

Lecture: Contemporary Economic History of Japan

No. 19

3-3 Lifting of Economic Control and Economic Recovery

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3 Lifting of Economic Control and Economic Recovery

1946

- 2/17: Financial emergency measure ordinance; New yen issued; Deposit blocked off
- 3/3: Price Control Law
- 8/12: Economic Stabilization Agency installed
- Dec.: Adoption of **the priority production system** resolved

1947

- Jan. : Reconstruction Finance Bank established
- 3/12: U.S. President Truman announced Truman Doctrine, provided military aides to Greece and /Turkey
- 6/5: U.S. announced Marshall Plan
- 8/15: Limited non-governmental trade resumed
- 12/20: Temporary Coal Mining Industry Governance Law issued

1948

- 1/6: U.S. Army Secretary Royall gave oration on setting Japan as anticommunist barrier
- 9/11: GHQ announced easing on application of the Eliminating of excessive concentration of economic power
- 12/18: GHQ proclaimed **9 principles for economic stabilization**

1949

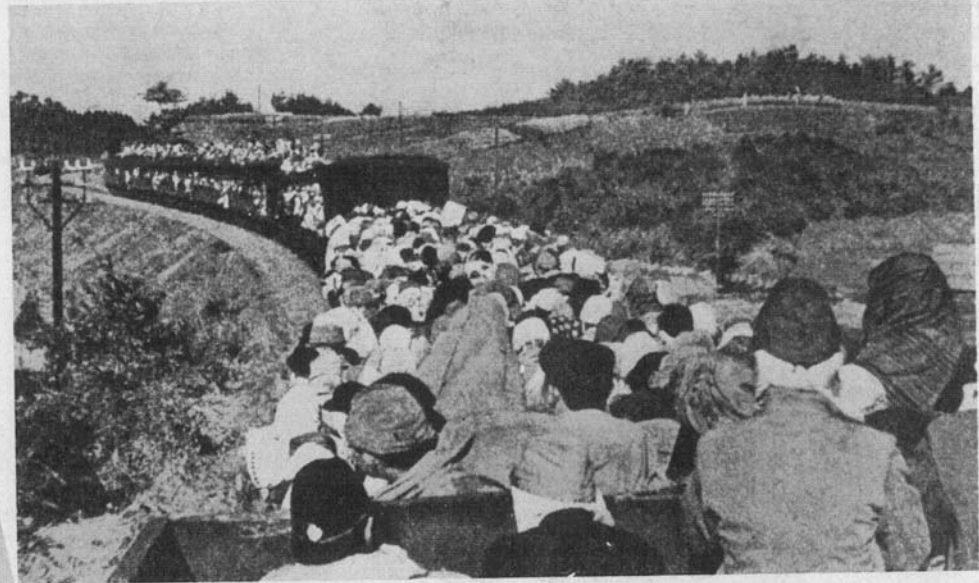
- 4/15: Envoy Dodge proclaimed thorough adoption of sound fiscal policy (**Dodge Line**)
- 4/25: Single exchange rate of \$ = 360 yen implemented
- 8/26: Shoup's recommendation announced

1950

- 6/25: Korean War started
- 7/24: Red purge in corporations begun
- 8/10: National Police Reserve Ordinance issued



ヤミ市の活況



いもの買出列車 (1945年11月)



16 新円への切り換え 金融緊急措置令による新紙幣への移行期には、旧紙幣の右上に証紙を貼って代用した (左上2枚)。



(Source above) Japanese Contemporary History Studies, *One hundred year of pictures vol.17*

(Source under) Institute of Ouhara; Poster of general strike

3-1 Priority Production System

- Transformation to the peacetime economy as a challenge
- Impaired economic activities → Supply deficiency → Price hike
- Acceleration of inflation:
 - During 1945-49, the retail price shot up 79 times
 - the wholesale price 60 times
- ① Mass ejection of the ad hoc military expenditure
- ② Sharp increase in the bank lending ← Steep rise in BOJ' credit
- ③ Withdrawal of deposits and movements to convert into goods
- ④ Increase in expenditures on the war termination
- Atrophy of business activities
 - ① Cutting off of the war indemnity
 - ② Need for the reconstruction/adjustment of corporations
 - ③ Eating up of an economic stock on hand

Early Phase of Economic Recovery

	1946	Year Prewar Level Was Surpassed
GNP	69.3	1951
Per Capita GNP	63.5	1953
Personal Consumption Spending (PCS)	62.5	1951
Per Capita PCS	57.1	1953
Private Fixed Capital Formation	87.5	1951
Export & Receivables	2.5	1957
Import & Payables	13.2	1956
Mining & Manufacturing Production	27.8	1951
Iron & Steel Industry	22.3	1950
Machinery Industry	50.5	1949
Textile Industry	13	1956
Agricultural Output	84.7	1952



Index taking 1934-36 as 100

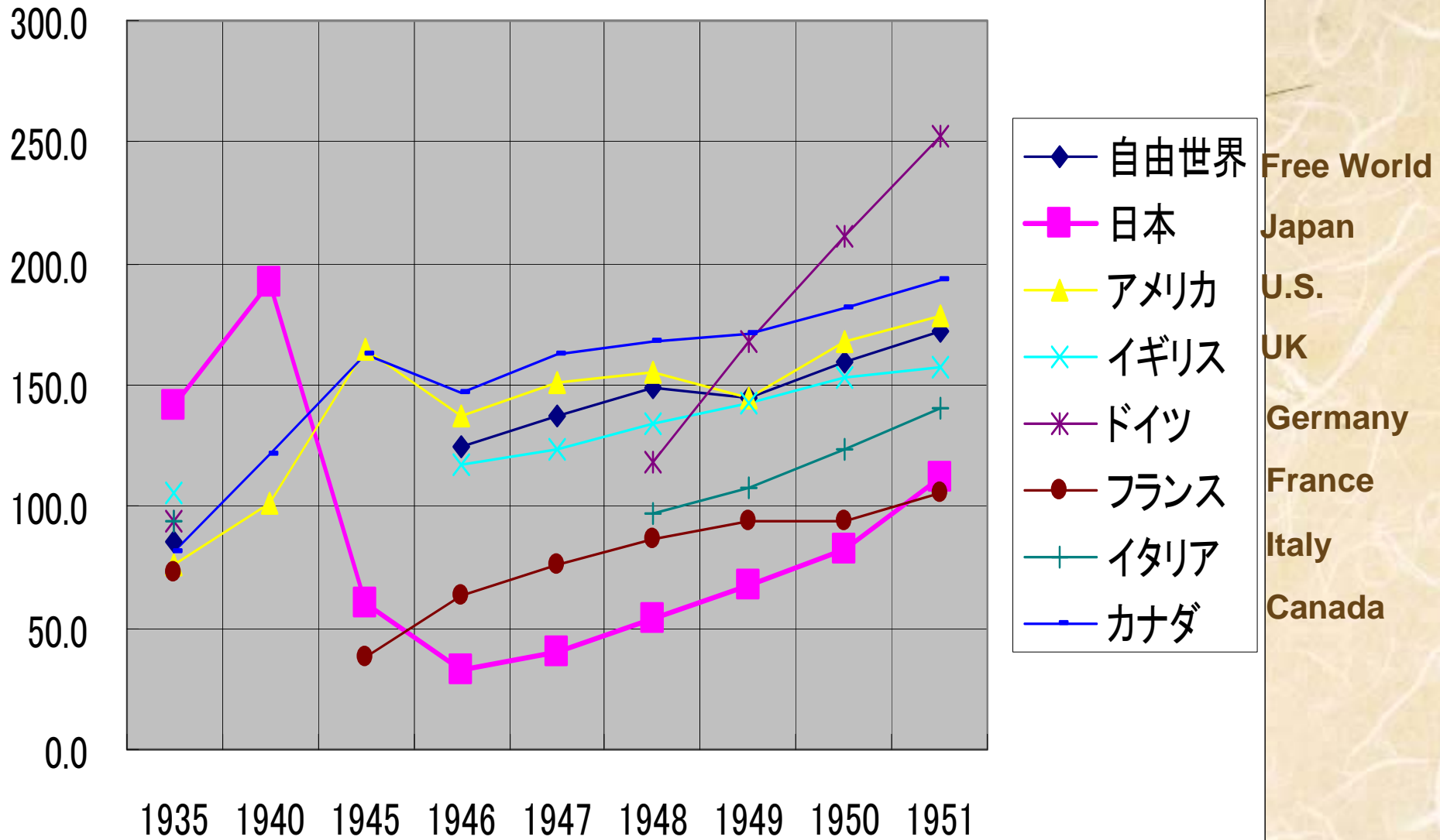
Ryoichi Miwa, *General An Outline of Japanese Economic History*, p.166

Transit of Consumer Price 1929=1

	1935	1940	1945	1946	1947	1948	1949	1950
Japan	0.835	1.431	2.603	15.970	43.030	126.200	205.400	201.800
U.S.	0.801	0.817	1.056	1.141	1.310	1.408	1.391	1.408
UK	0.870	1.120	1.270	1.310	1.430	1.650	1.670	1.720
Germany	0.800	0.845	0.937	1.024	1.087	1.249	1.337	1.249
France	0.869	1.619	3.677	8.095	12.930	17.990	20.920	23.130
Italy	0.766	1.194	24.500	29.000	47.000	50.000	50.660	50.000
Canada	0.790	0.868	0.975	0.975	1.013	1.266	1.298	1.331
Switzerland	0.795	0.937	1.291	1.219	1.347	1.389	1.364	1.333
Sweden	0.920	1.140	1.390	1.390	1.430	1.490	1.510	1.510

Index of Mining and Industrial Output 1929=100

	1935	1940	1945	1946	1947	1948	1949	1950
Free World	86.0			124.9	136.8	148.7	144.2	159.1
Japan	141.8	192.4	59.8	32.3	40.4	53.4	68.0	82.5
U.S.	75.6	101.6	164. 7	137.3	151.0	155.6	144.7	168.0
UK	105.6			116.8	123.6	134.3	142.4	153.1
Germany	94.0					117.9	167.5	211.1
France	72.5		38.0	63.9	76.0	86.4	94.1	94.1
Italy	93.8					97.5	107.3	123.9
Canada	81.8	121.0	163. 0	147.0	163.0	168.0	171.3	181.4
USSR	293.4	614.0		465.8	571.6	724.1	885.0	1,110.2



Population Growth Rate and Labor Force

1000 Persons

	Total Population	Increment	Number of Live Births	Immigration	Growth Rate Per 1000 Persons
1945	72,200	3,603	1,576	3,471	49.9
1946	75,800	2,352	2,623	1,001	31.0
1947	78,101	1,905	2,718	318	24.4
1948	80,010	1,773	2,711	149	22.2
1949	71,780	1,419	2,447	31	17.4
1950	83,200	1,343	2,229	2	16.1
1951	84,500	1,265	2,058	6	15.0
1952	85,800	1,172	1,921	37	13.7
1953	87,000	1,054	1,785	8	12.1
1954	88,200	1,038	1,761	-4	11.8
1955	89,276	894	1,698	-8	10.0

Employed Workers by Industry and Gender

	1940			1950			1955年		
	Total	Males	Females	Total	Males	Females	Total	Males	Females
Sum Total	32,231	19,599	12,632	35,625	21,870	13,755	39,261	23,893	15,368
Primary Industry	14,192	6,994	7,198	17,208	8,786	8,422	16,111	8,043	8,068
Agriculture	13,363	6,271	7,092	16,102	7,805	8,297	14,890	7,091	7,799
Secondary Industry	8,419	6,441	1,978	7,812	5,993	1,819	9,219	6,940	2,279
Building Industry	978	956	22	1,532	1,426	106	1,782	1,666	116
Manufacturing Industry	6,845	4,958	1,887	5,689	4,042	1,647	6,902	4,787	2,115
Tertiary Industry	9,402	6,010	3,392	10,569	7,066	3,503	13,929	8,908	5,021
Wholesale & Retail Industry	4,084	2,608	1,476	3,963	2,406	1,557	5,473	3,242	2,231
Service Industry	2,887	1,294	1,593	3,272	1,846	1,426	4,424	2,306	2,118
Public Service	618	527	91	1,160	963	197	1,361	1,136	225

Composition of Receipts and Disbursements of Workers' Households

	1935	1950	1952	1955	1960
Total Real Income	100.0%	100.0%	100.0%	100.0%	100.0%
Earned Income	92.2%	96.6%	93.8%	92.8%	93.4%
Home Owner's Income	89.1%	86.1%	83.2%	82.5%	83.3%
Withdrawal of Savings	9.0%			6.3%	9.0%
Balance from Past Month			41.2%	29.5%	29.6%
Total Accrued Expenditures	100.2%	0.0%	110.1%	113.9%	109.9%
Total Consumption Expenditures	100.0%	100.0%	100.0%	100.0%	100.0%
Food and Drink	36.4%	57.4%	48.3%	44.5%	38.8%
Housing Expense	16.9%	4.6%	5.2%	6.1%	9.8%
Utility Charges	5.0%	5.0%	5.1%	5.0%	4.8%
Clothing Allowance	11.4%	12.3%	14.8%	12.2%	12.3%
Sundry Expenses	30.4%	20.7%	26.6%	32.2%	34.4%
Nonconsumption Expenditure	0.2%		10.1%	13.9%	9.9%
Expenditures Other Than Accrued Ones	98.9%		12.4%	26.1%	35.8%
Savings	16.4%			11.1%	18.1%

Changes in Gross National Expenditure

Year	Personal Consumption Expenditure	Gross Domestic Capital Formation				Economic External Surplus		Balance	Government Purchase of Goods & Services	Gross National Expenditure
		Personal Housing	Producers' Durables	Increase in Stocks	Subtotal	Foreign Payables (Exports)	Foreign Receivables (Imports)			
1946	333.1	10.6	37.2	27.9	75.7	4.8	24.1	△ 19.3	84.5	474.0
1949	2,261.1	35.6	288.6	207.8	532.0	216.5	326.8	△ 110.3	692.4	3,375.2
1955	5,118.5	142.2	777.4	452.0	1,371.6	1,092.5	951.2	141.3	1,604.1	8,235.5
1960	7,701.7	342.7	3,072.7	858.2	4,273.6	1,822.0	1,801.4	20.6	2,683.0	14,678.9
Increases During Periods										
46-49	1,928.0	25.0	251.4	179.9	456.3	211.7	302.7	△ 91.0	607.9	2,901.2
49-55	2,857.4	106.6	488.8	244.2	839.6	876.0	624.4	251.6	911.7	4,860.3
55-60	2,583.2	200.5	2,295.3	406.2	2,902.0	729.5	850.2	△ 120.7	1,078.9	6,443.4

	Personal Consumption Expenditures					
Year	Food & Drink	Clothing Allowance	Utility Charges	Housing Expense	Sundry Expense	Subtotal
1946	240.5	16.6	14.4	14.6	47.0	333.1
	72.2 %					
1949	1,467.4	144.1	86.6	122.5	440.5	2,261.1
	64.8 %					
1955	2,703.6	412.8	195.2	450.9	1,356.0	5,118.5
	52.8 %					
1960	3,583.0	630.3	274.1	1,032.9	2,181.4	7,701.7
	46.5 %					
1946-49	1,226.9	127.5	72.2	107.9	393.5	1,928.0
1949-55	1,236.2	268.7	108.6	328.4	915.5	2,857.4
1955-60	879.4	217.5	78.9	582.0	825.4	2,583.2

Economic Structure in Postwar Recovery Period

— Issues to Be Resolved by Priority Production System

Exceptional Upward Creep of Prices

- Price hikes in an unprecedented degree for defeated countries continued in the halfway during the long occupation period.
 - ←In addition to an excessive monetary supply,
- ①Supply shortage as a backlash of the war framework that had been pursued to the breaking point
- ②An expression of suppressed consumer desires that had been postponed.

Demobilization and Population Growth

- Increase in population as the primary factor of demand expansion
- ▫ Increase in population caused by the social increase due to the demobilization and the natural increase due to the baby boom
 - Factors causing an increase in the ratio of nonlabor force
- Specifically, the domestic population increased by 11 million during 1945-50, while employed workers increased only 3.3 million during 1940-50.
- And workers in the secondary industry decreased compared to the prewar times.
- Against the population increase of 6 million in 1950-55, and 4.2 million in 1955-60, people in jobs increased 3.6 million in the former period, and 4.4 million in the latter.

Variable Factors of Demand Structure — Expansion in consumer demand

- Transit of the gross national expenditure
- Food and drink, in particular, in personal consumption expenditures
- It was in Korean War period and the high growth period that the expansion of “producers' durable consumption goods”, i.e. private capital investment, became conspicuous.
- Exports during Korean War period, i.e. War-generated increased Special Procurement, were the condition for making a spurt in the 1950s.

Factors of Personal Consumption

- ▪ Nominal increase in income
- ▪ Receipts and disbursements of workers' households: Departure from a high Engel's coefficient, and a structure that the decremental portion was passed on to sundry expenses
 - Difference from a sharp rise in housing expenses in the high growth period.

“Priority Production System” as Prescription for Decline in Output

- Proposal by the subcommittee on coal (Tokyo University professor Hiromi Arisawa), a private advisory panel of Prime Minister Yoshida.
- **Infusion of imported heavy oil in the production of steel**
→ **Concentrated infusion of steel products in coal mines** → **Infusion of coal in the production of steel**
- Commenced in Jan. 1947, 30 million tons of coal output were realized in the second half of the same year.
- At the same time, through the priority allocation of funding by establishing Reconstruction Finance Bank, funds were supplied to priority industries, facilitating corporations raising funds that otherwise would have become the bottleneck in the economic recovery.

However, as the Bank's source of funds was financed by issuing the reconstruction financial bonds primarily undertaken by Bank of Japan, the total money supply increased, causing an acceleration of the inflation.

Ratio of Financing by Reconstruction Finance Bank (RFB)

	Total			Facilities Fund			Operating Fund		
	All Banking Organs	RFB	Ratio	All Banking Organs	RFB	Ratio	All Banking Organs	RFB	Ratio
Coal Industry	67,250	47,519	70.7	33,877	32,819	96.9	33,373	14,700	44.0
Iron/Steel Industry	21,931	3,526	16.1	2,821	1,943	68.9	19,110	1,583	8.3
Fertilizer	16,143	6,119	37.9	7,113	4,555	64.0	9,030	1,564	17.3
Electricity Industry	25,422	22,399	88.1	20,580	19,129	92.9	4,842	3,270	67.5
Maritime Industry	20,578	13,448	65.5	15,569	13,317	85.6	5,009	131	2.6
Textile Industry	<u>69,866</u>	<u>4,995</u>	<u>7.1</u>	<u>11,088</u>	<u>4,975</u>	<u>44.9</u>	<u>58,778</u>	<u>20</u>	<u>0.03</u>
Subtotal	<u>221,190</u>	<u>98,006</u>	<u>44.3</u>	<u>91,048</u>	<u>76,738</u>	<u>84.5</u>	<u>130,142</u>	<u>21,268</u>	<u>16.3</u>
Total Loan	<u>566,118</u>	<u>131,965</u>	<u>23.3</u>	<u>127,380</u>	<u>94,342</u>	<u>74.1</u>	<u>438,738</u>	<u>37,623</u>	<u>8.6</u>

Source: Yoshio Ando, ed., *Directory of Modern Economic History of Japan*, p.151

3-2 Execution of Dodge Line

Setup of Single Exchange Rate

- The multiple exchange rate was set under the restricted foreign trade so as to minimize influences on domestic prices, examples of which were: Among exported items, ¥240-420 for cotton textiles, ¥315 silk textiles, ¥420 raw silk, ¥330 tea; among imported items, ¥80 for raw cotton for domestic use, ¥178-267 coal, ¥125 iron ore.
- In sum, the setup was the low yen rate for export items and high yen rate for import items, which resulted in demotivating the corporate productivity enhancement and fomenting the inflation.
- The nine principles for the economic stabilization were announced, as follows:

9 Principles for Economic Stabilization

- ① Balance of budget
- ② Reinforcement of tax collection
- ③ Restriction on credit extension
- ④ Wage stabilization
- ⑤ Price control
- ⑥ Control on foreign trade and exchange
- ⑦ Material allocation for promotion of exports
- ⑧ Enhancement of production of domestic raw materials/products
- ⑨ Reinforcement of food collection

- Context of Dodge Line
- ① To curtail an excessive purchasing power and to expand exports by constraining gross domestic demand → A balanced finance with surplus and the cessation of loans from Reconstruction Finance Bank
- ② To recover a market mechanism and to drive forward the rationalization by setting up a single exchange rate and discontinuing the cash subsidy
- ③ To supply private investment funds by increasing the government saving
- Deployment of a stabilization crisis
- “Monetary stringency”, an increase of unemployment, bankruptcies of medium and small companies
- Two evaluations
- Whether or not Dodge Line was decisive in getting rid of inflation.

Economic Trend Under Dodge Line

	1947	1948	1949	1949			
				I	II	III	IV
Treasury Accounts with The Public (Million Yen)		72,420	-65,214	2,825	-31,897	44,638	-80,780
Credit Granting to Banking Facilities (Million Yen)			92,144	-17,200	29,621	18,047	61,682
Actual Supply of Indus – trial Funds (Million Yen)		386,775	536,806	90,567	156,761	174,118	115,352
Total Money Supply (Mar. 1948=100)		100	140	146	145	174	148
Real Commodity Prices Industrial Goods (1934-36=1)	59	123	188	186	190	203	210
Consumer Goods (1934-36=1)	96	169	209	219	206	202	202
Real Wage Index (1934-36=100)	30	48	65	61	65	69	73
Actual Exports (Million Dollars)	174	258	510	47	43	40	48
Employment Index (1947=100)	100	101	99	101	96	94	

Lifting of Postwar Controls

	Timing of Largest Number		4/1949	4/1950	3/1951	3/1952
	Mo/Yr	No.				
No. of Designated Production Material Items	2/1946	252	233	49	24	7
No. of Designated Rationed Good Items	2/1947	64	57	16	8	6
No. of Price Control Cases	3/1949	2129	2128	531	327	148
No. of Controlling Public Corporations	3/1948	15	12	7	0	0

3-3 Increased Demand Generated by Korean War

- Turnaround from the stabilization crisis ← Korean War
- Contracted special procurement amount in the first year was 118.4 billion yen which was 3% of GNP in 1950.
- This additional demand touched off a breakaway from the stabilization crisis, and it was particularly important that the payment thereof was made in dollars. The foreign currency revenue, as paid in dollars, took on the crucial meaning to Japan where the importation of raw materials was indispensable to expand its economy.

Balance of Payments Supported by Special Procurement

	Overall Balance of Payments	Trade Balance	Export	Import	Income of Special Procure- ment
1950	434	38	924	886	149
1951	369	-287	1,358	1,645	592
1952	186	-407	1,295	1,701	824
1953	-379	-790	1,261	2,050	809
1954	2	-426	1,614	2,041	596
1955	284	-53	2,001	2,060	557

Content of Special Demand

			1,000 \$
Commodity		Service	
Armament	148,489	Construction of Building	107,641
Coal	104,384	Auto Repair	83,036
Jute Bag	33,700	Cargo Handling & Storage	75,923
Auto Parts	31,105	Telephone and Telegraph	71,210
Cotton Cloth	29,567	Machine Repair	48,217

- Rate of Return on Equity

	<u>1949 second half</u>	<u>1950</u>
Cotton spinning industry	26%	156%
Synthetics industry	32%	194%
Iron & steel industry	5.4%	30%

- In the special procurement boom, Japan got on the way to its recovery. In this process, however, the U.S. clearly positioned Japan as a member of the West, and shifted its policy of giving priority to the “demilitarization” to an “economic reconstruction”, and even over to acknowledging a “militarization” of a mild degree.