of total bottoms of wooden vessels, or 740 thousand tons, lie idle in various ports. It is estimated/the Shipping Management Association will suffer deficit of 10 billion /that yen during the year, the deficit in the former half of the year having been 4.9 billion yen.

4. Stagnation of production

Industrial production which continued upward movement during last year reached plateau in March this year. Industrial index (1932-36 average = 100, including electricity and gas) published by Economic and Scientific Section, SCAP as revised in June this year is 95.2 in April, 93.6 in May 95.3 in June, 96.5 in July, 92.4 in August and 93.2 in September. Index for September was 112% of that in September last year while industrial activity in April this year was 156% of that a year before. This indicates that increase over last year is noticeably dwindling.

Note: The above cited indices of industrial activities are very high for electricity and gas production is included. Indices for industrial (mining and manufacturing) production excluding electricity and gas production are only 79.3 in April and 78.4 in September.

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Last year production increased very rapidly favoured by the improvement in fuels, power and raw materials situation, though it was accompanied by a slight inflation. Industrial activity index increased from 66.7 in March last year to 94.5 in March this year, that is, by 41%. The index for September this year is 93.2, which is slightly below March level. The recovery since the end of the war and stagnation after April this year, of industrial activity, is indicated in the graph below. Production fell for the first time this year since the end of the war in the peak production season of the year March - September.

Industrial Production

1954

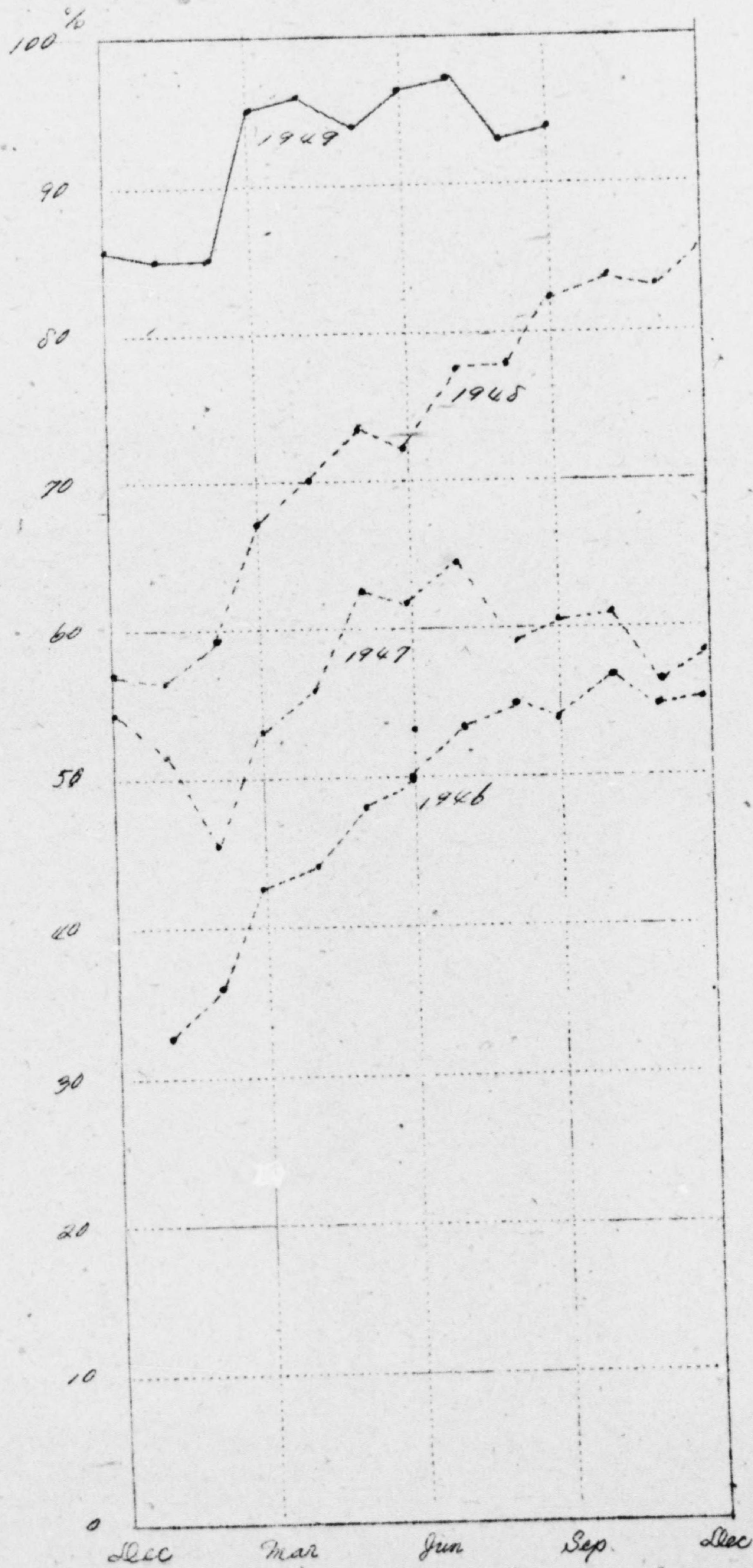
Source: Ministry of Economic Affairs, Government of India

Table 1. Industrial Production Index (1954)

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Index of Industrial Activity

(1932-36 : 100)



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Index of Industrial Activity.
(Prepared by Research and Programs Division, ESS.)

(1932-36=100)

	Apr. 49 (A)	May. 49	Jun. 49	Jul. 49	Aug. 49 (B)	Sept. 49 (C) (Tentative)	$\frac{(C)}{(B)}$	$\frac{\text{Sept. 49}}{\text{Sept. 48}}$	$\frac{(C)}{(A)}$
Industrial Activity	95.2	93.6	95.3	96.5	92.4	93.2	100.9	113.1	97.9
Electricity & gas	170.7	176.2	171.8	171.1	154.2	164.1	106.4	105.1	96.1
Mining & Manufacturing	79.3	76.2	79.2	80.7	79.5	78.4	98.6	117.4	98.9
Mining	106.2	92.5	106.0	108.9	103.9	106.2	102.2	115.3	100.0
Manufacturing	76.3	74.4	76.2	77.6	76.8	75.3	98.0	117.7	98.8
Durable goods	107.8	100.5	101.6	103.9	101.1	100.0	98.9	116.8	92.6
Metal	81.4	84.6	82.3	92.7	87.4	87.6	100.2	152.1	107.6
Machinery	134.1	117.6	118.8	117.9	116.3	111.7	96.0	100.4	83.3
Ceramic	74.0	78.9	76.2	84.8	83.2	91.8	110.3	161.6	124.1
Lumber	118.8	111.5	140.2	101.2	100.6	109.7	109.0	107.8	92.3
Non-durable good	51.1	53.9	56.6	67.1	58.1	56.2	96.7	119.3	110.0
Textiles	22.5	23.0	23.2	24.3	23.5	25.5	108.5	125.0	113.3
Chemicals	81.1	82.5	83.4	81.8	78.5	77.4	98.6	119.8	95.4
Food	61.7	74.6	87.2	90.4	104.2	90.1	86.5	110.1	146.0
Printing	59.6	60.2	63.6	66.6	69.7	62.1	89.1	130.2	104.2

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As is shown in the above table, production in general is static but in durable goods manufacturing industries, particularly in machinery industry, production decrease is noticeable reflecting the reduced purchasing power in them. The following production indices compiled by E.S.B. indicate also the noticeable declining tendency of capital goods production.

Industrial Production Indices

1933-1935 average=100
E. S. B.

	Apr. 49	May	Jun	Jul (A)	Aug (B)	(B) (A)	Aug.49 Aug.48
Industrial Production	77.2	73.4	76.1	75.0	74.4	99.2	127.0
Basic Goods	77.8	77.7	82.0	81.9	80.2	97.9	140.7
Capital Goods	140.3	118.5	117.1	114.5	115.2	100.6	105.7
Consumer Goods	34.3	35.8	38.3	36.6	37.2	101.6	132.0

Stagnation in production recorded since March this year, however, cannot be said fully to reflect the fall in effective demand. The need of lowering cost of production is impelling businesses to maintain or raise operating rate even if they are not quite sure about the market for their products. This results in stockpiles of products, and greater account receivable and payable. Financial measures are inevitable to cope with this situation. Generally speaking, it may be said that the shorter the production period is the more quickly fall in effective demand is reflected in production decrease.

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It will be clear from the above explanation that the recent stagnation in production is not a temporary accidental phenomenon but may be accentuated pari passu with the effect of receding boom becoming more far-reaching and general, and that it is not raw materials and capacity but effective demand which determines the level of production.

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IV Effects of the Implementation of the Stabilization Program.

A. Effect on businesses.

1. General view by industry.

The recent trend of business following the implementation of the stabilization program will be analysed below separately with regard to basic industries, capital goods industries, and export and consumer goods industries.

a. Basic industries.

Coal.

As a result of fall in effective demand, the recent actual delivery is below two million tons a month. A stockpiling tendency which began on low grade coal in September last year has now spread to high grade coal. Up to last September, production was not below the plan because producers tried to produce as much as possible in the expectation that the Kodan would be abolished. After coal was placed under free sale, all mines paid more attention to rationalization, restricted production of low grade coal and intensified the strict selection of coal with the result that coal production in October fell to 89% in the first ten days and to 78% in the second ten days as against the target of 42 million tons. After decontrol, the prices of high grade coal are a bit rising but those of low grade coal fell sharply. On the average, 10-20% fall is noticed. The quality of coal has remarkably

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improved, raising the consumption efficiency in coal consuming industries such as railways, electric power supply industry etc. On the other hand, efficiency of each mine under free competition has become considerably ^{higher} clear. It is estimated that quite a number of small and medium-sized mines will have to restrict production or to stop operation. Coal dealers will meet considerable difficulties in selling coal until the disposal of ^{4.8} million tons of stockpile held by the Kodan is completed. As a result of discontinuation of Reconstruction Finance Bank loans, and of the abolition of the Kodan, the coal industry has come to experience the same financial difficulty as the other industries. 3.6 billion yen of joint loan was extended for the payment of debts. But only the big five companies were benefitted by this loan. The out-standing debts of coal mines incurred in connection with business operation amount to 14 billion yen, that related to equipment, 3.2 billion yen in equipment, and that related to coal miners housing one billion yen. These debts have far-reaching effect on related industries such as iron and steel, machinery, dynamite and timber industries.

Electricity.

The current electricity rate is far below the general price level as stated before. Electric power industry can hardly pay for coal, repair of equipment and other current expenses. The amount of coal for thermal power generation counted into the cost on which the current electricity charge is based is 3.7 million tons or 950,000 tons less than 4.65 million tons planned to be used for thermal power this year. The industry is finding it difficult to find money to buy coal with the dry winter

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season approaching. The industry is making effort to carry out rationalization by minimizing new employment, economizing extra-pays and other expenses, expediting the collection of unpaid electricity charges and minimizing transportation and distribution loss. It is, however, only to a limited extent that income and expenditure can be balanced through these efforts. The equipment funds required for the current year is about 26 billion yen. (17.4 billion yen last year) 13.1 billion yen of this is expected to be provided by the Counterpart Funds. But as this money is not yet made available even after the first half of the current fiscal year is already over, money obtained in the first quarter was only 2.5 billion yen. Expansion and improvement works are therefore almost at a standstill. The industry is meeting great difficulties also with regard to operating funds because the revision of the current electricity rate is delayed. These difficulties have so far been overcome only by 1.5 billion yen loans to Japan Power Generation and Transmission Company and forced collection of bills from consumers on the part of power distribution Companies.

Iron and Steel.

Subsidies-cut effected as implementation of the stabilization program will have a sizable effect not only on the iron and steel industry but also on the whole economy through iron and steel consuming industries such as machinery and metal industries. This impact cannot be cushioned by iron and steel industry alone. The industry has nevertheless made a steady progress in rationalization. Coke ratio in blast furnace operation which was 1,137 on the average

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last year has lately improved to 1,043. Labour productivity in terms of monthly production per capita rose from 0.76 tons (in steel materials equivalents) in January, 1947 to 2.05 tons. The proportion of cost of labour in the total cost of production is 14-20% and the ratio of labourers to office workers is 6.5 to 1. Both are back on the 1943 level. The new official prices effective from September this year have therefore taken account of 17% cost cut in the case of pig iron and of 10% cost cut on the average finished steel. On the other hand, stock on hand held by manufacturers and wholesalers increased from 148,150 tons at the end of January, 1949 to 223,788 tons at the end of July, 1949. At the end of August the stock decreased to 153,150 tons because people hurried to buy iron and steel in anticipation of the raise of official prices in September. The stock on hand is, however, expected to increase in the future. The account receivable increased from 2,230 million yen as end of January to 4,025 million yen as end of July. Another factor adding to the financial difficulty of the iron and steel industry is the fact that goods are now bought on delivery while they used to be bought upon production. What can be achieved by the kind of rationalization so far carried out, however, is limited. The pig iron to steel integrated operation plants are suggesting the import of raw materials from the East Asiatic areas while the open hearth furnace plants are supporting the import of pig iron. But, the only way for this industry to survive the international competition is the modernization and improvement of equipments and large scale production through higher operating ^{rate} including concentration of production within each enterprise. Export contracts on iron and steel including secondary

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products are increasing, amounting to 8,678 tons in April, 11,834 tons in June, and 64,918 tons in August this year. The export after the devaluation of sterling, however, is expected to be fairly difficult.

Copper.

Shortage of fund in industry, especially that in power industry caused the slump of electric wire industry. This resulted in a considerable increase of electrolytic copper stock piles and the actual market price was for some time below 100,000 yen per ton while the official consumer price was 102,000 yen per ton. Up to September, production increase of electrolytic copper was continued in spite of stockpiles only because businesses tried to get as much subsidies as possible before they were abolished. The stockpiles of copper now amount to about 10,000 tons. The export of copper ingot is expected to raise the domestic price of copper to some extent. The discontinuation of subsidies on copper will make the management of copper refining industry pretty difficult. Even the utilization of scrap copper will not help much. The mines producing only copper ores will be in more difficult situation. The businesses are trying to tide over the difficult times by rationalizing management, cutting personnel, shutting down unpaying mines, making up for their deficit by surplus in other mines under the same management. A substantial number of mines are still expected to go out of operation.

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Aluminum.

The aluminum industry which was the first to lose subsidies has made strenuous efforts for rationalization. In the refining industry, personnel cut reached 17% and price declined by 20%. As a result, the price of aluminum has come down to 130,000 yen per ton or lowest in the world only next to Canada and lower than that in the United States (135,000 yen). But the stockpiles held by the refining industry amounts to about 8,700 tons (equivalent to four months production) and some firms will be doomed to ruin unless demand increases or operating rate is raised.

Ammonium Sulphate.

This industry is the greatest of those which have stable domestic demand and is rather well off. The fact that the blackmarket price is still seven times the official bespeaks the yet insufficient production of ammonium sulphate. The declining purchasing power of farmers may limit the domestic demand in the future in combination with the rise of ammonium sulphate price due to the revision of electricity rate and desubsidization. For the moment it is planned to minimize the import of ammonium nitrate and export ammonium sulphate to the East Asiatic areas. In the dry summer months, production of ammonium sulphate fell short of the target for the first time since April due to strike in the pyrite mines and deterioration of machines after the forcefully intensified production of spring fertilizer. There are some factories whose

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operating rate and earning power fell due to local shortage of electricity. There is no doubt that possible revision of the power rate will be a central problem for electrolytic process ammonium sulphate industry. The lack of operating funds and absence of such wholesalers as existed before the war, together with the possible abolition of the Fertilizer Distribution Kodan may give rise to some problem for this industry.

Soda.

The soda industry is favoured with subsidies of 5,000 yen per ton of salt used as raw materials and with price subsidies on caustic soda as well as on soda ash. In case these subsidies are abolished or reduced the management of the soda industry will become difficult as long as the import price of salt remains as high as it is now. Each business is therefore making rationalization efforts such as utilization of by-product residues. The market price of soda ash is 20% below the new official price and soda ash is being stockpiled due to the slump experienced by chemical fibre and aluminum industry. The cost of electrolytic process and that of solvey soda process are different. The abolition of subsidies on coal widened the gap between the domestic and international costs of solvey soda process further. On the other hand, the official price of soda ash is maintained. In case, however cheap

Magadi ash (natural soda) or solvey soda is imported the soda industry may be confronted with difficult situation.

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b. Capital goods industry.

Rolling stocks.

It was expected early this year that the rolling stock industry just like communication equipment industry would be seriously affected as a result of a sharp fall in the Government demand. As the effective demand in this year was expected to be about 4.9 billion yen or 43% of the production in last year amounting to 11.2 billion yen, almost all manufacturers have cut personnel, the cut in the whole rolling stock industry reaching 30%. This industry experienced considerable management difficulty in June and July, but is managing to tide over the crisis helped by new construction and repair ordered by private railways, new orders for tankcars, export to Thailand and Formosa of rolling stocks and encouraged by the expectation that the budget of the National Railway for the next fiscal year will be bigger than that for this year. The orders on hand will, however, be finished by the end of January next year. Since the open bidding system has come to be universal competition is severe and newly started or small manufacturers are now in a difficult position. Big manufacturers try to get orders even at considerably low prices, relying upon the reserve accumulated in and before 1948. On the other hand, small and medium manufacturers ceased to get orders with unreasonably low bid. Every manufacturer is making efforts to lower cost by rationalization. These efforts, however, become less effective by sharp fall in demand which lowers the operating rate. If we take a certain manufacturer as an example, the percentage of piece wage in the total pay was 24% in June, 1948, 54% in November, 1948 and 34% in September, 1949.

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The process of wage structure normalization is thus hampered by fall in orders. The rolling sock industry is concerned more with "operation" than with "earning" under the expectation that in JFY 1950 orders by the Government Railway will amount to 6.5 billion yen and export to 2 billion yen.

Communication equipments.

The JFY 1949 appropriation for the Ministry of Telecommunication, occupying 83% of the total demand for wire communication equipments, is only 77% of that for JFY 1948. This is a hard blow to the communication equipment industry. The industry as a whole cut the personnel by 30-40% between April and August this year. This was a move on the part of businesses to eliminate once for all abnormalities besetting management ever since the end of the war, taking advantage of the decreased appropriations of the Ministries. This was also an effort on the part of businesses to prepare the ground for the possible foreign investments. With regard to wireless equipments, the policy of "production increase first" followed ever since the end of the war resulted in enormous stockpiles this year. In June and July this year, every manufacturer began to restrict production, cut personnel and make efforts to raise labour productivity and to improve the quality of products. The fall in effective demand is, however, making the position of manufacturers difficult.

Electric wire.

The shrinkage of investment has caused an increased stockpiles of electric wire, which amounted to 7,746 tons in April this year. The manufacturers therefore restricted their production.

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The monthly average production fell by 24% from 5,337 tons (100) in 1948 to 4,054 tons (76) during April-August this year. After June even, the big manufacturers carried out 10-20% personnel cut. The export of bare wire is increasing together with that of copper ingot. But, as the percentage of rod wire is high, this export is not so advantageous from the view point of margin. The rise of copper prices and fall in demand are both exerting pressure upon the electrical wire manufacturers.

Machineries.

Coal mine equipment funds are expected to be about 14.7 billion yen this year as against 24.7 billion yen in 1948. This caused sharp decline in orders for coal mining equipments and rapid increase in accounts receivable for sale of the same equipments from the end of last year. The account receivable by all the machineries manufacturers including small and medium businesses from coal mines is estimated to be almost 4 billion yen.

Textile machinery industry was very busy up to 1948 with rehabilitation of our textile industry and with orders from India and Pakistan. This year orders sharply decreased due to lagging export and diminished domestic demand. The export became difficult because of dollar shortage in the sterling areas. The industry is at present continuing production only to fulfill orders already received both at home and from abroad.

The demand for universal use motors this year is expected to be almost on the same level as that last year because of factories for replacement and by farmers for rural use. The demand of pole transformers is expected to fall about 20% as compared with that in 1948 due to shortage of fund in power distribution companies.

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Shipbuilding.

Shipbuilding as an all embracing industry has a great effect on the related industries which take 70% of the cost of shipbuilding. Six months delay in determining the fifth lot of ships to be built compelled ship yards to draw upon capital. Though the prices of ships were set low by the shipping companies concerned with the cost of operation under high interest rate prevailing in our country, big ship yards which have succeeded in receiving orders are animated, these orders coming after the construction of foreign ships which served as a stop-gap. Moreover, the reconstruction of war standard vessels is enabling some businesses to operate at full capacity. Few big ship yards cut the personnel in anticipation of the fifth shipbuilding orders, though some yards discharged non-regular workers (a kind of sub-contractors in shipbuilding). On the other hand, small and mediumsized ship yards are barely tiding over the difficult times by cutting personnel and converting to manufacturing machineries to be used on land, because the new construction of small ships and fishing boats is gradually decreasing due to lack of money on the part of ship-owners, decline in sea transportation by smaller vessels and bad conditions in the fishing grounds. Competition is relatively mild in reconstruction of war standard vessels and repair of ocean-going vessels, but a hard competition under open bidding system is noticed as regards small and medium sized vessels.

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Moreover the small and medium makers get orders only now and then and are compelled to continue uneconomical management because they have to pay personnel expenses, indirect cost etc. all the same. The difference in management between the big and small manufacturers has thus become apparent.

Automobile.

In 1948 the production of motor cars gradually increased pari passu with the recovery of basic industries.

The requirement of motor cars for the first quarter this year was three times as big as production, but what actually happened was one refusal after another to purchase them. The stockpiles of ordinary cars in the market as of August 20 this year amounted to 1,960 (worth about 980 million yen) and the account receivable for sale of cars amounted to 486 million yen as of the said date. A few major manufacturers began to restrict production in August and September. Soon thereafter two big manufacturers announced 25% personnel cut and the three big manufacturers announced 10-20% wage cut. Conversion to production of big diesel cars or small cars in relatively strong demand is taking place because transportation companies which are the main customers have not enough money even to replace uneconomical old cars. Easy term system is expected to increase effective demand by about 30%, but is not working yet because the negotiation between banks and dealers on the supply of funds required is not making a good progress. All the makers are trying to lower the cost in view of the increasing stockpiles and of account receivable.

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Cement.

The cement industry as a business had been rather well off, making up for low earning possibility due to the official prices with production of plaster secondary products and with export of 20% of production. The stockpiles are increasing as result of shortage of funds to purchase Japanese goods on the part of the East Asiatic countries and of fallen demand by large consumers.

c. Export and consumer goods industries.

Textiles.

Cotton goods constituting the major part of the Japanese export to the sterling area are considerably affected by the devaluation of the pound. Since the 34.5% price differential between raw cotton released for cotton goods to be exported to the dollar areas and that released for cotton goods to be exported to the sterling areas has been removed, the export of cotton goods should not be difficult from the view point of prices. The export is, however, at the moment lagging. The allocation of raw cotton for domestic consumption in and after the third quarter this year will be increased from 750 thousand bales to 1,220 thousand bales per quarter so that the stable operation may be ensured. On the other hand, however, processing charges have been cut by 23% on cotton yarn, by 25% on cotton fabrics and by 40% on dyeing. This processing charge cut not only is a blow for small and medium sized businesses engaged in cotton weaving etc., but also is compelling even the big businesses to carry out rationalization.

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Raw silk and silk fabrics have been decontrolled. Reduction and abolition of textile consumption tax has been finalized. In absence of a market price stabilization organization, however, the prices of these goods are subjected to speculative fluctuations. Now that rayon and synthetic fibres are widely consumed at low prices, the expansion of world market for raw silk and silk fabrics will not be attained without modernization of equipments such as use of automatic reels and cone winding machines and rationalization all through from cocoon production downward.

Rayon was exported to India and other sterling areas in gradually increasing quantities. The same export, however, fell in and after June this year because the conclusion of the Anglo-Japanese sterling arrangement was delayed. The stockpiles as end of August amounted to 24 million lbs. which is equivalent to four months production. As for staple fibres, stockpiles are small and demand is still great.

Paper.

The slump in publishing industry are driving many small paper manufacturers especially low grade paper manufacturers and paper dealers out of business. The management of first class manufacturers, on the other hand, has been stabilized. No rapid production increase of good high quality pulp can be expected because equipment funds required for production increase of sulphide pulp are not sufficient.

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Sheet glass.

This industry used to be profitable on account of the demand and supply situation. The stockpiles have, however, continued to increase since April this year. When the stockpiles in April are taken as 100, that in June was 138 and that in August was 160. The account receivable for sale has also increased. The market price of a box costing 3,668 yen at official price sharply dropped from 10,000 yen in April this year to 8,000 yen in June and 4,000 yen in August. All manufacturers have strived to rationalize management, to raise labour productivity, to improve quality and to normalize the structure of employment and wages. This effort resulted in 10% cut in production cost as compared with that a year ago. As this industry is already equipped with relatively modern facilities, further cut in production cost will be possible only with raised operating rate.

Dyestuffs.

When the dyestuff industry is looked at as a whole, it is noticed that the stockpile is increasing and some makers are confronted with financial difficulty. But, since the demand for good quality dyestuffs is great, the stockpiles held by the first class makers which tended to increase some time ago are recently decreasing and the production by these makers is beginning to increase in parallel with decreasing stockpiles.

2. Present conditions of small and medium-sized businesses.

Small and medium-sized businesses occupy an important position in our economy. The 1948 preliminary industrial statistics show that the proportion of small and medium-sized businesses in the entire industry is 98% in number of factories, 61% in production as indicated in the following table.

Number of factories and employees and production by number of employees

	Total	5-49 employ-ees	50-99 employ-ees	100-199 employ-ees	Total 5-199 employ-ees	200-499 employees	500-employ-ees
Number of factories	110,116	92,063	4,510	1,815	98,388	1,127	601
Number percent	100	92	4	2	98	1.5	0.5
Number of employees	3,060,352	1,321,949	308,517	248,455	1,878,721	341,517	840,114
Number percent	100	43	10	8	61	11	28
Production in mil. yen	817,136	320,402	87,975	78,141	486,518	106,811	223,807
percent	100	39	11	10	60	13	27

This table does not include small businesses employing less than 5 workers which total 515,343 factories and 1,009,850 employees (1947 industrial statistics.) The actual proportion of small and medium-sized businesses will be much greater when these very small businesses are included. Even in the export industry expected to play an important part in the establishment of a self-supporting economy, 50% of export goods go through the production process attended by small and medium-sized businesses.

The small and medium-sized businesses have been directly affected by the establishment of 360 yen one dollar exchange rate, devaluation of the pound, recent bad sale of consumer goods, concentration of production in big businesses etc. Forty percent of them which are subcontractors have been hit by cost cut and shortage of money on the part of the big businesses. The conditions of small and medium-sized businesses are now becoming serious. It must not be forgotten that the

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rationalization of big businesses is being achieved at the expense of those factors which do not permit clear statistical estimate.

According to a recent survey, the processing charges of the export fabric sub-contractors which was 8 yen per yard around January this year is now down to 2-3 yen and sometimes they are compelled to work for nothing with the only hope that they may be able to keep 5% of cotton yarn for themselves. An investigation made by an association of metal industry for machinery in Tokyo on 2,300 member sub-contracting factories shows that the recent unit charge of sub-contractors is about 60% of that in the beginning this year and sub-contractors are eager to receive orders which are tend to further decrease.

The other factor adversely affecting small and medium businesses in combination with this worsened conditions of sub-contract just explained is the difficulty of collecting the money for their sale. An investigation recently made by Research Section, ESB, on iron casting factories (60) in Kawaguchi city, Saitama Prefecture, reveals that the account receivable for sale per factory which was a little below the monthly output at the end of March increased to twice the monthly production at the end of September and 40% of them are over 6 months old. They are almost all due from contractors.

Account receivable for sale of Kawaguchi iron casting factories.

	Account receivable per factory (in Yen)			Total	Average monthly production per factory (in Yen)
	Over 1 month	Over 3 months	Over 6 months		
At end of March	116,255	127,301	148,075	391,631	400,000
At end of September	261,267	287,012	327,360	875,639	400,000

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The financial difficulty of small and medium businesses can clearly be seen also from the movement of wages. An investigation made by the Osaka Chamber of Commerce shows that the wage of employees in small and medium businesses (under 200 employees) which was a little higher than that in big businesses in 1947 was 91% in the first half of 1948, 85% in the latter half of 1948,

and this gap is recently further widening, the former being 82% in July and 81% in August.

Big businesses still have the comparatively greater possibilities of tiding over such financial difficulties with borrowings from financial institutions. The ability of small and medium businesses to borrow money is limited. From January through September, the Tokyo Commerce and Industry Center received from small and medium businesses 1,526 applications for help in borrowing money. But only 5% of them were able to borrow. The important small and medium businesses alone are said to require 20 billion yen of working funds, and 8 billion yen of equipment funds, totalling 28 billion yen, according to the recent investigation made by Agency of Smaller Enterprises. The upper limit of special loans to small and medium businesses by the Bank of Japan through Industrial Bank, Central Commerce and Industry Bank and Hypothec Bank is only 1.8 billion yen.

On the other hand, it cannot be denied that, in labour relations in particular, small businesses have advantages of their own. It is evident from the factors stated above that small and medium-sized businesses in general are facing a crisis. In view of their weight in production and employment, it must be said that the hardship and bankruptcy menacing them is a serious problem not to be overlooked from the production and trade view-point or from the social view-point.

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B. Social effects

1. Movements of wage and living standard

a. Movement of wage

The national average industrial wage, which had kept increasing at a almost constant tempo of a little less than 10% per month ever since the end of war, began stabilizing at the beginning of this year, as shown in the following table. It rose only 5% between January and August this year.

Trend of wage

	Jan' '49	Feb.	Mar.	Apr.	May.	Jun.	Jul.	Aug.
Average Industrial								
Wage (Unit: yen)	8,166	8,030	8,225	8,439	8,059	8,529	8,419	8,579
It's indices (A)	450	441	452	458	443	469	463	472
Consumer's effective								
Price indices (B)	233	237	245	248	250	241	246	247
Real wage								
Indices (A'/B)	193	186	184	184	177	193	186	190

Remark: The figures for "average industrial wage" are based on the Labor Ministry's "Monthly Labor Statistics". The figures (A') used for the computation of "real wage indices" are the indices of "average industrial wage" minus taxes.

(The indices are on the base of 100 for the 1947 average)

The real wage, after a remarkable ^{recovery} up till last January with 193 against 100 for the 1947 average, has since fluctuated little between 180 and 190. The trend of wages by industrial branches is shown in the following table:

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Wage Comparison among Industrial Branches

(Unit: yen)

	Jan. '49	Aug.	Aug. indices (100 for 1947 average)
All industries	8,617	9,136	453
Gas, power and water works	8,757	9,748	418
Mining	9,108	9,934	407
Coal mining	9,267	10,209	399
Manufacturing	8,186	8,579	472
Metal	10,939	10,999	510
Machinery	8,709	8,863	444
Chemical	8,712	9,296	507
Ceramic	8,839	9,595	471
Spinning	4,053	4,555	457
Wood-work	4,580	5,596	392
Food processing	7,855	9,642	511
Printing and bookbinding	7,916	9,330	434
Transportation	9,859	9,963	442
Commerce	9,500	11,315	558
Banking	11,725	12,656	611
Public service	6,307	6,307	315

Remark: The figures for other than "public service" are based on the Labor Ministry's "Monthly Labor Statistics".

As shown above, the real wage has generally increased between January and August for each industry, but the ratio of increase is different according to the kind of industry. Namely, the lowest is 1-2% for metal,

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machinery and transportation industries, 7-9% for chemical, ceramic and mining, 11-12% for gas, water works and spinning, and the highest being 18-23% for printing and bookbinding, commerce, woodwork and food processing. Generally speaking, the stagnant trend of wage is noticeable in heavy industries. The August wage was generally 4-5 times as much as the 1947 average, except for 5.6 times for commerce and 6.1 times for banking 3.2 times for public service. Accordingly, the real wage last August was about 180-190 against 1947 average of 100 for almost every industry, except public service which was 128.

Another point to be noted since last May is cases of skipping of or delay in wage payment which amounted to 200-300 million yen each for June and July according to the survey by Labor Standard Bureau, Ministry of Labor.

b. Trend of living standard

The trend of family expenditure, as shown in the following table, has recently been noticeably stabilized, especially since March it has been completely levelled off. As the consumer's effective price has been stabilized in the meantime, the real family expenditure, i.e, the standard of living, has remained almost unchanged.

Trend of Family Expenditure

	Jan. '49	Feb.	Mar.	Apr.	May.	Jun.	Jul.	Aug.	Sept.
Family expenditure									
Per unit per month (yen)	10,633	10,091	11,774	11,583	11,939	11,096	11,826	11,710	11,543
Their indices (A)	227	215	251	247	254	236	252	250	246
Consumer's effective									
Price indices (B)	233	237	245	248	250	241	246	247	246
Real family expenditure									
indices (A/B)	97	91	103	100	102	98	102	101	100

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Remark: The figures for "family expenditure" are based on the "Consumer's Price Survey" (All-Cities) by the Statistics Bureau, Prime Minister's Office. (The indices are on the basis of 100 for the 1947 average.)

As shown above, the recent level of the real family expenditure has generally remained equal to the 1947 average. Even if the fact that the 1947 average includes December when family expenditure increase seasonally is taken into account, the recent level is only 5% higher. Its breakdown by items reveals that expenses on food have increased while those on clothings and miscellaneous items have remarkably decreased as shown below:

Trend of Consumption Level by Items

	1947 average	Jul.-Sept. '48	July-Sept. '49
Real family expenditure	100	96	101
Food	100	102	108
Lighting and heating	100	74	62
Clothing	100	106	98
Housing	100	103	130
Miscellaneous	100	78	87

As for the percentage occupied by each item in the family expenditure, food was consumed in somewhat greater quantity as shown above but as its price rise was less than in other items (due to increased ration and relatively small increase of its blackmarket price) its percentage in the family expenditure slightly decreased. On the other

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hand, as the prices of miscellaneous, goods and services rose abnormally, although their purchases were reduced in quantity their percentage in the family expenditure fairly increased.

Percentages of Each Items in Family Budget

	1947 average	Jul.-Sept., 1948	Jul.-Sept. 1949	Pre-war average (1934-36)
Total family expenditure	100	100	100	100
Food	66	64	62	35
Lighting and heating	5	5	3	5
Clothings	10	10	10	11
Housing	4	4	5	18
Miscellaneous	15	18	20	31

Remark: The figures for post-war are based on the "Consumer's Price Survey" (All Cities), while those for pre-war are on the "Family Budget Survey" Tokyo-to by the Statistics Bureau of the Prime Minister's Office.

As any rate, we have to admit clearly of such post-war deterioration of the family budget structure, as concentration of expenses on absolute daily necessities like foodstuffs, reduction of housing expenses due to under-depreciation, cutting down of miscellaneous expenses etc. It is true that the structure of family expenditure has recently been returning, though little by little to the pre-war, but as this is largely due to the different rate of price increase of each item, there is little improvement in the actual state of family budget. The real wages of workers have, indeed, increased considerably as compared with two years ago as shown already. But due to the fact that the comparatively low wages of workers of medium and small enterprises and public servants are not included,

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that the real income of those other than workers are deemed to have decreased, that unemployment has increased, that not all the increased income has been spent to increase purchase but considerable part thereof has been used to make up for the deficit in the family budget, etc., the standard of living of the urban population as a whole has stayed at the level 5% higher than two years ago.

Furthermore, it is true that the recent nominal stability of the family budget is due to the stability of the consumer's effective price resulting from the rise in official prices and fall in black-market prices offsetting each other in the average-income family, but it is to be noted that dependence upon rationing varies in degree according to family income brackets. The lower the bracket, the stronger in the effect of the increase of official price (the weaker on the other hand in the effect of the decrease of blackmarket price). For example, the Consumer's Price Survey (in Tokyo) as of last March reveals that the percentage of rationed food expenses in the family budget varies according to bracket, as follows:

Monthly family expenditures	Percentage of rationed food expenses
4,000 - 6,000 yen	24.8 %
16,000 -18,000 "	12.8 "
28,000 -30,000 "	8.6 "
Average (14,852 yen)	13.2 "

The 14% raise in the official price of staple food effected last April has affected the average bracket merely 1.8% while the lower bracket of 4,000 - 6,000 yen by 3.5%. It should be remembered that the reduction of food subsidy directly and that of fertilizer subsidy indirectly will particularly affect the lower bracket and that the unemployed and part-time employees of low income represent a considerable part of the population.

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2. Recent labour and employment situation

The process of rationalization began with personnel reduction. According to the employment survey of the Ministry of Labour, employment which was on slow upward trend during last year began to show a sign of decline in January. Employment in all industries declined by 0.25% in February (as compared with the preceding month) and 0.29% in March, and after a temporary increase of 0.59% in April on account of the recruit of school graduates, continued to decline by 0.63% in May, 0.9% in June and 3.1 of in July. The branches which showed remarkable decline in July were coal mining (7.04% -- percentage decline in July as compared with January; same hereunder), machinery (22.06%), silk reeling and weaving and other textile spinning and weaving (9.07%), lumbering and woodwork (10.7%), transportation and communications (11.78%), etc.

The "State of Enterprise Readjustment" of the Ministry of Labour reveals that the tempo of personnel reduction quickened sharply in and after the month of May, especially in July. This is chiefly due to the reduction of investment, in consequence of which machinery industry which was directly affected and all other industries were more or less degrees forced to discharge employees. The first wave of personnel reduction in consequence of the economic stabilization program, has subsided after the peak in July. At the same time, the Government personnel cut numbering as much as 200,000 was completed during the months from July to September. Under these circumstances, it may be said that the first wave of personnel cut as a whole has come to an end. The future development of personnel cut depends upon the tempo of economic rehabilitation.

Recent Enterprise Readjustment (Labour Minis

A means the number of cases of enterprise readjustment.

B means the number of discharged personnel.

	February		April		June		July		August
	A	B	A	B	A	B	A	B	A
Total	218	7,480	377	14,955	686	32,641	1,051	92,393	903
Mining	18	748	16	676	44	2,100	70	3,856	34
Construction	8	216	13	1,373	38	1,699	34	1,535	16
Manufacturing	167	5,903	316	11,024	533	25,591	744	41,411	600
Metal	15	549	38	1,470	66	4,636	85	5,553	55
Machinery	64	3,633	79	5,010	213	11,377	284	32,925	218
Chemical	29	689	47	1,365	49	3,548	84	4,177	87
Textile	17	230	25	515	54	1,099	58	1,595	63
Sawing & woodworking	21	348	76	1,242	84	1,540	142	2,334	100
Other manu- facturing	22	441	51	1,422	58	3,391	92	4,818	77
Transport & communication	8	69	16	1,141	4	1,044	109	4,221	158
Other industry	17	508	18	741	49	2,207	94	371	95
By scales of dischargement	No. of cases		No. of cases		No. of cases		No. of cases		No. of cases
Below 50 persons	98		206		362		488		413
50-199 per- sons	64		122		214		266		278
Over 200 persons	56		49		110		297		212

Remarks: This Survey is the summary of factfindings made by the Public Employment and workshops under their jurisdictions which went through enterprise and workshops with less than 50 employees are not completely included

Recent Enterprise Readjustment (Labour Ministry)

number of cases of enterprise readjustment.

number of discharged personnel.

April	June		July		August		September		Ratio of Sept to Feb.	
	B	A	B	A	B	A	B	A	B	
14,955	686	32,641	1,051	92,393	903	41,423	767	33,796	351	451
676	44	2,100	70	3,696	34	1,890	46	2,475	255	330
1,373	38	1,699	34	1,535	16	509	14	523	175	242
11,024	533	25,591	744	41,411	600	31,075	509	19,501	304	331
1,440	66	4,636	85	5,553	55	3,201	51	1,903	340	346
5,010	213	11,377	284	32,925	218	19,634	170	9,819	265	242
1,365	49	3,548	84	4,177	87	3,353	81	3,367	279	493
515	54	1,099	58	1,595	63	1,587	42	1,102	247	479
1,242	84	1,540	142	2,334	100	1,323	84	1,226	400	352
1,422	58	3,391	92	4,818	77	1,977	81	2,122	385	481
1,141	4	1,044	109	4,221	158	5,094	105	4,611	1,312	667
741	49	2,207	94	371	95	2,841	93	6,746	5,470	132
of s	No. of cases		No. of cases		No. of cases		No. of cases			
	362		488		413		364			
	214		266		278		231			
	110		297		212		172			

Summary of factfindings made by the Public Employment Offices all over the country on plants in their jurisdictions which went through enterprise readjustment, provided that small mills with less than 50 employees are not completely included in the survey.

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The sluggish state of production, the progress of Government personnel retrenchment and enterprise rationalization and the disappearance of the inflationary boom have lessened the chances of employment. According to the employment reports of the Public Employment Offices all over the country, the number of job-seekers increased from 649,000 in January to 1,418,000 in July or 110% increase, while the number of jobs offered decreased from 491,000 to 180,000 or 37% decrease. The number of job-seekers who revisited the employment office increased by 390% from 224,000 in January to 1,093,000 in July, indicating the difficulty of getting job.

In consequence of such increasing number of the discharged and mounting difficulty in getting job, the number of insurance benefit payments under the Unemployment Insurance Law has been increasing remarkably. Actual payment in each month since last May has been 30%-50% over that in the preceding month. The number of cases of benefit payment in August was almost 760,000 or 16.6 times that in the corresponding month of last year. This may be accounted for partly by the fact that the system was not fully utilized last year on account of complicated formalities, etc., but it is no doubt indicative of an increasing trend of unemployment.

The above-mentioned increase of the discharged resulting from rationalization of enterprise and government personnel cut, together with repatriation from abroad, signifies the aggravation of the unemployment problem. According to the "Labour Force Survey" of the Statistics Bureau, Prime Minister's Office, the number of unemployment persons has been between 310,000 and 460,000 only since the beginning of this year. These figures, however, represent only unemployment persons in the strict sense of the term, i.e., those who "have will to work but cannot be gainfully employed". Explanation for such small number of the unemployed in the strict

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sense can only be found in such characteristics of the Japanese economy as poor social security system and close family ties between urban and rural communities. The question is the existence of a huge number of semi-unemployed who "have will to work and yet cannot get living wages". They exist in the form of surplus population in rural communities and handicraftsmen, street-stall merchants, retailers, small enterprisers and free labourers in urban communities. Substantial portion of the discharged workers and repatriates have in the above form been "absorbed".

According to the "Labour Force Survey", the number of employed with weekly working hours of 1 to 34 hours (less than 4 days per week on the basis of 8 hour day week) in rural and urban communities was 5,740,000 and 9,860,000 respectively in July and August, or an increase of 1,200,000 and 4,390,000 as compared with the corresponding months of last year. The number of agricultural employment as of last June is about 3,000,000 more than in the corresponding month of last year. The number of persons engaged in manufacturing and concurrentlyⁱⁿ retailing occupation increased by 280,000 during the period from last May to August. All these facts testify, though incompletely, the truth of the above statements.

Numbers by Working Hours of Persons Engaged
in Agriculture and Forestry and Non-agricultural
Industries according to Labour Force Survey

(Unit: 1,000 persons)

	1949			1948		
	Total	Over 35 hours	Below 34 hours	Total	Over 35 hours	Below 34 hours
Agri. & Forest						
June	20,610	17,730	2,880	Unknown	"	"
July	19,850	16,200	3,650	17,340	14,750	2,590
August	19,150	12,370	6,780	17,150	13,900	3,250

Non-Agricultural industries

June	17,250	15,410	1,840	Unknown	"	"
July	17,240	15,650	2,090	18,380	16,430	1,950
August	18,090	15,010	3,080	18,510	16,290	2,220
Total						
June	37,860	33,140	4,720	Unknown	"	"
July	37,590	31,850	5,740	35,720	31,180	4,540
August	37,240	27,380	9,860	35,660	30,190	5,470

As regards labour disputes, despite the above stagnant condition of wages and personnel cut in the government and in private enterprises they have been decreasing, both in the number of cases and in man-days lost, and particularly in the number of persons involved.

	No. of disputes	No. of participants	Labour days lost
1949			
Jan. Mar. average	178	444,999	96,592
Apr.-Jun. "	249	95,705	994,827
July	199	314,477	120,933
August	175	334,977	56,266

Source: Labour disputes statistics compiled by Labour Ministry.

Furthermore, as to the causes for labour disputes such defensive and passive causes as opposition to wage cut, demand for wage payment, opposition to work stoppages or closure of plants, opposition to discharge, demand for reemployment, establishment of the discharge or retirement allowance system or demand for increased payment of retirement allowance, have greatly increased. Labour movement has thus remained relatively quiet on the surface and adapted itself to the stabilization program. But at the same time, labour has been intensified as industrial rationalization develops and complaints against deteriorated living

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conditions have been accumulating under the surface as the wage level remains stagnant or even falls down. We cannot therefore deny the possibility that these hidden dissatisfactions on the part of labour may if accumulated beyond limits, give rise to serious social problems.

3. Trend of farmers' economy

The prosperity of farmers' economy brought about by the rise in prices of foods after the termination of the war has now ceased with a few exceptional cases and farmers' economy is gradually turning to depression. Such trend already set in the course of last year, and it is not appropriate to attribute it to the economic stabilization program. Nevertheless, there is a possibility in future that the normalization of economy and rationalization of enterprise in the course of the economic stabilization program will be carried out by shifting difficulties to farmers' economy. There have already been a number of indications to this effect.

One of the major factors is the increase in the population pressure to agriculture. The figures of the employed population on farm are as follows. According to the Labour Force Survey of August 1949, the employed population on farm is 19,150,000, or 12% increase over the corresponding period of last year and 52% of the total working population. (The latter percentage was 48% in August last year and 40% in 1940.) The main causes for this increase are the flow of workers discharged by the rationalization of enterprises or administrative retrenchment into rural districts and the shift of non-agricultural labour force to agricultural labour force (for example, in case workers commuting from rural districts to towns for non-agricultural employment lose their jobs, it will result in

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the increase in the agricultural labour force), in addition to the natural increase and the inflow of the repatriated. The Japanese agriculture, however, is extremely intensive and the agricultural labour force has been excessive. A part of the increased labour force, therefore, becomes unemployed and other part partially employed. The number of the partially employed on farm has remarkably increased this year as compared with that in the corresponding period last year as mentioned previously in connection with employment, and at the same time, the rate of their increase is far greater than that of full-time workers, showing increase in latent unemployment on farm.

The shrinkage of blackmarket transactions following the normalization of economy affects the farmers' economy. Although blackmarket purchase of production materials and daily necessities in rural districts has been declining year by year, the blackmarket sale of foods decreased to a large extent in consequence of the increase in the food ration and of stagnation in purchasing power in cities, farmers' economy which have depended considerably on the food blackmarketing having thus been affected adversely. For example, the percentage of expenditure for blackmarket purchase against the total expenditure for staple foods in C.P.S. (Tokyo-to) has fallen remarkably from 69% in August last year to 56% in December last year, to 43% in March this year and to 34% in July this year. Meanwhile, as to the movement of blackmarket prices of commodities, the difference of prices between agricultural products and industrial products which has been increasing since the termination of the war has recently come to cease to increase, so that farmers' economy has profited, though not greatly, in this aspect from the normalization of economy. According to the

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survey made by the Bank of Japan, for example, while the blackmarket prices as of September this year of staple foods, the main selling goods of farmers, fell down to 88% of those as of the same month last year, the corresponding percentages of blackmarket purchase prices of textile goods and ammonium sulphate were 87% and 84% respectively, although the corresponding percentage of daily necessities showed increase of 112%.

How, then, is the actual trend of farmers' economy under these circumstances? According to the currency distribution survey made by the Saving Encouragement Division of the Bank of Japan, the percentage of currency distribution in rural districts is showing remarkable decline: 28.5% as of June 1947, 20.1% as of June 1948 and 17.2% as of June 1949. The outstanding discount of agricultural bills reached as much as 13.7 billion yen at the end of July this year, which is a remarkable increase as compared with 2.4 billion yen at the end of September last year. This is an evidence showing the recent of agricultural fund, even if we take into consideration the fact that the system was new and might not have been much utilized last year. It is to be noted, moreover, that the state of farm economy is varied according to areas and scales of management. That is to say, while large farmers and fruits and vegetable growers near urban areas are relatively better off, farmers, especially minor farmers, in firewood and charcoal producing areas and single-crop rice areas are worse off. With regard to the outstanding discount of agricultural bills mentioned above, 73% of it are the bills of farmers in single crop areas of Hokkaido, Tohoku and Hokuriku areas.

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In fine, the impact of the economic stabilization program on farmers' economy as a whole has just started to present itself, but it will become more and more distinct from now on. It is feared that additional burdens might be imposed upon farmers' economy by continued inflow of city unemployed to farm and the weakening of the production basis due to the lack of agricultural long-term investment to which we referred previously in connection with the shrinkage of investment.

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V. Future problems

We have reviewed the general situation of our economy since the implementation of the stabilization program. Following are some of the major problems which we will face on our road to the attainment of sound and self-supporting economy.

1. Export and production

The Johnston Report released by the United States Department of the Army in April last year states: "It has been estimated that Japan will require about \$1,575,000,000 of exports each year (at current prices) to pay for essential imports of food and raw materials (and necessary invisible imports) to maintain a tolerable food ration and standard of living at home." The present level of exports has to be raised to four fold in order to attain such goal of exports.

Essential conditions for the enhancement of exports are the prevention of recurrence of inflation and promotion of rationalization of enterprises on the internal side and the solution of market problems, and improvement of trade conditions on the external side. It is needless to say that additional efforts should be made to improve the internal conditions, but no less essential is it to better the external ones. First, it is necessary that the Far Eastern countries which are our main market for exports should be able to pay for the imports from Japan. For this purpose, our imports from these countries should be increased on the one hand and necessary fund made/available for them for the development of resources. Second, our ^{/somehow} people should, at the earliest opportunity, be allowed to participate in the international trade on equal footing with other nations. Our people are suffering from various restrictions in their efforts for export promotion and in trade conditions. The handicaps will become all the more serious as sellers' competition gets intensified in the world market.

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While the mining and manufacturing production has recently been stagnant, the current level of production is far too low to satisfy the needs of export promotion, enhancement of investment and future improvement of living standard. The production level needs be raised by 60 to 70% for the attainment of a self-supporting economy. In the circumstances where there is a large potential demand for the modernization of equipment, prevention of the deterioration of the national land, promotion of exports, etc. on the one hand and an excessive supply of labor on the other, we cannot allow coal consumption to remain at the level of 3,000,000 tons and steel consumption at the level of 150,000 tons per month. Moreover, as the industrial products--machinery, metals, chemical products, etc. in particular--will occupy increasingly larger portion of our exports in future, silk exports and invisible trade incomes having decreased to a large extent, the reduction of production costs through raising the operation rate of enterprises is all the more necessary to enhance our exports. We must, therefore, raise the level of production by expanding exports and domestic investment demand.

2. Price

Various distortions in the price structure caused by war-time and post-war economic controls have gradually been removed recently. The reduction and abolition of subsidies and the revaluation of assets will further promote the normalization of price structure. At a time when the

international and domestic economies are still not fully normalized, there are many restrictions and problems for the normalization of price structure. We will review various problems related to price in connection mainly with the desubsidization and the revaluation of assets.

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a. Reduction and abolition of subsidies

While the reduction and abolition of subsidies is strongly required by the public finance and also is an important step in the normalization of economy, its impact on the over-all actual economy should fully be taken into account. The problems with regard to iron, steel and soda are as follows, food and fertilizer having been reviewed previously.

As a result of desubsidization in September, the official price was raised for iron by 70%, 35% for steel and 40% for caustic soda. The step has so far stimulated the selfsupport of the industries without imposing excessive burden on enterprises. Nevertheless, the official prices have, as a result of this raise, reached, or surpassed in some instances, the level of the blackmarket prices, indicating future problems for desubsidization. That is to say, as the recent shrinkage in effective demand makes it difficult to raise official prices of products to full extent, the margin has to be absorbed by enterprises themselves through their rationalization. But the question is that owing to the stagnant production there is scarcely any room to reduce their costs of production by raising the rate of operation. Moreover, they are at a disadvantage in the acquisition of imported materials in that they, not being able to import from the Far Eastern areas on account of political unrest there, are obliged to import from distant areas, paying unusually high freight. As long as it is necessary to keep up these industries to maintain domestic employment and to economize our imports on the one hand and to utilize the resources of the Far Eastern countries which are our major market and to enhance their capacity to import our products on the other, the subsidies on these industries should be reduced or abolished only in consideration of the rise in their operation rate and the improvement of their conditions of raw materials import. To put it in another way, the

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improvement in these conditions will make it possible to reduce or abolish subsidies and promote real normalization of the economy.

b. Revaluation of assets

The Shoup Recommendation released in September will induce fundamental changes in our taxation system. Its effects upon the management of enterprises are extensive and complicated, some of the major points of which are the revaluation of fixed assets and taxation on the revaluation profits, the abolition of the excess profits tax, the expansion of the real estate tax, the revision of the enterprise tax (adoption of the value added tax), the abolition of the transaction tax, etc. In particular, the revaluation of assets is an important step which stops the disinvestment of capital long continued under inflation and clarifies the profit conditions of enterprises, thereby promoting the normalization of the economy. There arise similar problems in the revaluation of assets as in the case of desubsidization. That is to say, enterprisers have to bear the increase in the cost of depreciation and the burden of the revaluation tax unless they manage to shift them to consumers by raising the prices of their products. If they cannot raise the prices of their products on account of the shrinkage of demand and the low level of international prices, as has been pointed out in connection with desubsidization, they have to absorb the increased costs of production through their rationalization. Suppose production remains stagnant at the current level in next year, it is feared that those enterprises, which have large assets but operate at low rate and have poor profit rate, will suffer from financial burdens for a year or two and will have their reconstruction delayed. Under such circumstances, it is likely that enterprises revalue their assets as low

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as possible in order to escape their immediate difficulties, especially if the real estate tax be imposed in direct relation to the revaluated amount. Although Dr. Shoup pointed out the danger of excessive revaluation, the danger in the current economic circumstances is under-revaluation rather than over-revaluation. It is deemed necessary that the immediate burden on enterprises accompanying revaluation be not too heavy, because under-revaluation will continue consumption of capital and disturb efforts for rationalization.

c. Electric power and transportation charges

While the current general price level is roughly 200 times the pre-war level, the electricity and land transportation charges are restricted to the 36 times and 77 times levels respectively because their costs calculation is based on the book value of assets on the one hand and because of their public nature and bearing upon general price on the other. Such unbalance in the price structure entails various problems. The electric industry, for instance, is suffering from shortage of fund to pay for repair and maintenance of equipment and for coal for steam generation, as stated previously, giving rise to very unstable power supply. As the price of coal has gone up 300 times the pre-war price, consumption of relatively cheap electricity has unduly increased. As private steam generation costs high, mines and factories rather purchase electric power than themselves generate with coal, which further intensifies the shortage of electricity.

The similar unbalance exists between land and marine transportation. Those cargoes which under normal price structure would go to marine transportation rush to the relatively cheap land transportation, thereby intensifying the difficulties of the marine transportation industry. Such contradictions will be eliminated when the Shoup Recommendation is implemented and the normal capital expenditures are included in the production costs. In any event, the current price policy should be

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promptly amended when the independence and profitability of enterprises are strongly urged.

d. Problems related to the raising of official price

The reduction and abolition of subsidies, revaluation of assets, problems of electricity and transportation charges all point to the raising of the official price level. It is true that the burden of these factors cannot all be shifted, through the rise in the prices of products, to the higher industries which consume these products, but the raising of the official price level is unavoidable to a certain extent. The same situation will arise as to those products which are removed from price control. The result is a general rise in the costs of production throughout all the industries, which, as explained before, has to be borne by enterprises because of the limited domestic purchasing power, the level of international price as well as the recent stagnation of production activities. The impact is more serious on the machinery and chemical industries which are closely related to the subsidized industries and which incidentally are to be our major export industries. Moreover, the necessity for lowering prices caused by the devaluation of the pound is especially urgent for these industries. In the rationalization of these industries which will become all the more necessary, the rise of the operation rate and the modernization of equipment are deemed especially indispensable.

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3. Rationalization of enterprises.

As explained in the foregoing chapters, the rationalization of enterprises will have to be pushed forward more and more intensely. But the rationalization through the elimination of excessive employment, concentration of production, price reduction of sub-contracts, etc. is approaching its limit, as mentioned above. Moreover, the strengthening of buyers in the market has weakened the producers' position to such an extent that producers often accept orders at prices below production costs simply to maintain operation. Such situation has come to prevail especially in machinery, rolling stock and shipbuilding and other capital goods manufacturing branches, because of their limited domestic market and of extremely meagre supply of equipment funds. It may be that the elimination of unsound enterprises through such process may promote normalization of economy, but the problem lies in the fact that the present level of effective demand is still so low as compared with the necessary level in self-supporting economy that the capacity of production surplus at present is not necessarily surplus in future, and that the survival of enterprise depends more often on the volume of capital power or on good connection with financial institutions than on the superiority of management. Furthermore, in order to rationalize individual enterprises, it is necessary that the entire economy be simultaneously rationalized. For example, the reduction of interests rate of financial institutions is one of the important factors, and the reconstruction of commercial structure is another.

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The scale of commercial functions heretofore undertaken by the Government or Kodans is diminishing as economic decontrol proceeds, but private commercial structure to replace the Government mechanism has not yet fully been established. The interval may well be bridged by the producers' direct sale system, such as seen in the sale of coal, but this is merely a temporary measure. It is necessary that some specialized commercial structure be established. Particularly, inasmuch as Japan has a large number of minor producers, which fact weakens sellers vis-a-vis buyers, commercial cooperatives, commercial financing, etc. are very important problems. The same situation exists as to export industries, in which the absence of appropriate commercial mechanism put medium and small enterprises in a very disadvantageous position. Here is another room for further rationalization of economic structure.

As stated above, the rationalization of enterprises does not and with the rationalization of individual enterprises alone, but can be achieved ultimately only through the restoration of mutual proportions of various branches of industry, normal economic circulation of the entire economy and reasonable intercourse with the international economy. To force normalization of merely a segment of economy does not only not achieve the normalization of that segment but will, if pushed too strongly, disturb the reasonable development of the entire economy. This is why the reduction and abolition of subsidies and repeal of economic controls should be timed properly with various factors in the actual economy.

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4. Investment.

As previously stated, the supply of equipment funds in the first half of the present fiscal year remained at the level of 70% of that in the corresponding period of the last fiscal year, too small, even allowing for the inflation which was still progressing in the last fiscal year.

In the present Japan in which income level is levelled off at a very low level with saving propensity being necessarily low, the capacity of private capital formation cannot be expected to be expanded in near future. Under the present circumstances in which the ratio of saving deposits as against the total deposits is less than one half of that in pre-war, it is only natural that the supply of equipment funds is limited even if such measures as purchase of Government bonds held by city banks/
/or loan arrangement by the Bank of Japan, redemption in cash of the R.F.P. bonds held by city banks, etc. were taken. Although the accommodation of equipment funds through the issue of stocks and debentures will be sharply increased in the present fiscal year as against that in the last fiscal year, it is also hitting the ceiling as indicated by the recent slump in stock prices. With regard to corporate reserves, not much can be expected unless operational rate be raised and rationalization be promoted further.

Furthermore, in the distribution of equipment funds, such basic industries as power, coal, shipbuilding, etc., and small industries, agriculture and forestry, etc., are less favoured as the credit extension therefor is less profitable for

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financial institutions. In addition, the increase of funds required for the purchase of imported commodities and the increase of commercial funds following the abolition of Rodans and various economic controls are affecting adversely the accommodation of equipment funds as the funds accumulated in financial institutions tend to flow into the former field. This tendency would be intensified by substantial decontrol in foreign trade and consequent expansion of private foreign trade expected in the near future.

In the meantime, inventory financing increasing on account of the accumulation of inventories caused by the/shrinkage of equipment funds is putting restraint, in turn, on the accomodation of ^{/stagnation of export and} equipment funds. Furthermore, stagnation in the purchasing power of consumer goods is becoming one of the factors deterring private long-term investment in the present Japan in which export still remains at a very low level. The abnormally high interest rate is intensifying this trend.

While, as atated above, many instances came into existence which cannot be solved by private financing based on the principle of profit seeking, the redemption in cash of 21.9 billion yen of R.F.B. bonds by Government investment and the collection of 7.8 billion yen of R.F.B. loan were carried out in the 1st half of the present fiscal year. Furthermore, the interest revenue of R.F.B., the excessive surplus of the Aid Fund and the repayment from the Foreign Trade Special Account amounted respectively to 4.6 billion yen, 27.⁶ billion yen and 2.5 billion yen in the same period.

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The most part of the Government funds thus accumulated is at present utilized for the purchase of short-term Government certificates. However, it is considered necessary to utilize it as industrial investment more effectively for the attainment of self-support of Japan's economy as its release for industrial investment is not considered necessarily to revive inflation.

That is to say, consideration should be given to the accommodation of equipment funds for such industries as may not be covered by general financial institutions (basic industries, medium and small industries, agriculture, forestry and aquatic industries, etc.) by such measures as the prompt release and the increase of the Aid Fund. for industrial investment, positive utilization of the R.F.B. funds collected and of the interest revenue of R.F.B. and operation of the Deposit Bureau funds in surplus for industrial investment (through the acceptance of debentures, etc.).

5. Standard of living.

As stated before, the recent standard of living of urban population remains stagnant at the level about 5% higher than that prevailing a year or two ago, and the pattern of household expenditures is much worse than that of the pre-war days. Following is a review of the recent standard of living in comparison with pre-war.

The study of family budget compares the post-war (1948) level of expenditures with the pre-war (1934-36) level as follows.

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Comparison of Pre-war with Post-war Level of Consumption

	Monthly expenditures per family		B/A (C)	Ratio of 1948 price level to 1934-36 level (D)	Level of consumption (C/D)
	1934-36 (A)	1948 (B)			
Total family expenditures	¥104.74	¥10,607	101 times	172 times	59%
Food expenditures	35.08	6,698	191	243	81
Staple food	12.02	2,801	233	216	117
Non-staple food	23.06	3,898	169	257	66
Fuel and light	4.95	423	85	104	82
Clothing	11.62	1,079	93	361	26
Housing	19.45	413	21	71	30
Others	33.64	1,994	59	121	49

Note: Data of family expenditures:

Pre-war: "Family Budget Survey" (Tokyo-to), Cabinet Bureau of Statistics.

Post-war: "Consumer Prices Survey" (Tokyo-to), Prime Minister's Office Bureau of Statistics.

(The pre-war expenditures are adjusted so that the basic number of family members is 4.72, the number in the post-war analysis).

"Ratio of price level" is weighted average of 183 important commodities based on the pre-war expenditures. (The post-war price is effective price in "Consumer Price Survey").

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As seen in the above table, while the post-war family expenditures are 101 times the pre-war expenditures, the post-war price level is 172 times the pre-war level, so that the post-war real expenditures, or the level of consumption, are 59% of the pre-war expenditures. In the appraisal of the changes in the level of consumption, consideration must, of course, be given to the changes in the pattern of expenditures and the propensity of consumers to choose commodities with less price rise. Analysis of expenditures for various items will bring light in this connection.

The levels of consumption are varied by various items of expenditures. While the general level of consumption is 59% of the pre-war level, that of staple food consumption is 117%. It is true that potatoes which were not counted as staple food in pre-war are counted in post-war, but it can safely be said that the level of staple food consumption has almost restored the pre-war level. On the other hand, the non-staple food consumption remains only at 66% of the pre-war level, reflecting the shrinkage in the consumption of such less essential items as dairy products, sweets, fruits, wines, and meals at restaurants, etc. In any event, the level of total consumption of food, including staple and non-staple foods, has restored to 81% of the pre-war level. The same thing is true with fuel and light consumptions. The levels of consumption of other items, however, are still very low as compared with the pre-war levels.

While the post-war expenditures for clothing occupy about the same percentage as pre-war expenditures in the total family expenditures, the post-war consumption of clothing is not even 30% of the pre-war consumption as the price level of clothing has gone up

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very high. Of various clothing, the consumption of textile clothing is even less than 20% of the pre-war. As to housing, the post-war real consumption level is not more than 30% of the pre-war on account of the fact that proper depreciation is not considered in current house rent and that the use of furnitures and utencils has greatly decreased. Of the post-war miscellaneous consumption which is at roughly 50% of the pre-war level, the health and sanitary convenience is 40% of the pre-war, and there are many other itmes in this category which do not appear in statistics, such as entertaining expenses and other **irregular** expenditures, which have largely been curtailed.

The above analysis of urban living conditions ~~shows that the postwar level is still fairly low as compared with present.~~ The stagnation of living at such low level will, in the long run, deteriorate labor power, render maintenance and development of technical and intellectual ability difficult, and hamper the development of economy. On the other hand, the low level of living shrinks domestic market, thereby arresting the sound expansion of production and export.

It is true that the expansion of domestic purchasing power for consumption goods is not allowed at present when we are getting a large amount of foreign aid and when we have to be strictly vigilant over any possible recurrence of inflation, but it is deemed necessary, on the other hand, for the sake of attaining a self-support economy, that the domestic market be gradually expanded as the export increases.

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VI. Conclusion

The enforcement of the economic stabilization program has, through sound finance and financing, stopped the currency increase and price rise and succeeded in almost curbing the inflation. But the unexpected slump of export and the slash in investment have caused the shrinkage of effective demand and resulted in the **increasing stockpile** and the stagnant or declining production level. Meanwhile, keeping pace with the stabilization of economy, rationalization of enterprises has been effected and improvements have been made in production efficiency, costs as well as in quality of products. But the stagnant production caused by insufficient purchasing power has set a limit to the rationalization. Those who lost their jobs in the course of rationalization have submerged in cities and villages as the half-employed or unemployed, thus leaving serious social problems, for future solution.

Inasmuch as our economy needs high level of investment in order (1) to rehabilitate and replete the war-damages (damages on domestic assets being 4.2 trillion yen) and capital depreciation in and after the war, (2) to modernize production equipment so that the goal of export (\$1,575,000,000 as estimated by the Johnston Report) necessary to achieve a self-supporting economy be attained, and (3) to sustain the increasing population (about ten million increase since the end of the war), the decrease in investment may slow down the pace of rehabilitation and reduce the scale of future self-supporting economy. Nevertheless, the objective of rehabilitation and self-support cannot be achieved without establishing a tough economy which can stand the international competition through painstaking efforts for stabilization and rationalization.

We shall therefore have to convert the present stagnation into a strong spring-board for the future development guided by our experience under the stabilization program.

STANDARD FORM NO. 64

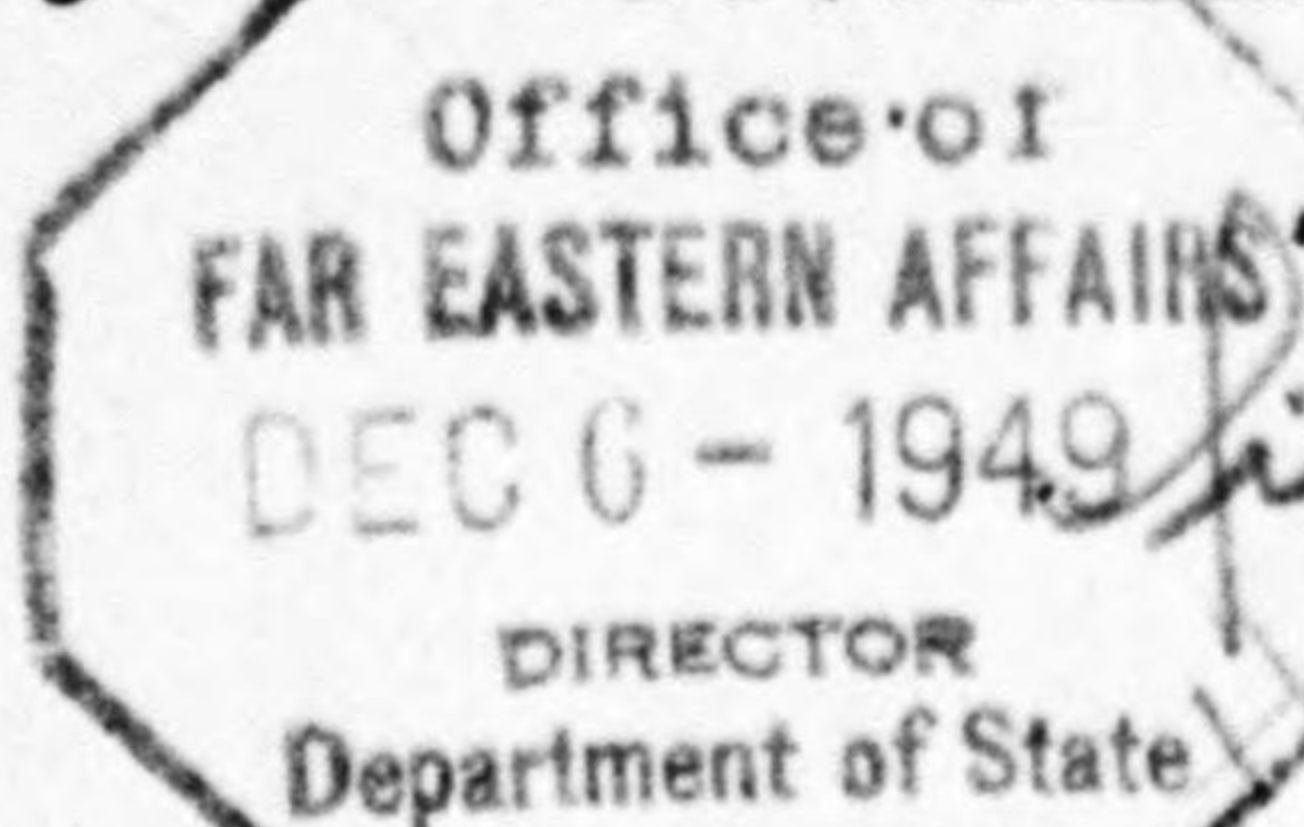
TOP SECRET**Office Memorandum**

UNITED STATES GOVERNMENT

TO : FE - Mr. Merchant

FROM : S - Mr. Howard *JBH*

SUBJECT: Economic Aid to Japan in Post-Treaty Period



DATE: Dec. 6, 1949

At the risk of transgressing beyond the immediate security aspects of a Japanese peace treaty, I wanted to raise again with you the importance of having clear Department proposals for economic aid to Japan in the post-treaty period, especially at the end of the brief period during which GARIOA funds continue to be available for the purpose. There are three aspects of the importance of this problem which occur to me especially:

1. One of the arguments advanced for a stand-by SCAP arrangement in preference to a peace treaty is the greater ease of obtaining appropriations from Congress for economic aid to Japan so long as it remains in an occupied status. Although this contention has some merit, nevertheless the existence of a concrete and practical proposal for the furnishing of economic aid to a sovereign post-treaty Japan would be helpful in discussions with the Department of Defense leading to a decision on whether to proceed with the negotiation of a peace treaty.
2. In discussions with Congress concerning a possible peace treaty with Japan it will be exceedingly important for the Department to know what the costs of economic aid will be and what type of legislation will be proposed in order to obtain authorization and appropriations for the aid. Moreover, the Department should know how the cost of maintaining U.S. forces in Japan and the cost of economic aid compare under the occupation (where I suppose the United States can use local currency for most of its expenses in Japan) and under post-treaty conditions where U.S. forces will be stationed in Japan on a "pay as you go" basis.
3. In the long run a sound economic aid program for Japan for which adequate congressional support can be maintained is equally if not more important to the security of the United States than the presence of U.S. forces in Japan, because of its bearing upon a continuing pro-western orientation of the Japanese in times of considerable economic stress and in a situation where their strong trade ties with Communist China are likely to exert a counter influence.

cc:	
Anal.	5
Rev.	
Cat.	

cc: Mr. Allison, NA
Mr. Hamilton, FE

S:JBHoward:bh

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THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

Enclosure sent to Files
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No. 859

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Office of the U. S. Political Adviser
for Japan

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Tokyo, December 7, 1949

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OFFICE OF
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DEC 16 1949
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Subject: Financial and Economic Recommendations
Made by the Japan Management Association.

The Acting Political Adviser has the honor to refer to a telegram dated November 22, 1949, sent by the Department of the Army to General Headquarters, Supreme Commander for the Allied Powers, transmitting, in part, the following summary of a news despatch from Tokyo dated November 20, 1949, published by the New York Times:

"Because of measures taken at the Occupation's insistence, trade is stagnating, stockpiles are mounting, employers are failing to meet payrolls and panic is waiting just around the corner, according to a document forwarded to General Douglas MacARTHUR and the Japanese Government today by the Japan Management Association. The body demands among other things: sweeping revisions in the Tax Reform Plan prepared by Carl S. SHOUP; virtual reversal of Joseph M. DODGE's policies for equipment loan credit; release of export stockpiles to the domestic market for the dual purpose of checking the black market and providing industrial funds, and, in default of these and other necessary measures, the immediate devaluation of the yen."

It will be noted that the Tokyo correspondent of the Times based his despatch upon statements contained in two papers released in mid-November by the Japan Management Association (Keisai Doyu Kai), an organization in Tokyo comprised of key officials of Japanese banks, manufacturing and trading concerns. The papers in question are entitled "Recent Conditions of Japan's Economy," and "Proposals concerning the Enforcement of Tax Reform Recommended by the Shoup Mission." Eight copies of each paper are transmitted herewith.

The Association's demands include: (1) larger and wider tax reductions; (2) easy and substantial credit extension; (3) release of stockpiles of goods to the domestic market; (4) devaluation of the yen; (5) and increased Government spending and return to deficit financing.

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Tokyo's Despatch No. 859,
December 7, 1949.

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No attempt is being made to analyze the Association's two papers, which are so obviously biased that the informed reader is not misled. However, it may be noted that certain Japanese Government circles, especially the Economic Stabilization Board, apparently welcome and publicize documents of this type in order to justify deviation from economic stabilization objectives.

In reading these papers, it should be remembered that the viewpoints expressed by the Association's members are those of bankers, traders and industrialists who benefited directly from the pre-stabilization policy of virtually unlimited Government subsidies and easy provision of credit. They have been consistent in opposing a balanced budget and creation of a sound financial economy.

Enclosures: *att'*

Eight copies of memorandum entitled
"Recent Conditions of Japan's Economy";

Eight copies of memorandum entitled
"Proposals concerning the Enforcement
of Tax Reform Recommended by the Shoup
Mission".

Parchment Mat to the Department.

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Recent Conditions of Japan's Economy

Encl. No. 1 to Despatch
No. 859, 12/7/49, from
USPOLAD, Tokyo, on subj.
"Financial & Economic
Recommendations made by
the Japan Management
Association."

Keizai Doyu Kai
(The Japan Management Association)

I. The Devaluation of Pound Sterling and the Exchange Rate of Yen.

1. The Devaluation of Pound Sterling and its effect upon Japan's Economy.

The effect of the recent devaluation of Pound Sterling must be considered serious when the devaluation by 30.5% was far greater than ever expected and when more than twenty countries including many of our export markets followed Great Britain almost simultaneously by devaluating their respective currencies. Whether or not our economy may survive under the newly created unfavorable circumstances should be studied in respect not only to the amount of pressure to be exerted by the devaluation of Pound Sterling and other currencies but to the enduring strength of Japan's economy that may be left over to withstand such pressure. In other words the burden of the devaluation in question must be considered against whatever reserves our economy may still have in order to discuss the subject intelligently.

The economy of Japan, more particularly its export industry, has for past few months been placed under serious burdens of more than one kind. The fixing of a single exchange rate for our currency at ¥360 to a dollar, the recession of the world's economy and drastic measures, such as the abolition or curtailment of Government subsidies and hikes in freight charges, taken to get our economy out of its "stilted" state have all served towards the stabilization of our economy but have at the same time been severe burdens upon our industry. In order to overcome unfavorable conditions arising out of the above circumstances the Japanese industry has been exerting its utmost efforts to rationalize its operation. For example, the retrenchment of personnel has been enforced by many enterprises. In many cases the efficiency of operation has noticeably been increased and production cost has gradually declined. In others the percentage of operation to capacity has been raised.

In fact our industry had approached to a point where with a little more effort and time it might hope to be on its feet again when the devaluation of Pound Sterling was announced. However, this progress in the reconstruction of our economy should not be taken at its face value, as actually the apparent come back as above described there have been many ent

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operating below the lowest standard of margin necessary for self-support operation or even in the red. The difficulty has been found in many cases in the unrealistic evaluation of fixed assets that has limited the assessment of depreciation within one tenth of the necessary and logical amount. On the basis of the fixed asset re-valuation, recommended by Dr. Shoup, our industry still continues its deficit operation and cannot be called to have recovered normalcy.

The fact that our economy is at the present confronted with the forthcoming and inevitable situation where the price of rice, electric power charges, freight costs and such basic costs of operation and living will soon be raised substantially should not be neglected in considering the effect of the Pound devaluation.

The above circumstances had existed when Pound Sterling was devaluated. The devaluation was a new and additional factor to exert its unfavorable influences upon our economy. The blow that our industry has sustained by the Pound devaluation should be regarded far more severe than it looks on the surface. There is little room left in the immediate rationalization of industry to offset the ill effect coming from the new outside pressure. A decisive fall in our export trade appears inevitable. Furthermore, the devaluation of Pound Sterling has brought about the following effects to our industry which had been critically oppressed by an acute shortage in the supply of industrial funds. (Re: III On Finance)

(1) The stock of export items is piling up due to high prices of our goods after the Pound devaluation.

(2) Despite the statement issued by General MacArthur and repeated denials by the Japanese Government it appears to be a common opinion among foreign buyers that it will be impossible for the weak and exhausted Japanese economy to maintain the present yen rate against the Pound devaluation. The ill effect of such attitudes on the part of buyers upon our foreign trade needs no elaboration.

(3) The effect of increases in the stock-pile of export items has been an acute shortage of working funds in the export industry and a more and more favorable market for buyers.

(4) Any cut in production in the face of increasing stock-piles would inevitably raise production cost, making export still more difficult.

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2. The Devaluation of Pound Sterling and the Exchange Rate of Yen.

It is our unanimous opinion that under the above described circumstances it is impossible to counteract the effect of the Pound devaluation with the present Yen exchange rate only by means of a further rationalization of our industry. In a great majority of cases it would be quite impossible to reduce cost of production by more than 10 % by rationalizing the wage system and such (wages in most enterprises are considered to have reached their lowest limits) and even when considered possible, it would require several months to do so. It has, therefore been strongly advocated from the standpoint of the export trade that our currency should be immediately devaluated. But when the effect of such devaluation is considered from the import side and other factors to be taken into account, it is regarded most desirable to maintain the present exchange rate for Yen, if there is some effective means to offset the influence of the Pound devaluation and subsequent changes in the world market. If certain limitations now placed upon our activities in the world trade are lifted, it is not altogether impossible to maintain the Yen rate as it is. Our opinion on the maintainance of the present value of Yen against the Pound devaluation may be summarized as follows:

(1) In order to maintain the present exchange rate of Yen in the face of the Pound devaluation it is absolutely necessary immediately to realize such conditions as described below. Unless those conditions are satisfied in time our export industry will be exposed to an extreme danger of falling into a critical condition where a devaluation of the Yen currency will be the only means left to save it from a total collapse.

(2) The precedent set by the recent devaluation of Pound Sterling that came out after the repeated denials by Chancellor of Exchequer Cripps has made it extremely difficult to convince buyers that the present rate of exchange will be maintained for Yen, apparently less stable currency than Pound Sterling. It is regarded, therefore, vitally necessary to have a strong and proper authority to issue a statement to the effect that the present value of Yen will be maintained and will be maintained by the immediate application of necessary and effective measures to support the Yen currency.

(3) Among the external conditions indispensable to the maintainance of the present Yen rate are:

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II. On "Dodge Policy"

There has been no doubt that the "Dodge Policy" since it was applied last Spring has been most effective in stemming the tide of inflation. Nevertheless, the application of the "Dodge Policy" was a big operation on the Japanese economy for which certain measures must have been employed to adjust and counteract possible ill effects of such a drastic policy. The reason for several unsatisfactory results arising from the effect of the "Dodge Policy" on our economy may be found in the lack of proper measures to carry out the Policy after it was applied.

(1. Basic changes in the Dodge premises.

The Dodge Policy, calling a strict suppression of domestic consumption, premised a corresponding increase in our export trade in order to maintain the production level. Great changes that have occurred in the world trade since have made it impossible to expand our export trade easily. Consequently, the suppression of domestic consumption has come to suppress the industry quite contrary to what was expected.

2. Vulnerable phases of "Dodge Policy"

There were such vulnerable phases in the Dodge Policy as given below when it was first established.

(1) The resisting power of reserve strength of Japan's economy was overestimated to face successfully the "bleeding", resulting from the policy of disinflation.

(2) According to the policy of disinflation the contraction and expansion of currency were to be balanced, but the measure taken immediately to check inflation and establishment of a single exchange rate for Yen were bound to be attended by a severe contraction of credits.

(3) The Japanese industry had been under Governmental aids and planned control in recovering from its war losses, when the "Dodge Policy" established a principle of free financial operation on strictly commercial basis, causing much confusion to the