Lecture: Contemporary Economic History of Japan

No. 20

3-4 Uncertainty Over Balance of Payments and Trading Nation

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1951

- **1/25: Peace Special Envoy Dulles arrived in Japan**
- **2/23: Industrial Rationalization Council reported “on measures to rationalize industries of our country”**
- **4/20: Japan Development Bank founded**
- **5/1: 9 electric power companies established resulting from power utilities reorganization**
- **5/14: 1st meeting of Government Decree Advisory Committee to review various occupation decrees/laws**
- **8/6: Government depurged Ichiro Hatoyama, and others**
- **9/8: Treaty of Peace with Japan and Japan-U.S. Security Treaty signed in San Francisco**

1952

- **1/15: Reconstruction Finance Bank dissolved**
- **3/14: Enterprise Rationaliztion Promotion Law proclaimed**
- **4/28: San Francisco Peace Treaty come into effect**
- **5/7: Banning the use of Zaibatsu corporation name lifted**
- **5/29:Japan’s accession to IMF World Bank admitted**
- **6/12: Long-term credit bank law proclaimed**

1953

- **4/2: Treaty of Friendship, Commerce and Navigation between Japan and the U. S. signed**
- **May-Sep: Nissan Motor dispute**
- **7/27: Korean War truce agreement signed**
- **9/11: Antimonopoly law revised, provisions on cartels for recession/rationalization alleviated, restrictions on merger alleviated**
- **12/9: 4 trading firms formerly affiliated with Mitsubishi merged**

1954

- **3/8 : Japan-U.S. MSA agreement signed**
- **7/21: Geneva Agreements formed**

139 講和条約調印式(1951.9.8)と講和条約原本(右) 署名を行う吉田首席全権。後

1 Independence and Review of Occupation Policy

- On the occasion of San Francisco Peace Conference in Sep. 1951, Japanese Prime Minister Yoshida made a strong objection to a remilitarization demanded by U.S. Special Envoy Dulles, stressing, “a remilitarization would make it impossible for Japan to be economically independent,” and did not accept the proposal to make National Police Reserve, established after the outbreak of Korean War , the formal military forces.
- Yoshida is said to have aimed at going low-budget on defense by entrusting to the U.S., and appropriating a reserve capacity toward the economic reconstruction.
- Thus, the denegation of remilitarization and the renunciation of the compensation in money were central to the pacification framework finalized.

- Based on a GHQ directive of May 1951, Government Decree Advisory Committee was installed and a review was initiated regarding various occupational decrees and laws.
- →From 1952 to ’53, ①Antimonopoly Law was revised, ②banning the use of Zaibatsu corporation name was eased, and ③such independent administrative commission institutions as Foreign Exchange Control Board and Public Utilities Commission were dismantled, except for Fair Trade Commission.
- As a result, the foreign exchange control was placed under the joint jurisdiction of Ministry of Finance and Ministry of International Trade and Industry (MITI); the latter also came to hold jurisdiction over public-utility industries, especially electricity supply industry, and administrated the structure of 9 electric power companies.
- Additionally, in the taxation system streamlined owing to Shoup’s recommendation, the preferential tax system to drive forward the corporate accumulation of capital was introduced through provisions like special taxation measures.

Uncertainty Over Balance of Payments and Promotion of Export

- **Haruhito Takeda, *Japanese Sense of Economy*, Iwanami Shoten, Chapter 9**

- During the period of the economic reconstruction/recovery, Japan was in the state of balancing international accounts in one way or another by filling up a deficiency in the foreign money through an increased demand generated by Korean War and aids from the U.S.
- The government, with an effective use of such little foreign currency, strived to proceed with the corporate rationalization and to improve the balance of trade. Equipment machinery and raw materials were required to be imported for a growth of the economy, but the foreign currency to that end ran short.
- In order to grow, the foreign currency needed to be earned by exports, whereby the technological innovation was advanced, and the industries' international competitiveness had to be accelerated.
- But, as the investment expanded and the economy headed for a robust business, imports of raw materials, etc. were doomed to increase, which deteriorated the trade balance and drew down a foreign money crisis. Hence in the 1950s, Japan's economic growth repeated stop-and-go countercyclic policies based on the indices of foreign exchange reserves.

- To break loose from these restrictions, exports must be expanded.

  This point of view was strongly maintained by the government side centered on economic agencies like MITI, and there were no great divergent opinions about setting policy objectives in line with that viewpoint including industrial circles until the first half of the 1960s.
- The economic whitepaper of 1954, regarding a deflationary policy implemented to cope with the crisis in international trade balance, emphasized:

  "The objective is to improve the international trade balance. Both cutback on imports and constriction of domestic purchasing power are necessary to achieve that objective."

  Behind such a background was a clear policy intent to effectively use the limited foreign currency.

"For example, if one person saves per day a spoonful of sugar at occasions like cooking boiled dishes or drinking a cup of coffee, that alone will reduce the import burden by about 10 million dollars a year, which can create the scope for additionally importing that much of other materials for heavy industries."

- According to the same economic whitepaper, the expansion in exports “has dual functions of boosting the effectual-demand standard and simultaneously securing imports that back up the substantial output. If the economy bloats only by purely domestic factors like an investment, then the import increases but foreign currency earnings would not necessarily accompany with it, hence enlarging a gap in the international trade balance.”

- The paper further explains: “By resorting to the investment to stimulate the economy, a domestic production capacity would gradually increase in later years, ... which could become one sprouting of an excess production propensity.”
- An economic expansion led by the investment was denied out of two concerns which were the constraint on the foreign currency and the fomenting of an excessive production capacity, thus acknowledging an export-led economic development as the only option.

- The rationalization of industries and the fosterage of new industries were justified in majority of cases from the standpoint/norm of their expected contributions to improvements of the trade balance.
- Even a control of consumption of heavy oil, which was criticized on account of marring an economic rationality, was justified from a perspective of the repression of imports in the 1950s, and the protection of coal industry was carried on.
- At the same time, an expansion in consumption received no interest, or, if any, rather repressive.
- For instance, the 1953's economic whitepaper pointed out that the "existence of consumer purchasing power" constituted a limiting factor of an "expansion in normal trade":

  "An example in point is raw silk. Currently, a third of all raw silk gets exported and two thirds is consumed domestically. A part of the cause of this kind of domestic demand has to be located in an apolaustic prosperity enjoyed with an increased personal income and a swollen company-use consumption. Not only limited to raw silk but for all commodity, there can be no doubt that exports do not grow as long as there is a domestic purchasing power. Should we call the comparatively high price "the price effect to block exports", then, the existence of this purchasing power could be named "the income effect to block exports."

Issues of Industrial Rationalization

- The challenge the industrial world was faced with after the Dodge deflation, under the aforementioned constraint on the foreign currency, was to enhance own international competitiveness as the export industry capable to abreact that constraint. A rationalization through deflation met a vigorous resistance from the labor side.
- A major example was Toyota's rationalization plan that led itself to Toyota dispute of 1950. Amid ailing financially, Toyota had to come to terms with a virtual control by the bank, and brought out in Apr. 1950 a streamlining plan including cutbacks in 1,600 manpower.

- The negotiation ran into rough waters between the labor union revolting against a mass “ax” and the management, and the dispute lasted for 2 months from Apr. to May in 1950, which ended on Jun. 10 with a complete defeat of the labor’s side.
- Accordingly, while burdened with a one-time large liability of the dispute-driven decrease of production and the payment of 120 million yen retirement allowance, Toyota attained, “the decrease of personnel that reached 2,146 (including the reduction in branch factories), the closing down of both factories at Kamata and Shibaura in Tokyo, the self-support accounting of the welfare sector, a 10% cutback on personnel expenditure, the partial revision of the labor agreement, etc.”

Transit of Efficiency/Expense Before & After Toyota Dispute

Productive Efficiency	Jan-Mar 1950	Jun	Aug	Nov
Output Quantity: A	1,016	661	1,096	1,384
Index	100	65.1	107.9	136.2
Employee Number: B	5,877	4,256	4,191	4,145
A / B	0.173	0.154	0.261	0.334
Index: Expense	100	89	151	193
Labor-Cost Ratio	36.1	35.2	27.3	24.0
Cost Index	100	97.5	75.6	66.5

Note: Labor-cost ratio is a ratio against cost of manufacture.
Source: 'P*rospectus';* Haruhito Takeda, *Automobile Industry;* Haruhito Takeda, ed., *Dynamism of Japanese Industrial Growth*, 1995, Tokyo Univ. Publishing Association

Personnel Expenditure Ratio Against Output/Sales Amount

	Company A		Company B	
	Vs. Output	Vs. Sales Amount	Vs. Output	Vs. Sales Amount
2nd Half, 1945	25.83	20.67	44.7	33.0
2nd Half, 1948	31.87	25.49	28.6	19.6
2nd Half, 1949	28.05	26.61	35.8	31.2

Source: *Automobile Almanac*, 1952 ed., p.335. Original data surveyed by Automobile Industry Management Federation

- **Tough situations as in the above were largely changed by Korean War-generated special procurements. In Toyota's case already described, the significance was that its production scale was sustained at a high level owing to the special procurement orders poured in right after the strike.**

- Achievements resulted from the reduction in workforce were the efficiency improvement, as shown in the output quantity per employee at site, and the cost reduction.
- The labor-cost ratio which accounted 36% of the manufacturing cost in the pre-dispute period turned to 24% in Nov., and,
- the manufacturing cost went down to two thirds, and,
- the efficiency went up more than 1.9 times.
- These were quite significant for the changes that incurred in 8 months surrounding the dispute, and indicated the success of the workforce reduction.

- In the steel industry, in Oct. 1950 or later, Yawata Steel and Nihon Kokan made the announcements of their three-year plan for modernization, and in Nov. Kawasaki Steel came out with a construction of the steel-integrated iron foundry for the first time in the postwar period.
- There remains an episode that this Chiba Project of Kawasaki Steel was moved ahead amid the strong objection from then Bank of Japan President Ichimanda with the nickname of Pope.
- Modernization plans of iron and steel companies were submitted in Feb. 1952 by Industrial Rationalization Council in its “report concerning rationalization of iron and steel industry”, which became the primary rationalization plan. Based on this plan, the capital investment of the iron and steel industry increased its scale by a factor of 10 at a sweep, and the streamlining advanced centering on the rolling sector.

- Funds for these projects were mainly supplied from banking institutions in loans, among which was Japan Development Bank, established through the reorganization of Reconstruction Finance Bank, that took on an important role.
- Japan Development Bank assumed the role to financially carry forward the rationalization of industrials by furnishing funds selectively to the coal industry and electricity-supply industry taking the leading parts in the energy provision, the maritime industry to take on the reconstruction of Japanese marine transport squad, and the iron and steel industry being the backbone. Additionally, the special taxation measures law facilitated the deduction system of every kind which helped promote the capital accumulation.

- Industrial Rationalization Council, established in Dec. 1949, recommend guidelines for “rationalization measures for industries of our nation” in Feb. 1951, based on which Enterprise Rationalization Promotion Law was instituted in Mar. 1952.
- →Implemented were the exemption from tax on imported machinery/technologies, the advancement of industrial technologies by the newly created special depreciation allowances, and others.
- Assuming the application of this law in advance, in addition to the aforementioned steel industry, 3-to-5-year modernization plans were drawn up in each sector of coal, electric power, shipbuilding, fertilizer, and textiles, whereby each company as if vying with each other moved ahead on the industrial streamlining based on the technology import.

- Not only the streamlining of the backbone industry, but also nurturing of new industries was promoted.
- For instance, a cradling of the synthetics industry was embarked on based on a MITI’s fosterage plan.
- But it was an investment involving a huge risk for a Japanese corporation.

  For example, Toyo Rayon, a company capitalized at 750 million yen which imported nylon technology from DuPont, was obliged to pay almost 1.1 billion yen as patent fee, and had to abide by a substantial loss over the following two years when the demand started growing steadily.

- In the auto industry which has now become a representative one, Toyota was in financial difficulties in the early 1950s, and “the argument to deny an avail of a passenger car industry” had a strong influence as symbolized in a statement by BOJ President Ichimanda, “As we are in ages of international division of labor, there is no need to nurture a passenger car industry in Japan.”

  ←Competition against overseas corporations was judged difficult.
- It was in the high-growth period that these industrial sectors came into full bloom.
- That was not completely unrelated to the status in which the consumption commodity industry was placed in a “subordinate” position under then industrial policies. But in a situation where the personal consumption standard was low, the domestic market had not yet matured for these industries with a fragile international competitiveness to depend on.

- While streamlining and fosterage were politically propelled in the industrial circles, the former Zaibatsu strived to rally as a “corporate group” and,
- antirecession cartels and rationalization cartels on the premise of a revision of Antimonopoly Law were realized, and additionally, “the recommended operation cut-down” was implemented on the basis of a MITI’s administrative directive . The conformation of markets developed in these ways.

- Cross-shareholding ratios in corporate groups were:
- In Mitsubishi, sharp hikes from 2.7% in 1951, to 9.8% in ’52, and to 10.6% in ’53;
- In Sumitomo, increases from 0.3% to 9.5%, and to 11.2%, during the same period as the above;
- In Mitsui, a cross-shareholding ratio was rather low, but it went up to a 5% digit by 1952.
- Accordingly, the structural framework of Japanese economy that led to its rapid growth was becoming consolidated.