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PRESENT DAY SIGNIFICANCE OF FREE PORTS

By Ginjiro Shibata

There are at present more than 70 ports throughout the world, which are generally called free ports. But they so differ from one another in character, function and in the object of establishment that it is difficult to define free port in one expression generally applicable for all these free ports. We may perhaps fundamentally describe it as "a port area in where goods unloaded and stored are exempted from customs duties and formalities." That while the foreign goods remain in this port area, the goods are exempted from customs duties, shows the minimum limit of the free port function, and if this function is lacking we can not call it as a free port. This function, therefore, is almost approaches to that of bonded warehouses only with this difference that: whereas in the case of the bonded warehouse the import procedure and the payment of taxes on the foreign goods entered into are only temporarily *deferred*, but the foreign goods entered into and deposited in the free port are *exempted* entirely from the taxes and formalities, as though they were in a foreign land so far as the customs laws are concerned.

As a matter of fact the free port that are to be regarded as exercising this minimum limit of function are not in existence. In reality, any operation or business more or less are permitted in a free port. On the whole the operations permitted in free port can be classified into three classes, that is, 1) manipulation 2) processing and 3) manufacturing. Manipulation means an operation including the breaking-up of package, repacking, labelling, grouping, sorting, grading, cleaning, washing, mixing and other operations which do not change the original nature and appearance of things themselves. Processing means an operation such as shelling, toasting and grinding of grains or nuts, cutting of hides, leathers, cloths, metal plates

etc., lumbering, dyeing, painting, gilding, assembling of machines and other operations which augment the value of the merchandise without varying essentially its nature or without changing its original item of taxation. Manufacturing means an operation which varies essentially the nature of merchandise and changes its original item of taxation completely, and shall be generally called "industrial production."

In addition to the operations above mentioned, some business in free port often raises a question, whether it shall be permitted or not. The most notable question is as to an exhibition of merchandise or its samples in the free port.

The scope of freedom permissible to free port does not only regard the operation and business, but the control of free port. That is, whether people shall be allowed to reside within the zone or not, whether the foreign goods shall be consumed or used within the zone, and whether retail trade shall be allowed to be conducted within the zone or not. These are the outstanding subjects that decide the scope of the freedom of port.

According to the facts mentioned above, free ports in existence which have narrowest scope of freedom are these which have been permitted only the simple manipulation, for example, *Freibezirke* in Germany, Free port of Stettin, Poland (if remains in the same state as before the war), Magazini Generali in Italy and Deposito Franco in Spain.

On the other hand, the free port exercising the broadest range of its function is found in a country that follows the principle of free trade as national policy, and where people may not have had customs duty system to begin with or levied tariff duty only as exception on a very few imported goods, and also where general exports and imports are most freely carried on, and where in the port area the administrative control except for peace and public health is not exercised at all. The examples are found in the ports of Gibraltar, Aden, Singapore, Hongkong, Makao and Ports in Baja California State in Mexico. In these free ports, the whole territory,

island or the administrative area on which the free port is instituted, is designated as free area. Consequently, it is more appropriate to think of the port as being situated in a free trade zone than to think of the port itself as a free port. Thus the range in freedom granted in free ports may be either broad or narrow, but taken as a whole, they are generally called free ports.

As there are degrees in the freedom enjoyed in the free ports since old days, the definition of the conception of free port has been various and diverse. We may go even to such an extreme and say that the meaning of free port differs with individuals. An attempt to define it most clearly and precisely is made by giving different names to the various degrees of freedom and classifying them to a few categories. For instance, they classify them into three classes of Free Port City, Free Port Quarters and Free Zone. In the Free Port City the entirety of the commercial port of the free port city is regarded as a foreign country so far as the tariff system is concerned, and the im- and exports of the goods, depositing, processing and manufacture are of course free, and general citizens are allowed to abide and live in the area. In the free port quarters a portion of the commercial port is regarded as a foreign land in the customs system and though the im- and exports of goods, depositing, processing and manufacture are allowed free, but general citizens are not permitted to reside or live in the quarters. In the free zone, the free port quarters are further made narrower in perimeter, and no processing or manufacturing is allowed, only the loading, unloading, depositing, repacking, assorting and repairing are freely allowed. (cf. Customs Administration, by Tadaji Itagaki, pp. 614-5, and "Free Port" in the New Dictionary of Trade and Exchange, compiled by Dept. of Investigation in the Tokyo Bank.)

Others make two classifications and call the one Free Trade Port and the other Free Port (free port in a narrower sense). The former may be understood to mean a port located in the above mentioned free trade region where the principle of free trade constitutes the basic policy of the region, which includes the free ports

in British colonies. The latter means the port or a portion of the port that has been placed outside the customs area under a specific condition, and actually, all the free ports, excepting free trade ports, are thus designated. And, giving a general definition to a free port in the narrower sense, they define free port as a segregated area where all goods, excepting contrabands, without going through the customs procedure or being levied customs duties, may be unloaded or loaded or warehoused subject to the regulations concerning landing, depositing, sorting, grading, repacking, processing and manufacturing. (Foreign Trade Zone or Free Port, by the Corps of Engineers, U. S. Army and U. S. Shipping Board, 1929; pp. 3-11).

Still others do not make any classification at all, and the free ports, free zones and so-called free trade ports are all called free ports, and the different scope of freedom granted is treated merely as characteristic features of the port. And the nomination of free port city is lightly understood as in the case of Bremen or Hamburg, to mean only a city with a free port attached to it. (Mac-Elwee, Port and Terminal Facilities, pp. 276-290)

Still others designate the free port in the narrower sense above mentioned by the nomination of free zone (not identified with Freibezirk in Germany), and describes it as: "A free zone may be defined as an isolated, inclosed and policed area, in or adjacent to a port of entry, without resident population, furnished with the necessary facilities for lading and unlading, for supplying fuel and ship's stores, for storing goods and for re-shipping them by land and water; an area within which goods may be laded, stored, mixed, blended, repacked, manufactured, and re-shipped without paying of duties and without the intervention of customs officials. It is subject equally with adjacent regions to all the laws relating to public health, vessel inspection, postal service, labor conditions, immigration, and, indeed everything except the customs." (The U. S. Tariff Commission: Free Zones in ports of the U. S., 1922.)

Thus it will be seen that among the free ports generally called so there are ports with very much limited freedom, that is, its

characteristic feature is limited to the waiving of levy of customs duties on imported goods, while they remain in the zone. Consequently, the handling and storing of the cargoes are placed under the superivison of the customs officials, and all the phases of general administrative authority of the country are there exercised. On the other hand, there are ports which are exempted from all authority of customs administration as a matter of course, but they are endowed sometimes with the character of a foreign land in point of economic administration. Such free ports enjoy much larger scope of freedom than others, showing the numerous variety of free ports. Free ports of Hamburg, Hongkong and other British Colonial free ports, at least up to the World War II, were of the ports of the latter description. Within that region, the cargoes were not only exempted from customs taxation while they remained there, but people were allowed to exercise manufacture and establish market and were also exempted from porcedure of import restriction or control of the country. However, it is the fact that the scope of the freedom enjoyed in a free port is limited to affairs of trade administration. This is the natural consequence of the fact that the free port at present is no more than an establishment for the foreign trade of the country to which it belongs. Consequentry, a free port politically independent as well, is the form that antedate the history of the free port, such as Italian free cities in the medieval times or old Hanseatic free cities in Germany. But the free ports that were founded since the tariff walls had been set up over the wide range of the consolidated territories by the modern states, have very close historical connection, and some of the free ports of the present day originated with the limited inheritance from the free city that had been dissolved. But their raison d'etre is entirely different.

If we describe the present conditions of the free ports and arrange them according to the degree of the freedom granted, they are:—

1. The area isolated or fenced off from the customs territory where the freedom is limited to the exemption or waiving of customs duties and to the conduct of simple manipulation. (Free Zone;

Freibezirk).

2. The area isolated or fenced off from the costoms territory, where not only the customs duties are exempted but the in and out transportation and storage of the goods are not subject to the supervision of the customs officials, and assortment, combination, repacking, mixing, labelling and the processing to the extent of not changing the original nature or item, are granted to be made on goods. (Free Port Zone; Freihafengebiet, except Hamburg; U. S. Foreign Trade Zones, governed by the former law).

3. The free port isolated and fenced off from the customs territory, and besides granting the manipulation and processing as described in paragraph 2, it grants the manufacturing industry in the area (Copenhagen Free Port).

4. The free port coming under the description of paragraph 3 with the added prerogative of exhibiting the goods and holding the sample market in the area (Hamburg Free port and U. S. Foreign Trade Zones).

5. The free ports, discriminated from customs ports, grant certain degree of freedom to entrance and clearance of ships, and excepting supervision exercised in connection with peace and public health, no other supervisional authority is exercised. Harbor and tonnage charges are not collected. (Copenhagen Free port and Mexican free ports).

6. The free ports not isolated from the surrounding country and with free communication between port and town and with all the phases of freedom described in the above paragraphs. (so-called "free trade port"; Hongkong, Singapore, Gibraltar, Aden).

These six classifications are made according to the degree of freedom enjoyed in the ports, and the historical process that gave birth to these classifications is traced in the following description:

The free cities that existed chiefly in Italy and Germany in the Middle Ages, had been incorporated into the territories of the newly arising states with the centralized authority, that were created with the rising tide of national unity among the racial tribes in Europe in

the nineteenth century. Political and economic independence of these free cities were dissolved, but at the occasion or somewhat later the commercial activity of the port cities that had been centers of international economy, was made free by placing these port area outside tariff walls of that state. This is the beginning of the free port. Viewed historically, the free ports were founded on double motive: 1) the formation of modern states and 2) tariff walls that restricted the imports. If we dig still further for motives, we may attribute the growth to the consciousness of tribal unity and the ascendance of nationalism in economic policy. Standing on this double motive, we can clearly see, however, the national consciousness that wanted to utilize the international character of trade was quite active, and come to recognize certain degree of freedom for commercial ports. The substantial function of free port had originally existed in free cities. The importation of the goods for the consumption of the citizens was not the chief aim, neither was it the chief aim to export their produce. The aim was to be an international market serving as a medium trade between the third countries. That is to say, being collected the products of all the places in Europe in the port, dispatched them to distant colonies or to the East, and in return, brought back the produce of the colonies or the East to the port and sold them out in the different cities in Europe. Such was the chief function of the port in free cities in the Medieval Times. Consequently, when the unification of the state and establishment of the central authority was realized in the 19th century, some of the free cities, though they gave up other political or economic independence, they insisted on retaining the freedom of the port, and on the part of the state, it could not disregard the advantage of medium trade of the port, and the prerogative of the free port was thus established. As the first free ports had long since enjoyed prosperity of medium trades and constituted flourishing markets, it seemed they absorbed the trade of the commercial ports in the vicinity and brought about still greater prosperity, when they were declared free. The prosperous

conditions of the free ports induced other European countries to follow suit or to make free ports. There were cities also that their political independence had once been absorbed completely in the central authority but regained freedom for the limit of port zones. Or there were cases of the ports that had enjoyed no freedom before, and had been later vested with the prerogatives of free ports. Thus from the latter decades of the 19th century to the beginning of the 20th, many free ports were established along the coast of Europe. During the interval, some countries hesitated to create free posts. Instead, in countries where protective measures are strong, the government securely established the systems of bonding and drawback. Or on the standpoint of financial or economic policy of the country, the scope of freedom granted in free port was either narrowed or broadened. But their attempt of promoting the medium trades and making the port more prosperous is common all. But the most rationally instituted free ports were created in 1934 in the U. S. A. as the result of discussion and investigation running for 20 years. They are what are known as the Foreign Trade Zones. For the countries that entertain various misgivings of the utility of the free port and have no institution of free port,—for instance Japan has been discussing pro and con for many years about the advantage and disadvantage of the free port, and is now almost discussion exhausted—the fact that the U. S. A. enacted the law on Foreign Trade Zones and has been successively established the many free ports in 10 odd years, must be declared wonderful and surprising.

The Foreign Trade Zones in the U. S. A. are gradually broadening the granted freedom from the narrower scope to the wider and in 1950 manufacture and exhibition of the goods have come to be granted. They have come to be ranked among the free ports that enjoy the largest scope of freedom in the world. The permission of manufacturing and exhibition in the zones has been given after many years' struggles made by the public and private organizations concerned in the zones. At last in 1950, the fact that the distinction

between manipulation and manufacturing cannot be defined and produces both administrative and substantive difficulties led a decision to eliminate the need for drawing such a distinction and to permit both operations in the zones. This decision seems ostensible and technical. Fundamental reasons for the enlargement of freedom were, however, a necessity of these operations in the zones and the Zone in New York has been very active in and after the War II. For instance, during the World War the international markets in Europe such as handled furs and skins, found safety and shelter in the Foreign Trade Zone in New York, and started to flourishing transactions. This has been permanently settled in the zone even after the War, and became a characteristic feature of the Foreign Trade Zone in New York. In expectation of this prosperous development the scope of freedom had been enlarged. That the Foreign Trade Zone in New York has shown this developing tendency remarkably is a very significant feature. This was due to the fact that New York is already a great center of consumption for internationa merchandise, and that various institutions had been in existence in the zone for the instant opening of the market, and when opportunity arrive New York succeeded to snap away the market from Europe. By this, we may say, that we have discovered the existence of the character of international market in the significance of free port.

Besides the free ports that originated with the aim of being a medium trade, there are other free ports that have quite different significance of existence. Ordinarily the free ports are created actively as measures of internal administration by a country. Differing much in origin, there are other free ports that have been created from the standpoint of international politics, that is, several countries, by treaty, created free ports as economic and political buffer zones. For example, the free port of Salonika in Greece that has been instituted by the treaty between Greece and Yugoslavia is such a case. The free port of Trieste (Free Territory) is in similar circumstances. Again, there are free ports instituted by foreign interference to exclude the trade monopoly of one nation. An

example is the port of Dalny before the last War. Though they all have the same function as free ports, they quite differ in purpose, that is, their reasons of existence are quite different. But even these free ports of latter description do not go astray from the original significance of free port. Rather, they exhibit most significantly the character of being international buffer zones. The fact that a free port constitutes a buffer zone has been hitherto looked upon rather quite incidental than normal. The present writer, however, believes this phase of the free port to be the most important part that it plays under the present tense conditions of the world; and maintains a wish that this new phase as an international buffer zone may be included in the significance of free port.

From the above description, the significance for existence of free ports may be enumerated as follows:—

1. Significance as an instrument to promote medium trade or re-export trade.

Viewed either historically or substantially, the medium activity is the function connected with the reason for existence of the free port, and without it the port can not be called a free port. Medium trade must be distinguished from transshipment or transit-trade. The transshipment or transit-trade renders no more service than to provide the use of the harbor for the third country, and in strict sense it may not be properly called a foreign trade for that country. In most cases, the cargoes come from the third country which exports the goods provided with "through bill of lading," and transshipped to another ship in the port, and sent intact to another third country. In this case, only the shipping equipment, leaving the trade equipment unused, is made to render services. Excepting the free ports that grant special privileges to in-and outgoing ships, the mere transshipment enjoys no preferential service either in a free port or in a customs port in point of transshipping operation. In such a situation, people find no necessity of utilizing the free port. In medium trade, on the other hand, the traders, in most cases, of that country, on *their own account* or *commissioned by the*

foreign traders, import merchandise from abroad. The former may be termed "distributing trade" and the latter "go-between trade." The goods thus imported or brought in may be re-exported or re-shipped as they are, or processed, re-packed or at times sorted together or mixed with other materials of different origins. This is the form of the medium trade. The trade is mostly carried on by the merchants of the country, but the foreign merchants often are also engaged in the transaction. In medium trade made in the free port, customs duties are not levied on the unloaded foreign goods, neither it is required to go through the customs formalities. It is, thus, clear that the traders derive enormous benefit, and here is the significance of free port.

What is termed as re-export trade is a medium trade that has been transacted within the customs zone, that is, it is the name applied to medium trade when it is transacted through the prescribed import formalities. Or, the same term may mean the medium trade transacted in such free trade ports as Hongkong or Singapore. The former has no relation with free port, though the latter has it, and re-export trade is here collated apropos.

Ordinarily a term "re-export trade" is often understood to designate the export side of the transit trade, and there are sometimes cases where even the re-shipping of the bonded cargoes is understood to be included in it. But this nomination is only a popular expression.

2. Significance as a market for international merchandise.

As a distributing center of international merchandise, geographical conditions constitute important factors of a free port, but that the area is exempted from the customs law is the most important of them all. In addition, if the exhibition of the goods is allowed in the zone, the function as a market shall be fully exercised. The significance of free port is well recognized in these phases. The prosperity of Hamburg since old days and the new bonanza of New York Foreign Trade Zone as a distributing center of international merchandise are worthy of our careful notice.

3. Significance as a zone for the processing and manufacturing industry on and with raw materials produced in foreign lands.

In a country not provided with free ports the manufacturing with foreign raw materials or processing on foreign goods have to be executed, in principle, after completing all the import procedures. Even with the provision of bonded factory, complicated bonding procedures must be gone through and guaranty must be lodged; then the import procedure may be postponed for a time, and under the supervision of the customs officials, processing and manufacturing may be carried on. But, if free port were instituted and processing and manufacturing were granted in free port, no such red tapes of import and bonding procedures would be necessary, no duties would be paid, no interference of customs officials would be made. And work could be started immediately after they are unloaded. Thus we can expect in the zone the growth of the industries depending on materials produced in foreign lands. To cite the examples, the ship building, the processings on colonial goods and machine assembling industries in Hamburg free port; the munitions, metal and gilding industries, the processings on feathers and furs, flour mill, coffee and victuals industries in Copenhagen free port are such cases. Excepting the ship building industry in Hamburg, these industries are not of large scales as compared with those in the customs zone, but they are fully paying enterprises and constitute the industrial zones of their own, and render no small service in the sphere of balancing international payments. The fact that the U. S. A. Government recognized by the law in 1950 the enterprise of the manufacturing industry in the zone is due to the strong desire of those who are acquainted with the cases in Europe.

4. Significance as facilities of inducement to merchant ships.

At present, most of the free ports in the world grant certain degree of freedom to the cargoes, but to the in- and out-going ships few free ports grant special treatment differing from that given in customs ports. However, even without the special convenience in connection with the arrival or departure of ships, the fact that

customs formalities are exempted economizes the hours for unloading and loading, consequently the hours at anchor. That is, the attempt to induce foreign merchandise naturally induces ships as well. In spite of this fact, reports are made that free port does not much contribute to marine transportation. (Corps of Engineers U. S. Army and U. S. Shipping Board: Foreign Trades Zone or Free Port, pp. 76-79.) The reasons given are:—Special privileges to trading ship are not provided in free ports, or no better convenience in unloading and loading services and warehouse facilities are afforded than in the customs ports and there is no stronger inducement for ships to enter the free port. Still another reason perhaps, is the prevalence of the usage of anchoring outside the free port and dispatching goods into the free port by lighters. Never-the-less, when the terminal facilities are better completed than in the customs ports, the tendency of in-and out-going ships to increase in the free ports is clearly discerned. Again, toward the free ports that in contradiction of customs ports exempt or reduce tonnage and wharf charges on in-and out-going ships, or simplify the arrival and departure procedure and other favors—for instance like the free port of Copenhagen—ships naturally incline to feel more inducement as a port of call than the neighboring customs port, provided other conditions being equal. Even when the tonnage and other public taxes are not exempted, the quickness of loading and unloading services and the simplification of official procedure shorten the hours at anchor remarkably, which results to economize the navigation expenses. The free ports offering favorable advantages on these points are sure to contribute much toward marine navigation.

5. Significance as a neutral zone in international economy.

International relations have, since old days, been quite delicate. Various dangers have threatened trade from this cause. From the standpoint of trade, economic and political insecurity in the unloading port of the goods is serious indeed. When any political or economic insecurity is discerned in the unloading place, free ports are the most suitable waiting places for the cargoes. During the

War II, large amounts of cargoes for and from Europe found shelter and avoided danger in the New York Foreign Trade Zone. Again, after the War, goods destined for the various ports in China were assembled enormously in Hongkong on account of the Communist revolution in China. These facts speak this significance very plainly. On the details of the phase of the problem we described in the International Economic Review, 1951 and 1952, Kobe University.*

All the phases of the utility and significance of free port thus far described are not possessed by each existing free port. Some of the free ports combine and possess all of the functions, but it must be understood that most of them actualize only one or two or three of these functions. In other words, the character of the free port is determined by the law or regulations of that country, and is affected by the conditions of location of the free port.

Further, besides the reasons given above, if, for some non-economic reasons—for political or diplomatic reasons—a country designate a port or a zone of the port as free port, to constitute a buffer zone, declaring it internationally neutral, another significance would be added. Indeed a free port completely placed outside the administrative system of a country, though such as a free city has now disappeared, but, if the United Nations designate some zones or ports in the mandates or certain countries as free, internationally neutral free ports, quite different from the old free city, may appear again. Still more, if the slogun "world peace" is not to remain as mere politico-diplomatic refrain, and if it has a real intention to actualize it, it may be thought that the obligatory creation of such international buffer zones by all the countries, through the instrument of the United Nations, would be a step toward the realization. If such internationally neutral buffer zones are to be placed under the control of the United Nations, it would take a step toward the

* Ginjiro SHIBATA: Foreign Trade Zones in the United States: Kobe University International Economic Review, Vol. I, 1951, pp. 3-67. and Characteristics of Hongkong Foreign Trades; Ditto, Vol. II, 1952, pp. 79-126.

creation of "Universal State", though it is deemed as an idealist's dream at present. In that stage of development the proper problem of free port would have little significance. But inside the character of free port, there lies hidden, very deeply hidden—almost subconsciously—the germ that may develop toward such grand future.

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DEVELOPMENT OF DEVALUATION-PROBLEM IN POST-WAR JAPAN

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Introduction

On Various Kinds of Currency Measures

During the eight years since the war, Japan has achieved economic rehabilitation remarkably and her economic situation has regained pre-war level in many respects. In regard to currency and foreign exchange, stabilization was realized in April 1949 based on the exchange rate of 1 dollar to 360 yen through Dodge's plan and this normal rate was approved internationally when Japan joined the International Monetary Fund on August 13th 1952. The writer of this article intends to consider Japan's inflation in this post-war period and the development of various currency measures taken against it. Through this consideration we can understand the significance of the urgent questions with which Japan is now confronted.

For this purpose, we shall examine theoretically, first of all, various kinds of currency measures taken against inflation.

The first is a currency measure, so called "Stabilization policy", taken to stabilize the currency after the ebbing tide of inflation, when we succeeded to check the great inflation after a large scale price-rise. This stabilization policy means to "devaluate" the old gold-parity of currency, and as consequence the old exchange-parity, by as much as depreciation of currency and to establish a new monetary standard on the basis of this devaluated gold-parity and exchange-parity. Therefore, this measure may be called "Devaluation as stabilization policy". The typical examples after World War I were German devaluation to one-trillionth in November 1923 and French devaluation to one-fifth in June 1928.

The second is a currency measure as "Deflation policy" which is taken up in order to make the high price level lower to the old level before the inflation. Under the small-scale inflation, this deflation policy can lower the high prices to the old level before the inflation, and to raise the foreign exchange rate to the old level before the inflation. After World War I, United Kingdom, the U. S. A., Japan and others whose war-time and post-bellum rise of prices caused by inflation had been only two or three times as much, restored their old gold and exchange parity of currency by taking this deflation policy. These countries did not carry out monetary devaluation as a stabilization measure and returned to the gold standard system based on the old parity by means of deflation policy.

Now, if we look over the currency measure taken against inflation by every country after World War II, we notice that special kinds of policy were taken up as the inflation counter-measure.

(A) Blocking of currency. Currency and deposit were blocked in order to cut down and absorb excess purchasing power. This measure was carried out first in Belgium in October 1944 and followed by Greece in October 1944, and then by Poland, Yugoslavia, France, Denmark, Czecko-Slovakia and Austria in 1945. In these cases the measure was practised technically, as the exchange of old currency for new currency, in ratio of one new currency unit per one old unit: that is one to one.

(B) Reduction of face-value of currency. This innovation was to devaluate the face value (par value) of the circulating currency by a certain rate and to exchange as much old currency unit by this rate for one unit of new currency. The examples of this innovation of currency were actually seen recently in the U. S. S. R.: ten roubles of circulating currency were exchanged for one new rouble in December 1947, and in Germany: ten Reichsmarks for one new Deutschemark. In both countries, the blocking of some portion of the currency and deposit accompanied this method. This reduction of face value of currency is often called also devaluation.

But this monetary operation belongs to entirely another category as compared with the above mentioned devaluation, that is, devaluation of gold parity of currency and foreign exchange parity of the gold standard. The former might be called gold devaluation and the latter as face value devaluation.

In many countries after World War I the gold devaluation was the stabilization policy after inflation, while this reduction of face value of currency (face value devaluation) after World War II was the deflation policy adopted as a measure against inflation which was in progress. Therefore, the two kinds of devaluation have different purposes and different effects.

This reduction of face value as well as the blocking of currency has the same purpose and the same effect of cutting off and nullifying the excess purchasing power which is the promoting factor of inflation. In this sense both measures have the effect of checking inflation.

Let us consider the nature of the currency measures, which were adopted in Japan for each period during the eight years after the war, in the light of the nature of various kinds of currency measures above mentioned. The post-war time of restoration of Japanese economy and currency may be divided into four periods. (1) From August 1945 to the end of 1946. (2) From the beginning of 1947 to the end of 1948. (3) From the beginning of 1949 to June 1950. (4) From June 1950 to present day.

I. Period of Inflation following the Surrender

First period of chaotic inflation: from August 1945 to the end of 1946.

At the time of the surrender the accumulation of money property, mainly consisting of bank notes, bank deposits and national debts, etc. had greatly outbalanced physical assets which had been greatly consumed during the war. And this unbalanced condition itself contained already the possibility to a dangerous inflation. In addition to this the remarkable expansion of purchasing power due

to various causes accelerated the rise of prices and the first inflation immediately after the end of the war came out. The first cause of this inflation was the reckless use of Extraordinary War Expenditures. The expenditures amounted to 26,600 million yen during the three and a half months from August 15th to the end of November 1945, when Japan received the order prohibiting the use of Extraordinary War Expenditures from the G. H. Q.

The second cause was the loan of banking institutions for industrial firms which came out in place of the Extraordinary War Expenditure after its prohibition order. Amounts to 29,500 millions yen were released from the time of surrender to the end of January 1946. As this amount was covered by the credit expansion of banking institutions based on the credit of the Bank of Japan, the second cause became a powerful factor for inflation.

The third cause is the withdrawal of deposits. The awaiting purchasing power accumulated by the forced saving during the war, was actualized by loosening the government control and by making popular feeling easy from war time tension. From about November 1945, inflation was spurred on by the expansion of banknotes and the withdrawal of deposits. We can see that, as in the Table 1, the Bank of Japan's note issue had increased twofold from 30,300 million yen in August 15th 1945, to 61,500 million yen in February 1946, and the wholesale prices had risen by 2.15 times during the six months directly after the war.

In these economic situations, Government planned a general measure against inflation, the center of which was "the Emergency Financial Measures Ordinance" issued on February 16th 1946. This Ordinance contained the Bank of Japan's note Deposit Ordinance, Emergency Property Investigation Ordinance, Food Emergency Measures Ordinance, Hoarded Goods Emergency Measures Ordinance, Price Control Ordinance, Post-war Price Counter-Measure Basic Summary, and Emergency Employment Counter-Measure Summary. Here, we shall refer only to the important points of these currency measures.

(1) The present deposit shall be blocked on February 17th.

(2) The current bank-notes of 5, 10, 20, 100, 200, and 1,000 yen shall lose their compulsory circulating power after the date of March 2nd and shall be exchanged by March 7th, in equivalent value for "New yen" issued on February 25th. In this exchange, New yen shall be delivered within the limit of one hundred yen per head, and excess amount over this limit shall be blocked as deposit.

(3) The blocked deposits can be drawn out in cash within the limit of three hundred yen for the chief of the household and one hundred yen per head for the members.

(4) The future salary and wages shall be payed in cash within the limit of five hundred yen a month and in blocked deposit over the amount.

(5) The deposit of new yen shall be free deposit and its withdrawal shall not be restricted.

By this Emergency Ordinance, the inflated currency since the surrender decreased to one-fourth. While the issued amount of Bank-notes was 61,800 million yen on February 8th, it decreased to 15,200 million yen on March 12th, when the depositing of old yen in the banking institutions was finished. That is, by the exchange of old yen for new yen and the blocking of old currency and deposits, the amount of currency retrenched amounted to 46, 600 million yen.

But as the currency still increased even after that time, the Government continued to take up various kinds of counter-measures against currency expansion, which, however, could not check the inflation. And by the amendment of Emergency Financial Measures Ordinance on August 11th 1946, some part of the blocked deposits was frozen for some time, in relation to the cancellation of war indemnity. In short, this new measure aimed at preventing the shifting of the loss of the banking institutions, caused by the cancellation of war indemnity, to the small scale depositors; and also aimed at guarranteeing the payment of these deposits by the government.

(1) The personal frozen deposits on August 11th, are divided into the first restricted deposit and the second deposit.

Table 1.
Issue of the Bank Note and Price Index

Period	Bank-note[1] (million yen)	Wholesale Price[2]		Black Market Price[3]	Wholesale Price in U. S. A.[4]	Wholesale Price in U. K.[4]
1937 Jun.	1,640	——	——	——	——	——
Jul.	1,579	100.0	——	——	※ 100	※ 100
1938 Dec.	2,754	106.5	——	——	※ 91	※ 93
1939 Dec.	3,679	113.2	——	——	※ 89	※ 95
1940 Dec.	4,777	127.5	——	——	※ 91	※ 126
1941 Dec.	5,978	141.3	——	——	※ 101	※ 140
1942 Dec.	7,148	158.3	——	——	※ 114	※ 147
1943 Dec.	10,266	163.5	——	——	※ 119	※ 150
1944 Dec.	17,745	184.6	——	——	※ 121	※ 153
1945 Jul.	28,456	258.6	100.0	——	※ 123	※ 155
(Aug. 15)	30,300	——	——	——	——	——
Aug.	42,300	266.4	102.8	——	——	——
Sep.	41,426	291.6	112.7	100	——	——
Oct.	43,188	299.2	115.7	91	——	——
Nov.	47,748	321.5	124.3	108	——	——
Dec.	55,440	531.5	268.6	122	——	——
1946 Jan.	58,565	629.3	243.2	169	※ 140	※ 161
(Feb. 16)	61,824	◎ 688.0	◎ 265.9	◎ 191	——	——
(Mar. 12)	15,204	——	——	——	——	——
Mar.	23,173	947.7	366.3	179	——	——
Apr.	28,173	1,209.5	467.5	162	——	——
May	36,315	1,241.1	479.7	173	——	——
Jun.	42,758	1,294.4	500.4	181	——	——
Jul.	49,730	1,378.1	532.7	178	——	——
Aug.	57,571	1,442.1	557.5	164	——	——
Sep.	64,435	1,571.6	607.5	159	——	——
Oct.	70,589	1,585.2	612.8	168	——	——
Nov.	74,816	1,712.6	662.0	190	——	——
Dec.	93,397	1,784.3	689.4	223	——	——
1947 Jan.	100,040	1,844.9	713.1	254	※ 176	※ 176
Feb.	105,489	1,871.9	723.6	275	——	——
Mar.	115,726	1,921.8	742.9	304	——	——
Apr.	122,399	2,414.9	933.5	348	——	——
May	129,685	2,518.2	973.3	370	——	——
Jun.	136,320	2,615.2	1,076.0	419	——	——
Jul.	143,745	3,797.0	1,467.8	456	——	——
Aug.	150,683	4,746.0	1,831.6	452	——	——
Sep.	156,416	5,279.7	2,041.0	478	——	——
Oct.	167,665	5,841.7	2,255.0	508	——	——
Nov.	178,158	6,375.9	2,464.7	519	——	——
Dec.	219,141	6,611.3	2,550.2	558	——	——
1948 Jan.	218,048	6,745.9	2,607.6	596	※ 191	※ 202
Feb.	215,319	6,819.8	2,636.6	617	——	——
Mar.	218,774	6,873.7	2,657.2	646	——	——
Apr.	220,440	6,893.9	2,665.0	674	——	——
May	223,498	6,988.4	2,701.5	710	——	——
Jun.	230,587	7,440.3	2,876.2	760	——	——
Jul.	241,365	10,664.7	4,122.7	777	——	——
Aug.	254,209	12,492.8	4,829.4	744	——	——
Sep.	262,112	13,511.4	5,223.1	744	——	——
Oct.	279,512	13,754.2	5,317.0	746	——	——
Nov.	294,744	14,705.3	5,684.7	749	——	——
Dec.	355,280	14,847.0	5,739.5	769	——	——
1949 Jan.	341,575	15,062.6	5,822.9	775	186	204

	Feb.	322,448	15,555.3	6,019.4	779	183	203
	Mar.	312,547	15,622.8	6,039.3	791	184	203
	Apr.	315,932	16,337.8	6,315.6	820	182	208
	May	305,937	16,661.6	6,440.9	807	180	213
	Jun.	300,628	16,600.3	6,417.4	801	179	213
	Jul.	295,597	16,613.2	6,425.2	786	178	210
	Aug.	298,201	16,897.7	6,532.1	765	177	211
	Sep.	306,252	17,201.2	6,649.5	733	178	212
	Oct.	303,822	17,369.9	6,714.7	704	176	218
	Nov.	355,311	17,375.8	6,717.3	685	176	221
	Dec.	320,397	17,356.4	6,709.5	655	175	222
1950	Jan.	320,397	18,104.3	6,998.9	625	176	225
	Feb.	311,810	17,983.7	6,952.0	573	177	225
	Mar.	311,343	18,024.2	6,967.6	533	177	226
	Apr.	319,645	18,078.1	6,988.4	492	177	230
	May	310,404	18,165.9	7,022.4	481	181	234
	Jun.	311,184	18,253.6	7,056.3	480	182	236
	Jul.	319,809	19,213.0	7,457.9	500	189	238
	Aug.	324,618	20,216.5	7,815.9	569	193	242
	Sep.	328,781	20,681.9	7,995.0	550	196	250
	Oct.	344,689	21,383.5	8,266.3	557	196	257
	Nov.	353,575	22,132.2	8,555.7	578	199	266
	Dec.	422,063	22,550.5	8,717.4	580	203	269
1951	Jan.	397,729	23,824.6	9,210.2	604	209	276
	Feb.	399,771	25,127.3	9,713.5	644	213	281
	Mar.	396,307	26,543.9	10,261.1	670	213	288
	Apr.	410,015	27,771.6	10,735.7	683	213	293
	May	399,332	27,704.2	10,709.6	678	212	294
	Jun.	407,704	27,112.9	10,540.6	638	211	295
	Jul.	409,025	26,955.4	10,420.2	623	208	294
	Aug.	414,705	27,616.1	10,675.1	630	206	298
	Sep.	416,359	27,987.2	10,816.5	633	206	299
	Oct.	425,900	28,473.1	11,006.9	632	206	302
	Nov.	432,540	28,452.9	10,998.9	635	208	301
	Dec.	506,385	28,250.6	10,901.5	638	208	303
1952	Jan.	457,020	28,350.5	10,959.5	—	206	307
	Feb.	457,277	28,342.5	10,956.4	—	206	302
	Mar.	467,576	27,982.5	10,818.4	—	206	305
	Apr.	462,481	26,166.0	10,692.8	—	204	303
	May	444,002	27,589.2	10,671.3	—	204	301
	Jun.	461,223	27,561.7	10,655.1	—	204	300
	Jul.	455,404	27,795.4	10,677.5	—	204	300
	Aug.	464,223	27,620.9	10,677.3	—	204	298
	Sep.	463,009	27,636.7	10,683.6	—	204	296
	Oct.	476,243	27,525.7	10,640.7	—	202	299
	Nov.	486,438	27,200.6	10,515.0	—	202	298
	Dec.	576,431	28,153.0	10,496.6	—	201	300
1953	Jan.	519,764	27,668.5	10,692.8	—	201	301
	Feb.	521,137	27,842.9	10,763.3	—	201	297
	Mar.	515,977	27,842.9	10,763.3	—	201	301
	Apr.	517,710	27,763.6	10,732.6	—	201	305
	May	501,136	27,787.4	10,741.8	—	201	304
	Jun.	516,352	27,917.5	10,790.2	—	201	303

Source: 1. Bureau of Statistics, Office of the Prime Minister. Japan Statistical Yearbook 1952.
2. Price Index of Statistics Department of Bank of Japan. Japan Statistical Yearbook 1953.
3. Index number of black market and free prices in Tokyo (consumer's goods) by Statistics Department of Bank of Japan.
4. Toyo Keizai Shimpo; Monthly Statistics. Oct. 1949~Nov. 1953.

Note: ※ average of the year. ◎ average of the month.

(2) As regards the individuals: either 4,000 yen per head of the family (limited to 8 members a household) or 15,000 yen in total for the household deposits at each banking institution, makes the limit of the first restricted deposit. The amount more than this limit makes the second restricted deposit. Next, as reagrds corporations: less than 15,000 yen at each account makes the first restricted deposit.

(3) The payment from the first restricted deposit follows the former payment rules of blocked deposit.

(4) The second restricted deposit can be payed out only in the case of payment of taxes and repayment of old debt.

The payment of the first restricted deposit is guarranteed by the government for all the banking institutions. The second restricted deposit is frozen for some time except for payment of taxes etc. And if there were any reserve power for payment after the adjustment of banking property, they have to be gradually transferred to the first restricted deposit to this limit. Therefore, the depositors who had a large deposit in one banking institution, were greatly affected by this measure. Through this measure the maldistribution of purchasing power was adjusted.

Thus, the currency adjustment in post-war Japan was carried out, not by the reduction of face-value of currency, but by the blocking of currency and deposit. The Emergency Financial Measure Ordinance in February had reduced the excess purchasing power and adjusted the maldistributed purchasing power. And the establishment of the second restricted deposit in August strengthened the effect of correcting the maldistributed purchasing power.

II. Period of Economic Rehabilitation

Second period of economic rehabilitation through Reconstruction Finance Bank inflation: from the beginning of 1947 to the end of 1948.

The above mentioned measures adopted against inflation did not stop the inflation, and it was again accelerating. But during this

inflation accelerating process, various reconstruction measures were carried out, which proved successful to some degree. Thus at the end of 1948, inflation became somewhat less active and productive power increased. The characteristic of this period is that though the inflation was increasing yet the level of production also increased, and the economic rehabilitation succeeded to some degree.

In the second half of the year 1946, the Government already set about to endeavor to bring about economic rehabilitation. For example, the government founded the Economic Stabilization Board in August 1946, and decided on the Order of Urgent Promotion of Production of Chemical Fertilizer in June, the Electric Power Consumption Control in August, the measure for Increased Production of Coal in September, the Three Year Plan for Reconstruction of the Textile Industry in October, the Execution of Reconstruction Finance Bank Act in October and the adoption of "Priority Production Program for Promotion of Production of Coal, Iron and Steel" in December (industrial productions program based on priority system).

The following three were the most important factors for economic rehabilitation in this period. First was the accommodation of industrial funds by Reconstruction Finance Bank. This bank loaned the operating funds to the amount of 37,600 million yen, and equipment funds to the amount of 94,300 million yen. The objects of this loan was the large-scale firms in the important industry, ie. coal, marine transportation, electric power, fertilizer, iron and steel, textile, and so on. As most part of this loan was raised by the issue of reconstruction finance debenture, and 80 percent of this debenture was held by the Bank of Japan, this Reconstruction Finance Bank Loan was not only an important factor of economic rehabilitation but also a powerful cause of inflation at that time.

Second factor of rehabilitation was various kinds of subsidies paid out from State finance. Subsidy of price differentials which was paid for coal, iron and steel, manure, etc. amounted to 23,800 million yen in 1947 and 62,500 million yen in 1948. This government

funds could guarrantee certain profit for fundamental industries and served to the accumulation of capital and the increase of productive power, but at the same time, became a main factor for finance inflation.

The third factor for rehabilitation was American aid contributed to the industrial reconstruction of post-war Japan. Ratio of aid on the total amount of Japanese import was 77 percent of total 526 million dollar in 1947 and 68 percent of total 683 million dollar in 1948. This factor contributed greatly to the economic rehabilitation of Japanese industry, and moreover was the counter-power against inflation.

The first cause of inflation in this second period was the failure in execution of the Emergency Financial Measure in the spring 1946. Because of the failure in the treatment of this blocked deposits measure, it was impossible to check the realization of this latent purchasing power and to effect proper money policy necessary to stabilize the value of New yen.

The second cause of inflation was the finance inflation brought about by the price differential subsidy and monetary inflation produced by the Reconstruction Finance Bank loans.

Although the currency was actually reduced from 61,800 to 15,200 million yen by the Emergency Financial Measure Ordinance issued in February 1946, it rose again to above 100,000 millions yen in the beginning of 1947. The wholesale prices had been continuously advancing ever since. The price index of 750 at the end of the war jumped up to enormous figures of 2,326 at the biginning of 1947, taking pre-war period as 100. That is to say, on the standard of 100 at July 1945, immediately before the end of the war, it advanced to 713 in January 1947, to 2,607 in January 1948.

In the midst of this increasing inflation, people were anxious to have some drastic measures put to effect to curb the inflation. The rumours of reblocking New yen, or devaluating the face-value of currency were heard everywhere, which drove our people to extreme anxiety. The successive Finance Ministers had to plead

at every occasion that the Government would not resort to such drastic currency measures.

Since the information regarding the innovation plan of currency in West Germany in 1947 which had been reported to have been proposed by Mr. Dodge, especially since the practice of innovation of currency in the U. S. S. R. in December 1947 and that in Germany in June 1948, the currency innovation, as a measure to curb inflation, was seriously considered in our country. But during this 2nd period after the war, from the beginning of 1947 to the end of 1948, no monetary innovation measure was taken, but at the end of this period the encouragement of tax collection and coordination of public finance played an important part to slow down the ever-spreading inflation. In the end of 1948, the level of production was raised by 60 % as compared with that of the previous year, and here we were able to see the dawn of economic stabilization.

Table 2.

Index of Industrial Production

1934-36 average=100

Period	Amount of Production
1937	128.6
1938	141.1
1939	146.6
1940	147.9
1941	150.0
1942	145.6
1943	159.7
1944	176.2
1945	63.2
1946	39.2
1947	47.6
1948	67.1
1949	86.6
1950	101.9
1951	133.9
1952	※135.4
1953	※163.0

Source; Index of Economic Stabilization Bureau
(※ Monthly Statistics of Bank of Japan)

If we carefully abstract the characteristic feature of the currency innovation plans rumoured about during the second period of inflation, we might say that it chiefly consisted of the reduction of the face-value of the currency as in the U. S. S. R. and in Germany.

This was one of the monetary measures intended to curb the inflation by reducing the purchasing power at the time when the inflation was in progress. There could be found many reasons for not adopting such measure in Japan. In Germany and the U. S. S. R. we saw enormous unbalance between the expansion of currency and the

level of official price and the rate of foreign exchange, and therefore it was necessary and also possible for both countries to adjust this unbalance by curtailing the excess purchasing power caused by the expansion of currency.

Let us examine this situation in Germany in detail. Despite the currency being expanded 10 times and bank deposit 13 times, prices and wages under control were not much different from those of pre-war period. The index of living expences based on the controlled prices was not raised higher than 27 % of that of pre-war level. As the excess purchasing power was facing the diminishing social products cut down to one third, the advancement of black-market prices was inevitable. The proposer of Dodge's plan pointed out that "the black-marketeering in those days was carried on by the existence of unlimited hoarded money." The post-war economy of Germany was characterized by the unbalance between excess currency and under-production. It was also characterized by the extreme unbalance between excess purchasing power and low official prices. Moreover this excess and maldistribution of purchasing power encouraged the rise of black market prices, and made it difficult for people to maintain their living by the legitimate route of supply under official prices. The function of currency was lost and the barter system in black markets did harm to the production itself. While the currency was excessive, the government tried to maintain the official price of staple commodities and the rate of foreign exchange to pre-war level by strict control.

Only under such objective circumstances, that official prices and the official rate of exchange were kept unchanged in spite of the increase of currency and the rise of black market prices, it was possible to put into practice successfully the device of reducing the face value of currency. Because this reduction of face value of currency meant simply a reduction of face-value of circulating currency and some kind of deposit, without actually reducing at the same rate the prices and exchange rate.

Therefore under the situation that the official prices were raised

ten times and the exchange rate reduced to one tenth, the currency would expand ten times correspondingly, if they carried out the plan of reducing the face value of circulating currency to one-tenth, the price level and the exchange rate untouched, a new unbalance would easily start again.

Therefore, should anyone be worried about the similar currency measure that might be adopted in our country from the fact in Germany and in the U. S. S. R., he must be blamed to lack the knowledge. To speak about our own country in 1948, (for instance in July) the currency being expanded 150 times as compared with prewar level, the official price level having risen 110 times, and the rate of exchange being lowered to one eightieth as we have seen in the military exchange rate of $1 to ¥270, there was no ground to reduce only the face-value of currency down to one tenth and to maintain the price level and rate of exchange unchanged. If the policy of reducing the face value of currency were taken under such circumstances, another new bad unbalance would occur between the currency and the prices and the rate of exchange, and this would cause only the economic disturbance uselessly.

III. Period of Currency Stabilization

The third period of currency stabilization: from the beginning of 1949 to June 1950.

The request for stabilizing economy and currency was made to Japan by the U. S. A. government, when the effect of aid for economic rehabilitation had become apparent. The nine Principles of economic stabilization were already published in the end of 1948. In February 1949 Mr. Dodge proposed a plan regarding to these principles of economic stabilization. The achievement of balanced public finance and establishment of single rate of foreign exchange were the two main points of the plan. The suspension of the accommodation by the Reconstruction Finance Bank, the gradual curtailment of subsidies and the retrenchment of the governmental investments to industries were all proved to be very effective to counteract the

power of inflation and to prepare the way to currency stabilization.

When the restricted foreign trade was opened to traders for the first time in August 1947, the agents carrying the foreign trade were the G. H. Q. and the Board of Foreign Trade. The G. H. Q. determined dollar-price of export goods on the basis of world current prices. On the other hand the Board of Foreign Trade bought export goods from traders on the basis of official home prices and sold them abroad. This system was called "Firm Price System," in which there was no direct connection between dollar and yen, and therefore there arose no problem of dollar-yen exchange-rate. Since the end of the war the military rate was fixed. In December 1945 $1=¥15.—— In March 1947 $1=¥50.—— In July 1948 $1=¥270.—— Since that time Japan adopted plural exchange rate for export goods, the maximum of which was $1=¥600. At the beginning of 1949 stabilization plan of exchange rate was made, according to which the maximum price had been lowered down gradually and the plural rate was simplified by steps. At last it was fixed at $1=¥360 on April 25th 1949 by the Dodge's plan.

The establishment of the single rate of foreign exchange proposed by Dodge's plan was a typical pattern of the so called "devaluation as stabilization policy after suspension of the inflation." Theoretically there are two ways of currency measure, when an inflation is once checked. One way is to adopt the measure of deflation to recover the money value to pre-inflation level. That is, to restore the price level and exchange rate to the former level before the inflation. If this measure to be taken after an immense inflation, it will introduce a new disturbance and disorder into the economy. Therefore the restoration of money value to former levels by deflation is impossible after a large scale inflation. It was absolutely impossible to take this measure in Germany in 1923 when the hyper-inflation raised the price level to more than a trillion times. When the price level in Japan had jumped up to such a high level of more than 160 times, it was almost impossible to restore the price level and exchange rate to pre-war level by this deflation policy.

Another way is to admit the present price level and exchange rate caused by inflation as ex post facts, and adopt a stabilization policy maintaining this present level of money value. For this purpose, it is necessary to devaluate the old exchange-rate of currency before inflation in proportion to the depreciation of money value. The devaluation of the old gold parity and exchange parity of currency which are carried out by a establishment of a new parity can be characterized as the stabilization policy after the inflation.

Now in Japan the foreign exchange rate of $1 to ¥360, which was established by Mr. Dodge, was said to be computed on the basis of purchasing power parity theory. The rate of Japan and the U. S. A. exchange had been $1 to ¥3.47 before the war in 1937. During the period of February 1937 and 1948 the price level in Japan had advanced 163 times, while it had advanced 1.82 times in the U. S. A. According to this theory the normal rate would be calculated by $¥3.47 \times \frac{163}{1.82} = ¥310.77$. In those days Japanese prices were still facing a bullish tone and so the rate was decided at somewhat lower than this normal rate.

Therefore this operation of fixing exchange rate at $1=¥360 belonged to the type of "Devaluation as Stabilization policy after the suspension of inflation." As the consequence of this exchange devaluation, it was requested to devaluate the gold-parity of Japanese yen unit or to raise up the purchasing price of gold. We may say that Japan's devaluation of gold-parity and exchange-parity of the pre-war period was caluculated at one to three hundred. When we reflect the world crisis in 1930's, the U. S. A. had realized the dollar devaluation by 40% setting 1 ounce of gold at $35 on January 31st, 1934. So if the rate of exchange be calculated at that time by the old gold parity of Japanese gold standard (¥1 for 750 milligram of gold) the Japan and the U. S. A. exchange parity should be $1 to ¥1.185. Judging from this old gold-parity the settlement of the new exchange rate of $1 to ¥360 means the devaluation of exchange parity of Japanese yen to about one three hundredth. The official price of gold which had been ¥1.33 per gram was now raised to

¥402, which means raising up the official price of gold about three hundred times. Although this currency operation was properly a stabilization policy after the inflation, it led Japan into a kind of stagnation, and her export as well as industries began to suffer "stabilization crisis". Up to this time Japan had adopted plural rate system of foreign exchange, the highest of which had been $1 to ¥600. Now the new rate was too high for various export goods and consequently Japan had to face a difficulty in exporting her goods. And effort had to be made to lower the cost of production by industrial rationalization. Here a phase of depression appeared, which was often called dis-inflation.

Just five months after the fixing of exchange rate in Japan, England carried out devaluation of pound-sterling by 30.5 % on 18th September 1949 and more than twenty countries followed her at once to take up the similar measure. This devaluation of pound sterling and other currencies raised the problem of devaluation of Japanese yen. As a result of this pound-devaluation, exchange rate of Japanese yen to pound sterling was raised from 1,450 yen to 1,008 yen, and prices of Japanese export goods became 44% higher through this pound devaluation. This event spurred the decrease of our export and the depression of our industry which had been already in existence since the currency stabilization in April 1948. Therefore the devaluation of yen, after England's example, was requested by exporters and export goods producers in Japan.

"After the devaluation of sterling and other associated currencies in September 1949, exports from Japan dropped heavily, owing mainly to anticipation of the devaluation of the yen. Faced with this situation, the Government announced that the yen would not be devalued and decided on consolidating measures to improve trade conditions, e. g., utilization of United States aid for the purchase of commodities from non-dollar areas and the conclusion and consolidation of trade agreements requiring both parties to balance exports and imports."* Thus the government did not resort to the currency measure of the devaluation of yen to recover the export trade. And

he thought it wise to counter-balance the effect of pound sterling devaluation by lowering cost of production through industrial rationalization. The business depression was actually deepened, but the situation was quite changed when the Korean War broke out and the economic boom appeared.

IV. Period of the Korean War

Fourth period of the Korean War Boom and its reaction: from June 1950 to present day.

In June 1950, the Korean War broke out and drove off the depression caused by the currency stabilization. The economic situations were painted anew. The problem of congestion of cargoes was all settled by special procurement and by the promotion of export. Also various industries raised their level of production. On the other hand, the prices of import and export goods rose rapidly, On account of increase of production and the rise of prices, export industries and those connected with special procurement realized large profits, and a general boom was developing. But since February 1951 the reaction of this boom cropped out. No sooner had the expansion of armaments in the U. S. A. been slowed down than the depression spread all over the world. Even in Japan, a depression had to be faced as a reaction of the boom. Moreover, on July 27th 1953 the truce of Korean War was achieved which reduced the special procurement and drove Japan into an excess of imports over exports. During the period of 1951 and 1952 our normal foreign trade turned out to be an excess of imports and this deficiency was covered by special procurement which adjusted the balance of the international accounts. But now the special procurement was reduced, and the aid from the U. S. A. had come to an end in June 1951, and it was urgent necessity to establish a self-supporting economy which can maintain a balance of exports and imports without any aid and special procurement. In order to accomplish this aim, it

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* Economic Commission for Asia and the Far East. "The Economic Survey of Asia and the Far East, 1950", Part I, Chap. 12. sec. 4. p. 347.

Table 3.
Wholesale Price Index

Period	Wholesale Price in Japan[1]	Wholesale Price in U.S.A.[2] (end of month)
1950 Jun. 24	100.0	100.0
Jul. 15	103.0	103.8
Aug. 19	113.8	105.1
Sep. 16	116.1	106.1
Oct. 21	121.3	106.1
Nov. 18	126.5	109.3
Dec. 16	127.3	111.5
1951 Jan. 20	134.8	114.8
Feb. 17	149.4	117.0
Mar. 17	155.9	117.0
Apr. 14	165.9	117.0
May 19	162.0	116.4
Jun. 16	158.0	115.9
Jul. 21	156.8	114.2
Aug. 18	153.3	113.2
Sep. 15	155.7	113.2
Oct. 20	161.4	113.2
Nov. 17	161.3	114.3
Dec. 15	157.8	114.3
1952 Jan. 19	157.6	113.2
Feb. 16	157.5	113.2
Mar. 15	158.7	113.2
Apr. 19	155.7	112.2
May 17	153.3	112.2
Jun. 21	150.0	112.2
Jul. 19	151.4	112.2
Aug. 23	150.8	112.2
Sep. 20	152.2	112.2
Oct. 18	152.2	111.2
Nov. 15	152.7	111.2
Dec. 20	150.5	110.1
1953 Jan. 17	152.0	110.1
Feb. 21	155.0	110.1
Mar. 21	153.9	110.1
Apr. 18	152.1	110.1
May 16	150.9	110.1
Jun. 20	150.9	110.1

Source: 1. Annual economic report 1953: appendix table 52. Weekly Wholesale Price Index.
2. Toyo Keizai Shimpo: Monthly Statistics Oct. 1950. ~ Oct. 1953.

is a categorical imperative to increase exports in normal foreign trades. But now the greatest disturbing factor for promotion of foreign trade was the weakness of international competitive power owing to the high cost of Japanese export goods. Now, if we compares the price of Japanese main goods with international prices it is as shown in the Table 3. The main cause of the higher prices of our goods as compared with the international prices is due to the advancement of prices during the Korean War period. In Japan the prices of manufactured goods rose 85% between the outbreak of the Korean War and March 1951. In the reaction period they restored almost the former level only 50 % higher than the pre-Korean-war level. Today our prices of many export goods are 20 % to 30 % higher than the

international prices. The recent decrease of the foreign exchange funds was the result of the unfavorable balance of international trade. Although the prerequisite for self-supporting economy is to balance the international accounts by promoting exports, the comparative high price of export goods is a main obstruction to the promotion of exports. Therefore, in order to adjust the high cost of our export goods, various measures can be considered.

(1) Reduction of the cost of production by industrial rationalization to enforce the international competitive power.

(2) Reduction of general price-level through Deflation policy: the Budget retrenchment policy and money tightening policy.

(3) Export promotion policy by the Government. The measures to reduce the interest on money, to practise special treatment in taxes, or to deliver sudsidies to the export goods.

(4) Adoption of the dual price system between foreign and domestic market by the exporters. The lower price for export and the higher price for demestic market.

(5) Devaluation of the exchange-rate to make our prices of export goods cheap. As the general prices of export goods are higher by 20-30 %than the international prices, the devaluation of the yen is requested to counterbalance the effect of this higher prices in the international trade. Here the devaluation problem appeared once more.

As regards the last currency measure, it is now quite difficult to devaluate the present exchange rate, for Japan joined the I. M. F. in August 1952. Moreover, to such a country as Japan, whose economy depends largely on the import of necessary goods as foodstuffs and raw materials, the devaluation policy is not suitable, because it causes a rise of internal price level again and some repercussion on the export trade.

The Government chose actually the orthodoxal way of the deflation policy and the industrial rationalization to tide over the difficulty of international trade. The present industrial rationalization or adoption of modern machines in basic industries to make

the cost of production lower is the prerequisite of self-supporting economy in Japan. And judging from the present circumstances, it is the wise measure that the Government avoides the currency measure of the yen devaluation to adjust comparative high price of export goods, and is making positive effort to pull down the high cost through general deflation and industrial rationalization.

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Publications by the same writer.

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JAPAN'S TRADE WITH SOUTH AND SOUTH-EAST ASIAN COUNTRIES —A STATISTICAL ANALYSIS—

By Fukuo Kawata

I

In the pre-war days, a major part of both export and import of Japan had been carried on with Asian countries. The ratio of the amount of trade with Asia to the total trade had been over 50%. The geographical distribution of the foreign trade of Japan by continents, in the pre-war years, is shown in the following table.

Table 1. Geographical Distribution of Japan's Foreign Trade in the Pre-war years.

Export	1913	1918	1928	1936
Total (million dollars)	354.0	1,114.0	1,116.0	1,032.1
Asia	50.2%	52.4%	52.5%	62.9%
Europe	20.5	13.8	6.7	8.6
North America	26.5	25.9	35.8	18.3
South America	0.2	1.7	0.9	1.9
Africa	0.3	2.2	1.8	5.6
Australia and Oceania	2.1	3.8	2.2	2.7

Import	1913	1918	1928	1936
Total (million dollars)	392.6	986.9	1,276.3	1,042.8
Asia	52.1%	54.4%	52.8%	52.6%
Europe	27.7	4.3	14.6	9.2
North America	15.6	32.0	24.2	26.2
South America	0.3	1.1	0.4	3.1
Africa	0.9	2.0	1.2	3.0
Australia and Oceania	2.8	3.0	5.0	5.9

Note: Dollar values are converted from the original Japanese statistics. The conversion rates are ¥100=$49.4 in 1913, $51.36 in 1918, $46.5 in 1928, $29 in 1936. By pre-war years, we mean years preceding the Second World War.

This pattern of trade has undergone considerable changes after the Second World War. The distribution of trade by continents in the post-war years is as follows:

Table 2. The Geographical Distribution of Japan's Foreign Trade in the Post-war years. (million dollars)

Export	Sept. 1945–Dec. 1946	1947	1948	1949	1950	1951	1952	Jan.–Mar. 1953
Total (million dollars)	103.3	173.5	258.2	509.7	820.0	1,354.5	1,272.9	275.5
Asia	23.6%	66.0%	53.5%	52.5%	46.3%	51.5%	51.6%	47.6%
Europe	1.0	14.0	9.3	14.0	11.7	10.7	14.0	14.5
N. America	75.0	12.0	27.9	17.4	25.6	15.7	20.6	24.7
S. America	0	0.1	0.5	0.6	3.8	5.9	2.9	1.8
Africa	0	5.0	7.7	11.4	8.9	8.3	7.4	9.9
Australia and Oceania	0.4	2.9	1.1	4.1	3.7	7.9	3.5	1.5

Import	Sept. 1945–Dec. 1946	1947	1948	1949	1950	1951	1952	Jan.–Mar. 1953
Total (million dollars)	305.6	526.1	684.2	904.8	974.3	1,995.0	2,028.1	547.5
Asia	2.4%	6.2%	14.4%	18.6%	32.0%	28.8%	31.2%	33.2%
Europe	0.1	1.8	3.4	7.1	4.1	7.7	6.9	5.7
N. America	97.5	91.9	76.0	65.0	48.6	46.2	49.6	44.5
S. America	0	0	2.0	0.7	4.0	5.5	2.1	3.7
Africa	0	0	2.8	4.8	2.7	4.3	2.6	2.2
Australia and Oceania	0	0	1.4	3.8	8.6	7.5	7.6	10.7

Immediately after the war, Japan's trade was almost entirely carried on with North America. In the period between September 1945 and December 1946, exports and imports to and from North America took up 75% and 97.5% respectively. In 1947 and later years, the percentages of trade with North America declined, as the trade with Asia has gradually recovered. The export trade with

Asia has reached the pre-war percentages, while the import trade with Asian countries has been slow in recovery, and has not yet reached the pre-war ratios.

Although the export to Asia has come up to the pre-war percentages, yet the regional Distribution of Asian trade has completely changed after the War, because of the political changes in China and the seperation of Korea and Formosa from Japan.

The trade with Asian countries in pre-war years may be divided into three parts, that is, trade with (1) Korea and Formosa, (2) Chinese mailand, and (3) South and South East Asia.

The amounts of trade with these three regions are as follows:

Table 3. The Regional Distribution of Japan's Foreign Trade with Asia in the Pre-war years (in million dollars)

Export	1913	1918	1928	1936
Total	354.0(100.0)	1,114.0(100.0)	1,116.0(100.0)	1,032.1(100.0)
Asia	177.6(50.2)	581.6(52.4)	587.3(52.6)	648.7(62.9)
Colonies	41.5(11.7)	101.1(9.1)	199.0(19.8)	251.2(24.3)
Korea	20.4(5.7)	64.9(5.8)	137.5(13.3)	187.9(18.2)
Formosa	21.1(6.0)	36.2(3.3)	61.5(5.5)	63.3(6.1)
China(mainland)	91.1(25.7)	244.2(22.0)	224.7(20.1)	190.7(18.4)
South and South-east Asia	43.2(12.2)	215.5(19.3)	156.8(14.0)	180.4(17.4)

Import	1913	1918	1928	1936
Total	392.6(100.0)	986.9(100.0)	1,276.3(100.0)	1,042.8(100.0)
Asia	204.3(52.1)	537.3(54.4)	675.0(52.8)	548.8(52.6)
Colonies	32.3(8.2)	119.8(12.1)	255.0(20.0)	241.3(23.1)
Korea	12.3(3.1)	65.6(6.6)	155.2(12.2)	150.2(14.4)
Formosa	20.0(5.1)	54.2(5.5)	99.7(7.8)	91.1(8.7)
China(mainland)	45.4(11.6)	196.3(20.0)	178.9(14.0)	114.3(11.0)
South and South-east Asia	122.2(31.1)	218.6(22.1)	228.2(18.0)	189.1(18.1)

As to the export trade of Japan, Chinese mainland had been the largest market in 1913, 1918 and 1928, but in 1936, the Colonies came up to the top, exceeding China. South and South-east Asia as a

market of Japan's products had been second in importance in 1913 and 1918, but in 1928 it fell to the third and remained at that position in 1936.

Regarding the import trade of Japan, South and South-east Asia ranked first as a source of supply in 1913 and 1918, but it came down to the second position in 1928, remaining there in 1936. The Colonies, which had been third in 1913 and in 1918, became the largest supplier in 1928 and 1936, surpassing China and South and South-east Asia.

After the war, the trade with Korea and Formosa, and Chinese mailand declined to negligible amounts, while the trade with South and South-east Asia increased both in percentage and in value.

Table 4. The Regional Distribution of Japan's Foreign Trade with Asia in the Post-war years.

Export	1949	1950	1951	1952	1953 (Jan.-Mar.)
Total (million dollars)	509.7(100)	820.0(100)	1,354.5(100)	1,272.9(100)	275.5(100)
Asia	267.3(52.5)	379.9(46.3)	697.9(51.5)	656.2(51.6)	131.0(47.6)
Korea	16.0(3.2)	18.1(2.2)	14.8(1.1)	40.8(3.2)	20.7(7.5)
Formosa	8.4(1.6)	38.0(4.6)	50.6(3.7)	60.7(4.8)	12.0(4.3)
China(mainland)	3.1(0.6)	19.6(2.4)	5.8(0.4)	0.6(—)	0.2(—)
S. E. Asia	158.4(31.0)	280.0(34.3)	554.4(41.0)	461.8(36.2)	74.6(27.0)

Import	1949	1950	1951	1952	1953 (Jan.-Mar.)
Total (million dollars)	904.8(100)	974.3(100)	1,995.0(100)	2,028.1(100)	547.5(100)
Asia	168.2(18.6)	310.9(32.0)	576.4(28,8)	632.4(31.2)	181.4(33.2)
Korea	3.6(0.4)	16.1(1.7)	7.1(0.3)	20.2(1.0)	1.7(0.3)
Formosa	23.2(2.5)	37.9(4.0)	53.0(2.6)	63.8(3.1)	16.5(3.0)
China(mainland)	22.0(2.4)	39.5(4.1)	20.8(1.0)	14.9(0.7)	5.5(1.0)
S. E. Asia	109.9(12.2)	199.6(20.5)	423.0(20.3)	418.3(20.6)	125.5(22.7)

Although the post-war export ratio to South and South-east Asia exceeds the pre-war level, the high percentages in 1950, 1951

and 1952 were due to the boom in this area caused by the Korean war. In 1953, the export ratio declined below the pre-Korean war level, as the Korean boom subsided, while the import ratio has continued to rise, reaching the post-war peak.

The balances of trade with main regions of Asia in the pre-war years are as follows:

Table 5. Balances of trade with main regions of Asia in the Pre-war years. (million dollars)

	1913			1918			1928			1936		
	E	I	B	E	I	B	E	I	B	E	I	B
Colonies	41.5	32.3	+9.2	101.1	119.8	−18.7	199.0	255.0	−56.0	251.2	241.3	+9.9
Korea	20.4	12.3	+8.1	64.9	65.6	−0.7	137.5	155.0	−17.5	187.9	150.2	+37.7
Formosa	21.1	20.0	+1.1	36.2	54.2	−18.7	61.5	100.0	−38.5	63.3	91.1	−27.8
China (mainland)	91.1	45.4	+45.7	244.2	196.3	+47.9	224.7	178.9	+45.8	190.7	114.3	+76.4
S. E. Asia	43.0	122.2	−79.2	215.5	218.6	−3.1	156.8	228.2	−71.4	180.4	189.1	−8.7

(Note) E=Export, I=Import, B=Balance

In the pre-war period, trade balances had been favourable with China, but unfavourable with South and South-east Asia.

The balances with Korea were favourable in 1913 and 1936, but unfavourable in 1918 and 1928, whereas those with Formosa had been unfavourable except in 1913.

In the post-war years, trade balances have turned favourable with South and South-east Asia (except in the first quarter of 1953), and unfavourable with China.

Balances of trade have been positive with Korea, while those with Formosa negative (except in 1950).

The balances of trade in the post-war years are shown in the following table.

Table 6. Balances of trade with main regions of Asia in the Post-war years. (million dollars)

	1949			1950			1951			1952			1953 (Jan.-Mar.)		
	E	I	B	E	I	B	E	I	B	E	I	B	E	I	B
Korea	16.0	3.6	+12.4	18.1	16.1	+2.0	14.8	7.1	+7.7	40.8	20.2	+20.6	20.7	1.7	+19.0
Formosa	8.4	23.2	−14.8	38.0	37.9	+0.1	50.6	53.0	−2.4	60.7	63.8	−3.1	12.0	16.5	−4.5
China(mainland)	3.1	22.0	−18.9	19.6	39.5	−19.9	5.8	20.8	−15.0	0.6	14.9	−14.3	0.2	5.5	−5.3
S. E. Asia	158.4	109.9	+48.5	280.0	199.6	+80.4	555.4	423.0	+131.4	461.8	418.3	+43.5	74.6	125.5	−50.9

The percentage distribution of trade with South and South-east Asia in pre-war years are shown in the table below.

Table 7. The Percentage Distribution of Japan's Trade with South and South-east Asia in the Pre-war years.

Export	1913	1918	1928	1936
Total	100.0%	100.0%	100.0%	100.0%
to S. E. Asia	12.1	19.3	14.4	17.5
of which to India	4.2	9.3	6.1	7.3
„ Ceylon	—	—	—	0.4
„ Malaya, „ Singapore	1.4	1.9	0.9	0 1.6
„ British Borneo	—	—	—	0.2
„ Hong Kong	4.7	2.9	2.3	1.6
Sub-Total	10.3	14.1	9.3	11.1
„ Philippines	0.9	1.1	1.2	1.5
„ Thailand	0.1	0.3	0.2	1.2
„ Indochina	0.1	0.5	0.2	0.1
„ Indonesia	0.7	3.3	3.1	3.6

Import	1913	1918	1928	1936
Total	100.0%	100.0%	100.0%	100.0%
from S. E. Asia	31.1	21.1	17.9	18.1
of which from India	21.8	14.0	10.4	10.3
„ Ceylon	—	—	—	0.1
„ Malaya, „ Singapore	0.7	1.5	1.3	1.1 1.1
„ British Borneo	—	—	—	0.4
„ Hong Kong	0.2	0.04	0.4	0.1

	Sub-Total	22.7	15.5	12.1	13.1
„	Philippines	1.0	0.9	0.6	1.0
„	Thailand	0.7	0.3	0.7	00.2
„	Indochina	0.3	2.9	0.7	0.6
„	Indonesia	0.5	2.5	4.1	3.2

Note: Sub-total=British Empire

In the pre-war years, India was the largest market (except in 1913), and also the largest sources of supply for Japan.

The ratio of export to India to the total exports increased during the First World War, and remained rather stationary in the inter-war period, while the ratio of import from India to the total imports was declining gradually.

The ratio of export to Hong Kong has also been diminishing since 1913.

The ratio of export to and that of import from Indonesia increased considerably during the First World War, and this high ratio was maintained in the inter-war period.

In the post-war years, Pakistan, (except in the first quarter of 1953), and Indonesia have become the largest markets of Japan's products in the South and South-east Asia, while Thailand and Pakistan have grown the largest sources of supply in the region.

The following table shows the percentage distribution of Japan's trade in the post-war period with South and South-east Asia.

Table 8. The Percentage Distribution of Japan's Foreign Trade with South and South-east Asia in the Post-war years.

Export		1949	1950	1951	1952	1953 (Jan.-Mar.)
Total		100.0	100.0	100.0	100.0	100.0
to S. E. Asia		31.0	34.3	41.0	36.2	27.0
of which to	1. India	3.7	2.5	3.8	2.9	4.6
„	2. Pakistan	3.2	6.8	8.6	9.2	1.0
„	3. Burma	0.9	2.0	1.4	1.6	2.1
„	4. Ceylon	0.8	0.9	1.3	1.3	1.0
„	5. Malaya	0.0	0.5	0.9	0.8	0.7

„ 6. Singapore	2.7	1.7	4.2	4.0	2.5
„ 7. British Borneo	0.0	—	—	—	—
„ 8. Hong Kong	0.8	6.5	4.6	6.3	4.6
(1)-(8) Sub-total	12.1	20.8	24.8	26.1	16.6
„ 9. Philippines	4.1	2.2	2.7	1.4	2.1
„ 10. Thailand	4.4	5.2	3.3	2.9	4.4
„ 11. Indochina	0.0	0.3	0.7	0.6	0.6
„ 12. Indonesia	5.5	5.7	9.5	4.7	4.1
(9)-(12) Sub-total	14.0	13.4	16.2	9.6	11.2

Import	1949	1950	1951	1952	1953 (Jan.-Mar.)
Total	100.0	100.0	100.0	100.0	100.0
from S. E. Asia	12.1	20.5	20.3	20.6	21.7
of which from 1. India	1.5	1.8	2.6	3.6	3.5
„ 2. Pakistan	1.8	4.1	4.6	4.1	6.7
„ 3. Burma	0.7	1.8	1.4	1.5	2.0
„ 4. Ceylon	0.1	—	0.1	0.1	0.1
„ 5. Malaya	2.3	4.1	2.9	2.7	1.8
„ 6. Singapore	—	—	0.2	0.3	0.5
„ 7. British Borneo	—	0.4	0.4	0.8	0.9
„ 8. Hong Kong	0.0	—	0.3	0.3	0.3
(1)-(8) Sub-total	6.4	12.2	12.5	13.4	15.8
„ 9. Philippines	1.5	2.3	2.5	2.5	2.0
„ 10. Thailand	2.0	4.5	2.5	3.1	1.6
„ 11. Indochina	0.3	0.1	0.1	0.2	0.3
„ 12. Indonesia	1.7	1.4	2.7	1.4	2.0
(9)-(12) Sub-total	5.5	6.0	7.8	7.2	5.9

Note: Sub-total (1)—(8)=Sterling area
Sub-total (9)—(12)=Open accoont area

The balances of trade with South and South-east Asia in the pre-war years were generally unfavourable to Japan, but in the post-war period they turned favourable, except in the first quarter of 1953.

Trade balances with individual South and South-east Asian countries in the pre-war years are shown in the following table.

Table 9. Balances of Trade with South and South-east Asia in the Pre-war years. (million dollars)

Country	1913			1918			1928			1936		
	E	I	B	E	I	B	E	I	B	E	I	B
India	14.8	85.6	−70.8	104.0	137.7	−33.7	67.9	132.4	−64.5	75.1	107.9	−32.8
Ceylon	—	—	—	—	—	—	—	—	—	4.0	0.8	+3.2
Malaya	5.1	2.6	+2.5	21.7	15.0	+6.7	9.5	16.9	−7.4	0.7	11.3	−10.6
Singapore										17.0	11.9	+5.1
Hong Kong	16.6	0.6	+10.0	32.7	0.4	+32.3	26.1	0.5	+25.6	16.9	1.0	+15.9
British Borneo	—	—	—	—	—	—	—	—	—	0.2	4.5	−4.3
Philippines	3.1	3.8	−0.7	12.0	8.9	+3.1	13.5	7.6	−5.9	15.0	10.5	+4.5
Thailand	0.5	2.8	−2.3	3.1	2.9	+0.2	2.7	8.9	−6.2	12.5	2.5	+10.0
Indochina	0.5	12.2	−11.7	5.1	28.5	−23.4	1.9	9.4	−7.5	1.4	5.8	−4.4
Indonesia	2.5	18.4	−15.9	36.8	25.1	+13.7	34.1	52.5	−18.4	37.6	32.9	+4.7
Total	43.0	122.2	−79.2	215.5	218.6	−3.1	156.8	228.2	−61.4	180.4	189.1	−8.7

We learn from the above table that trade balances with India and Indochina were unfavourable throughout the period. This is because Japan imported a great deal of raw cotton from India and rice from Indochina.

Table 10. Balances of Trade with South and South-east Asia in the Post-war years.

Post-war Years	1949			1950			1951			1952			1953(Jan.-Mar.)		
(Million dollars)	E	I	B	E	I	B	E	I	B	E	I	B	E	I	B
India	18.7	13.6	+5.1	20.3	17.8	+2.6	51.7	52.4	−0.7	36.7	73.0	−36.3	9.1	19.7	−10.6
Pakistan	16.5	16.1	+0.4	55.6	39.0	+16.6	117.0	102.5	+14.5	117.8	82.4	+35.4	3.0	39.5	−36.4
Burma	4.7	6.1	−1.4	16.3	17.7	−1.4	18.1	30.6	−12.5	21.2	29.8	−8.6	5.8	11.5	−5.7
Ceylon	4.3	0.6	+3.7	7.1	0.2	+6.9	17.4	1.5	+15.9	17.3	2.3	+15.0	2.9	0.6	+2.3
Malaya	0.9	21.3	−12.4	4.4	39.1	−34.7	11.6	58.7	−4.71	11.6	54.3	−43.7	2.0	10.1	−8.1
Singapore	13.8	—	+13.8	13.7	0.3	+13.4	56.6	4.1	+52.5	51.5	6.7	+44.8	7.0	3.0	+4.0
British Borneo	—	0.6	−0.6	0.2	3.9	−3.7	0.2	9.0	−8.8	0.7	17.2	−16.5	0.1	5.6	−5.5
Hong Kong	27.3	0.6	+26.7	53.3	0.6	+52.7	61.6	5.9	+55.7	80.7	6.8	+73.9	12.8	2.1	+10.7
Sub-total	86.2	52.7	+33.5	170.9	159.1	+11.8	334.2	264.7	+69.5	337.5	272.5	+65.0	42.7	91.9	−49.2
Philippines	21.0	13.6	−7.4	18.3	22.5	−4.2	36.9	49.6	−12.7	19.6	51.2	−31.6	6.1	11.3	−5.2
Thailand	22.4	18.8	+3.6	42.6	43.5	−0.9	45.2	51.0	−5.8	36.4	62.5	−26.1	12.7	9.0	+3.7
Indochina	0.6	3.2	−2.6	2.1	1.6	+0.5	9.7	2.9	+6.8	8.5	4.7	+3.8	1.8	1.7	+0.1
Indoneshia	28.1	15.7	+2.4	46.3	13.4	+32.9	128.4	54.8	+73.6	59.8	27.5	+32.3	11.0	11.5	−0.5
Total	158.3	110.2	+48.1	280.2	199.6	+80.6	554.4	423.0	+131.4	461.8	418.3	+43.5	74.4	125.5	−51.1

(Note) E=Export, I=Import, B=Balance

Throughout the period (1949—Jan.-Mar. 1953), the balances of trade were always favourable with Ceylon, Singapore and Hong Kong, while they were unfavourable with Burma, Malaya, British Borneo, and the Philippines.

Trade balances with India were favourable in 1949 and 1950, but thereafter they turned unfavourable. Balances with Indonesia and Pakistan, which had been positive ever since 1949, turned negative for the first time in the first quarter of 1953.

Japan's trade with the sterling countries in this region had enjoyed favourable balances between 1949 and 1952, but in the first quarter of 1953, it recorded adverse balances.

II

Principal commodities exported to South and South-east Asia are cotton yarns, cotton fabrics, cement, potteries, iron and steel (plates, tubes, wires, pipes, etc.), spinning & weaving machinery, and the like. Let us examine the changes which exports of these commodities have undergone since 1913.

(1) Cotton yarns

In the pre-war period, the percentages of export of cotton yarns to South and South-east Asia had been rising, that is, 10% in 1913, 38% in 1918, 43% in 1928, and 64% in 1936 (by value).

In the post-war years, the ratio came up to 97% in 1949, but later it declined slightly, showing 91% in 1950, 86% in 1951, and 95% in 1952.

In the early pre-war years, the principal market of cotton yarns was China, but later the importance of South and South-east Asia became so great that the majority of cotton yarns were sold in the South and South-east Asia.

Table 11. Quantity and Value of the Export of Cotton yarns.

(1) Cotton yarns

	Quantity (thousand metric tons)				Value (million dollars)			
Pre-war Period	1913	1918	1928	1936	1913	1918	1928	1936
Export Total (A)	84.0	75.0	17.6	24.6	36.1	83.0	15.9	12.6
S. E. Asia (B)	7.3	26.6	6.5	12.8	3.6	31.3	6.9	8.1
% (B/A)	*9%*	*35%*	*37%*	*50%*	*10%*	*38%*	*43%*	*64%*
Hong Kong	6.1	11.2	2.9	1.2	2.8	12.1	2.0	0.5
India	0.6	14.3	3.0	7.5	0.5	18.0	4.3	5.2
Philippines	0.6	1.0	—	—	0.3	1.2	0.2	0.4
Indonesia	—	—	0.5	2.8	—	—	—	—
China	74.3	44.5	4.4	4.9	29.5	47.2	4.1	2.1
Korea	2.4	1.5	4.7	4.2	0.8	1.6	3.3	1.7
Post-war Period	1949	1950	1951	1952	1949	1950	1951	1952
Export Total (A)	10.2	11.1	12.7	13.4	16.3	17.6	32.6	28.4
S. E. Asia (B)	9.3	10.3	10.9	12.5	15.9	16.1	27.9	26.9
% (B/A)	*91%*	*93%*	*86%*	*93%*	*97%*	*91%*	*86%*	*95%*
Burma	3.1	1.6	1.8	1.5	4.5	2.3	5.1	3.3
Pakistan	2.6	6.8	7.6	9.5	3.8	10.1	18.5	19.9
India	3.3	—	—	—	7.1	—	—	—
Indonesia	—	2.1	1.1	0.9	0.2	3.5	3.2	2.0

(2) Cotton Fabrics

Cotton fabrics were mainly exported to China in the early pre-war days, but the weight of South and South-east Asian market had been increasing, especially after the First World War. After the Second World War, the greater part of the cotton tissues for export has been absorbed in the South and South-east Asian market.

The main importing countries were India, Indonesia and Hong Kong in the pre-war years, while in the post-war period, Pakistan stands at the top, taking place of India. India ceased to be a major market of cotton tissues in the post-war years, because her cotton industry has made remarkable progress during the war, and she has now become one of the largest exporters of cotton tissues.

Table 12. Quantity and Value of the Export of Cotton Fabrics.

(2) Cotton Fabrics

	Quantity (million square yards)				Value (million dollars)			
Pre-war Period	1913	1918	1928	1936	1913	1918	1928	1936
Export Total (A)	—	—	1,588	2,873	21.3	135.6	183.6	149.3
S. E. Asia (B)	—	—	651	1,080	1.6	43.7	64.3	50.9
% $\left(\frac{B}{A}\right)$	—	—	*41%*	*38%*	*8%*	*32%*	*35%*	*34%*
India	—	—	358	480	0.5	28.4	32.6	21.0
Indonesia	—	—	172	352	0.1	8.9	18.3	16.0
Hong Kong	—	—	68	84	0.5	1.8	8.1	4.3
China	—	—	585	388	13.9	56.0	80.6	24.2
Post-war Period	1949	1950	1951	1952	1949	1950	1951	1952
Export Total (A)	740	1,103	1,094	762	164.6	207.2	317.5	180.3
S. E. Asia (B)	312	522	855	466	66.5	107.2	182.8	99.2
% $\left(\frac{B}{A}\right)$	*42%*	*47%*	*80%*	*61%*	*40%*	*52%*	*58%*	*55%*
Pakistan	84	224	208	184	9.2	40.3	63.3	34.7
Indonesia	93	165	440	129	21.3	35.0	69.7	27.5
Hong Kong	11	30	35	57	2.8	6.4	13.3	13.6

(3) Rayon fabrics

It is only in 1930's that rayon fabrics have become one of the most important export products of Japan.

In 1936, about one half of the quantity of the exported rayon fabrics was sold in the South and South-east Asian markets, of which India was the largest.

Besides, China and Korea were also big markets for Japanese rayon fabrics.

In the post-war years, India has ceased to buy Japanese rayon fabrics in such a large quantity as before, and China and Korea have also been lost as large markets. To-day, rayon fabrics are exported mainly to Hong Kong, Singapore and Ceylon. The importance of South and South-east Asian markets has been rising year after year since 1950.

When we compare the quantity of rayon fabrics exported before and after the Second World War, we find the quantity exported to this area in post-war years is about a half of the amount exported in 1936.

But the percentage of exports to this region in the post-years, however, exceeds the level in 1936.

Table 13. Quantity and Value of the Export of Rayon Fabrics.

(3) Rayon (inchiding mixed tissues)

	Quantity (million square yards)				Value (million dollars)			
	1936	1950	1951	1952	1936	1950	1951	1952
Export Total (A)	527.5	152.2	232.9	207.5	51.7	38.3	66.6	43.9
S. E. Asia (B)	250.0	63.9	136.8	133.3	17.9	17.8	39.0	26.8
% $\left(\frac{B}{A}\right)$	*47%*	*42%*	*59%*	*64%*	*35%*	*46%*	*59%*	*61%*
Hong Kong	27.0	39.8	31.2	29.4	2.2	10.8	10.2	5.6
Singapore	26.2	9.0	48.4	43.9	0.8	2.0	12.7	8.4
Ceylon	0.7	1.7	20.4	31.9	0.9	0.5	5.8	6.6
India	92.0	—	—	—	7.6	—	—	—
Indonesia	51.5	0.3	10.9	12.5	3.4	—	3.2	3.0
Philippines	35.4	—	—	—	2.5	—	—	—
China	60.5	—	—	—	6.6	—	—	—
Korea	94.3	—	—	—	7.5	—	—	—

(4) Cement

In 1913, the chief markets of cement were Korea and Formosa, but the importance of South and South-east Asian market suddenly increased during the First World War, taking up 60% of the total cement export. This ratio, however, declined in 1936, as the shares of Korea and Formosa increased.

In the post-war years, the share of the South and South-east Asian market has risen to more than 40% (except in 1951).

The principal markets in the region are Hong Kong, Pakistan and Malaya.

Table 14. Quantity and Value of Export of Cement.

(4) Cement

	Quantity (thousand metric tons)				Value (million dollars)			
Pre-war Period	1913	1918	1928	1936	1913	1918	1928	1936
Export Total (A)	112	156	449	1,140	1.37	3.70	5.44	5.17
S. E. Asia (B)	7.5	117	270	254	0.08	2.29	2.87	0.84
% $\left(\frac{B}{A}\right)$	*7%*	*75%*	*60%*	*22%*	*6%*	*62%*	*53%*	*16%*
Indonesia	—	65	102	49	—	1.30	1.10	0.17
Philippines	6	14	46	2	0.06	0.26	0.50	—
Korea	23	50	130	356	0.27	0.92	1.90	2.10
Formosa	61	7	23	113	0.78	0.20	0.33	0.70
China	19	37	25	133	0.24	0.75	0.26	0.60
Post-war Period	1949	1950	1951	1952	1949	1950	1951	1952
Export Total (A)	449	485	834	798	7.09	6.11	14.97	17.75
S. E. Asia (B)	352	236	432	410	5.63	2.91	4.70	7.63
% $\left(\frac{B}{A}\right)$	*78%*	*49%*	*52%*	*51%*	*79%*	*48%*	*31%*	*43%*
Hong Kong	84	154	93	124	1.32	1.90	1.53	2.77
Pakistan	—	14	94	118	—	0.16	1.82	2.64
Malaya	4	12	—	46	—	0.16	—	1.07
Philippines	126	40	11	—	1.96	0.51	0.28	—
India	115	—	—	—	1.91	—	—	—
Korea	85	70	—	—	1.30	0.90	—	—

(5) Potteries

Potteries exported to the South and South-east Asian markets were only 15% in 1913, but this percentage was doubled during the First World War, rising to 33% in 1918. This ratio, however, declined to 18% in 1936.

In the post-war years, the ratio tended to increase, except in 1950.

The main markets in the pre-war period were India, Indonesia, China and Korea; in the post-war years, Hong Kong and Indonesia.

Table 15. Value of Export of Potteries.

(5) Potteries

	Value (million dollars)			
Pre-war Period	1913	1918	1928	1936
Export Total (A)	3.68	10.51	18.00	14.61
S. E. Asia (B)	0.57	3.60	4.58	2.66
% $\left(\frac{B}{A}\right)$	*15%*	*34%*	*25%*	*18%*
India	0.16	0.93	1.14	0.97
Indonesia	0.06	1.29	2.24	0.69
Korea	0.22	0.44	1.35	1.64
Formosa	0.13	0.21	0.55	0.45
China	0.29	1.65	1.65	1.18
Post-war Period		1950	1951	1952
Export Total (A)		20.48	33.29	29.89
S. E. Asia (B)		3.57	9.95	11.39
% $\left(\frac{B}{A}\right)$		*17%*	*30%*	*38%*
Hong Kong		0.63	0.41	5.09
Indonesia		0.77	0.59	3.35
India		—	—	—

(6) Iron

Iron (sheets, plates, wires, tubes, pipes, etc.) had mainly been exported to Korea and Formosa before the First World War. Although during the First World War, a substantial quantity of iron was exported to India, this may be regarded as an exceptional case. In 1936, the ratio of export (by quantity) to South and South-east Asia was 16%, the chief markets in the region being India, Indonesia and Thailand.

In the post-war years, the ratio rose to 32%in 1952, which is two-fold of the pre-war figure. The quantity exported to this region reached 510 thousand tons in 1952, as against 138 thousand tons in 1936. The principal markets are Pakistan, Thailand and the Philippines.

Table 16. Quantity and Value of the Export of Iron.

(6) Iron

	Quautity (thousaud metric tons)				Value (million dollars)			
Pre-war Period	1913	1918	1928	1936	1913	1918	1928	1936
Export Total (A)	15	67	143	873	0.89	19.22	12.84	39.54
S. E. Asia (B)	—	19	12	138	—	6.05	0.84	6.61
% $\left(\frac{B}{A}\right)$	—	*28%*	*8%*	*16%*	—	*31%*	*7%*	*17%*
Thailand	—	—	0.3	34	—	0.08	—	1.30
India	—	14	—	26	—	4.09	—	1.58
Indonesia	—	3	—	36	—	1.21	—	1.64
China	—	24	17	288	0.03	7.87	1.39	12.35
Korea	2	12	87	281	0.07	1.71	6.96	12.89
Formosa	12	8	35	104	0.79	2.54	2.96	4.74
Post-war Period		1950	1951	1952		1950	1951	1952
Export Total (A)		666	974	1,606		74.60	205.5	260.6
S. E. Asia (B)		107	228	510		16.28	53.45	86.36
% $\left(\frac{B}{A}\right)$		*16%*	*23%*	*32%*		*22%*	*26%*	*33%*
Pakistan		—	44	179		—	9.52	25.70
Thailand		29	35	60		3.83	7.32	11.50
Philippines		34	53	52		5.40	14.66	9.92

(7) Textile Machinery

During the First World War, the export of spinning and weaving machinery had increased considerably, especially to India, but with the termination of the War, European industrial nations, regained the market which had been lost during the War. Japan's export of the spinning and weaving machinery to India dropped sharply after the First World War. In 1930's, the amount of export had considerably risen, although the percentage declined owing to the increase of export to China.

In the post-war years, both the amount and the ratio of export to South and South-east Asia experienced a remarkable rise, owing to the growth of cotton industry in this area.

The chief markets are Pakistan, India and Indonesia.

Table 17. Value of Export of Textile Machinery.

(7) Textile Machinery

	Value (million dollars)			
Pre-war Period	1913	1918	1928	1936
Export Total (A)	0.17	1.85	1.43	5.02
S. E. Asia (B)	0.05	1.11	0.25	0.60
% $\left(\frac{B}{A}\right)$	*29%*	*60%*	*17%*	*12%*
India	0.04	1.10	0.18	0.48
Hong Kong	—	—	—	—
China	0.22	0.72	1.25	3.54
Korea	—	—	—	0.63
Post-war Period		1950	1951	1952
Export Total (A)		9.95	14.92	16.79
S. E. Asia (B)		6.90	10.64	12.54
% $\left(\frac{B}{A}\right)$		*69%*	*71%*	*74%*
India		3.16	2.94	2.20
Pakistan		2.32	6.15	8.14
Indonesia		0.58	0.37	1.15

Ⅲ

The principal commoditis, imported from South and South-east Asia, are rice, cotton, raw rubber, iron ores, and other special products in the region, such as tin, manila hemp, copra, teak, etc. Sugar is now imported chiefly from Cuba and Formosa, but in the pre-war years a large quantity of sugar was imported from this region. Now let us examine some of the important commodities.

(1) Rice

Japan imported rice in large quantities from Indochina, Thailand and Burma (India) in the early pre-war years. But as the rice production in Korea and Formosa developed, her import of rice from South and South-east Asia gradually decreased. The percentage (by quantity) diminished to 3% in 1936, though it was

over 50% in 1913.

In the post-war years, Japan has again come to depend upon the rice in South and South-east Asia. The percentage (by quantity) of rice import from this region reached 99% in 1949, but thence the ratio diminished year after year down to 42% in 1952.

Table 18. Quantity and Value of the Import of Rice.

(1) Rice

	Quantity (thousand metric tons)				Value (million dollars)			
Pre-war Period	1913	1918	1928	1936	1913	1918	1928	1936
Import Total (A)	933	1,250	1,617	2,006	37.33	113.59	117.85	95.32
from S. E. Asia (B)	536	687	198	55	23.25	45.37	13.90	1.47
% $\left(\frac{B}{A}\right)$	*57%*	*55%*	*12%*	*3%*	*62%*	*40%*	*12%*	*1.5%*
Hong Kong	2	2	—	—	0.05	0.12	—	—
India	210	243	16	0.5	9.88	16.98	0.95	0.02
Indochina	250	391	91	2	10.00	25.68	5.40	0.08
Thailand	77	50	151	53	2.57	2.54	7.55	1.40
Korea	228	399	1,006	1,263	5.63	54.72	85.29	72.32
Formosa	159	153	328	687	7.75	12.75	24.79	36.01
Post-war Period	1949	1950	1951	1952	1949	1950	1951	1952
Import Total (A)	130	672	779	979	21.06	84.49	120.27	184.35
from S. E. Asia (B)	129	563	416	443	20.62	70.44	61.62	77.33
% $\left(\frac{B}{A}\right)$	*99%*	*84%*	*53%*	*45%*	*99%*	*83%*	*51%*	*42%*
Burma	40	145	162	126	6.08	17.72	25.40	22.17
Thailand	87	418	254	317	14.54	52.99	36.22	55.14
U. S. A.	2	36	40	234	0.4	4.28	7.45	55.19
Italy	—	—	8	108	—	—	1.45	19.95
Egypt	—	24	176	—	—	3.44	26.55	—
Brazil	—	—	6	—	—	—	1.11	—
Formosa	—	—	73	61	—	—	11.74	12.97

Beside this region, rice is now imported from U. S. A., Italy, Egypt, Brazil and Formosa.

(2) Sugar

In the early pre-war days, Japan imported a large quantity of

sugar from Indonesia and the Philippines, especially from Indonesia. In 1913, 70% of imported sugar came from South and South-east Asia. But later, sugar production in Formosa had made rapid progress, and with the rise of the sugar import from Formosa, the import of sugar from Indonesia and the Philippines decreased. The ratio declined from 38% in 1918 to 11% in 1936.

In the post-war years, sugar was mainly imported from Formosa and Cuba. The amount imported from South and South-east Asia, that is from the Philippines, has been of negligible size.

Table 19. Quantity and Value of the Import of Sugar.

(2) Sugar

	Quantity (thousand metric tous)				Value (million dollars)			
Pre-war Period	1913	1918	1928	1936	1913	1918	1928	1936
Import Total (A)	387	484	967	1,072	25.79	45.27	86.66	53.48
from S. E. Asia (B)	323	223	375	204	18.00	17.16	29.71	5.72
% $\left(\frac{B}{A}\right)$	*83%*	*46%*	*39%*	*19%*	*70%*	*38%*	*34%*	*11%*
Indonesia	281	185	374	204	15.99	15.07	29.62	5.74
Philippines	37	35	1	—	1.76	1.88	0.93	—
Formosa	62	261	586	856	7.64	28.05	56.45	47.41
Post-war Period	1949	1950	1951	1952	1949	1950	1951	1952
Import Total (A)	242	360	554	793	26.78	46.04	91.99	109.92
from S. E. Asia (B)	—	—	5	11	—	—	0.81	1.75
% $\left(\frac{B}{A}\right)$	—	—	*0.1%*	*1.4%*	—	—	*0.9%*	*1.6%*
Philippines	—	—	5	11	—	—	0.81	1.75
Formosa	179	243	183	250	19.78	30.96	32.44	38.36
Cuba	116	94	293	406	6.98	11.79	44.45	49.01

(3) Raw Cotton (ginned)

In the days before the First World War, Japan imported cotton mainly from India, the U. S. A. and China. The amount of cotton imported from India took up 60% of the total cotton import in 1913.

But later this percentage tended to decrease, with the rise of import from the U. S. A. and in 1936, the share of Indian cotton in

the total imported cotton declined to 44% (by quantity).

After the Second World War, the ratio of import of cotton from the South and South-east Asian region declined to 15% in 1949, and 13% in 1950, but thereafter it shows a tendency of gradual increase. However, the quantity of cotton imported from this area in 1952 was only a quarter of that in 1936. The main sources of supply in the South and South-east Asian region are Pakistan, India and Burma.

Table 20. Quantity and Value of the Import of Cotton (ginned).

(3) Cotton (ginned)

	Quantity (thousand metric tons)				Value (million dollars)			
Pre-war Period	1913	1918	1928	1936	1913	1918	1928	1936
Import Total (A)	386	409	570	922	114.7	268.0	257.3	249.7
from S. E. Asia (B)	244	175	308	404	71.3	108.4	108.0	91.4
% $\left(\frac{B}{A}\right)$	*63%*	*43%*	*54%*	*44%*	*62%*	*40%*	*42%*	*37%*
India	240	174	308	404	70.6	107.9	108.0	91.4
U. S. A.	103	151	232	356	31.7	105.3	114.4	108.0
China	32	73	62	28	8.0	45.4	23.0	6.6
Post-war Period	1949	1950	1951	1952	1949	1950	1951	1952
Import Total (A)	186	351	380	427	147.5	271.1	469.2	418.0
from S. E. Asia (B)	27	46	67	100	20.8	38.9	104.4	98.2
% $\left(\frac{B}{A}\right)$	*15%*	*13%*	*18%*	*23%*	*14%*	*14%*	*22%*	*23%*
Pakistan	16	36	55	63	7.67	29.2	89.9	73.6
India	11	10	8	32	13.1	5.5	9.7	20.4
Burma	—	—	4	5	—	—	4.8	4.1
U. S. A.	145	282	178	210	105.2	213.7	164.7	201.3

(4) Crude Rubber

Japan has imported raw rubber almost entirely from South and South-east Asia.

The quantity of crude rubber imported into Japan in the post-war years exceeded the pre-war level in 1952. The main sources of supply are Indonesia and Malaya (including Singapore).

Table 21. Quantity and Value of the Import of Crude Rubber.

(4) Crude Rubber

	Quantity (thousand metric tons)				Value (million dollars)			
Pre-war Period	1913	1918	1928	1936	1913	1918	1928	1936
Import Total (A)	1.20	7.36	26.05	63.89	1.70	6.65	12.97	21.17
from S. E. Asia (B)	0.91	7.22	25.64	63.13	1.12	6.42	12.75	20.46
% $\left(\frac{B}{A}\right)$	*75%*	*98%*	*98%*	*99%*	*65%*	*99%*	*98%*	*97%*
Malaya	—	—	—	16.84	—	—	—	5.62
Singapore	0.72	6.84	18.30	20.76	0.87	5.94	9.10	6.86
Indonesia	—	—	1.80	19.87	—	0.08	0.57	6.64
India	0.15	0.23	5.88	0.43	0.23	0.24	3.06	0.13
U. S. A.	0.06	0.04	0.08	0.24	0.10	0.08	0.05	0.04
U. K.	0.20	0.06	0.14	0.13	0.40	0.13	0.09	0.02
Brazil	—	—	—	0.56	—	—	—	0.03
Post-war Period	1949	1950	1951	1952	1949	1950	1951	1952
Import Total (A)	40.96	57.72	60.48	67.11	15.59	40.29	80.15	45.68
from S. E. Asia (B)	40.92	57.64	60.35	67.04	15.58	40.23	79.98	45.63
% $\left(\frac{B}{A}\right)$	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*
Indonesia	16.46	16.21	28.80	23.33	6.39	8.51	40.54	14.54
Malaya	24.21	40.65	29.60	43.11	9.11	31.20	36.88	30.73

(5) Petroleum

In the pre-war years, about 30% of petroleum imported into Japan came from Indonesia and British Borneo. A major part of Japan's need for pertroleum was, however, supplied by the U. S. A.

In the post-war years, the ratio of dependence upon South and South-east Asia for petroleum decreased considerably, but the percentage tends to increase in recent years. The principal sources of supply are the U. S. A. and Arabian countries, the quantity imported from these sources reaches nearly 90% of the total import.

Table 22. Quantity and Value of the Import of Petroleum.

(5) Petroleum

	Quantity (thousand kilolitres)				Value (million dollars)			
	1936	1950	1951	1952	1936	1950	1951	1952
Import Total (A)	4,650	2,378	4,622	4,810	52.20	41.16	101.32	122.75
from S. E. Asia (B)	1,315	105	411	461	15.39	1.89	8.20	10.25
% $\left(\frac{B}{A}\right)$	*28%*	*4%*	*9%*	*10%*	*29%*	*5%*	*8%*	*8%*
Indonesia	1,007	93	109	171	12.53	1.74	2.30	4.16
British Borneo	303	5	262	243	2.67	0.15	6.14	6.09
Singapore	7	7	40	47	0.10	0.13	1.20	2.20
U. S. A.	3,048	1,121	1,746	1,084	33.74	20.30	37.64	32.09
Arabia	—	658	2,013	3,120	—	10.89	44.11	73.93

(6) Iron Ore

In the pre-war period, Japan imported iron ores mainly from China. It was only in late 1920's that Japan began to rely upon the ores from South and South-east Asia. The principal supplier of iron ores to Japan were Malaya and the Philippines. In 1936, the ratio of iron ores imported from there countries reached 60% of the total iron ores imported.

In the post-war years, the ratio of dependence upon the iron ores in the South and South-east Asian region maintains the pre-war level.

The import from China, however, decreased, and has been replaced by the supply from the U. S. A.

Table 23. Quantity and Value of the Import of Iron Ore.

(6) Iron Ore

	Quantity (thousand mellion tons)				Value (million dollars)			
Pre-war Period	1913	1918	1928	1936	1913	1918	1928	1936
Import Total (A)	422	694	1,842	4,023	0.95	6.16	8.23	11.83
from S. E. Asia (B)	—	—	738	2,287	—	—	3.78	7.22
% $\left(\frac{B}{A}\right)$	—	—	*40%*	*57%*	—	—	*46%*	*61%*

Malaya	—	—	738	1,691	—	—	3.78	5.25
Philippines	—	—	—	570	—	—	—	1.74
China	278	359	878	1,252	0.75	4.93	3.72	3.36
Korea	143	333	225	243	0.17	1.20	0.69	0.32
Post-war Period	1949	1950	1951	1952	1949	1950	1951	1952
Import Total (A)	1,588	1,435	3,089	4,768	—	14.11	58.11	92.50
from S. E. Asia (B)	899	1,192	2,023	2,733	—	11.24	33.57	48.12
% $\left(\frac{B}{A}\right)$	*57%*	*83%*	*65%*	*57%*	—	*80%*	*58%*	*52%*
Philippines	345	575	900	1,182	—	5.25	13.09	18.28
Malaya	485	521	716	821	—	4.80	13.06	15.26
India	46	36	153	419	—	0.35	2.86	8.71
Portuguese India	5	60	180	251	—	0.64	3.37	5.13
U. S. A.	292	—	817	1,426	—	—	19.50	33.11
China	349	194	66	65	—	2.55	0.78	0.74

(7) Coal

In the pre-war years, Japan imported coal mainly from China, but in the post-war period, the U. S. A. has taken the place of China. A greater part of imported coal is coaking coal, which is essential for the iron and steel industry in Japan.

Japan has imported anthracite from Indo-China, and to-day Japan is importing coking coal in fairly large quantity from India, instead of China, although a major part of coking coal comes from the U. S. A.

The dependence of Japan upon South and South-east Asia for coal has therefore increased in the post-war years as compared with pre-war days, but the quantity imported from this region took up only 28% (in case of coaking coal the ratio was 23%) in 1952.

Table 24. Quantity and Value of the Import of Coal.

(7) Coal

	Quantity (thousand metric tons)				Value (million dollars)			
Pre-war Period	1913	1918	1928	1936	1913	1918	1928	1936
Import Total (A)	673	858	3,134	4,954	2.17	8.47	18.85	16.92

from S. E. Asia (B)	17	88	487	897	0.07	1.42	2.73	3.38
% $\left(\frac{B}{A}\right)$	*3%*	*10%*	*15%*	*18%*	*3%*	*17%*	*14%*	*20%*
Indochina	17	88	487	897	0.07	1.42	2.73	3.38
China	555	679	2,295	3,310	1.81	6.62	13.86	11.40
Korea	92	85	275	638	0.17	0.31	1.24	1.81
Post-war Period	1949	1950	1951	1952	1949	1950	1951	1952
Import Total (A)	1,842	832	1,935	3,355	—	10.31	48.89	83.65
from S. E. Asia (B)	81	129	562	923	—	1.71	12.18	19.29
% $\left(\frac{B}{A}\right)$	*4%*	*16%*	*29%*	*28%*	—	*17%*	*26%*	*23%*
India	27	92	436	787	—	0.96	9.42	16.18
Indochina	54	37	126	136	—	0.75	2.76	3.11
China	—	521	45	40	—	6.06	0.53	0.75
U. S. A.	1,644	75	1,264	2,281	—	1.43	34.69	61.39
Canada	46	—	44	9	—	—	1.00	—

(8) Salt

In the pre-war period, salt had chiefly been imported from China and North Africa. The importance of South and South-east Asia as a source of supply had been small. But in the post-war years, salt import from China has sharply declined because of political reasons. On the other hand, the import prices of African salt have risen owing to the high rates of freight. Japan, therefore, has turned to South and South-east Asia for salt. The import of salt from this region has been increasing. For example, the quantity imported amounted to 81,000 tons in 1950, 92,000 tons in 1951, and 391,000 tons in 1952.

The percentage of import from this area in the total import of salt reached 27% in 1952, as against 6% in 1936.

Toble 25. Quantity and Value of the Import of Salt.

(8) Salt

	Quantity (thousand metric tons)				Value (million dollars)			
	1936	1950	1951	1952	1936	1950	1951	1952
Import Total (A)	1,432	643	1,808	1,470	5.47	7.88	34.16	24.31

from S. E. Asia (B)	92	81	92	391	0.33	1.08	1.42	6.05
% (B/A)	*6%*	*13%*	*5%*	*27%*	*6%*	*14%*	*4%*	*25%*
India	—	34	10	250	—	0.38	0.17	4.04
Thailand	—	21	74	86	—	0.22	1.02	1.19
Indonesia	—	—	8	17	—	—	0.13	0.22
Indochina	92	26	—	36	0.33	0.48	—	0.60
China	965	74	4	4	2.36	0.68	0.05	0.04
Formosa	110	156	200	127	0.32	2.01	2.53	1.72
Aden	24	97	258	307	0.10	1.09	4.36	5.15
Italian East Africa	211	9	64	83	0.83	—	—	—

Ⅲ

After the Second World War, Japan's depedence upon the South and South-east Asian countries for foodstuffs and raw materials has largely increased. But the amount of foodstuffs and raw materials which this region can, at present, supply to Japan is very limited. It would, therefore, be favourable both for Japan and for these countries if Japan could render services for the exploitation of resources still latent in these areas. It would, also, be beneficial both for Japan and for the rice producing nations in this region if Japan could co-operate with them in raising the productivity by the application of Japan's improved technique of rice cultivation.

The yield of rice per hectare in Japan is much larger than in the South and South-east Asia, as is shown in the following table. (Table No. 26)

Table 26. Comparison of Rice Production in Japan and South and South-east Asia

(yield 100kg/hectare)

	1934-38	1947	1948	1949
Japan	36.3	36.2	38.4	38.8
Burma	14.1	15.0	13.6	12.5
Ceylon	9.9	6.5	7.6	7.4
Indochina	11.6	10.2	10.2	10.2

India				
Reporting Area	13.1	12.1	11.8	11.7
Non-reporting Area	17.5	18.3		
Indonesia				
Bali & Lombok	22.6	—	22.6	23.6
Java & Madura	15.8	—	15.7	16.3
Malaya	17.2	16.2	14.6	19.1
Pakistan	14.8	13.7	14.7	14.1
Philippines	10.9	11.4	11.5	11.9
Thailand	12.9	12.8	13.9	—

Source: FAO, Year-book of Food and Agricultural Statistics, 1950.

In consequence of the development of natural resources and increase of production of foodstuffs, the national income per capita in this region, which is now miserably low, would rise, and the international trade between Japan and this region might be expanded by selling raw materials and foodstuffs to Japan and by purchasing necessary manufactured articles from Japan.

In reality, however there are many obstacles standing in the way of realizing the expansion of trade with Japan. For example, reparations problems are not yet settled, the sentiments of the peoples in this area are not so favourable for Japan, the treaties of trade and navigation have not yet been concluded with them, and the economic connections with their former mother countries still remain very close and so forth.

Besides, Japan's costs of production of capital goods, which are urgently demanded in this region, are generally higher than those of other industrial nations, partly because of the high prices of raw materials, especially coal and iron, and partly because of the low efficiency of labour, and the obsolescence of capital equipments.

Therefore, the share of Japan in the trade of the South and South-east Asian countries as a whole is not so large, in spite of the proximity of her geographical situation to these countries. According to the report published by ECAFE, ECE and FAO, (The Preliminary Report on Trade between the ECAFE Region and Europe, Manila, 1953), the geographical distribution of trade of ECAFE

10 countries, is as follows:

Table 27. The Geographical Distribution of Foreign Trade of 10 ECAFE Countries.

Import	1928	1938	1949	1950	1951
Total (million dollars)	2,638	1,645	5,705	4,633	7,000
U. K.	24.9%	18.7%	18.0%	15.2%	13.9%
Continental Europe	18.0	21.5	14.2	14.1	17.1
U. S. A.	9.1	12.4	20.6	16.7	16.8
Japan	5.8	8.9	3.8	5.6	7.9

Export	1928	1938	1949	1950	1951
Total (million dollars)	3,152	1,900	4,350	5,425	7,804
U. K.	14.6%	17.5%	14.9%	12.0%	15.0%
Continental Europe	21.1	22.6	17.0	17.9	18.5
U. S. A.	18.6	17.4	18.7	21.8	17.9
Japan	6.2	6.3	2.4	3.8	4.6

Note: ECAFE 10 countries are Burma, Ceylon, Hong Kong, India, Indochina, Indonesia, Malaya and Singapore, Pakistan, the Republic of the Philippines, and Thailand.

As to the amount of capital goods imported into this region, the share of Japan is negligible as compared with that of United Kingdom and that of the U. S. A., as is shown in the following table.

Table 28. Import of Capital goods into 10 ECAFE Countries.
(Monthly average, million dollars)

	1950		1951		1952
	(Jan.-Jun.)	(Jul.-Dec.)	(Jan.-Jun.)	(Jul.-Dec.)	(Jan.-Jun.)
U. K.	33.4	33.5	38.3	42.5	45.3
U. S. A.	20.0	14.4	19.7	25.8	26.9
Japan	1.4	3.3	4.1	4.0	2.0(Jan.-Mar.)

As Japan's exports to this area have been mainly textiles and other consumption goods, it is a matter of great concern for Japan that the door to consumer goods may some day be closed when the

industrialization in this region makes progress. It is, therefore, imperative for Japan to lay stress on the export of capital goods instead of consumers' articles. But unfortunately, Japan's competitive power is very weak in large-scale capital goods, although that in textiles is fairly strong. Japan, however, has a comparative advantage in light machines, such as bicycles, sewing machines, spinning and weaving machinery, small engines, etc.* It is advisable for Japan, at present, to endeavour to expand the export of these light machines.

Table 29. Comparison of Prices of Japan's Machinery with International Prices. (unit: dollars)

	Price in Japan	International Price
Cargo boat (DW/15000)	411/GT 274/DW	315/GT 210/DW
Electric Generator	3,750/T	2,800/T
Boiler	970/T	630/T
Railway Wagon	9,070	5,800
Railway Locomotive	85,313	76,000
Truck-chassis	19,000	12,000
Bicycle	34.65	53.76
Diesel Engine (10-11 H. P)	547-578	820
Cotton Spinning Machinery	280,000	320,000
Sewing Machine (HA-1)	40	110

Principal Sources:

Department of Finance, Annual Return of Foreign Trade of Japan.
Goverment General of Chosen, Table of Trade and Shipping.
Goverment of Taiwan (Formosa), Annual Return of the Trade of Taiwan (Formosa).
Economic Counsel Board, Japanese Economic Statistics.
U. N.: Economic Bulletin for Asia and the Far East.
Ministry of International Trade and Industry, "Tusho Hakusho." (The Present State of Japan's International Trade)

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* A Survey made by the Ministry of International Trade and Industry reveals the fact that Japan's light machines are fairly competitve in the world market, as is shown in the table No. 29.

THE EXCHANGE CONTROL POLICY IN POST-WAR JAPAN

By Masahiro Fujita

I. Introduction

Japan, has been kept under the closed economy system for a long time (through pre-war and during the time of war) but by the surrender a connection has been made with the international economy. However, a new start into the open system was unfavourable, for the question of foreign exchange rate was not yet fixed to a single form because of the moribund situation of an occupied country.

On April 25, 1949, the single exchange rate was established: U.S. $1=¥360. This fact was enough to declare the launching of new-Japan. We can say that the Japanese economy overcame its frenzied inflation in the post-war period and took steps toward business stabilization. First of all, the exchange rate control after World War II was intended to recover the ruined exchange market and the exchange rate by the mechanism of nationalization. This reconstruction process of our economy was not merely considered as an independent problem that concerned only to exchange but as one aspect of the economic reconstruction which included the whole reconstruction of the foreign trade.

The exchange control is a coordinate concept against *laissez-faire* in exchange, which is understood to mean the exchange policies adopted after the abandonment of the gold standard, and comprises policies of exchange control and exchange monopoly, may be divided into three forms as follows:——

1. Normal control: the establishment of a single official exchange rate and the maintenance of it. The direct exchange restriction of preventing capital flight that arises from disequilibrium of interna-

tional balance of payments.

2. Free exchange control: the movement of rate is admited to some degrees and the domestic inflation is allowed to reflect on the free rate and thus the intention is to relax worse inflation effects on the export and the import.

3. Multiple exchange control: this is a method which establishes several rates——besides the central rate, different rates are fixed favourable to import of the emergency goods and on the contrary, unfavourable to the luxury goods. Moreover, for exports various rates are adopted discriminating their importance of the profit. But the post-war controling policy has been derived from the worldly dollar shortage that was caused by the changing economic structure in all the countries in post-war period.

This work tries to study the conditions that made the establishment of the single exchange rate necessary, which is the central question and then to analyse the stability of ¥360 rate.

II. Many Measures of Exchange in Post-war Period

(1) In post-war period, our foreign trade was carried on by the form of "Government Trade". But this differed entirely from the U. S. S. R. or Communist China's nationalized trade. Ours was carried on in the following form: (a) Board of Trade (established Dec. 13, 1945) (b) Board of Economic Stabilization (especially Section of Finance and Monetary, Section of Trade) (est. Aug. 1946) (c) Trade corporation (est. March 1948) (d) Carried on relations with GHQ in which purchase meant export and official sale import. In this case, what we must notice is that selling yen price has no relation to foreign or international price but depended upon the domestic price only. In other words, the export price is based on its domestic fixed price or the cost accounting of the producer. As the imports were sold to the demander at domestic fixed prices, the exchange rate or the conversion rate with the foreign currency was unnecessary. With regard to all commodities, they had all different rates, and there were no rate to apply for remittance in general

and remittance was blocked.

(2) However, there was military rate, fixed for the commercial relation with GHQ It was established to provide their convenience of daily life. During this period, inflation steadly advanced to high degree. The attempt at contraction or reproduction didn't bring relief. At last, our economy confronted economic crisis.

Table 1. Changes of Military Rate

Dec. 31 1945	$1=¥15
March 11, 1947	$1=¥50
March 12, 1947	£1=¥250
	£1=¥160
July 6, 1948	$1=¥270
	£1=¥1080
Jan. 8, 1949	$1=¥350
April 25, 1949	$1=¥360

(3) At this time our government tried to overcome the crisis by the following measures,

(a) Monetary emergency measures——exchanging new and old yen. Feb. 1946.

(b) The closing policy on war time compensation. (April 1946) Yet, there was not any improvement in such situation for all the determination of the government to economic reconstruction.

(4) Establishment of Reconstruction Financial Bank (Jan. 1947). But contrary to expectation, this resulted in Fukkin (R. F. B.) inflation. At this period, economic policy was the so-called inclinative (priority) production system adopted to overcome coal crisis (Nov. 1947).

(5) On the other hand, the exchange fund and domestic currency fund related to imports, in this period from the surrender to the end of 1947, were kept as independent fund, their receipts and dibursals costituted different accounts.

(a) Yen currency constituted our "Trade Fund Special Account".

(b) All foreign currency constituted "Dollar based special ac-

count" which was in charge of the American authorties. All these measures and administrative trials are, but this is sufficent to show the imperfect exchange mechanism and the lack of an exchange rate.

(6) Here, however, we have an important government order, which we cannot pass over without noticing it. It is the G. H. Q. order permitting a restricted private import and export trade (Aug. 15, 1947). The order granted negotiation to be arrived with the visiting buyers only about the (a) quantity of goods (b) quality of exported goods and (c) deliberating data, but excepting the price which is the most important item in trade negotiation. Though there was no advance in exchange aspect foreign trade advanced one step from blind trade to at least one eye trade. Though we were anxious to have a single exchange rate established for it was a movement from the controled trade to free private trade, we had to be satisfied as our first step at this initiation of free private trade. As we mentioned-above, the actual Japanese econmic conditions of the time were monstrous as the result of inflation. As commodities prices were much unbalanced, the direct connection with the international economy, would have surely destroyed Japanese industry.

(7) The multiple exchange system was the policy adopted to overcome these dangers, and at the same time connecting our economy with the international economy, and thereby making private trade workable. The multiple exchange system in Japan differs from the system in the Latin-American countries which has been executed after the world crisis. We have to call our system "Price Ratio System (P. R. S.)." The rate of conversion is fixed for each commodity or group of commodity calculated conversely from the rate of domestic price versus international price (American price) of commodities, on the foundation of the past government trade experience up to that date. The purpose of adopting this system was to connect our closed and separated economy with the international economy. As shown in table 2, the general trend is the establishment

yen rate reflecting the unbalanced condition, low rate for imports and high rate for exports.

Table 2. Multiple Rates of Exchange

on Jan. 31, 1949 (unit=yen)

Import rate	
cotton (domestic use)	80
cotton (export use)	250
pig-iron	67
iron ore and concentrates	125
coking coal	178
steel	147
rock-phosphate	154
bauxite	158
potassium	82
crude petroleum	284
crude (raw) rubber	154
hides and skins (pelt)	120
chemicals	200–350
salt	103
sugar	177
wheat	165
wool	120–140
wood and lumber	77

Export rate			
cotton yarn	259	bicycle	510
cotton cloth	250–420	motor	340
silk fabrics	300–420	transformer	320
staple fibres	300	radio-set	550
rayon goods	300	coal	320
wollen goods	350	cement	320
wollen yarn	300	caustic soda	200
bar steel	240	tinned goods	300
steel ship	500	mandarin orange	340
steel tubes	300–360	tea	330
thin board	340–380	wood (lumber)	320–420
galvanization (board)		dyestuffs	500
zin plate	390–400	skin goods	580
locomotives	300	mirror	600
automobile=motor car	430	bamboo-ware	450
raw silk	420	ceramic ware	600

As a whole, the rates for import goods are cheap, the rates for export goods are high, for they are derived from the remarkable inflation in Japanese economy. Moreover, this implies that import to Japan in inflation was necessarily to be overvalued in yen, *vice versa* (exports: undervalued in yen).

For instance, the past fixed price of cotton and wool was cheap (cotton: ¥80, wool: ¥120), because these goods can not be at home and are to be imported as raw materials.

Still the cheap rate of imported foodstuffs (wheat price: ¥165) is derived from the view-point of the social policy. At the same time, international price of foodstuffs in those days is higher than normal, and its import price has relief significance. So, the price was established in favour of yen value. Of the imported goods, miscellaneous goods contain mirror, radio-set, bamboo products and ceramic wares. These are rated high. This means that export possibility is found only in the cheap rate of yen, because of the heavy rising in fixed or dark market prices because of insufficent control of these commodities. The following tables show the change of the prices.

Table 3. Wholesale Price Index (1)

	Japan	U.S.A.	U.K.	France	Germany (West)
1937	100	100	100	—	—
1938	105	91	93	100	100
1939	117	89	95	105	—
1940	130	91	126	139	—
1941	140	101	140	171	—
1942	152	114	147	201	—
1943	162	119	150	234	—
1944	184	121	153	265	—
1945	279	123	155	375	—
1946	1293	140	161	648	—
1947	3824	176	176	989	155
1948	10160	191	202	1712	158
1949	16580	180	212	1917	191
1950	19490	187	241	2166	207
1951	24700	198	294	6097	345
1952	27300	192	—	—	—

Source: the year book of the Asahi 1949, 1953.

Next, observing from another aspect:——

Table 4. Wholesale Price Index (II)

	Japan		U.S.A.	
	Bank of Japan W.P.I.		U.S.A. W.P.I.	
	base: 1937=100	1913=100	base: 1938=100	1913=100
1913	64.7	100	45.4	100
1947	9430	14575	96.4	212.3
1948	16970	26228	104.4	230.0
1949	22900	35394	99.2	218.5
Apr. 1949	23110	35718	99.9	220.0
June 1950	22380	34590	100.2	220.7
Dec. 1950	26860	41514	112.1	246.9
June 1951	34480	53678	115.1	253.5
Dec. 1951	35624	55060	113.5	250.0
June 1952	34764	53732	111.2	244.9
Dec. 1952	34237	52917	100.6	241.4
Mar. 1953	35113	54271	110.1	242.5
May 1953	35037	54153	109.8	241.9

calculated from Statistical year book of U.N. and Monthly report of bank of Japan

Table 3 and table 4 give the foundation of calculating purchasing power parity later on.

Table 5. Dark Market Price Index

	consumer goods 1945=100	capital goods 1946=100
Dec. 1946	222	137
Dec. 1947	558	418
Jan. 1948	596	439
Feb. 1948	617	456
Mar. 1948	646	473
June 1948	767	479
Dec. 1948	781	501
Jan. 1949	788	498
Feb. 1949	794	503
Mar. 1949	809	494
Apr. 1949	842	483
May 1949	833	475
June 1949	831	376

Effective Price

		capital goods	consumer goods
1937		1	1
1947		59	96
1948		123	167
1949		188	209
1949	1–3	176	208
〃	4–6	186	219
〃	7–9	190	206
〃	10–12	203	202
1950	1–6	208	196
〃	7–9	225	193
〃	10–12	259	195
1952	1	281	210
〃	2	296	216

Dec. 1950	580	443	1952	3	314	218
Aug. 1951	630	576	〃	4	344	224
			〃	5	358	228
			〃	6	—	220

the Asahi year book 1948, 1950, 1953. From "white paper" 1949, 1950, 1953.

According to Economic White Paper 1949, Japanese trade level shows as follows. (if we regard as 1934-1936=100)[1]

import in 1948 18, import in 1949 29
export 〃 7, export 〃 16

Amount of export to gross national expenditure shows.

1934-36 19%, 1949 6%

Next, the proportion of Japanese trade for gross amount of world trade:

	Before World War	1949
import	34%	1.4%
export	34%	0.9%

Thus, the present real level of our trade is lower than pre-war level.

(8) Private trade took definite shape by P. R. S. and began to substantially working in the form of B. S. Contract[2] during three years after the surrender. According to this system, trade arrangment between foreign buyers and Japanese exporters did not need a medium of Trade Board and Trade Corporation. However, this was confined to only export arrangement. Import depended completaly upon government controled import.

(9) The imported price was investigated before the fact through the Floor Price System, preventing dumping by exporter and forced price cutting by foreign merchant.

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1) Acoording to Economic White Paper of 1950.
the level of trade quantity in main countries at 1949.

	U. S. A.	U. K.	France	Italy	India	West-Germany	Japan
export	202	134	142	85	55	46	16
import	105	83	93	119	113	106	29

base: 1937=100

2) B S contract system means that after return of private trade, between private trade merchant and foreign trader concluded buyers and suppliers system.

So long as the export price exceeded *Floor Price,*[3] permission, on the request of private merchant was given unconditionally.

(10) But, on the foreign exchange side, the exchange business of private bank remained under restriction, and the activity confined to convey order to the branch of foreign bank. The contents of business is nothing but acceptance of exported exchange and examination of documents. To purchase foreign exchange is impossible and the yen price of exchange only operates to transmit payment from Trade Fund Special Accounts to the exporter. Besides, import chiefly was administered by government, so Japanese exchange bank could not touch the import exchange at all.

(11) With regard to Foreign Currency Fund, the Japanese had no authority over it, for it was quite under GHQ management. When private trade was reinstated, the following exchange settlement banks were appointed. Tokyo Bank, Sanwa Bank, Osaka Bank, Chiyoda Bank, Japan Industry Bank, Kobe Bank, Fuji Bank, Tokai Bank, Daiwa Bank, Saitama Bank. Total of these banks was 11 in number and 56 branch offices. Moreover, in addition to these banks, the Hokkaido Bank and Nippon Kangyo Bank were appointed. At the same time, foreign banks began business in Japan——they were National City of Bank, Bank of America, Chase National Bank, Hongkong-Shanghai Bank, Chartered Bank, Netherland-India Commercial Bank, Indochina Bank, China Bank.

(12) The following events were remarkable incidents in the period:——

(a) May 1948, the Young Mission visited Japan making preliminery survey to establish single exchange rate.

(b) Aug. 14 1947, Establishment of the Export Import Revolving

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3) Floor Price means the lowest dollar price——that is the lowest dollar base price by F. O. B. as to Japanese export goods after return the private trade Aug. 1947. This calculating, is possible as follows. Floor Price=prime cost+propriety profit (in referen to oversea's price by each good). G. H. Q. did not permit exporting contract under this price. The purpose of that system, a) preventing of flight of foreign exchange b) preventing of unfair competition or dumping by reason of lacking in a single exchange rate.

Fund was ordered as the Trade Financial measure (Dec. 1947. enforcement.)

(c) The order of 9 principles of economic stabilization was issued. Dec. 1948, The order aimed to stop the post-war economic confusion that arose from inflation. Never-theless, the forecast of Japanese economic reconstruction by promoting Trade, by stabilizing inflation by multiple exchange system and such private trade is gloomy. The policy to be taken is to return to private trade full swing by establishment a single exchange rate. And the question in hand is to secure the economic stabilization at a stroke under by the enforcemet of deflation and anti-inflation policy.

(13) This was the 9 principle policy founded on the super-balanced budget——so-called "Dodge plan". Mr. J. Dodge, president of Detroit Bank, visited Japan at the end of Jan. 1949. He asserted the first principle of economic recovery and was going to fundamentally revive the frail Japanese economy, which contained many conflicting elements the growth of a green house economy. From these necessities, he suggested net economic recovering policy——rationalization and self-reliance (self-supporting)—— is his statement (March 17. 1949.). We will describe the Dodge plan later on.

(14) Mr. Rogan. W. (governor of Federal Import, Export Institute of West-Germany) visited Japan (Jan. 1949). He recommended the so-called "Rogan plan" for promoting the Japanese trade.

1. Speedy transfer from administration trade to private trade.
2. Many sided conclusion of trade agreement for many countries.
3. Advance and development from hunger export to full stomach export. The feature of Rogan plan was to give priority to import, and was in good contrast with the Dodge austerity policy.

(15) The establishment of Foreign Exchange Control Board (F. E. C. B.) Mar. 1949.

(16) With the abolition of Trade Corporation which was in charge of the control of Special account in Foreign Exchange Fund,

this function was transfered to F. E. C. B. (F. E. C. B. was abolished Oct. 1952, its business was transfered to Foreign Exchange Control Section of Finance Ministry.)

(17) In Jan. 1949, Trade Board and E. S. B. began to negotiate for ¥350. exchange rate proposition.

(18) After Jan. 1949, the highest exchange rate of import and export was ¥350 and ¥425 respectively. Since Feb. 1. 1949, the exchange rates of textiles kept four kind bases——¥300, ¥350, ¥400, as for general commodities, the changing rate of foreign currency base price and yen (currency), base price as a rule not to be less than ¥450 or ¥450.

(19) On March 1949, yen rate by purchasing power parity in America shown. (U. S. $1=¥270). However modification of effective price shown (U. S. $1=¥419:——measured by Nippon Kangyo Bank). In the course of these process, since April 1. 1949, textiles rate shown three kind bases——¥330—¥350, ¥420. Next, government announced preparation measures as follows:—

(a) The Dollar rate of exporting goods shown only ¥300.

(b) This rate retrace April 1949 and to be carried into effect.

(20) At last, the single exchange rate was established on April 25, 1949 in reply to the GHQ order April 23, 1949. The establishment of the new rate had following signification:—

a) The multiple rate undervalued yen for export exchange rate and protected the exporters of less yen income. b) import exchange rate was overvalued in yen and protected the people from much yen expenditure. c) unfavourable balance of trade was relieved by american relief. d) as a result, the so-called stilts economy was overcome which was due to shortage of yen fund. e) For this purpose, "Trade Fund Special Accounts" heretofore in use was changes "Trade Special Accounts" and this Accounts supplies yen fund of trade balance which reflects a single exchange rate.

(21) Visit of L. Friel Mission (Sept. 1949). The Recommendation of this mission; a) abolishment of *Floor price system* b) Return to wholly private trade c) Simplification of trade procedure d) Transfer to Japanse banks as soon as possible, of the

banking business which SCAP and GHQ managed.

(22) At the same time, Mr. J. V. Mladek (Director of I. M. F.) visited Japan and recommended the first principle of Import, adoptation of multilateral settlemet system.

(23) From these situations, there was abolition of *Floor price* on Oct. 1949 (except raw silk goods), transmission of private trade ——export from Dec. 1 (by the order Oct. 28), import from Jan. 1950. Export did not need grant before the fact, import come to adopt the foreign currency budget allocation system——Foreign exchange bank allocating foreign exchange——

Let us pick up the chief measures——

(a) Grant of mail foreign exchange on America. (Nov. 30).

(b) Return of private trade, especially carried into effect Foreign Exchange Act and control of Foreign Exchange Act (Dec. 1949).

(c) Abolition of *Floor price system* to and adoptatation of *Check price*[4] *system.*

(d) Import Licence System.

(e) Foreign Currency Allocating System.

(f) The control of Foreign Currency Fund and Yen Currency Fund through the Foreign Exchange Control Board.

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4) Check price were take up as standard of calculating the lowest export price. This means adoptation of the adjusting doctorine between actual export price and international market price rather than the doctorine of cost price. Since March 31, 1949. Floor price, for cotton and cotton yarn were abolished on account of (1) technical difficulty of determining Floor price and application Floor price. (2) cost of working arise difference through the producing equipment and ability of enterprise, so establishment of indiscriminate frame or restriction is in adequateness. Therefore, check price means as follows the price of export goods=cost of raw materials+cost of working+propriety profit (charge). In above formula, the lowest price of cost of raw materials is check price, the lowest price by check price fluctuate with the difference of cost of working. The purpose of this price system, is (1) preventing of dumping (2) and complete maintenance of raw cotton price. This determining standard is actual rate of cotton yarn one cloth in American market in reference to Journal of Commerce, is two rates bases. But, there are not distincted by dollar base and pound base. Though beginning of execution, shown 5% down of American market rate, thereafter was corrected 10% down.

(g) The past exchange buynig and selling system which made central SCAP and the system of these business carried on by monopolistic foreign bank was abolished. By the new system, parent bank accorded with Foreign Currency Control Board (F. C. C. B.), to supply foreign currency to private banks was assured. The transaction (purchase or sale) of foreign exchange become free, yet holding of foreign currency was not permitted, and the authorities adopted the concentration of foreign exchange system, Which the outbreak of Korean hostilities on June 25, 1950, the boom of special demand appeared and are going now on, but the concentration of exchange system, the allocation of foreign exchange system are in force.

(24) On Jnly 1. 1950, the measures changing yen base in non-military transaction were executed. The concentration of exchange in Japan was first realized in the whole concentration of foreign currency to the hands of the American authorities, then in concentration with the foreign exchange controled board to Japanese authorities, then concentrated in the Finance Ministry, until it at last returned to free system. But, in this system there existed concentrative exchange rate The concentrative exchage rate has to be cheaper than the customer rate of private bank. Look at Table 6.

Table 6. Official Foreign Exchange Rate

		U. S. $	£
concentrative rate	(a) T. T. S.	¥360.35	¥1008.98
	(b) T. T. B.	¥359.65	¥1007.02
	(c) Sight buying	¥359.15	¥1004.91
customer rate	(a) T. T. S.	¥361.05	¥1010.23
	(b) T. T. B.	¥358.95	¥1005.77
	(c) Sight buying	¥358.45	¥1003.66

The main purpose of exchange concentration system is as follows (a) Rational distribution of foreign currenay=exchange which lack exchange allocation system, (b) The restriction and correction of import, (c) This is equal to the purpose of national

economy. In order to accomplish this object, the allocation by each country, and each commodity needs and also the foreign currency budget is determined by each region as Table 7.

Table 7. Regional Distribution in the Allocation of Foreign Currency Budget

(A)	established countries of Agreement for Trade	
	1) sterling area countries	U.K. and so on
	2) open-account countries	France and so on
	3) the rest of countries	Belgium and so on
(B)	unestablished coutries	
	4) Canada, U.S.A.	
	5) the rest of established Countries	

III. Dodge's Stabilization Plan and a Single Exchange Rate

The Dodge stabilization plan originates in the classical theory that expect the automatic regulative operation or price effect by means of monetary stabilization and is about to attain the adjustment of foreign exchange. Therefore, a strong monetary contract policy or deflation policy was chosen for the purpose of monetary stabilization. Most remarkable point in the Dodge policy was the resolute enforcement of the fast yen stabilization policy. Above all, it has been concentrated in the establishment of a single exchange rate. On the other hand, the Dodge plan also adopted dis-inflation policy. This meant the stabilizaton in depreciated currency value. Though this policy is not stabilization policy of enforced deflation policy, which Mr. Junnosuke Inoue executed 1930, but it is a neutralizing measure by monetary policy. However, we find the following assumptions in this case.

(a) Yen rate which is concrete standard for stabilization represents the actual rate (real rate measured by purchasing power parity at that time).

(b) Avoided to adopt the policy which will change the present price level.

(c) Not to practice positive deflation policy consciously beyond the reactive monetary contract, excepting the stopping the

increase of the money.

The first of the assumptions had many difficulties in those days. For the second point, price control becomes necessary, but it reverts to the irrationality of ideal classical free economy which can never be attained by a classical method.

The establishment of a single exchange rate based on the stabilization policy of reducing the government grant and increasing tax is forced to advance economic rationalization and to shift the reaction on small and medium-(sized) enterprises.

IV. A Single Exchange Rate and Purchasing Power Parity[5]

On April 25, 1949. U.S. $1=¥360 rate was calculated on the comparative relation of purchasing power parity in Japan and the U.S.A. in 1937. (U.S. $1=¥3.50)

As a fixed price (wholesale price) became a subject of discussion in those days, and prices of the commodities other than gold were main issue. Japanese solid gold price that was calculated at

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5) Since Classical School, the views as to the rate of exchange have developed in the following three stages ① The oldest was that the exchange rate i. e. the price of gold in all countries should be fixed, leaving the prices of other commodities to follow their own movement; the international equilibrium being expected to be established automatically through the mechanism of the gold standard system ② The second was for the artificial adjustment of the price of gold in order to secure the best possible stability of the price level. That means the suspension of the gold standard and nationalistic system of managed currency came instead. ③ The third, now prevailing, aims at the "elastic stability" of the rate of exchange among countries, as indicated in the Bretton-woods agreements, admitting the renewal of the price of gold of any one country only for the purpose of correcting "the fundamental disequilibriun" of that country. Neither is the absolute pegging nor the railles changing of the rate exchange is now in vague. There still remain, however, many problems of interpretation as to what is really meant by the so-called "fundamental disequilibrium" and its practical application is by no means easy. Here, all over again, we emphasis that the rate of exchange is nothing but the parity of gold price between countries. Under international gold standard, the parity of gold price between countries was the rate of exchange, but even the unequal present world's conditions of production and distribution of gold, both dollar and pound under a given restriction

solid gold weight per 1g=0.88716g (1g=U. S. \$1.125)$\times\frac{1}{360}$, results in 1g=¥405. Let us show the movement of the purchasing price of gold in the following Table.

Table 8. Changes of Buying Price of Gold

June	22	1933	gold 1g=¥8.05
April	6	1934	1g=¥2.95
Jan.	11	1935	1g=¥3.09
			1monme=¥11.58
May	6	1936	1g=¥3.50
May	14	1937	1g=¥3.77
May	2	1938	1g=¥3.85
Jan.	20	1946	gold 1g=¥17.00
			silver 1kg=¥310.00
July	17	1947	gold 1g=¥75.00
			silver 1kg=¥1300
Sept.	25	1947	gold 1g=¥150
			silver 1kg=¥2700
Aug.	13	1948	gold 1g=¥326
			silver 1kg=¥6325
July	22	1949	gold 1g=¥385
			silver 1kg=¥7288
		1950	gold 1g=¥401
			silver 1kg=¥9700
Feb.		1953	gold 1g=¥405

Granting the exchange rate as established and gold price determined,

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itself are regarded in the same light with gold. And the rate of exchange becomes the typical currency of concentration multilateral settlement or payment and express. In the form of the rate or proportion of money amount of own country.

gold production unit=solid ounce

	1944	1945	1946	1947	1948	1949	1950
Japan	396579	128410	43154	55029	69060	84492	132332
U. S. A.	1022238	915403	1462354	2165318	2025480	1921949	2288708

calculating in gold 1 ounce=U. S. \$35 unit=\$million

	1937	1945	1946	1947	1948	1949	1950	1951
Japan	25.89	2.96	1.40	2.42	3.49	4.62	5.44	6.62
U. S. A.	143.92	320.04	51.17	75.79	70.89	67.27	80.10	66.32

at the assumption of 1 ounce gold=U.S. $1 in America, and if we intend to study the consequence of ¥360 rate in Japan, we can calculate the foreign exchange rate from the purchasing power parity as in Table 9.

Table 9. Foreign Exchange Rate

	official (military) rate	calculating by purchasing power parity	
		U.S. $1=¥3.441	U.S. $1=¥3.50
1937	3.441	3.441	3,50
1938	3.699	3.96	4.267
1939	4.265	4.52	4.601
1940	4.267	4.91	4.780
1945	15	7.80	7.94
1946	15	31.94	32.27
1947	50	73.14	78.65
1948	270 ~~250~~	132.04	187.16
1949	360	316.13	322.77
1950	361	353.05	350.21
1951	361	424.29	432.25
1952	361	493.74	509.89

(1) The results come from combination of Table 3 with Table 4 is selling rate until 1940.

This Table shows comparative rate of wholesale price index in two countries. Moreover, Table 10 shows another interesting results.

Table 10. Exchange Rate

according to Table 4, purchasing power parity U.S. $1=¥ 2.02			
1913	2.02 [6]	1950	331.75
1937	2.02		
1945	——	1951	416.51
1946	——	1952	443.45
1947	138.60	March 1953	451.97
1948	230.25	May 1953	452.11
1949	327.89		

According to wholesale price, the results of U.S. $1=¥316—¥

6) 1913 correspond to Taisho 2. In this time, the rate of exchange has been almost equal to gold parity $1=¥2.02

327 on April 1949. But, in the Korean hostility period, the actual rate almost equals the official rate and shows U. S. $1=¥350 level. There-after, owing to the rise of domestic prices, exchange rate shows ¥400 level in 1951, 1952 and 1953, continuously below official rate. Calculating on *consumer price index* (C. P. I.) the result is as follows——taking standard year of 1934—1936.

exchange rate: U. S. $1=¥3.44

Apr. 1949 U. S. $1=¥440, May 1953 U. S. $1=¥492.

This is higher than the existing rate. In other words, 37% overvaluation of yen. Calculating the effective price, the exchange rate is ¥386 in April 1949. The most recent calculating exchange rate was ¥530. The calculating the purchasing power parity, advocated by Prof. Cassel G. is acknowledged as powerful data for presuming exchange rate. But we cannot say that this theory is a perfect one. Perhaps, the theory of purchasing power parity was founded on the following assumptions and the quantity theory of money.

a) Perfect free trade to be in existence.
b) Identical degrees of change in all commodities prices.
c) Demand for foreign currency is confined to purchasing of goods and services in the competent foreign country. The purchasing power parity shows by price index which makes the standerd year 100, so assuming commodity price of gold in a given period on past, is nothing but determinating the price of in gold consideration of later price fluctuations (rise and fall) in other than gold commodities.

According to our viewpoint, that is, the parity of gold price between countries. As above-mentioned, unless holding of gold as medium of payment or settlement under *Free Trade System* fails to work, the price parity of all commodities will accord with the parity of gold prices. However, the actual situation is not always so, at the present time, gold still function as the world money. Furthermore, so long as gold is international measure of value and international standard of price, the fluctuation of the price of commodities are measured by gold price standard.

Therefore, it is necessary to think that foreign exchange rate turned from the parity of gold price into other than gold commodities.

(1) Establishment of a single exchange rate and its effect on the industry.

The effects brought about by the establishment of a single exchange rate are various. For instance, in the cotton industry its prices can be calculated in the multiple rate as follows.

American cotton @ ¥ 80.57
Cotton yarn @ ¥108.97

Cotton stuff (1 cut)=necessary raw cotton as cotton yarn (U. S. $4.99 −¥408.98)+cost of working (¥542.30)+charges or miscellaneous expenses (¥180)−miscellaneous income (¥8.07)=F. O. B. ¥1,226.56 (=U. S. $90.40). Therefore, the exchange rate of calculating is qual to ¥130.48. If this is more than margin, cotton stuff price is equal to ¥109 and cotton yarn price comes to ¥185. In U. S. $1=¥360 calculating from, imported raw cotton price is C. I. F. (U. S.) $176= ¥7,7360, this shows to be 5.5 times against past selling price of government (property)=¥14185. Such being the case, if raw cotton price is constant with charges and cost of working, the cost of production per bale turns to be ¥80,668, and export selling price comes to U. S. $272=¥9,7920. Yet, in the case of cotton stuff, cost of production is equal to ¥2,574.98 and selling price is ¥3,384, this leaves the margin of ¥1,7352 and the cotton stuff is priced at ¥809 in cotton yarn. In spite of the heavy rise of imported raw cotton, the profits realized by the rise of selling price is large. Though, in this form, there are some aspects to which full considerations were not given such as the cost of services (wages and salaries), depreciation, profits, premium. But these were common to all commodities which established the fixed prices at that time. Owing to these conditions, the relative dominant position of cotton industry caused by the establishment of a single exchange rate is unchanged after all. A single exchange rate gave the cotton industry the opportunity for increasing the profit and a standard was given

to the business. Moreover, a single rate made the reconstruction of cotton industry easy. However, the measures were favourable to large scale business such as Big 10 Cotton Spinning Co., and new-starting enterprises were not so favoured. Thus, the effect of the new exchange rate was profitable to the cotton industry, but not so to many other industries. For instance, we can find a good example in the case of raw silk, as can be seen in the following figures:—

In the raw silk industry, showing before the establishment of the new rate.—

raw silk @ F. O. B. (U. S.) $350.^{53}$=¥137827.

comparative rate between Yen and Dollar U. S. $1=¥393.

Therefore, balance is ¥33 (¥393−¥360=¥33).

So, in order to export at U. S. $1, we have to cut down the domestic purchasing price of raw silk.[7] The promotive policy of export for raw silk is nothing but the reduction policy of producing cost. Again, let us take up the iron industry——especially pig iron. If the raw material were sold by the government at U. S. $1=¥360

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7) calculating method of raw silk is as follows

	raw silk per one bag. (21 middl 2 A gauge)	
①	selling price of producer	¥129930
	the necessary sum of cocoon	¥ 73600
	collesting commission of cocoon	¥ 2209
	cost of working of silk-reeling	¥ 54121
②	a transation tax	¥ 2559
③	fixed charges	¥ 956
	packing charges	¥ 337
	shipping charges	¥ 332
	fleight charges	¥ 21
	miscellaneous charges	¥ 260
	money rate of charges	¥ 6
④	charges for costody	¥ 144
⑤	money rate	¥ 1633
⑥	transit insurance due	¥ 128
⑦	export commission	¥ 2437
	total F. O. B. price (yen)	¥137827
	F. O. B. price (dollar)	$350.53
	Ratio between yen and dollar	U. S. $1=¥393

rate, the increasing products of pig-iron will become ¥9,010 per 1 ton[8] as the existing price of producer's in April 1949, shows ¥14,070, that is, brought about the rise in price by 64%. This means increasing in the price of iron and steel. Though we like to proceed with the detailed analysis about all industries at the present time, we regret that we have no room for that, and proceed to our next task.

(2) Concerning the calculating of the foreign exchange rate, we quote a remarkable theory of Prof. Kito which is based on the living level:—

The quantity of commodities which a labourer in A country will consume per month q_a', q_a'', q_a'''……, and the corresponding prices per unit are p_a', p_a'', p_a'''……,
the quantity of commodities which a labourer in B country will consume per month q_b', q_b'', q_b'''……, and the corresponding prices per unit are p_b', p_b'', p_b'''…… .
The comparison with consuming quantity measured by the price of A country for a month in both countries

$$\frac{\sum q_b p_a}{\sum q_a p_a}$$

by the price of B country

$$\frac{\sum q_b p_b}{\sum q_a p_a}$$

} From there geometaricalcal average, we can calculate for the comparison of consuming commodities

$$\sqrt{\frac{\sum q_b q_a}{\sum p_a q_a}, \frac{\sum q_b p_b}{\sum q_a p_b}}$$

For example, when the living life (=consuming quantity) in B country per labourer per month is $\frac{1}{3}$ in A country,

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8) produring cost of pig iron
① affection from imported coal (as raw material)={imported unit price U. S. $27×rate of exchange ¥360+charges ¥370−present or current price of coal ¥4225}×(original unit price of coal of raw material 2.5 ton×importing ratio of raw material 45%)=¥6,567
② affection from iron ore=(the price of imported iron ore $16.25×¥360 +charges ¥100−current price of imported iron ore ¥2,400)×the original unit of iron ore 1.82 ton×ratio of imported raw material 38.9%)= ¥2,443 ①+②=¥9,010

consuming commodities in A country \$45
〃 in B country ¥90

The living level of ¥90, needs three times of the living level in \$45 (from above-mentioned assumption). Therefore, foreign exchange rate is calculated at \$1.5=¥1.

Exported quantity of A country for B country per month (measured by A country money or money term) o

Exported quantity of B country for A country per month p

income of A country labourer per month m

income of B country labourer per month n

$\frac{o}{m}$ and $\frac{p}{n}$ express labouring month.

Therefore, the difference of living level $\frac{\frac{p}{n}}{\frac{o}{m}}$

A country's foreign exchange rate of receiving quotation for B country $=R=\frac{I_b}{I_a}\times\frac{Q_a}{Q_b}$

(I_a or I_b is income of labourer in A or B country per month, $\frac{Q_b}{Q_a}$ is the rate of living level in both countries,

$I_a\cdot\frac{Q_b}{Q_a}=I_b \quad \therefore \quad R=\frac{I_b}{I_a\times\frac{Q_b}{Q_a}}=\frac{I_b}{I_a}\times\frac{Q_b}{Q_a}$)

For instance, o=¥2700 and p=\$4050

If the stabilized balance is attained on this condition, foreign exchange rate is equal to ¥1=\$1.5

However, for the purpose of above relation, the following relation must succeed. $\frac{o}{m}=30$, $\frac{p}{n}=90$

In calculating the foreign exchange rate between Japan and America, must use Table 11, Table 12, Table 13.

Table 11. The Wages of Labourer in Manufacture

	Japan		America	
	daily wages (yen)	monthly wages	weekly (\$)	monthly
1938	2.06	61.80	22.30	96.63
1939	2.03	60.90	23.86	103.39

1940	2.28	68.40	25.20	109.20
1941	2.58	77.40	29.58	128.10
1942	2.82	84.60	36.65	158.73
1943	3.27	98.10	43.14	186.94
1944	3.88	116.40	46.08	199.68
1945	4.50	135.00	44.39	192.36
1946	19.89	596.70	43.74	189.54
1947	63.24	1997.20	49.25	213.42
1948	272.88	8186.40	52.07	225.64
1949	280.53	8416.00	54.51	236.21
1950	304.46	9134.00	54.92	237.99
1951	390.26	11708.00	59.33	257.10
1952	394.70	11841.00	66.61	288.64
March 1953	493.50	14805.00	71.93	311.71

Source: The Asahi year Book 1953. Statistical Year Book of U. N. Labour Review of America 1953, March.

For the above culculating we need the following table.

Table 12. For America, Import and Export (million yen)

	Export	Import ⟶ converting in dollar	
1930	506	443	—
1935	536	810	—
1940	569	1241	—
1941	278	572	—
1942	0	14	—
1945	—	22	297.8
1946	1472	3516	—
1947	1791	17631	480.9
1948	16894	37583	441.8
1949	30736	176838	574.9
1950	64548	150556	428.5
1951	66589	25091	753.6
1952	122439	—	768.2
Mar. 1953	7069	—	66.5

With regard to the comparison of living cost, the following table may be used:—

Table 13. Living Cost Index

	America		Japan	
	1948=100	1937=100	1948=100	1937=100
1937	60	100	—	100

1945	75	125	—	—
1946	81	136	27	3644
1947	93	155	58	8750
1948	100	167	100	15170
1949	99	165	138	19030
1950	100	167	128	19493
1951	108	180	151	21015
1952	110	183	165	22269

V. Conclusionary Note

In the above statement, we mentioned the changing process of *foreign exchange control system* in Post-War Japan. Next, we remarked on the period soon after World War II from the *government control trade* till the import automatic approval system through the present *private trade system*, and have taken notice of the conditions that accompanied the establishment of a single rate connected with the Dodge plan. Thereafter, we have analysed the effect of this new foreign exchange rate on the industries. Since the establishment of 360 yen rate, various views were advocated as to the appropriateness of the new level of the foreign exchange, especially in connection with the gap between the actual conversion rate and the official rate, so as to change the foreigns exchange rate. Meanwhile, with Japan's joining to the International Monetary Fund (I. M. F.) on May 11, 1953, the possibility of change was limited to the correction of the fundamental disequilibrium in terms of I. M. F. agreement No. 4—5 clause. Therefore, such a move has to be made after due consideration. Since the outbreak of Korean hostilities the rising tendency of price in Japan has been great which is more remarkable in the Japanese economy than with the American economy.[9]

Therefore, if we attempt a hasty change of the foreign exchange rate, we may bring an unforeseen disasters and difficulties in future.

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9) Comparison between Japanese and U. S. A. main commodities price.
U. S. A. price=100

(continue to p. p. 89)

Moreover, if the exchange rate is to be fundamentally foreign adjusted aiming at the stabilization of prices, it is not necessary to the rate as under the gold standard (system). Many people in Japanese economic world to-day are anxious to devalue the exchange rate. But this is nothing less than approaching the actual or real rate nominally (measured by the purchasing power parity).

The present emergency question of *the international finance theory* is world-wide dollar shortage, and recovering of convertibility of pound sterling. In order to overcome these serious international economic difficulties, *the Relief Fund of the Marshall Plan* and *the*

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	wheat	cotton yarn	rayon	raw-silk	pig-iron	bar-steel	zinc	coal	copper	average
June 1950	76	70	62	98	59	66	97	159	95	97
June 1951	84	113	116	902	156	160	180	222	154	165
May 1953	102	92	83	89	133	121	155	227	125	134

Toyo Keizai Shimpo Aug. 1953

Supplementary notes 1)

Exchange control is the establishing policy of free exchange system that contain the establishment of a single rate of exchange, and in Japan changing process is the following —

Capital Flight Act 1931.

Rivision of Foreign Exchange Control Act 1932.

Foreign Exchange Control and Foreign Trade Control Act Dec. 1949.

Foreign Exchange Control Ordinance June. 1951.

Supplementary notes 2)

the exchange rate (for each country currency in has registered I. M. F. by establishment of official rate Apr. 25 1949) ——the exchange rate shows yen——

U. S. A.	dollar	360.—	Philippines	peso	180.—
U. K.	pound	1450.80	Union of South Africa	pound	1450.—
Canada	dollar	360.—			
Australia	pound	1160.64	France	franc	111.60
Egypt	pound	1487.88	Hong-Kong	dollar	90.—
Netherlands	guilder	135.70	Malay	dollar	170.53
India	rupee	108.81	Indonesia	guilder	135.31

Morever, the existing or current rate of exchange —

Gibraltar	pound	1008.—	Sweden	krona	69.59
Denmark	krone	52.13	Germany (west)	deutache mark	85.61
Norway	krone	50.40			
Belgium	franc	7.20	Finland	markka	1.55
Yugoslavia	dinar	1.19	Malta	pound	1008.—
Australia	£A	806.40	Luxembrug	franc	7.20
Fiji Island	pound	909.09	Tonga Islands	pound	806.40

Point Four Program have been utilized in the form of E. R. P. and industrialization of underdeveloped countries, which brought the increasing dollar investment into these areas. In these international circumstances, our trade finance has difficulties of pound-surplus and dollar-shortage. Moreover, the question of yen rate began to assume a serious character confronting the Japanese. Though it would be very difficult to find an effective counter-measure for the questions, we present our views as an attempt at a solution:—

Besides, on May 11, 1953, the gold parity of Japan determined by I. M. F. as follows —

Pure gold part of U. S. $1=0.88671 g
Japan yen 1=2.4653 mg and U. S. $1=¥360
therefore ¥1=0.27778 U. S. cent

Iraq	dinar	1008.—	Paraguay	guarani	60.01
Iran	rial	11.16	Brazil	cruzeiro	19.48
India	rupee	75.60	Honduras	lempiras	180.—
Indonesia	rupiah		Bolivia	boliviano	1.89
Syria	pound	164.27	Mexico	peso	41.62
Ceylon	rupee	75.60	British Guiana	B W I $	210.—
Turkey	lira	128.56	British Honduras	$	250.—
Pakistan	rupee	108.80	Winward	B W I $	210.—
Philippines	peso	180.—	Trinidad	B W I $	210.—
Lebanon	pound	164.27	Jamaica	pound	1008.—
Aden	shilling	50.40	Bahamas	pound	1008.—
Cyprus	pound	1008.—	Barbados	B W I $	210.—
Singapore	M $	117.60	Bermudas	pound	1008.—
Hong Kong	H K $	63.—	Fulkland Irlands	pound	210.—
Malay	M $	117.60	Netherlands Antiller	guilder	190.89
U. S. A.	$	360.—	Netherlands Guiuna	guilder	190.89
Venezuela	bolivar	107.46	Ethiopia	Eth $	144.90
Ecuador	sucre	24.01	Egypt	pound	1033.78
Canada	Can. $	360.—	Union of South Africa	£ S A	1008.—
Cuba	peso	360.—	Nothern and Southern Rhodesia	pound	1008.—
Guatemala	quetzal	360.—	Iceland	krona	22.10
Costa Rica	colon	64.11	U. K.	pound	1008.—
Colombia	peso	184.61	Austria	shilling	13.86
El Solvador	colon	144.00	Netherlands	guilder	94.75
Chile	peso	11.63			
Dominican	peso	860.—			
Nicaragua	cordoba	72.—			
Panama	balboa	360.—			

1. As a exchange in the finance side: Our Big 11 banks had concluded *corres-contract*, with American group 12 banks on April 10, 1949. Later, many other banks has been allowed to conduct foreign exchange business. But, in their case, each foreign exchange bank was acknowledged to hold foreign currency, free transaction in the field of these activities. The exchange foreign business in pre-war period differs now from that of the pre-war period. Formerly the Yokohama Specie Bank had been the only foreign exchange bank, but nowadays there are many and each bank has to establish connection of transaction for foreign bank. Therefore, we are axious to establish a newly specialized foreign exchange bank (However, many the overseas branches of city banks may be.).

2. As to dollar and pound question: We hope for the adoption of the swap system.

3. In addition, completion of the clearing system by prolongation of Japanese-English payment and financial agreements.

4. As our main-customer countries contain almost underdeveloped countries (the South and South Asian countries)——especially sterling area countries and also to be E. P. U. countries, we must analize the real situation of the foreign exchange with these countries, E. P. U. system and actual condition of Pound Sterling and settle.

5. Strict maintance of the existing foreign exchange rate (U. S. $1=¥360.). Exchange control, still needs payment and clearing agreement with mutual understanding. Besides, we maintain gold policy—— for example, gold control act Aug. 1953.

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ON THE OFFICIAL STATISTICS OF FOREIGN TRADE IN THE POST-WAR JAPAN

By Hikoji Katano

I. Introduction

Eight years have passed since the War closed and the spheres of activity of foreign trade, though in the other spheres of economy rehabilitation, or its remarkable begining, in different forms from those of pre-war era, are being witnessed, and although the shackles that have strangled the Japanese economy since the war are being removed gradually——the spheres of foreign tade are still placed within the complicated mechanism with various restrictions. It can not be denied, therefore, that the various statistics published on the foreign trade under such peculiar circumstances, must include some of the complicated factors that prevail in the post-war Japan. More important, in this connection, in the effect of the diminution of the statistical area owing to the loss of a larger half of the territory as the result of the defect. Even with this limitation, the post-war figures are of interest——especially those of foreign trade that have international relation, as they can be contrasted with the pre-war figures and their peculiarity may be discovered.

Here we observe the foreign trade statistics covering the new statistical area which includes Honshu, Shikoku, Kyushu (including the Satsunan Islands north of 30° north) and Hokkaido as well as the islands belonging to those areas. The statistics observed cover only exports and imports, and do not cover the whole international balance of payments.

Our research begins with investigations for processes of collecting the data and publishing the statistics in a sensible form that the characteristics of the statistics may be better understood. And in the following investigations, we concentrate our attention, at first, onto the practical processes of exports and imports that we may observe how to compile the statistics through the above-mentioned processes. Section 2 explains some of the practical trade procedures related to our object. Section 3 illustrates how to collect the data and publish the statistics actually covering the foreign trade. Lastly, Section 4 studies how to adjust these statistics to some more easily manageable indices.

II. Procedures of Foreign Trade

1. *Procedures of Export Trade.*

By the reform of the export procedures, Dec. 1, 1949, the procedures were greately relieved of the government control. And export become free for the most part, the former "Buyer-Supplier Sales Contract" having been, in principle, abolished.

The export-procedures, under the changed circumstances, are to be executed in the following order:——

Now supposing a Japanese exporter has entered into a contract with a foreign importer to export some goods. This cantract is required to have the prior permission of the Minister of International Trade and Industry, if it is for the export of Processing by commission, or a Compensation Arrangement export (Barter). With other contracts, the prior permission of the Minister of International Trade and Industry is, in principle, not required. Again for the export of the (a) special goods designed by the Cabinet Order (chiefly strategic materials and materials deemed neceessary to retain by the government from the view point of domestic demand and supply) and for the export (b) of Processing by commission or by Barter contract and for (c) the export for which the means of account settlement is based on other means than the standard means decided by the commision regulations of the Foreign Exchange

Control Board, and (d) for the export of the goods belonging to a businessman who had been ordered to receive export recognition, the goods coming under the above description must obtain permission item by item. Otherwise, exports need no government permission as principle.

Then, presenting the complete documents (Export Declaration (5 copys), Letter of Credit (L/C) or Letter of Authority (L/A), the permitted Contract (if required) the prior permission of the Minister of International Trade and Industry is required and the licenced Application for Licence to Export (if the licence of the Minister of International Trade and Industry is required)) to the Foreign Exchange Bank, the exporter is licenced by the Foreign Exchange Bank on the reverse side of Export Declaration.

This licence procedure by the Foreign Exchange Bank is, in principle, taken upon all exports on bill before shipping, but this is not necessary for (a) a small export amounting to less than 5,000 yen (¥5,000) at FOB prices (if, and only if, the cost of the goods are payed under the method of standard payment arrangement determined by the Commission Regulation of the Foreign Exchange Control Board), (b) an export of samples of merchandise and articles without compensation amounting to less than 500 dollars ($500) (whether the export without compensation is to be permitted or not is decided by the Customs House, and (c) exports of a personal effects of the outgoing personel or emigrant.

The Foreign Exchange Bank shall licence the above-mentioned Export Declaration, and then should send a copy to the Minister of International Trade and Industry and hand back the remaining 4 copys to the exporter together with L/C and others.

Next the exporter, after drawing up documentary bill, contracting for transport and insurance of the export merchandise, and go through customs formalities with the Export Declaration licenced by the Foreign Exchange Board (4 copys) and the Commercial Invoices (3 copys). Then, for the exports amounting to less than ¥5,000 at FOB prices and the exports of samples of merchandise to less than

$500, the exporter may receive the Customs House's Certificate with the Export Declaration (applied for at the Custom House) (2 copys).

The Custom House, after confirming the Export Declaration (presented by the exporter) which had been licenced by the Foreign Exchange Bank and had finished the procedure before it comes to the Custom House, may permit to export if customs formalities are complete in the above-mentioned Declaration and Invoice. Next, the Custom House makes one copy of the Export Certificate from a copy of Export Declaration, and further, confirming the loading after loading is done, and correcting the 3 copies of Export Declaration by the statements on the certificate according to the above confirmation, holds each copy of Export Declaration and Invoice, sends each copy of Export Declaration to the Minister of Finance and the Foreign Exchange Control Board, and gives the Export Certificate and Invoices (2 copies) back to exporter. If Export Declaration is confirmed to be not required to be licenced by the Foreign Exchange Bank, the Customs House, as long as Export Declaration lacks nothing to go through customs formalities, makes one copy of Export Declaration into the Export Certificate, and, after confirming the loading when the shipping is finished and correcting the other copies of Export Declaration by the statements in the statements in the Certificate, restores the Export Certificate to exporter and sends the remaining copy of Export Declaratation to the Minister of Finance.

After the shipping, if the exporter wants to collect the value, he shall present the means of payment, viz. the Export Declaration confirmed for shipping (the original of the Export Certificate), Commercial Invoice and the other Shipping Documents (Invoice for consigned, Bill of Loading, Insurance policy, etc.), L/C, etc., according to the methods of payment stated in the Export Declaration, and shall request the Foreign Exchange Bank to buy or commission others to collect the exchange. Then the Foreign Exchange Bank drawing a money order will pay the money in yen to exporter, in a case the Export Bill is bought, or the value of the export merchandise and articles are collected from the addressee, the Shi-

pping Documents are received at the Foreign Exchange Bank (this case is of Open account not depending upon L/C or L/A). And further the Foreign Exchange Bank presents a report as to the methods of payments and the amounts to the Bank of Japan (Agency of the Foreign Exchange Control Board).

2. *Procedures of Import Trade.*

Private imports were permitted to reopen on January 1, 1949, under the Memorandum for Japanese Government from GHQ, SCAP, issued on October 21, 1948. Moreover the new import procedures have been determined by the Cabinet Order and Ministerial Ordinance, which are mainly based on the Foreign Exchange and Foreign Trade Control Law passed at the Sixth Special Session of the Diet.

Under this newly regulated import procedures, Japanese import is adjusted by the Foreign Exchange Budget decided by the Cabinet Ministers' Conference, which is composed of the Prime Minister (the president), the Ministeres of Finance, International Trade and Industry, Agriculture and Forestry, and Transportation (Commissioners), Director of Economic Concil Baord (Commissioner), and Chairman of the Foreign Exchange Control Board (Advisory Commissioner). The trade value of Japanese import is determined by the amount appropriated for the expenditure side of the Foreign Exchange Budget which is made quartarly according to import areas and commodities.

The Minister of International Trade and Industry, within the limit of the Foreign Exchange Budget, and in accordance with the decision of the Cabinet Ministers' Conference announces the following items:——the list of the goods applied for permission to import (the goods that were not limited in the budget are grouped together as "miscellaneous", and their amount in value is disignated, and for a part of this amount a quota of foreign fund is given and for the rest the endorsement of the Bank), import area, limit of the import value, the raito of guaranty, wheter the foreign fund quota is needed or not, and the designations attached to the announcement of Cabinet Ministers' Conference, the opening and closing date of Bank applica-

tion, and other necessary items.

Then, an importer who has negotiations and determination to import will apply for licence to import to the Foreign Exchange Bank during the time for application according to the import statement based upon the above-mentioned institutions. The permission of the Minister of International Trade and Industry is, in principle, not required; the import can only be licenced after the permission of the Minister of International Trade and Industry, if it is of the following special cases: (a) when importer wants to import over the stated import limits, (b) when he wants to import out of the other areas than the stated areas, and (c) when he wants to import by other means of payment than the standard payment arrangement determined by the Foreign Exchange Control Board.

In order to be licenced by the Foreign Exchange Bank after the satisfying of the above-mentioned conditions, the importer has to present 5 copies of Application for Licence to Import, and at the same time, leave the security in the Foreign Exchange Bank. The value of this security is computed based upon the ratio appointed for commodities by the Minister of International Trade and Industry at the time of the announcement. The importer should lodge security to guarantee to fulfill the import contract; when the import after the licence of the Foreign Exchange Bank is not completed within the effective period to import, it is confiscated by the national treasury within twenty days from the last day of the effective period. In special cases, however, it is given back to the applicant without confiscation.

The Foreign Exchange Bank, when they receive the Application for Licence to Import, must confirm whether the following items are satisfactory or not; (a) the import is within the stated items, (b) there is some balance of the Foreign Exchange Budget to the amount of the required value, if the fund in foreign currency is demanded for that import, (c) the import receives the quota of the funds in foreign currency, if it requires the quota from the Minister of International Trade and Industry, (d) the import has received the

permission of the Minster of International Trade and Industry, if that is required, (e) securities are deposited to guarantee that import, and (f) payments of freight and insurance premium are payable, if they require any foreign currency. When the above-mentioned items are all satisfied, the Foreign Exchange Bank will endorse of licence on 5 copys of Application for Licence to Import, and give 2 copys back to the importer as the Import Certificate (authorized and in duplicate copys). And for the remaining 3 copys, one copy is kept in reserve, and the other 2 copys are sent to the Minister of International Trade and Industry and the Foreign Exchange Control Board respectively. In addition, the effective period of the Import Certificate of the Foreign Exchange Bank is, in principle, six months after the delivery of it. Hence the importer must complete the procedure in the Customs House. This makes long-term contracts impossible to be entered, but if the exporter presents the application, with senisble reasons, to postpone the period during which he manages his business, and if it is permitted to be appropriate, his application will be permitted by the Foreign Exchange Bank. Morever, the long-term contract budget system, which came toe ffect with the Foreign Exchange Budget in Octover to December, 1950, has relieved the restrictions of the effective period of the Certificate.

When the Import Certificate is issued by the Foreign Exchange Bank, the importer requires, as is his custom, the Foreign Exchange Bank to establish L/C for him, and then sends it to the foreign exporter. At that time, the importer sends also the duplicate copy of the Import Certificate by the Foreign Exchange Bank, if the foreign exporter requires it.

When the L/C is received in the hands of the foreign exporter and the Documentary Bills are drawn upon after the various procedures have been gone through, the Foreign Exchange Bank in that place will buy the Bill or will request others to collect the amounts of the Bill. Then the Foreign Exchange Bank in the exporting port requests, in turn, to collect of the Bill, transporting of the Bill together with the Shipping Documents to the head or

branch office or the correspondent in Japan. Then the Foreign Exchange Bank requested to collect the Bill in Japan shall report of the methods and the amounts to the Bank of Japan as Agency of the Foreign Exchange Control Board. At same time, if the Bills are adressed to the Foreign Exchange Bank that L/C, the Foreign Exchange Bank requires to pay the Bills to the importer for delivery of the Shipping Documents, or makes a loan on the Shipping Documents to the importer for a while in place of the Trust Receipt by himself. If the Bill is adressed to the importer, and if it is a bill at sight, he may receive the documents to pay the money at once at persentation of the Bill for acceptance. Though it be a bill at sight, if it is of Documents against acceptance, the complete Documents are delivered to the importer by acceptance of the Bill; if it is of Documents against payment, that is delivered to the importer by payment of the bill, but the importer may make a loan on the Shipping Documents by giving a security to the Foreign Exchange Bank and presenting the Trust Receipt written that he shall deliver and keep the merchandise and articles imported as a proxy of the Foreign Exchange Bank. when the importer cannot receive the Shipping Documents until entrance of the vessel, he may be given the delivery order by the Shipping Company in place of the Trust Receipt written that he will surely presents the Shipping Documents to the Company some day. Then the Shipping Company may require the Foreign Exchange Bank's joint liability with the importer or the security.

When the vessl enters, the importer presents the above-mentioned Import Licence Certificate (authorized copy) together with the Invoice of Exporter to the Custom House. The Custom House receives them, and, if there is no deficiency in the Invoice and other documents, the Import Licence Certificate may be confirmed at once for any merchandise and articles on the free list, or after payment of duties for any customable merchandise and articles. Then the confirmed Import Licence Certificate is given as the Import Certificate back to the importer. Next the importer indorses the

Shipping Document (or, as was above-mentioned, presents the Trust Receipt to receive the delivery order), and, at the same time, presents the Import Certificate to take delivery of the merchandise and articles. At the same time, if the imdort is of the Processing Deal Contracts, the importer may present Application for Entry of Goods into Bonded Manufacturing Warehouse to receive the Certificates respetively, and takes delivery of that goods, And then the Customs House sends these Certificates to the Minister of Finance.

Thus, finally, the procedures of import trade may be finished with the payment of the cost according to the contracts with the exporter (remittance or payment of the Import Bill). From the point of view of the economic situation at present in Japan, however, the drawing of the bill at sight is impossible, hence importers may require to draw a dated bill for the payment of its cost as negotiated with the exporter, which is different from the case of Japanese export. For the same purpose, Usance system is carried into effects in the way that the Bank of Japan purchaces the funds in foreign currency from the Foreign Exchange Control Board and makes a loan to the Foreign Exchange Bank. The loan period is, in principle, within 90 days after the period from the day of establishment of the Import Letter of Credit to the day of arrival of the Import Bill and the other documents to Japan, which is supposed as a minimum necessary period for management of the funds.

III. Construction of Foreign Trade Statistics

Foreign trade statistics in the post-war Japan was constructed with the documents which were sent to the Minister of Finance or the Foreign Exchange Control Board from the Foreign Exchange Bank and the Customs House during the processes of the foreign trade procedures described in the previous section.

Foreign trade statistics in the post-war Japan are composed of the Statistics of Export Licence by the Foreign Exchange Bank (in dollars) and the Statistics of Import Licence by the Foreign Exchange Bank (in dollars) of the Ministry of International Trade and

Industry. The Statistics of Foreign Trade at Customs House (in yen) of the Ministry of Finance, the Statistics of Foreign Trade (in dollars) of the Economic Council Board (generally speaking, this is constructed from the same materials as that of the Ministry of Finance's Statistics), and the Statistics of Foreign Trade by Settlement Areas (in dollars) of the Bank of Japan as an Agent of the Foreign Exchange Control Board.

In the first place, let us picture in our mind the flow of the documents on the course of foreign trade procedures, as was

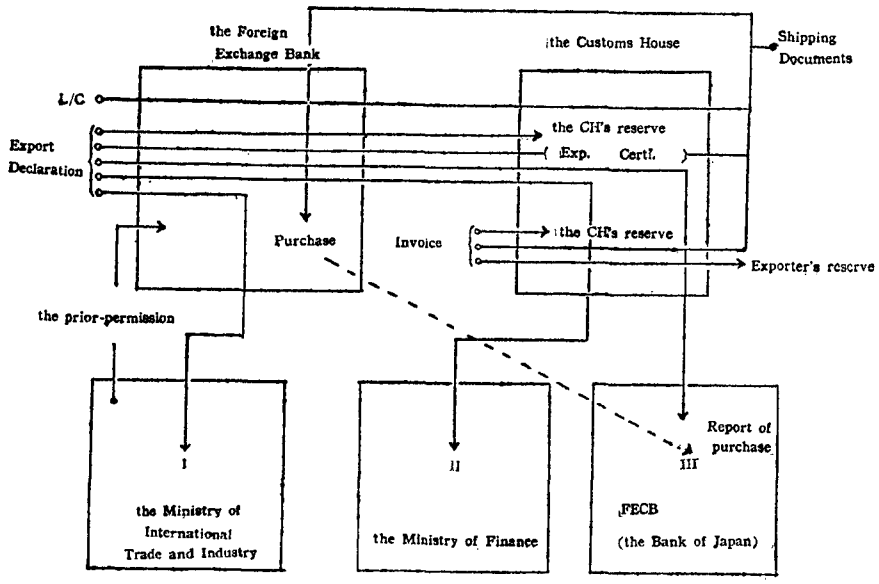

Figure I.

described in the previous section. We have Figure I for export procedures and Figure II for import procedures. Then, we can easily understand what documents make up the above-mentioned statistics. These statistics are further analyzed in detail in this section of the article.

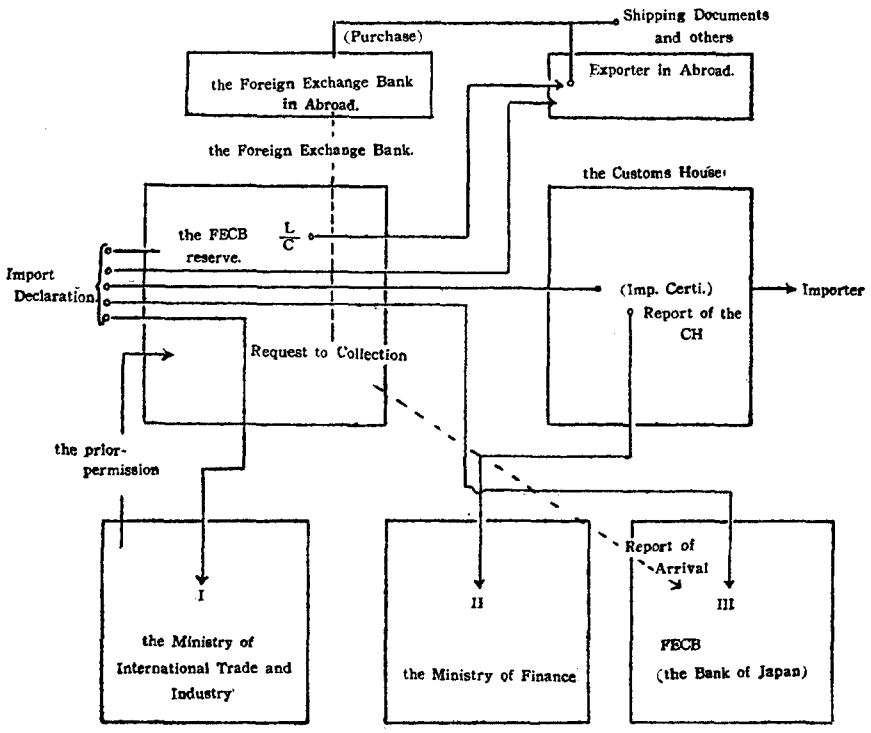

Figure II.

1. *Statistics of the Ministry of International Trade and Industry.*

A. Statistics of Export Licence by the Foreign Exchange Bank.

The statistics has been constructed at the Export Section in the International Trade Bureau. The materials used are composed of the statements in back of the Export Declaration (the Export Certificate licenced), which is, as was above-mentioned, licenced by the Foreign Exchange Bank in reference to L/C or L/A and the other documents sent from the importer in a foreign land prior to application to export for the Customs House under the Foreign Exchange and Foreign Trade Control Law. Hence, in this statistics, there are contained all the exports that have drawn an exchange, but all free exchange exports are not contained at all. Although the exchange needs to be drawn, those figures are not contained, if it is of a small export amount of less than 5,000 yen at FOB prices and its payments are below the methods of standard payment arrangement determined by the Foreign Exchange Control Board.

The statistics is compiled at the date that the Minister of International Trade and Industry receives the Export Declaration from the Foreign Exchange Bank via the Regional Bureau of International Trade and Industry (in Tokyo region, it is sent to the Minister of International Trade and Industry immediately). And the statistics are, in principle, summed up to the monthly statistics at each calendar month. There is, however, an unavoidable time-lag between the statistical timings in Tokyo region and in the other regions owing to the necessary time taken by mail.

The statistics is computed at the value of exchange in dollars Any detailed value by commodity are not presented. And only the values by commodity group and by area has been presented.

In the statistics, though there are amended or canceled exports within those licenced by the Foreign Exchage Bank, they are not objects of correction in the statistics. The reason is that the statistics are, strictly speaking, not the report of actual results of exports, but the indicator of export trend. (A part amended or canceled may be estimated about 1% to the total value of export.)

The statistics are published in the form of decadal and monthly reports since January of 1950; the decadal has been published every time after ten days since the total summation had been made. Though this is not strictly real statistics, they are used widely because of the above-mentioned fact that it is published early compared with the Statistics of Foreign Trade in the Customs House, and therefore an export trend diagnosis may be made early. The licences to export by the Foreign Exchange Bank take much time befor shipping in made and exported.

The statistics are, in general, published in the Monthly Bulletin of Statistics of the Ministry of International Trade and Industry.

B. Statistics of Import Licence by the Foreign Exchange Bank.

The statistics have been compiled at the Trade Inspection Section in the International Trade Section. The materials used are composed of the statements on the reverse side of the Import Declaration, which is, as was above-mentioned, licenced by the Foreign Exchange Bank and then sent to the Minister of International Trade and Industry from the Foreign Exchage Bank. Hence, there is no difference as to the contents compared with the Statistics of the Export Licence by the Foreign Exchange Bank.

The date of statistical timing is the same as the one in the case of the Statistics of Export Licence by the Foreign Exchage Bank; the statistics are computed at the date that the Minister of International Trade and Industry receives the Import Declaration from the Foreign Exchange Bank via the Regional Bureau of International Trade and Industry. And the statistics are also summed up to the monthly statistics for each calendar month. Time-lag of the materials from the Regional Bureau of International Trade and Industry is unavoidable technically.

The way to express the value in dollars is just like the case of the Statistics of Export Licence by the Foreign Exchange Bank, but the classification of materials are more rough (only grouped into government and private). And, as to the corrections for the imports amended or cancelled, there is no difference with the Statistics of

Export Licence by the Forein Exchange Bank.

Moreover, the statistics are not published periodically; it is only published on the "Tsusansho-koho" or the "Tsusan-koho" irregularly. But as to the Statistics of Import Licence by the Foreign Exchange Bank since Januarry of 1950, there is published on the Statistical Bulletin of Financial Statistics (the "Zaisei-kinyu Tokei Geppo") of the Ministry of Finance, Vol. 35.

2. *Statistics of the Ministry of Finance.*

Statistics of Foreign Trade by the Customs House.

The statistics have been constructed at the Research and Statistics Section, Customs Division, Tax Bureau.

The materials used are based on the information contained in those Export Declaration, Re-shipment Declaration, and other documents (for export) and the information contained in those Import Declaration, Application for Entry of Goods into Bonded Warehouse, Application for Entry of Goods into Bonded Manufacturing Warehouse, and other documents (for import) which were filed with the Customs House and sent to the Research and Statistics Section from the Customs House. The correction as to the claime established goods has to be added to the statistics; then the correction may be based upon the declarations to re-ship the claime established goods which are sent to the Research and Statistics Section from the Customs House.

In the Research and Statistics Section, upon the above-mentioned materials, statistics of exports are computed on the date of clearance outwards of the vessels carrying the goods for exportation; for air freight cargoes, it is counted on the date of export licence. Statistics of imports are computed in the following way;——for foreign goods cleared directly into the domestic commerce, they are computed on the date of the import licence; for foreign goods entered, before the import permit is obtained, into a bonded warehouse or a bonded manufacturing warehouse, they are computed on the date of permission for such entry; and for foreign goods permitted to be

delivered into the domestic commerce prior to the issuance of import licence, they are computed on the date of such permission.

The value for exports is at the FOB prices and that for imports is at the CIF prices. The unit of value is yen (¥). To round off the figures, a number less than half a unit may be disregarded and a number more than half but less than one unit be treated as a whole unit.

Goods are classified according to the Statistical Classification of Commodities for Foreign Trade (Ministry of Finance Notification No. 1749 of Nobember, 1951), which was compiled, using the United Nations' "Statistical International Trade Classification", as model which was brought into effect since April 1, 1951. The goods included in the statistics for the period from January of 1950 to March of 1951 are those as listed in SCAP Memorandum PS 68 September, 1949, concerning the Statistical Classification of Commodities, Imported and Exported. Units of quantity for the items of goods are the same with those for the identical items of goods listed in the above Statistical Classification of Commodities for Foreign Trade.

Next for the classification by the country, in principle, exports are classified by the country of destination, and imports by the country of manufacture. However, those exports and imports, to which this principle cannot be applied, are classified according to the country to which belongs the port of destination or shipping. (A classified list of the countries and their territories will be inserted in the Monthly Returns for January, June and December at the ends.) And as to the released goods from the United Nations Forces in Japan, it is classified according to the countries to which belong that United Nations Forces.

The statistics issued by the Research and Statistics Section are arranged in order of the earlier publication date, they are as follows: (a) Decadal Returns of the Foreign Trade of Japan and Rapid Report of the Foreign Trade of Japan, (b) Outlook of the Foreign Trade of Japan and Monthly Returns of the Foreign Trade of Japan, and

(c) Annual Returns of the Foreign Trade of Japan.

(a) Decadal Returns of the Foreign Trade of Japan and Rapid Report of the Foreign Trade of Japan.

In the Customs House of the Local Branch Office, the actual results of foreign trade are summed for three periods (the first, the second, and the last decades) for each month subject to the Export and Import Declarations and the results are reported following the form to the Research and Statistics Section by telephone or telegraph. In the Research and Statistics Section these results are compiled to make up the Decadal returns. However, this Decadal Returns have the significance of quick report, and not classified in details (only by main commodity and not by country).

The Decadal Returns are published with ten days lag generally in each decade. And since September, 1950, the Rapid Report which is bound together into one volume for three Decadal Returns within the same month, is published at the same time of publication of the Decadal Returns of the last decade.

(b) Outlook of the Foreign Trade of Japan and Monthly Returns of the Foreign Trade of Japan.

The Outlook and Monthly Returns are issued compiling the materials (the Export and Import Declarations and the other documents) sent from the Customs Houses of every Local Branch Offices to the Ministry of Finance periodically. The standard compiletion is by the above-mentioned statistical timing, classifications of goods by commodity and by country, unit of quantity and value. And the objects counted are composed of domestic products imported, foreign products re-exported, foreign products imported, domestic products re-imported, re-shipped goods from bonded warehouse or bonded manufacturing warehouse (the goods that were re-shipped after processed or manufactured are included in domestic products), foreign goods entered into the bonded warehouse, and foreign goods entered into the bonded manufacturing warehouse. Special statistics are compiled as to 14 items for exports and 18 items for imports which include gold coins and gold bullions, current paper money, goods

belonging to the chief of a state, his family members, or his entourage, etc.——

These general statistics are issued with those tables which consist of Exports and Imports by country, Exports by commodity, principal Imports by country, Exports and Imports by Ships (or Aircrafts) Nationality, and Exports and Imports by ports. Moreover, these statistical tables are corrected even after the publication, if there is added any declarations or documents for claim established goods to the Research and Statistics Section. These effects are published in the table of accumulated values and quantity, and other tables in the Monthly Returns.

The above-mentioned operations take about two months to complete the collection of the materials. Using these date, the Research and Statistics Section issues the Outlook of the Foreign Trade of Japan (this is for insiders but published in general) and the Returns of the Foreign Trade of Japan in more detail than the former.

The Monthly Returns of the Foreign Trade of Japan has been re-issued since January, 1950, in the post-war period after it had been suspended.

(c) Annual Returns of the Foreign Trade of Japan.

The book is constructed by summing up and binding Monthly Returns together into one volume at the close of each calender yerr, which is composed of Part I "Commodity by the country" and Part II "Country by the commodity" for export and import respectively. The standards by which it is constructed are the same as the Monthly Returns, but the clasification of goods by commodity are more in detail.

3. *Statistics of the Economic Council Board.*

This statistics had been constructed at the Foreign and Domestic Commerce Division, ESS, GHQ, SCAP. And after that the work has been taken over by the Statistics Section of the Research Division in the Economic Council Board.

The sources of data, classification and statistical timing and tabulation are, in general, the same as of the statistics of the Reseach and Statistics Section.

The statistics are in dollars. But, because of the fact that the statistics in former days contain the exports and the imports compiled under the double exchange rate system, the trade vales in that days cannot be of same values as those converted to yen at the official rate $1 to ¥360; especially for import, statistical timing is earlier than in the case of the statistics of the Research and Statistics, and the additional data, which were usable before receiving the declarations, such as Receipt for Import, G-4 Report for petroleum, etc., are also used desides general materials. Hence, imprt value may not be the same with the value converted at the official rate from the import value in the statistics of the statistics of the Research and Statictics Section.

The publication of this statistics is as usual in Japanese Economic Statistcs, Section II——Foreign and Domestic Commerce, but the publishers are as follows: GHQ for No. 36-68, the Economic Stabilization Board for No. 68, and the Economic Council Board for No. 70-present.

4. *Statistics of the Bank of Japan.*

Under these condiditions, most of the imports in the post-war Japan had been imported with the United States funds and in foreign currency furnished to us for the export, which had been all under the GHQ control, and the statistics of foreign exchange had not been published. However, a part of management of the funds in foreign currency was transfered to the control of the control of the Forein Exchange Control Board in November of 1949. And the Foreign Exchange and Foreign Trade Control Law was promulgated in December 1, 1949. This Law has been put in force on December 1, 1949, for import control and in January 1, 1950. Consequently, the funds in foreign currency were made to be bought by the Foreign Exchange Bank or the Exchange Broker and further to be con-

centrated in the Special Account for Foreign Trade. The funds thus secured were allocated for imports and other purposes via the Foreign Exchange Budget.

In the Foreign Exchange Control Department, the Bank of Japan as an Agent of the Foreign Exchange Control Board, the statistics of foreign exchange had been compiled at each decades in the past, and in September of 1951, the Statistics of Foreign Trade by Settlement Area had been made to cover the trade up to January, 1950, and the work still continues.

The statistics are based on the information contained in those reports to buy export bill for export, and the reports of the arrival of shipping documents to import. And the statistics show amount of foreign trade transaction, the accounts of which were settled by means of foreign exchange as summed up at date of purchace or sale of drafts.

The value of both exports imports is based on the face value of drafts and in censequence comprises different categories of prices such as FOB or CIF. And the staistical figures are all in dollars; the conversion rate adoped for pound sterling into dollars is £1 to $2.80 throughout.

In this statistics, the following points should be noticed; (i) as to the imports according to the GARIOR funds, those which are imported at the begining by the settlement of exchange and then made up for the foreign currency corresponding to the peyment by the GARIOR funds, has been counted in general import, (ii) as to those which have received the payment directly for the supply of goods to the United Nations Forces (old Occupation Forces), they have been counted in the export until the end of 1950, but not so counted as invisible exports and imports since January of 1951. (iii) Finally, as to the procurement demanded through check in dollars by the United States Government, it had been assumed as exports until the end of 1950 but it has not bene so counted as export since January, 1951.

The statisties have been, as was above-mentioned, published since

January, 1950.

IV. Construction of Foreign Trade Indices

Side by with the above-mentioned Forign Trade Statistics, the Foreign Trade Indices are also computed.

In the post-war period, the Agents that were caluclating the foreign trade indices systematically were only the Economic Council Board and the Customs Division of the Ministry of Finance.

1. *Indices of the Economic Concil Board.*

Considering the strong dependence of Japanese Economy upon the foreign trade, the Economic Council Board has attempted to construct the basic indices systematically in order to analyze the effects of foreign trade upon Japanese Economy.

In the Economic Council Board, the basic materials are collected from the information containd in those Statistics of the Ministry of Finance (for the pre-war period) and Statistics of the GHQ and the Economic Council Board (for the post-war period). However, there is some serious difference, that is, the fact that the former is in yen and the latter is in dollars, and the worst of it is that there was a great change in the Japanese territory between the pre-war and the post-war periods. As to the first point, in order to connect the pre-war statistics in yen with the post-war statistics in dollars, the Economic Council Board converts the statistics in yen into the one in dollars at the average rate of exchange (Yokohama Telegraphic Transfers) for the period of 1934-36. And as to the second point, the Economic Council Board adjusts the territory in accordance with the post-war Japanese territorial expanse as follows: for exports, former domestic exports (excluding export of Sakhalin) *plus* imports of Korea (excluding imports of Korea from Formosa) *plus* imports of Formosa (xcluding imports of Formosa from Korea) *plus* imports of Sakhalin; for imports, former domestic imports (excluding imports of Sakhalin) *plus* exports of Korea (excluding exports of Korea to Formosa) *plus* exports of Formosa (excluding exports of Formosa

to Korea) *plus* exports of Sakhalin. In the process of this calculations, an adjustment of expors and imports of Korea and Formosa from/to Sakhalin are incomplete, but this incompleteness are unavoidable because of the lack of materials. (This differences are negligible except with some special commodities.) And there are mixed different categories of prices, such as FOB and CIF, but to distinguish between them is very difficult.

The Economic Council Board calculates the Freign Trade Indices since January of 1948, which makes the average value for the period of 1934-36 as the base. In the first place, the Economic Council Board choses 199 items (for exports) and 136 items (for imports) as the commodity to be made the objects of calculation. These commodities are selected all according to the selection of the Statistical Classification of Commodities for Foreign Trade.

(a) Trade value index.

Trade value index is calculated as follows, for both complex index and individual index;

$$I_v = \frac{\sum P_t Q_t}{\sum P_o Q_o},$$

I_v: trade value index,

P: unit price,

Q: quantity,

T: time compared,

O: time based.

(b) Unit price index.

Unit price index is calculated as follows, for both complex index and individual index; that is, the base of the pre-war index (1934-36) is linked by means of Fisher's formula to the base of the post-war index (1949 base for 1948, 1950 base for since 1949), which is calculated by Laspeyres formula. Unit price was computed in dollars.

$$I_p = \frac{\sum P_t Q_1}{\sum P_1 Q_1} \sqrt{\frac{\sum P_1 Q_o \sum P_1 Q_o}{\sum P_o Q_o \sum P_o Q_o}},$$

I_p: unit price index,

I: time based in the post-war period,
O: time based in the pre-war period.

In the other words, this unit value index may be made by multiplying the ratio of the unit price at the time based in the post-war period to the average unit price at 1934-36 onto the unit value index based at the basic time in the post-war perod; this ratio is calculated with a help of Fisher's formula using weights in the pre-war and the post-war periods relating to 199 items for exports and 136 items for imports. And unit value index based on the basic time in the post-war period is calculated with a constant weight relating to the values of exports and imports during the basic year.

(c) Quantity index.

The indexization as to quantity in itself is not done; there is divided trade value index by unit price index;

$$I_q = \frac{I_v}{I_p},$$

I_q: quantity index.

This operation is the same as in the cases of both complax index and individual lndex.

(d) Terms of trade index.

This is calculated by dividing export unit price index by imprt unit price index,

$$I_T = \frac{I_{pe}}{I_{pi}},$$

I_T: terms of trade index,
I_{pe}: export unit price index,
I_{pi}: import unit price index.

This operation is also the same as in the case of both complex index and individual index.

It follows that the foreign trade indices by the Economic Council Board have the condition that quantity is an indispensable element for calculation of unit price lndex (hence, the items without quantity cannot be taken), and that there is some ratio which makes possible to convert the difference in measuring unit for the pesioc between the pre-war and the post-war periods. Accordingly, these

conditions restrict the calcultion of the foreign trade indices of the Economic Council Board.

2. Indices of the Ministry Finance.

The Ministry of Finance has been trying with almost the same objects as the Economic Council Board, but they have concentrated their attention into the trend of the prices in foreign trade.

The materials used to make these indices are based on the information contained in the Statistics of Foreign Trade, which are constructed by the Research and Statistics Section of the Ministry of Finance. Compared with the Statistics in dollars of the Economic Council Board, there may be a considerable difference between them, for the period before the establishment of official rate in the Spring of 1949.

The bases which make possible to calculate these indices are quantity, trade value and unit price (this unit price is obtained by dividing trade value by quantity) which are calculated by averaging the total sum for 1950. (And this base was of 1948 in the past, but now this has come to be of the above-mentioned data, since 1950 is supposed as an appropriate year when Japanese Economy had reached to a generally stable situation.) (Unit price index is called price index in the case of complex index.) Those items for which base year cannot be taken the monthly average of the year to be compared to may be taken.

Next, the items used to construct this index are chosen of the selected items as to constitute 90% for exports and 87% for imports. This revision had been done according to the adoption of the new Statistical Classification of Commodities for Foreign Trade subjects by the advice of the United Nation in April, 1951, just when the revision had been felt urgent. (For the period before that time, there had been 453 items for exports and 183 items for imports respectively, but the choice was not suitable at that time because of the conspicious change of economic situations in Japan.)

The Ministry of Finance has calculated a complex index and an

individual index using the above-mentioned materials; they have calculated quantity index, trade value index and unit price index in an individual index, and quantity index and price index in a complex index.

(a) Individual index.

Because of the fact that quantity for the individual items in the statististics of the Ministry of Finance, is shown to be possible to calculate trade value index, quantity index and unit price index directly. Hence, there is no quesion for the calculation.

It must be noticed that this unit price index is the one constructed from the most detailed items in the Statistical Classification of Commodities for Foreign Trade and the indices which are synthesized from the former indices may be treated as complex indices.

(b) Complex index.

Trade value index offers no quesion to be investigated. Price indices are calculated by the Edgeworth's formula, and quantity indices are obtained by dividing trade index by quantity index. That is;

$$I_v = \frac{\sum P_t Q_t}{\sum P_o Q_o},$$

$$I_p = \frac{\sum P_t (Q_o + Q_t)}{\sum P_o (Q_o + Q_t)},$$

$$I_q = \frac{I_v}{I_p},$$

I_v: trade value index,
P: unit price,
Q: quantity,
I_p: unit price index,
I_q: quantityindex,
o : time based,
t : time compared.

As to the procedure to synthesize the calculation of price index, the covering method may be used. This method can indicate the items from the least classification to the medium and the largest in order. To synthesize the index from the sub-indices, a ratio between

the total values of separate items may be used as a weight. Using this method, when the synthesis as to prices is taken in accordance with the subclassified items, the synthesis becomes possible with an aid of the weight composed of the total sum of value including "misellaneous", if there is a miscellaneous item and lacks the quantity for the item.

However, when the synthesis for quantity is taken, the synthesis is possible, since the total sum of quantity inclcuding "miscellaneous" item must not be taken. Therefore, as to the quantity index, this may be calculated by dividing trade value index of the items by complex price index for sub-classified items. Hence, as to those which must be calculated by the covering method and contain some miscellaneous items in the sub-classified items, quanty index cannot be obtained by using the Edgeworth's formula. In the former days, quantity index had used, in principle, Edgeworth's formula, but now that is obtained by dividing the trade value index by price index.

This complex index has been issued by commodity and by group for exports and imports respectively. The index by commodity has, in general, the same form as the Statistical Classification of Commodities for Foreign Trade, though it is readjusted. And the index by group is synthesized to the groups corresponding to the most rough items of the statistical Classification of Commodities for Foreign Trade. The index by group is calculated in the same way as in the case of the complex by commodity.

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ON BUSINESS HISTORY

By Tadakatsu Inoue

Among the works that trace the general historical development of business or business units in various successive stages, we are most interested in N. S. B. Gras' *Business and Capitalism: An Introduction to Business History* (1939), J. Löffelholz's *Geschichte der Betriebswirtschaft und Betriebswirtschaftslehre* (1935), and Felden-Zakrzewski's *Betriebswirtschaft, ihre Geschichte* (Handwörterbuch der Betriebswirtschaft. 1926). The first represents the study of business history in the United States, and the other two that in Germany. These works well indicate what business history is, that is, its subject, objective, and the technique that the study engages.

1

The business history which has been developed by N. S. B. Gras and his co-workers since late 1920's is primarily the study of the administration of business units in the past. Business history, thus defined, may be divided into four categories: (1) the business history of individual business units; (2) the business history of an industry, which presents a generalized picture of the administration of the business units which make up the industry; (3) the business history that treats the general historical development of business administration; and (4) the business history that studies the various aspects of the development of the functional divisions of business administration. Gras' *Business and Capitalism* belongs to the third category of business history. The following is the synopsis that covers its major phases.

1. The author traces the development of capitalism in its various stages. "Capitalism," thus defined, means "a system of getting a living through the use of capital," or "a system which combines (a) capital (goods only at first, but later capital fund

also) and (b) management of capital." In other words, there are two processes that must continue side by side——the flow and use of capital, which in turn we may regard as investment and administration. H. M. Larson's *Guide to Business History* (1948) characterizes this concept of capitalism as the administrator concept of capitalism. Indeed, Gras' *Business and Capitalsm* is the first work presenting business history under the name of capitalism because the author's concept of capitalism regards administration as the key factor in the system of capitalism.

2. According to the changes in the type of flow and use of capital and in their interrelation, Gras divides the history of capitalism into stages as follows:

Dualism in the Evolution of Capitalism

Use of capital (business administration)	Flow of capital (investment)
A. Pre-business capitalism	A. Private capital
a. Collectional economy	a. Usucapital
b. Cultural nomadic economy	
c. Settled village economy	
B. Private business capitalism	
a. Petty capitalism	b. Direct putting-out
b. Mercantile capitalism	
	c. Indirect putting-out: passive
c. Industrial capitalism	
d. Financial capitalism	d. Indirect putting out: active
e. National capitalism	B. Public capital: supplementing private capital
C. Public business capitalism	
Communistic capitalism	C. Public capital: supplanting private capital

The author gives chief attention to the systems of private business capitalism.

3. Pre-business capitalism. The use of capital: this system of capitalism existed before businss came upon the scene. "Business," thus defined, means "the administration of labor and natural resources, in partnership with capital, in a process which leads to the *sale* of goods or services," or "the administration that looks towards exchange." The flow of capital: the usucapital system was the only source of capital. Capital had to be used by its possessor

in order to yield an income.

4. Business capitalism. When business enters the system of capitalism, business capitalism is born. There are two principal types: private business and public business capitalism. Private business expects a profit for its service; public business pretends to offer a service without profits.

5. Petty capitalism. The use of capital: the administration of petty capitalists was never controlled by any other business men. Petty capitalists wanted no control except that of the regulation among the equals in gilds or associations. The flow of capital: the direct putting-out system was introduced. But the usucapital system was still the main source of capital.

6. Mercantile capitalism. The use of capital: the sedentary merchant, who was the dominant figure in this system, diversified his risks by integrating his functions; and he influenced or controlled other businessmen's administration through his agents and junior partners, he himself staying at home. The flow of capital: the usucapital system was used, the direct putting-out system expanded and the indirect putting-out system created.

7. Industrial capitalism. The use of capital: the first phase of industrial capitalism was to emphasize production; the second phase was the problem of selling the goods or services at a satisfactory price; and the third phase was concerned with the inside financial strength that involved the turning away from the chief policy of industrial capitalists——operating on the basis of a high degree of specialization. The flow of capital: the usucapital, direct putting-out, and indirect putting-out systems were tapped but the second and the third predominated. However, throughout industrial capitalism, money middlemen have been passive in their relations to their clients.

8. Financial capitalism. The flow of capital: the indirect putting-out system changed from passive to active investment. The use of capital: active investment involved continued control on the part of the money middlemen. Under this control, integration and

diversification were carried out in a relatively short time.

9. National capitalism is a regime of the use by the national government of its power to control the flow and, to some extent, the use of capital.

2

As a specialized field of historical research and study, business history as conceived by Professor Gras is not yet established in Germany. However, this does not mean that there is no historical study of business or business unit in Germany. Among German studies which present the history of business or business units following up various stages, we may refer to J. Löffelholz's *Geschichte der Betriebswirtschaft und Betriebswirtschaftslehre* and Felden-Zakrzewski's *Betriebswirtschaft, ihre Geschichte.*

A

J. Löffelholz, a renowned business economist, finds the most important objective of business economics in cost problems, and in turn, cost problems define the objective of business economics. As the objective of business economics, the concept of business unit, therefore, means "ein Arbeitsorganismus zur Gütererzeugung, bei dem Kosten entstehen."

Putting emphasis on cost problems, the author traces the course of business units in the period from ancient times to the early nineteenth century.

Firstly, cost is either inside or inside and outside concept. The former is applied to economically isolated business units where goods are consumed by the producers. Cost had to arise only inside the business units. "Hauswirtschaftsbetrieb" in the regime of precapitalism typically belongs to this type. On the contrary, the latter is applicable to such business units that stand in a system of production for exchange.

Secondly, cost is either qualitative or quantitative in its expression. When the quantitative measure for calculation lacks, cost

has to be expressed qualitatively. Only when number and money came into being, cost began to be expressed quantitatively. It was not until Renaissance that the quantitative measurement of costs came to prevail. In the pre-capitalistic era, the cost calculation in bnsiness units was qualitative.

Thirdly, cost is either stationary or dynamic in its structure. The former had its place in the business units in the pre-capitalistic era when production was guided by the principle of the maintenance of living. The latter arose in the business units in the capitalistic era when production looked towards profits.

B

According to the changes in the type of spirit, order, and technique and in their interrelation, Felden-Zakrzewski divides the history of business units as follows:

	Der Geist	Die Technik	Die Ordnung
A. Die Idee des eigenwirtschaftlichen Betriebes	1. Bedarfsdeckungsprinzip 2. Traditionalismus	1. empirisch 2. stationär 3. anorganisch	1. Gemeinwirtschaft 2. gebundene Organisation 3. Gemeinschaft 4. Bedarfsdeckungswirtschaft
B. Die Idee des Handwerksbetriebes	1. Bedarfsdeckungsprinzip 2. Traditionalismus	1. empirisch 2. stationär 3. anorganisch	1. Privatwirtschaft 2. gebundene Organisation 3. Gemeinschaft 4. Verkehrswirtschaft
C. Die Idee des kapitalistischen Betriebes	1. Erwerbsprinzip 2. Rationalismus	1. wissenschaftlich 2. revolutionär 3. organisch	1. Privatwirtschaft 2. freie Organisation 3. Gesellschaft 4. Verkehrswirtschft

Undoubtedly, W. Sombart's *Die Ordnung des Wirtschaftslebens*

had a strong influence on this division.

3

The economic and industrial conditions in the United States have come to require business administrators who are able to scientifically meet the changed situation. This, coupled with the philosophy of pragmatism, encouraged the study of business administration which finds its objective in the direction of the administration of business units.

Along with the above trend, the United States gave birth to the study of business history. In 1927, the Straus Professorship of Business History was established at Harvard University by W. B. Donham who proposed that business history should be taught to meet the need of businesscircles to obtain vicariously the long and broad experience attained by actual business life in old days, and the newly created chair was filled by Professor N. S. B. Gras. Thus the nature of the study of business history was determined in the United States as history of the administration of business units. Gras' *Business and Capitalism* is therefore the first book of its kind that traces the general historical development of the administration of business units in its successive stages. It regards business administration ——policy, control and management—— as key factors in the dynamic world, and describes the systems of private business capitanalism —— petty, mercantile, industrial, financial, and national.

As a study of the administration of business units in the past, Gras' business history serves us as a guide in the study of the concept of business history. However, it may be premature to regard Gras' business history as the only type of business history. Should business history be studied as the only text for training men engaged in present-day business administration? Should business history be limited its objective only to the past administration of the business units? In order to solve this question we shall have to refer to *Geshichte der Betriebswirtschaft und Betriebswirt-*

schaftslehre and *Betriebswirtschaft, ihre Geschichte* which were written in Germany

As mentioned above, J. Löffelholz traces the development of business units by emphasizing the cost problems of business units in the past, and Felden-Zakrzewski divides the history of business units into three stages according to the changes in the types of spirit, order, and technique of business unit. However, furthur examination of the German works will make it clear that they also take due interest in examining historically the structure of business units in the past. The German writers take up the problems of either cost or sprit, order and technique because the writers think they will explain the structure of business unit in the past, and not because to learn the technique of the past administraion of business units. Unlike the study of the history of business administration as conceived by N. S. B. Gras, these German studies may be characterized as a study of the history of the structure of business units. As yet the study of the history of business or business units is not well established in Germany as an independent field of academic interest, but in view of the nature of these two works it is not hard to surmise to which direction the German study would tend. (In this connection, we may refer to a historical study of the structure of business units contributed by Professor S. Kurita's *Social Structure of Business Units* to the Review of the Kobe University of Commerce, 1949. According to the changes of social structure in business unit, the writer divides the history of business unit into three stages: Betriebsgemeinschaft, Betriebsgesellschaft and Betriebskörperschaft.)

We have now learned that so far there are two principal types of historical study: the study of the administration of business units, and the study of the structure of business units. What we now propose to write in the next thesis is "what is Business History; especially its objective?"

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PROBLEMS OF REGIONAL INDUSTRIALIZATION IN JAPAN

By Minoru Beika

I

As one of the programs to accomplish the economic independence of our country, the "Unified Nation-wide Development Plan" has been taken up both by the central and local governments, and a portion of the plan has been already legistlated in 1950. Regional industrialization constitutes a part, or rather a principal problem of this plan.

It is commonly acknowledged to-day, that our Development Plan is to follow the pattern set by the T. V. A. plan in the U. S. A. Moreover, our critics point out that our regional plans should learn from the actual experience of the Special Areas Act of 1934 and the Town and Country Planning Act of 1947 in Great Britain, which aim at the development of the depressed areas. Still more, our local communities are eager to attract industrial plants to their community, referring to foreign experiences.

It is quite desirable that our nation-wide development or regional industrialization should follow the patterns in Europe and America, or better still, not to fall into mere imitation, but, keeping in mind our special national circumstances, to strike out a new move in the right direction. But we doubt that, so far as the problem of regional industrialization is concerned, those who are responsible for the problem do realize the difficulty of realization and know where the problem really lies. For regional industrialization to be realized, general advance of economy and industry must be had, but at the same time, the insufficient investigation of the locational conditions and suitability constitutes one of the factors that makes the rea-

lization impossible.

We have no space here to describe at large about our location theory of the industry. In short, the locational problems should be considered related to the industrial character of the locality and the locational feature of the industry. The former, the industrial character of the locality is related to the distance to and from, and specific physical features, affecting the cost of transport and processing. It may give rise to the land use competition and it may limit relatively the location's usefulness for industrial plants. That is to say, each locality has the industrial potentiality for the existence of a plant. The latter, the industry has not only relations to the location factors externally, but also internally to the business feature for its location. Accordingly, for the industry, it is not always important to select the most favorable location, but to adjust the selection by the locational adaptability of the industrial plant.

From this locational point of view, we must, on the one hand, be guided in our research of regional industrialization, by the industrial character of the locality, or by the locational specialities of our country. On the other hand, the business feature relating to industrial location.

II

In our study of the subject of regional industrialization, we propose, in the first place, to consider the industrial character of the locality, or of our country. The results of the industrial research, necessarily reflect, more or less, the actual conditions and special features of the economy and industry of the country, which constitute the prerequisites of the whole problem. Particularly, it is not to be wondered at that the locational problems, as relating to spatialness, reflect their influence more conspicuously on the result. We must keep in mind the above-stated connection, because we give weighty consideration to, and seek guidance from, in many cases, actual results carried on in foreign countries, especially in Great Britain and in the United States of America. In our study of the regional

industrialization, we have to consider their respective backgrounds and their mutual relations, and discriminate the general from the special. In this sense, comparative study of foreign facts throw much light on the locational specialities for industries in our country.

(1) *The cases in the U. S. A.*

In the U. S. A., general regional developments, as the T. V. A. plan, have achieved success in the last twenty years; and also by the later half of this century, industrial areas have tended more or less, to be dispersed, by the endeavor to attract new industrial plants to local communities. I have no space here to discuss the locational problems of the U. S. A., but at least we must remember that they have their own special features for regional industrialization, quite different from ours.

Firstly, most of the industrial production in that country, or above ninety percent of it, is produced for the domestic high purchasing power, which has resulted in the construction of many new industrial plants on several new regions. The American industries, therefore, have wide range of location to select as their site of plant that belong to the so-called market-oriented industries. This is evidently the case, that a number of new plants have been founded in the South after the 2nd World War. These conditions are quite different from those in our country, which will be described later.

Secondly, as the country still has much of undeveloped and unutilized resources all over the land, so her industries tend to disperse quite easily. Now that the industries, it is true, have so highly developed, the former major locational factor as the availability of raw materials is not so important an attraction as the availability of good markets. Nevertheless, the location factor of available resources contributes some service to the regional industrialization practically.

Thirdly, we must keep in mind the specialities of the industrial and commercial features in that country. American industries

depend on high machine methods, standardization, and rational marketing system, adapting the manufacturing procedure to meet the requirements. Great national and international enterprises have expanded enormously upon these conditions. Their regional industrialization, too, is influenced by these specialities. On the contrary, our industries are very far from being mechanized and standardized, and are encumbered by the complicated industrial and commercial features of a number of middle and small scale businesses.

Fourthly, as the U. S. A. has an extensive territory, or 20 times as large as our country, the locational problems for manufacturing industries in the former, have very different scope from that of the latter. For example, the Tennessee Valley area for the general development plan, is nearly the same as that of all Japan. Hence, although each is called "general" plan, each has different nature and scope respectively. Truly it may be taken as a progress that our "unified general" plan combines the mountain and river improvement, electric power development, agricultural cultivaton, and regional industrialization in certain districts. But if the plan adheres to the so-called "unified general" plan only in a limited area, it could not accomplish the purpose because of the adverse effect of block economy for that district, because our country has but narrow territory to start with. For instance, our electric power development can not always be considered in connection with the regional industrialization of a certain district, and sometimes it is not even wise to do so.

Thus the locational features of the American industries are so different from ours as was described above.

(2) *The Case in Great Britain*

Great Britain seems to be similar to our country in certain conditions, because its territory is only two-thirds as large as ours, and is dependent highly on the exporting trade just like Japan. But British policies for depressed areas, or regional industrialization, may serve no more than those of the United States. And if one

thoroughly understands the British locational specialities for industries, one may realize that there exists as great a difference between Japan and Great Britain as there is between Japan and the U. S. A.

In Great Britain, most industries, viz. cotton, woollen and worsted, coal, iron and steel, and shipbuilding, have been developed during the 19th century since Industrial Revolution, and they occupied the superior position in world markets. During this period, each one of these substantial industries has been concentrated in high degree to a certain district, and they have grown to the so-called "Localized Industries." Since the 1st World War, these old conditions have changed somewhat. Yet "Localized Industries" seems to us to be still one of the British industrial peculiarities.

The causes of her "Localized Industries" may be due to industrial conditions in the medieval age, regional distribution of coal and iron ore, and the historical transitions since Industrial Revolution, but we can not trace these in detail here. At any rate, such a special feature as Localized Industries has characterized the industrial and economic problems in Great Britain, and affected her economic policies.

For this locational specialization of industries, Great Britain had to depend on "external economies" as expressed by Alfred Marshall, and also had to highly specialize the industry horizontally and vertically, that is, by classes, varieties, and processes. Formerly, this specialization brought about the extraodinary development of industries in Great Britain, but it has been responsible for the present difficult situation by retarding their modernization, owing to the adherence to tradition and fossilized succession. Furthermore, in Great Britain, characterized by the localized industries, the rise and fall of certain classes of industries directly bring about the vicissitudes of certain related districts, and these districts can not easily shift from one industry to another on account of these characteristics, and the seriousness of unemployment may follow from this incident. Old industries of the 19th century are losing

their prosperity and the new industries of the 20th have not so developed as to cover the losses caused by the depression in the former, which forced the British government to solve these problems by the regional policies as the Special Areas Act or the Country and Town Planning Act.

As is mentioned above, the problem of regional industrialization in Great Britain are different from the one in our country, because the former has had a certain localized industry in most districts from former times. It is, therefore, natural that the study of location theory in Great Britain had chiefly to be concentrated on the relations between locations and the size of business enterprises or business plants, different from those in America and Germany. Accordingly, in the research for our development problems or regional industrialization, we must grasp the specialities of these foreign countries.

III

Different from the U. S. A. and Great Britain, our country's industries have been characterized by importing raw materials and exporting manufacturing products; for Japan has less industrial resources and smaller home markets. Generally speaking, industrial plants are to be located in close proximity to raw materials, or to consuming markets, and only in special circumstances, to be located on other locations. Industries depending on raw materials from abroad and foreign markets for products, naturally tend to be concentrated to a few central trading districts including trade ports, where, so to speak, there are raw materials and consuming centers. These are clear specialities of our industrial location, and the following description specifies these characteristics:—

Firstly, far more industrial activities have concentrated on Keihin (Tokyo and Yokohama), Hanshin (Osaka and Kobe), and Chukyo (Nagoya) districts. In the following table, we see that in these three districts 41% of the employees in our manufacturing industries are concentrated, and 60% of the metallurgical and

engineering workers, 35% in the textile workers, 26% of the chemical workers, and 37% of the workers in the other industries. The real industrial activities fall more to the hands of those workers in these districts than these statistics show. In short, many classes of our industries have concentrated on a few districts accumulatively.

Industrial Employees of Three Central Districts

(July 1, 1951)

Prefecture	Industries		Metallurgical & Engineering		Textile		Chemical		Food & Drink		Others	
	Employees	%	Employees	%	Employees	%	Empolyees	%	Employees	%	Employees	%
Whole Country	5,504,607	100	1,632,963	100	1,287,629	100	388,846	100	666,844	100	1,528,325	100
Tokyo	739,130	13	322,122	20	80,610	6	55,266	14	52,417	8	228,715	15
Kanagawa	221,152	4	142,081	9	15,734	1	15,690	4	18,654	3	28,993	2
Aichi	446,566	8	125,387	8	166,887	13	13,120	3	37,981	6	103,191	7
Osaka	552,998	10	232,997	14	132,722	10	37,278	10	31,732	5	118,269	8
Hyogo	322,354	6	141,829	9	59,303	5	19,819	5	27,543	4	73,860	5
Total of five Prefs.	41%		60%		35%		36%		26%		37%	

Establishment Census of 1951

Secondly, these concentrations with many classes of industries accumulated in a few districts, have naturally brought about the spheres of industrial classes owing to the land-use-competition. Our late research indicated the ratios of different industrial spheres fairly clearly. In short, coastal regions are used largely by metallurgical and engineering industry, especially large scale plants of primary processes and some of the finishing stages (shipbuilding and rolling stock); and in the next surrounding regions, there are not only many medium and small scale plants of secondary or still lower grade processes in the same industries, but also textile, chemical and food industries exist in the same region. The suburban industrial districts circling these centers, have been characterized by many plants of the intermediate producing processes in the metallurgical and engineering industry. The urban and suburban industrial

districts have little textile industry but its finishing processes; printing, dyeing, sewing, clothes making, etc. The spinning and weaving plants are chiefly located outside of these central and suburban districts.

Thirdly, these highly accumulated concentrations of many classes of industries have broght about the high degree division of the industries. Especially, in our country, owing to the special historic processes of our industrial development and our characteristic economic structure, these concentrated industries have made themselves into the still more complicated industrial organizations, which have horizontal and vertical relations among these large enterprises, and these and the smaller scale businesses, technically, merchandizingly and financially.

Accordingly, we have the locational specialities related to such complicated business features that each business has to depend on these structures.

Employees in Three Industrial Districts by Size of Mannfacturing Establishments

(July 1, 1951)

Prefecture	Total Number of Manufacturing Establishments & Employees		Manufacturing Establishments having above 1,000 Employees		
	Establishments	Employees	Establishments	Employees	%
Whole Country	495,332	5,504,607	404	944,425	17
Tokyo	62,946	739,130	36	69,672	9
Aichi	37,694	446,566	35	73,655	16
Osaka	35,519	552,998	38	69,607	13
Total of 3 Prefs.	136,159	1,738,694	109	212,944	12

Establishment Census of 1951

By the figures shown above, while, in the whole country, the industrial employees of the plants employing above 1,000, occupy 17% of the total employees, in the three districts the percentage is only 12% of the total. Here we see a special feature of our country.

Fourthly, for reaons of these conditions, the local industries of

our country, excepting chemical industries, etc., consisted of many localized industries of small scale businesses which have developed in our rural districts, from the old handicraft industries, or as the exporting trade at the time of the Ist World War. Only in this point, we have in a smaller scale, a simillar feature of the localized industry in Great Britain.

Now we showed that our specialities of the locational industrial features are different from those in Great Britain and the U. S. A. Therefore, our regional industrialization must aim at the development of the already localized industries, or promote the extensive development of the centralized industrial districts to encroach upon the suburban and further outskirts. Under these conditions, we must say that our aim is not easy to attain.

IV

Now, we will study the business features related to the location. As industrial plants depend on several factors for existence, the location factor is only one of them, and the plants have to adapt themselves to the changing conditions inside and outside of enterprises. Therefore, the problem of plant location is not always to select the most suitable site, but to consider its locational adaptability or its elasticity. There are many industries that have varying scope of elasticity for the locational restriction, from the narrowest to widest. The narrowest may be said to have a distinct locational feature, and the widest relatively free from the locational restriction. These less restricted industries by location factors, may select the location purely in consideration of the relation to their business features or business policy.

Accordingly, to attain the regional industrialization, it is desirable to attract to a locality industrial plants which have distinct locational characteristics, by indicating the industrial potentiality of certain localities, and also the comparatively large locational elasticity, to develop the industries, in line with their business features or policy.

Nevertheless, the regional industrialization policies in our country have tended to attach much importance to the former, or to industrial potentiality of the locality which to us seem to be less important. It is truly important for us to endeavor to develop the unutilized resources, or to create the suitable conditions for plant location. But since our country has little natural potentiality for industrial development, except water power and a few others, it would be very difficult to accomplish much in this direction in the excessively competitive industrial world, by adopting these policy to utilize special factors. We should not waste our capital or valuable materials by adopting the less-suitable policy.

Therefore, we must pay attention to the other direction for development, which is to utilize the industries with larger locational elasticity. Generally, since light industries have been developed in many back-ward countries, our development, restricted by the lack of resources, should hav aimed at fostering such intensive industries as to increase added value by manufacturing products. Although this idea of increasing added value by manufacturing products is not always coincident with the one of large locational elasticity of industries, but both are compatible with each other in many industries. Hence, it seems most applicable to our country to attain regional industrialization in this direction and following that policy.

Especially, we find that with high degree industrial development, complication and specialization many kinds of processings and varieties of products have come to develop, and to-day the production in the specialized branch of a process or of specialized varieties of products have come, in many cases, to be concentrated under one management or in one plant. Yet this is not limited to big enterprises or manufacturing plants, but often medium or small scale ones do the same. The cause is not only traceable to limited foreign markets and small purchasing power in home markets, but also to one of the characteristic business features, caused by the present industrial structure. These industrial plants as the objects for regional industrization must have good equipments with special

technics, or close connections with good markets.

In short, our regional industrialization has adhered too much to the geographical locality or special locational features, and has paid little consideration on the business features that may develop in future. Therefore, we should solve our problem by connecting regional industrialization with the intensive industries of increasing added value of the manufacturing products.

V

Summary:

(1) In our study of plant location, when we give weighty consideration to the results of the researches carried on in European and American countries, we should pay attention to each of their various specialities.

(2) Since most industries in our country are concentrated accumulatively to a few districts and had special business features that belong to that phenomenon, it is difficult, for the time being, to attain the regional industrialization. Therefore, we may be forced only to expect the gradual but extending development of the central industrial areas.

(3) Or rather, we might go forward the way to develop the localized industries which had taken shape in the region, by completing the industrial and commercial organization.

(4) Although it is desirable for us to endeavor for regional industrialization, to develop the unutilized resources, or to create the suitable conditions for plant location, it would be very difficult to expect accomplish much or survive through the competitive industrial world by these policies alone. we should not lavish or waste away our capital and materials.

(5) Therefore, we must pay attention to the other direction that regional industrialization may be completed by developing the intensive industries that increase the value of manufactured products. In other words, we should not adhere too exclusively to the geographical locality, but consider the business feature that may develop

there. Its direction may be often discovered in the industries with large locational elasticity which must of course be accompanied by superior equipments and close connection with good markets. These industries are most important to us now. Especially, in the present complicated industrial structure developed highly, it is desirable to have certain industries with high degree specialities.

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A RESEARCH OF WAGE INCOME IN POST-WAR JAPAN

By Nobuko Nose

Introduction

There are some factors which determine the real disposable income of the workers, i.e. the numbers of employment, nominal wages, conditions of labour, prices of consumer goods and tax structure.

Above all, tax structure and prices which determine the real wages are the most important, because the former provides the disposable money wages and the latter is a *deflator* for real wages. Both factors accentuate or decrease the effects one another.

Under the post-war economy in Japan, we have found the strict relation of nominal wages, price level of consumer goods, and burden of income tax to real wages.

The vicious rise of prices brought about by the post-war inflation and Korean war boom in 1950 have changed not only the structure of production, currency, and circulation but also the structure of income distribution in Japan.

The change of wages in real terms is negligible when the wages change proportionally to the price level. But, in fact, the base-up in wages was too low in proportion to the price rise. So it is evident that the amount of real consumption by the workers became less according as the lowering of their real income.

In addition, the direct tax is not a *function* of real income but of nominal income, and indirect tax levied on the workers increased much with the rising propensity to consume more. Thus the price and tax are two main factors in the wage income analysis.

The object of this article is to analyse the wage income in post-war Japan from these two points of view——changing prices of consumer goods and the tax levied on the working classes.

Ch. 1 Price Level and Wages

The characteristic four periods, at which the post-war Japanese economy changed its economic structure, are as follows[1]:

First period——from the end of War to Dec., 1946.
(characterized by the revival of consumer goods production with the expansion of credit and the erosion of capital)

Second period——from Jan., 1947 to Dec., 1949.
(characterized by the reconstruction of key industries)

Third period——from Jan., 1949 to June, 1950, just before the Korean war.
(characterized by excise of stabilizing policy and of rationalization in the main industries according to Dodge plan)

Fourth period——from the beginning of the Korean war to present.
(characterized by the series of munitious booms and regression.)

In the following approach, we try to explain the relation between the trend of prices and the real wages in each period, and the stress will be laid on the inflation period (first and second period) and the fourth period.

§ 1 *Some Aspects of Wage Income during Inflation Period*

In the principal process of inflation, partly because the war damages brought about the severe shortage of *reproduction scale*, and partly because of over expenditures of the Government, sharp increase of bank notes followed. There arose the price spiral, followed by the confusion of circulating process and the disturbance of reconstruction. Its pressure on the workers was nothing more than the forced deduction of living expense caused by the interwoven reactions of price and wages.[2]

The trend of prices in the inflation period which essentially dif-

1) 'The capital accumulation in postwar Japan,' by Sakisaka Masao, in 'Japanese Economy,' pp. 11-31.
2) 'Japan's economy in War and reconstruction,' by J. B. Cohen, pp. 447-448.

ferentiated from the boom, had strong, cumulative character and its inertia did not stop until the remedy of industrial foundation was wholly completed.[3]

Under such conditions, the government aimed to reconstruct the price stability and to change the official prices several times to counteract the progress of inflation.

During the first period, March, 1946, the government decided on the new equilibrating price system setting in order 1) consumer price of rice, 2) wages and salaries, 3) prices of coal and other fundamental materials, 4) prices of other commodities, and still more, they took a decisive step to enforce the special fiscal device to maintain the price system. And yet a half year later, this official price system was found impossible to maintain. During the second period, planning the industrial reconstruction, the government proclaimed official prices based on Feb., 1946, rise. But the trend of rising prices could not be stopped. And moreover, in Jul., 1948, the government revised again the price system to raise 80 % of the official price level based on July., 1947.[4]

Despite the fact that the wages——one of the basic official prices——was calculated on the basis of the official prices of the rationed goods, the Japanese labourers were obliged to purchase their food amounting to 76 % of their food expenses in black market as a result of the government's bad control.[5]

On the other hand, rising rate in the black-market prices rose so high as 390 % (Base Feb., 1946) in Dec., 1947, and effective prices rose about 260 % while real wages couldn't go up.[6]

Indeed, to adapt the wages to such vicious rise of prices, wage

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3) 'A research for monetary stabilization,' by Shinjo Hiroshi.

4) White Paper for economic affairs in 1949. Also, Asahi Keizahi Nenshi for 1949, p. 95.

5) Asahi Keizai Nenshi for 1945 and 1946, p. 168.
This figures get better according as economic reconstruction. See White Paper for 1949, p. 302.

6) As for the trend of prices, see Table 1 and 2. As for the real wages, see Table 3.

base-up was carried out year after year, but wage-price relation was not stabilized.

During the inflation period, the relation between the wages and prices was called '*vicious circulation*'.[7]

Evidently, we see that wage base-up was immediatly followed by the rise in the cost of living, and the effect of wage base-up was considerably lessened. Owing to this vicious circulation, worker's circumstances were very miserable in the inflation period as shown by the following figures:

rate of rise in nominal wages (per annum)

in	1946	314 %
〃	1947	209 %
〃	1948	185 % [8]

rate of rise in effective prices (per annum)

in	1946	Aug.–Dec.	128.6 %
〃	1947		249.1 %
〃	1948		165 % [9]

Owing to these conditions, the real wages, as shown on Table 2 and 3, were stagnant at low level.

On the outlay side of wage income, we recognize that Engel Coefficients were so high compared with the prewar standard, as shown on Table 2. It is evident that living cost rose higher immediately after the rise of nominal wages and they cancelled each other. The following data shows this circumstances:[10]

Deficit of the balance in worker's houshold. Average of deficit in 1946, 12.7% (of revenue)

Jan.	1947	13%
Feb.	〃	11 〃
Mar.	〃	14 〃
Apr.	〃	9 〃
May	〃	5 〃
Jun.	〃	5 〃

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7) 'Inflation in Postwar Japan,' by Tsuru Shigeto. Also, Cohen, ibid.
8) Labour White Paper for 1949, p. 208.
9) See Table 1.
10) Labour White Paper for 1949, p. 215.

Jul.	〃	13〃
Aug.	〃	9〃
Sep.	〃	6〃
Oct.	〃	8〃
Nov.	〃	8〃
Dec.	〃	−6〃 (This month showed black figures)

Now, we must notice the percentage of side job income among total revenue in their households. By the White Paper for 1946, this rate is shown to be twice as and that of earnings by family 1.55 times as large as the prewar standard. So we may conclude that the householder's deficit was increasing if he depended on his inome only.[11]

§ 2 *The Relation of Prices to Wages in Third Period*

Under the Dodge's stabilizing plan in the third period, the remarkable stabilizing policy, such as constrution of super-balanced budget, deduction of subsidies, rationalization of industries, etc. were carried into effect.

In this after inflation period, for the working classes cicumstances were fairly stabilized for the first time: i. e. the consumer effective price was at the peak in Mar., 1949 and then it gradually descended in the same year, in Dec. of this year, its level went down to 98% of January's and decreased further until May, 1950.[12]

On the other hand the rise in nominal wages was checked to some extent by the Three Principles on Wage's.

As for the real wages, they rose 20.8% compared with the years before.[14]

In spite of this fact, the household economy of the wage earners was not always easy owing to rapid increase of taxes, as will be pointed out later.

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11) White Paper for 1947, 1948, p. 56, p. 131.
12) See Table 1.
13) See Table 3.

§ 3 *The Relation between Prices and Wages in the Fourth Period*

After the outbreak of the Korean war, the wholesale prices rose follwed by the boom, but wage-base-up lagged behind. After last half of 1951 it rose gradually. Though the rise of consumer prices lagged behind the wholesale prices in coming and the rate was about but 5.4% during three monthes after the beginning of war in 1951, their trend was spurred on: that is, average prices in 1951, were higher by 51.5% compared with those in 1947, prices in Dec., 1951 were higher by 22.7% than those in Dec., 1950. And this price level was the highest one after the surrender.[14]

But we must recognize that the high prices were essentially different from those in the inflation period. According as the process of trade cycle, this high price may well be fallen automatically. In the postwar Japanese economy characterized by a large latent demand for consumer goods, the price of consumer goods did not fall even during the process of depression. It rose but a littl even in 1952——the year when the war boom was gone. As is shown below :——[15]

rate of rising	prices	about	5%
//	nominal wages	//	18%
//	real wages	//	14.7%

Generally speaking, 1952 was the second stabilization period for the wage earners.

The recovery of the worker's household is indicated as follows :[16]

The balance of revenue and expenditure in worker's economy

First	half year	in 1951	−0.8%
Last	//	//	+3.8%
First	//	in 1952	+3.3%
Last	//	//	+4.6%

Nevertheless, so far as we observe from the point of view of wage income and expenditure, they are:

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14) See Table 1. also, Asahi year book for 1952, p. 135.

15) White Paper for 1953, pp. 210–12. Also, both of Table 1 & 3.

16) Labour White Paper for 1953, pp. 141–3. Also, White Paper for 1953, pp. 233–4.

F. H. in 1951 −6.0%
L. H. 〃 −0.5 〃
F. H. in 1952 −1.6 〃
L. H. in 〃 +0.1 〃

On the other hand, even in 1952, its level on consumption was 80.2% of the pre-war standard, with Engel Coefficient yet so high as 51.5%.[17]

Table 1. Consumer Price Index, annually indicated

	1946	1947	1948	1949	1950	1951	1952
Jan.		31.7	78.9	132.9	135.5	138.4	158.8
Feb.		35.2	84.9	135.5	129.8	141.6	158.1
Mar.		39.0	90.7	139.8	127.7	146.5	158.5
Apr.		40.7	92.7	141.3	124.2	149.3	158.8
May		48.0	96.3	142.8	126.3	154.1	157.5
Jun.		56.0	98.0	137.8	123.7	148.4	157.8
Jul.		66.5	108.0	140.7	127.0	148.8	159.9
Aug.	29.2	70.4	120.4	140.8	129.8	158.6	160.3
Sep.	26.5	74.9	119.8	140.2	130.4	158.2	160.0
Oct.	24.9	72.0	115.8	163.8	126.7	154.6	160.3
Nov.	24.5	71.9	120.6	131.4	127.4	156.0	158.8
Dec.	28.1	78.8	127.5	134.0	132.7	162.8	158.4
Average		57.1	100.0	137.8	128.4	151.4	159.0

Source: Annual Report of Consumer Price Survey (annual reports of the Japanese Statistics Bureau).
Also, White Paper for 1953, Appendix.

Table 2. A

Trend of price rise

Year	Official Price	Blackmarket Price	Effective Price
1934-1936	1	——	1
1947	50	100	96
1948	144	173	167
1949	242	184	209

17) Labour White Paper for 1953, p. 138. Also, see Table 3.

Table 2. B

Year & Month	Blackmarket Price	Effective Price
Oct. 1946	94.2	84.3
Nov. //	96.3	87.6
Dec. //	111.5	101.0
Jan. 1947	132.5	118.4
Feb. //	159.2	131.2
Mar. //	189.4	138.8
Apr. //	215.1	140.6
May. //	225.9	173.6
Jun. //	244.6	205.6
Jul. //	272.8	242.5
Aug. //	288.9	229.3
Sep. //	288.3	254.0
Oct. //	326.3	263.8
Nov. //	342.4	268.1
Dec. //	360.2	290.3
Jan. 1948	380.1	295.0
Feb //	398.9	298.3
Mar. //	412.2	311.5

Source: White paper for 1950, pp. 49–53.
Base of Blackmarket Price. Feb., 1946.
// Effective Price. Aug., 1946–Mar., 1947.

Table 3. The Real Wage Indices and Engel Coefficients

A

Year	Real Wage Index	Engel Coefficient
1934–1936	——	36
1946	——	72
1947	100	67
1948	149.8	62
1949	190.9	61.4
1950	247.5	57.2
1951	267.8	54.3
1952	307.6	51.1

B

Year & Month	Real Wage Index on based pre-war year
1935	100
Jul., 1947	19
Oct., 1947	24
Average of Jul.,-Dec., 1947	24
Jan., 1948	27
Jul., 1948	36
Oct., 1948	47
Average of 1948	38

Source: 1. Real wages indixes in Table A were derived from Labour White Paper for 1953, (Published by Labour Statistics & Research Division, Ministry of Labour, Japan) p. 68.

2. Engel coefficients were derived from Labour White Paper for 1947, and for 1953.

3. Table B were derived from Labour White Paper for 1947, p. 207.

Ch. 2 The Tax Burden and It's Effect on Wage Earners

Having touched upon one aspect of real wage income it seems appropriate to conclude this chapter with other remarks concerning tax burdens on the workers as a whole. The basic classification of the taxes is to classify them into direct and indirect taxes. We consider the tax paid by the workers according to this distinction.

Firstly, the direct tax which is progressively collected on the wage base-up, would offset the effect of wage base-up.

Secondly, the indirect tax the amount of which is imputed to final purchasers through the market prices of living goods, takes a considerable part of the wage. This is caused by the taxation on the mass which instituted in the pre-war Japan and still remaining in the post-war periods.

So both of them (direct and indirect taxes) determine the purchasing power of real wages

§ 1. *Direct Tax and Wages*

Living conditions of the workers, or the real consumption of real wages, are expressed in the formula the higher the price, the lower the real consumption.

But, different from this, direct taxes are levied on one's nominal wages. Therefore, when prices rise, but money income remains con-

stant, the workers will be always forced to pay a regular nominal sum in tax, quite independent of the reduction of real income and increased outlay for real consumption.

Still more, when wages are paid on the sliding scale with the rising prices, the worker will be forced to pay more tax because of the rising taxable income and the graduated taxation.

Of course, there are some effective factors which relieve this situation, i. e. to rise the level of basic deduction, to rivise the tax rate, etc.

In fact, such measures are resorted to, but in spite of this effort, the percentage of the tax burden of the wage earners rose year after year.[18]

The percentage was much larger compared with the basic year, the tendency was specially strong in 1948 and 1949, just before the Shoup's recommendations: in 1949, it was over 4 times as large as that of basic year. This tendency was caused by the graduated taxation according to rising nominal wages.

Furthermore, there are profits which could not be caught by tax authorities during the inflation period. Therefore, in the assesment of income tax, the working classes were obliged to pay beyond their capacity compared with other income classes.[19]

Moreover, the lowest amount to be taxed is far lower than in other countries.[20]

These must be reformed in Japan.

How, then, were the standards of deduction and the tax rate changed, and how were the real disposable wages changed to accord with the changed prices?

Firstly, the standards of deduction fairly changed year by year. As a result, disposable wages were changed. But owing to wage

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18) See Table 4.

19) Cohen, ibid., pp. 425–453.
'Research for Burden of Income Tax', The Economic Review, vol. 1, No. 3, by Takahashi, Chotaro pp. 123-5

20) See Table 5.

base-up, its effect was not as much as disired. The income tax rates were practically unchanged before the reform of the tax system by Shoup's recommendations advice, and after the reform it was considerably lowered.

To illustrate how the rate and deduction were changed against wage base-up, we will take the income tax levied on wages (average of wages of all industries in Japan) year by year.[21]

Firstly, we take the wages in pre-war Japan. The annual sum of 613.08 yen was free of tax because it was far below 1,200 yen, the tax exemption point at that time.

On the amount equal to the average annual wage income less taxable allowances, 20% was levied in 1946; 25% in 1947; 40% in 1948; 30% in 1949; 25% in 1950, 24.17% in 1951 (average rate of before and after reform) and 20% in 1952.

By this, we see that the highest tax rate appeared in 1948.

Therefore, we may derive the index of real disposable wages in postwarJapan from nominal wages, income tax paid and consumer price index.

You see this index is yet low despite the refom for tax reduction in 1952. (Note, the productivity of labour is 102 in 1951, 109 in 1952 against 100 in prewar standard.)[22]

Still more, we must remark the rising tendency of the local tax rate. In 1951 and 1952, the local tax rate for the workers was 18% of the national tax levied on them, and 200 yen per household. Taking account of this, the indexes of real disposable wages are 81.07% in 1951 and 95.8% in 1952. (pre-war standard=100)

In short, the burden of tax was fairly heavy on the working classes in the changing processes of postwar Japan.

Especially, in the second period, the burden of taxation was most heavy, and in the 1st and 3rd periods the burden was also

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21) See Table 6.

22) As for productivity Index, see Asahi yearbook for 1947, 1948, and White Paper for 1953.

heavy, but in the 4th period, it relaxed generally.[23]

Table 4. The State of Earned Income Tax paid by working Classes

Unit—100 millions yen

Year	Personal wage Income	Taxable wage Income	Amount of the wage Income Tax	Range of Taxation in wage Income Tax	Rate of Responsibility	
	(A)	(B)	(C)	B/A	C/A	C/B
1934–1936	51.54	7.4	0.21	14.4%	0.4%	2.8%
1947	4,005.0	2,731.0	443.0	68.2	8.6	12.6
1948	9,775.0	6,955.0	776.0	71.2	7.9	11.2
1949	12,707.0	11,035.0	1464.0	86.8	11.5	13.3
1950	15,705.0	11,001.0	1275.0	70.0	8.1	11.6
1951	20,310.0	12,965.0	1309.0	63.8	6.4	10.1
1952	27,500.0	14,035.0	1163.0	63.6	5.2	8.3

Notes: 1. Income in 1947–1952 are each fiscal year's.
2. This data derived from Report of Tax Survey published by Tax Bureau, Ministry of Finance, Japan.

Table 5. The lowest limit of taxable wage income

	Japan	U. S. A.		England		France		Germany		Italy	
	Lowest Limit	Lowest Limit	in terms of Yen	Lowest Limit	in terms of Yen	Lowest Limit	in terms of Yen	Lowest Limit	in terms of Yen	Lowest Limit	in terms of Yen
	¥	dollar	¥	pound	¥	fran	¥	mark	¥	L.	¥
Single	58, 824	660	237, 600	135	130, 080	121, 000	125, 840	1, 530	130, 983	240, 000	139, 200
Couple	82, 353	1320	475, 200	228	229 824	121, 000	125, 840	1, 680	142, 825	240, 000	139, 200
Couple with 2 Children	129, 412	2640	950, 900	396	399, 168	131, 000	136, 24-	2, 330	199, 471	264, 120	153, 120

Source: Report of Tax Survey.

23) 'Research for the State of the Worker's Household and Burden of Tax' The Economic Review, ibid. pp. 127-8, is served as reference.

Table 6. Income Tax Rates

	1947	1948	1949	1950	before reform of tax system 1951	after reform of tax system 1951	1952
less than ¥ 10,000	% 20	% 20	% 20	%	%	%	%
more than 10,000	25	25	20				
// 15,000	30	30	20				
// 20,000	35	35	25				
// 30,000	40	40	25				
// 40,000	45	45	30	20	20	20	20
// 50,000	50	50	30	25 more than ¥ 80,000	25	23 more than ¥ 80,000	20 more than ¥ 80,000
// 70,000	57	57	35 more then ¥100,000	30 more than ¥100,000	25 more than ¥100,000	25 more than ¥100,000	25
// 90,000	64	64	40	35	30	28	25
// 120,000	68	68	40	40	30	30	30
// 150,000	72	72	45	45	35	33	30
// 200,000	76	76	50	50	40	38	35
// 250,000	80	80	55	50	40	38	35
// 300'000 omit the following	82	82	66	50	45	43	40

Source: Report of Tax Survey.

Table 7. Standard of Deduction for Taxation

	Basic Deduction	Dependency Credit (per head)	Deduction for Labourer	Maximum Amount of Deduction for Labourer
	¥	¥	less than ¥6,000	
1945	600	24	10%	——
1946	2,400	72	——	——
1947 old rate	6,000	240	22.5	11,250¥
1947 new rate	4,800	360	22.5	11,250
1948	10,325	1,195	less than ¥50,000 25 more than ¥5,000 13.54	26,040
1949	15,000	1,800	15	30,000
1950	25,000	12,000	15	30,000
1951 old rate	30,000	15,000	15	30,000
1951 new rate	38,000	less than 3 heads 17,000 more than 4 heads 15,000	15	30,000

1952	50,000	less than 3 heads 28,000 more than 4 heads 15,000	15	30,000

Source: Report of Tax Survey.

Notes: 1. Dependency Credit during 1945, 1946, 1947, 1948, 1949 are deduction from tax and during 1950, 1951, 1952 are deduction from income amount.

2. Deduction for labourer is reduced from wage income in each year for lighting the burden of tax.

Table 8. The Earned Income Tax levied on Wage Earner, An example

year	Average Wages (per annum)	Amount of Deduction from Income	Taxable Income	Amount of Deduction from Tax	Amount of Tax	Available Wage Income	Consumer Price Index	Real Available Wage Index
1934 -1936	¥ 613.08	——	——	——	——	¥ 613.08	1.0	100.0
1946	8,919	2,400	6,519	108	1,195.8	7,723.2	46.5	27.1
1947	20,880	9,789	11,082	675	2,099.5	18,780.5	109.1	28.1
1948	57,240	23,805.3	33,434.7	1,792.5	11,581.4	45,658.6	189.0	39.4
1949	96,228	29,434.2	66,793.8	2,700	17,384.1	78,889.9	236.9	54.3
1950	116,244	50,436.6	65,807.4	——	16,451.9	99,792.2	219.9	74.0
1951	146,400	79,043.5	67,356.5	——	16,280.1	30,129.9	255.5	83.1
1952	172,208	105,831.2	66,376.8	——	13,275.4	158,932.6	266.1	97.4

Notes: 1) Above calculation is taken for the tax levied on wage earner with 1.5 families.

2) a. The average wages in 1934-36 derived from White Paper for 1950, Japan.

b. The wage in 1946 derived from Post War National Income published by Econonomic Agency.

c. The Wages in 1947, 1948, 1949, 1950, 1951, 1952 derived from Labour White Paper for 1953.

3) a. Consumer price Index in 1946 derived from Annual Report of Consumer Price Survey.

b. The other year's C. P. I. derived from labour White Paper.
This C. P. I. is not C. P. I. in all cities in Japan, but of C. P. I. in Tokyo, because the former could not be provided continually after the War.

Table 9. The Relation of Income to Expenditure for Tabacco

Month	Actual Income (Per Month)	Expenditure for Tobacco	Rate of Expenditure for Tabacco
Feb. 1951	20,940 ¥	284 ¥	1,356 %
Mar.	22,990	297	1,292
Apr.	23,130	302	1,306
May	23,572	294	1,281
Jun.	22,803	286	1,232
Jul.	24,826	310	1,249
Aug.	24,767	323	1,304
Sep.	22,283	336	1,508
Oct.	24,888	310	1,246
Nov.	25,770	301	1,168
Dec.	39,494	346	0,876
Average	22,655.3	283.3	1.23

Source: Annual Report of Family Income and Expenditure Survey, 1951, published by Statistic Bureau, Prime Minister Office, Japan.

§ 2. *Indirect tax and wages*

Of all kinds of indirect taxes, we take up taxes which relate to the living of the wage earners. They are as follows:

1) of the national tax
   - i liquor tax
   - ii sugar tax
   - iii commodity tax
   - iv tobacco tax,

2) of the local tax
   - i tax on consumption of fuel and light
   - ii entrance tax.

These taxes have not so changed as the direct tax caused by the reform of taxation, except sugar tax after 1951. However, they were lowered slightly.

The reason why the indirect tax is considered as taxation on mass, are stated below :—

1) Every man's propensity to expend and marginal propensity to expend on consumer goods on which indirect tax is levied are

nearly equal, (marginal propensity to consume is equal to 1), and the lower his income to consume, the higher his indirect tax relative to his income. (See table '9', by this, we see that the expenditure for tobacco does not change by the amount of income).

2) The real income of the workers was reduced and their propensity to consume went up higher after the War, so the burden of the indirect taxes on the working classes increased.

To see how they bore these taxes we must confer the following tables.

Table 10. The Taxes (Direct Tax & Indirect Tax) in average paid by All Workers' household

Year	Actual Wage Income	Direct Tax	Burden except Direct Tax	Available Income	Liquor Tax	Tobacco Tax
1949	13,258¥	699¥	¥	12,559¥	156.02¥	106.53¥
1950	15.966	1,072	125	14,769	172,75	125.3
1951	24.622	1,579	213	22,830	247,89	193.7
1952	21,758	1,426	295	20,037	209,10	169.5

Year	Sugar Tax	Commodity Tax	Fuel & Light Tax	Entrance Tax	All Indirect Taxes paid by Wage Earner	All Taxes paid by Wage Earner
1949	3.61¥	42.85¥	50 ¥	41.93¥	400.93¥	1099.93¥
1950	2.83	50.37	60	49.17	460.42	1657.42
1951	33.12	78.28	88	75.82	716.81	2508.81
1952	42.86	68.3	90	44.45	629.66	2350.66

Table 11. The Taxes (Direct & Indirect Tax) in average paid by Non-Official Workers household

Year	Actual Wage Income	Direct Tax	Burden except Direct Tax	Available Income	Liquor Tax	Tabacco Tax
1950	11,973¥	992¥	93 ¥	16,887¥	189.98¥	137.14¥
1951	22,185	1166	174	20,845	226.74	220.92
1952	18,607	1196	217	17,194	180.11	159.99

Year	Sugar Tax	Commodity Tax	Fuel & Light Tax	Entrance Tax	All Indirect Taxes Paid by Wage Earner	All Taxes paid by Wage Earner
1950	3.19¥	57.86¥	57 ¥	46.38¥	511.55¥	1597.55¥
1951	30.5	97.11	63	69.92	708.19	2047.19
1952	41.23	58.83	79	38.96	557.42	1970.42

Source: Report of Tax Survey.
Annual Report of Statistics No 75, 76, 77 published by Tax Bureau.
Monthly Report published by Japan Monopoly Corporation.
'Monopoly' published by Japan Monopoly Corporation.
Annual Report of Consumer price Nippon Tokei Nenkan.
'Income & Expenditure of Urban Worker Household,' Family Income & Expenditure.

To draw up the tables, the writer calculated the annual average of monthly income, expenditures on fuel and light from Family Income Survey in Consumer's Price Survey, average expenditures on tobacco, propensity to consume for tobacco from Family Income Survey in 1951, annual propensity to expend for liquor, sugar, movie or music and commodities on which the indirect taxes are imposed from 'Report of Tax Survey' in 1950 and indirect taxes rate in 1950.

Secondly, the Japanese indirect tax on tobacco is always included in the aggregated amount of the government monopoly revenue. So we had to derive the rate of tax on tobacco from this amount.

Thirdly, the writer calculated the excise tax on the commodities bought by the workers from their annual earning and its rate.

In tables 10 and 11, we see how much the workers paid annually. The average amount 7 indirect taxes paid by all the workers, in 1952, is 45% of the direct tax paid by them and the indirect tax paid by non-official workers is 46.6% of the direct tax paid by them.

CONCLUSION

It is clear, therefore, that the worker's income depends on the economic structure, especially on the tax structure of the government in each period. Consequently, in trying to ascertain the real wages

we must analyse the price level as well as the tax structure; for these two factors define the real wages under different conditions of all the economic structure in post-war Japan.

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REVALUATION IN JAPAN

By Susumu Watanabe

Background of Revaluation

After World War II, Japan has suffered the unprecedented inflation and the value of yen has depreciated considerably. In consequence, it has become clear that many inconsistencies occur when the prewar yen and the postwar yen are treated equally.

1. The depreciation of the fixed assets, which were acquired before the war when the value of money had been stable, on the basis of its original cost, can not recover the real capital invested in those assets. That is, the depreciation on the original cost can not afford to provide the necessary funds to replace the same assets when became due, and it means the real capital being unconsciously impaired.

From the standpoint of the cost accounting, the proportion of the depreciation to the total cost becomes very insignificant, as the result of its being still calculated on the basis of its old book value, despite the other elements of cost being generally expressed in terms of the depreciated yen. Business firms must charge up the reasonable depreciation corresponding to the price rise, and when they fail to do so, or even when they did so, if they regard the difference between the adjusted depreciation and the original depreciation as the real profit and distribute it, the real capital shall be encroached upon correspondingly.

2. The business capital had not been adjusted according to the price changes, just as the book value of fixed assets had remained unadjusted, and under inflationary conditions, paper profits arise from inventories (Lifo was not yet recognized at that time) as well as from inadequate depreciation. The excess profits were determined by comparing these profits (including paper profits) with the

unadjusted capital, and the progressive excess profits tax was imposed on them, which makes the method of determining "the excess profits" unreasonable. The irrationality of this becomes apparent when we compare the tax burdens of old established enterprises which have existed since the prewar period and the new enterprises, whose properties are exactly the same, established after the war when the value of money became considerably depreciated.

3. Though the capital gains under inflation comprises the paper gains as well, they are made subject to the income tax. (In case of individuals one half of such capital gains was taxed.)

4. It is difficult to secure real rationalization where business management is blinded by the apparent profits, which include paper profits. Unless the cost accounting is rationalized and prices normalized, the normal flow of resources and funds is impeded; and rationalization of our national economy can not be accomplished.

As the means of the synthetic solution of the above mentioned difficulties, the necessity of the revaluation was insisted on. The movement for the realization of the revaluation originated among businessmen who had felt these inconsistencies for themselves. It was in the latter half of 1947 when the decline of the value of money became increasingly apparent.[1] It was the businessmen in the spinning industry who took up this problem promptly and made constant effort toward its solution. Especially the study and eagerness of Mr. Ken Arimoto (then the auditor of Toyo Spinning Company) should not be forgotten. He proposed the prompt realization of the revaluation from the viewpoint of maintaining the productive capacity of the enterprise. The following sentences are found in the "History of Toyo Spinning Company, 1882-1952".

"The Company took up this problem before other companies and commenced the study of the measures to be adopted, assigning the work to the charge of Mr. Arimoto (the Auditor), who insisted

1) The wholesale price index of October, 1947, stood at 7,366.4, making 1934-36 average as a base, and average for 1947, at 4,815.2.

upon the fixed assets revaluation and the base stock method as a solution. The Company endeavored to arouse public opinion and demanded their prompt realization. Such proposals were generally supported by the learned people and the business world. But because prices were still going up at that time, and the consideration of their effect upon the official prices made the realization quite difficult".[2)]

As the above quotation shows, the revaluation was not easily carried out, as such proposals affected the tax burdens and prices; and more than two years had elapsed before it was realized.

The questions then discussed concerning the revaluation were as follows:—

1. Will not the inclusion of the written up depreciaton into the official prices lead to the general rise of prices and acceleration of inflation that may oppress the standard of living of the people? (prices were still controlled at that time, and it was after 1948 that the effect of the partial relief of the control of prices and resources became conspicuous.)

2. Shall not the revaluation be allowed when the value of money is stabilized? Prices were really rising in 1947 and 1948. It was feared that the revaluation during the course of inflation would make its repetition necessary, and the repeated effects upon the prices, as mentioned in 1. above.

3. What shall be the standard of revaluation? Which is to be taken as a standard, the current replacement cost at the time of revaluation or the original cost adjusted by the coefficients corresponding to the fluctuation of the value of money?

4. Is it reasonable to impose the tax on the revaluation surplus?

5. Is it reasonable to allow freely the incorporation of the revaluation surplus into the capital or to place some limitation on it?

There was another opinion which proposed that the depreciation

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2) History of Toyo Spinning Company, 1882–1952. p. 442.

based on the replacement value should be allowed and the adjustment of the capital be postponed because the latter is too early. But according to this proposal, it was necessary to take another measure to avoid inequity brought about by the existence of the excess profits tax.

Realization of Revaluation

The discussion pro and con about the revaluation measures were rife among academic circles, government departments, and business world. Under these circumstances, the Tax Committee, then standing, took the problem as a part of corporation tax reform program, and published its interim report on January 29, 1949. After its publication, the interim report suffered several criticisms from all quarters. Meantime, the Shoup Mission was reported to come to Japan with the object of investigating into the Japanese tax system, and the decision on the revaluation problems was postponed to be determined by the Mission.

The Shoup Mission arrived in Japan in May, 1949, spent four months in research and as a result "Report on Japanese Taxation" was published (dated August 27, 1949, in Japan it was generally called the "Shoup's recommendations"). The Mission recognized the necessity of revaluation, and recommended that the revaluation shall be made as of July 1, 1949. The main features of the "Report" concerning the revaluation are as follows.

1. It took the adjusted cost basis instead of current replacement cost basis as the standard of revaluation. It says that the reappraisal value is to be determined by multiplying the cost of acquisition less depreciation, by the ratio of a general price index for July 1, 1949, to the corresponding index for the original date of acquisition. As the reason of employing the general index the next sentences can be quoted. "……it would still be preferable on theoretical grounds to use a general index. For we are not trying to exempt from tax all gains, but only those gains that do not represent a real increase in purchasing power. If the price of a

particular type of assets has gone up 200 times while the general price level has gone up only 100 times, the owner of such assets is better off than the owner of assets that have gone up only in proportion to the general increase in prices. He is accordingly well able to bear the additional tax that will be imposed if he is allowed to revalue only to the extent of 100 times." [3]

2. It was recommended that the 6% tax on the revaluation surplus should be made. Although the Mission recognized that the revaluation surplus is not a real gain but merely the reflection of a paper gain due to the depreciation of the yen, it upheld the view that the revaluation surplus should be subject to a tax. From the viewpoint of equity, it was considered the tax free revaluation would be unreasonable. The Mission says " it would be granting too much to allow the full revaluation gain to go tax free, in view of the tax treatment that has been given to those who have already realized taxable gains, and in view of the disallowances of the real losses suffered by holders of fixed-income property." [4] The revaluation surplus shall be subject to a tax of 6%. The payment of the revaluation tax on depreciable assets, in case of corporations, shall be paid in three years.

3. Revalued value shall be the basis of allowable depreciation and computing capital gain or loss, after revaluation. The revaluation surplus shall appear to the extent not needed to offset operating losses, on the liability side of the balance sheet, in the form of special capital. No distribution shall be made from this special capital for five years, nor shall this special capital be the basis for the issuance of stock.

In other part of the report, it is recommended that the excess profits tax should be repealed. The assets revaluation law in Japan was composed on the basis of the above mentioned recommendations. But the revaluation in Japan was made to be voluntary, notwith-

3) Report, Vol. III, C 14.
4) Report, Vol. II, p.126.

standing, in case of the report, the compulsory revaluation, it seems, was considered.[5]

Assets Revaluation Law of 1950

The assets revaluation law was promulgated on April 25, 1950, and applied as from January 1, 1950. The revaluation shall be made as of the basic date (January 1, 1950) or the opening date of the accounting period opening after the basic date and before September 1, 1950. Taxpayers were able to revalue the following assets which existed at the basic date.

a) Depreciable assets (tangible and intangible).
b) Land and rights to land.
c) Shares of stock and investment, but those possessed by securities traders are excluded.
d) Other assets, excluding cash, deposits, accounts receivable, securities (other than the shares of stock and investment), inventories, etc.

The maximum limits of the revaluation differ according to the kinds of assets and the persons (individuals or corporations). The case for the corporations is mainly explained here. The maximum

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5) The reasons that make us think that the Mission had considered to enforce the compulsory revaluation is found in the following sentences quoted from the report. It says:— "that all corporations be required to revalue their depreciable assets and land, as of July 1, 1949" (Report, Vol. II, p.126) and "that for taxpayers who do not file revaluation returns by the dates specified, the Ministry of Finance shall assign a revaluation figure for each of their assets against which figure there shall be no appeal." (Report, Vol. II, p.128) "Where no return is filed within the specified time limit, the tax offices should have the authority to make an arbitrary reappraisal which should be considered final. And while normally taxpayers should be allowed a reasonable amount of undervaluation for purposes of reappraisal, as possibly representing their belief that their assets were partially obsolete, where taxpayers submit an unreasonably low figure, the tax administration should have the power to raise it to a more reasonable level and assess the 6% tax on the write up." (Report, Vol. III, C pp.22-23). But the reasons why the revaluation should be compulsory are not shown in the report.

limits are calculated by the use of the following five tables attaching to the law.

Table I. This is applicable to the tangible depreciable assets and non-business houses.

Table II. Applicable to the depreciable assets for mining, and other business assets of corporations.

Table III. Applicable to the intangible depreciable assets.

Table IV. Applicable to the other business assets (of individuals) and shares of stock.

Table V. Applicable to the land and rights to land.

Three kinds of indices are employed for constructing the above mentioned tables, wholesale commodities price index for Tables I, II, and III, consumer's price index for Table IV, and land price index for Table V.

As regards tangible depreciable assets, the maximum limit of revaluation is computed by multiplying the acquisition cost of the assets concerned by a coefficient relative to the year of acquisition and the useful life of the assets, shown in the Table I. Those coefficients were obtained by multiplying the percentages of the unamortized portion differing according to the elapsed years after acquisition (calculated by means of the reducing balance method) by the ratios of price rise (the ratios of price index of June, 1949, to the respective price indices of preceding years).[6] Then the amount obtained by multiplying the acquisition cost of the assets by a coefficient is equal to the amount obtained by multiplying the acquisition cost less depreciation (corresponding to the elapsed years after its acquisition) by the ratio of price rise. The method of determining the maximum limit was as well taken for other assets. This method is quite different from that of France, in which depreciation reserves relative to the revalued assets are revalued by multiplying the amount of depreciation provided in each year by the

6) The wholesale price index of June, 1949, stood at 20,933.8 (base, 1934-36 average=100).

coefficient applicable to that year. The Japanese method is easy to practise, but theoretically the French method, the author thinks, is preferable. Japanese method of revaluation is thus based on the acquisition cost of the assets, and not on the present value of those on the date on which the revaluation was made. The maximum limit of the revaluation thus determined, to be sure, does not mean the present value of the assets. It may better be called "revalorization" instead of revaluation. But in case of the obsolete assets or other assets the value of which at the basic date is conspicuously and remarkably lower than the maximum limit computed in accordance with the relevant articles of the law, it is stipulated that the revalued amount of such assets shall not exceed the current selling price at the basic date. So the present value basis is partly adopted in this respect.

With regard to the individual's houses acquired prior to the time of investigation for capital levy, its appraised value for capital levy shall be deemed the acquisition cost and the time of investigation for capital levy (March 3, 1946) shall be deemed the time of acquisition thereof, instead of using the actual cost and time of acquisition, and the coefficients of the attached Table I are applied to such houses.

Effects of Revalution

The revaluation of assets has the following effects.

1. As regards the revalued depreciable assets, the allowable depreciation shall be computed, on and after the revaluation date of the said assets, on the basis of the revalued amount.

2. The capital gain is also calculated on the basis of the revalued amount.

3. But the capital loss is calculated in somewhat different manner. In case a corporation has sold its revalued assets in the periods from the revaluation date to the closing date of the accounting period involving December 31, 1954, if the selling price of the said assets is less than the book value at the time of sale, the corpora-

tion should reduce the amount of revaluation reserve by the amount of such deficiency on the day of sale, so long as the revaluation reserve is recorded on the credit side of the balance sheet, and the amount so reduced shall not be recognized as allowable deduction in computing taxable income. But when the selling price is less than the book value of the assets at the time just prior to the revaluation, the difference between them need not be charged against the revaluation reserve, and is recognized as allowable deduction. The amount to be reduced from the revaluation reserve, then, is limited to the amount of the revaluation surplus which arises from the assets concerned. When such reduction of the revaluation reserve is made, the amount equal to the 6% of the reduced amount of the reserve is credited against the revaluation tax on the assets concerned to be paid hereafter. In case a corporation has decreased the book value of its revalued assets, after revaluation, the treatment is the same as above.

4. The revaluation surplus is, in general, the difference between the revalued amount of the assets and its book value before revaluation. The revaluation surplus could be used to write off operating losses at the opening date of the accounting period involving the revaluation date, and the balance after the write-off of the above losses should be set aside as the revaluation reserve.

5. The revaluation tax is assessed on the revaluation surplus at the rate of 6%, generally to be paid in 3 years, one half in the first year, one quarter in the second year, and the remainder in the third year. With regard to the revalued assets other than the depreciable ones, the revaluation tax should be paid within two months after the closing date of the accounting period involving the day of the sale or the donation of the assets concerned. But in case the revalued assets have not been sold or donated by the closing date of the accounting period involving December 31, 1954, the tax on the assets concerned should be paid within two months from the closing date of the aforesaid accounting period.

The revaluation tax paid shall not be deductible from gross

income, and be charges against the revaluation reserve.

6. A corporation may incorporate its revaluation reserve into capital to the extent of the amount equivalent to the three fourth of its revaluation reserve (if such corporation has paid its revaluation tax in full, whole amount of the reserve) after December 31, 1952.

Revaluation in 1951

The assets revaluation law was welcomed, but the advantage of the revaluation was not fully availed of by many firms. The number of corporations which filed their revaluation returns (including those which did not take advantage of the revaluation) was about 166,000, but those which did revalue was about 30,300. It was unsuccessful. One of the most important reasons was the earning power of many firms was low, and generally pessimistic foresight had prevailed among the business world, when the revaluation law was introduced. So far as the depreciable assets are concerned, the benefit of the revaluation is to be obtained by the increase of annual depreciation after revaluation, and when the income is so low as not to absorb the increased depreciation, it is certain that the revaluation brings only the tax burden of 6%. Meanwhile, the Korean War broke out on June 25, 1950, which had generally a favourable influence upon our economic field. It was, then considered necessary to give another chance to those who did not make revaluation or whose revaluation did not reach the maximum limit permitted by the law. The revaluation law was revised in April, 1951, the object being to give another chance to make revaluation to those who did not take full advantage of the revaluation law of 1950. It was called the second revaluation. Conditions of the revaluation are similar to those of the first revaluation. Assets to be covered are the same as before, but shares of stock excluded. Under the second revaluation law, the revaluation may be made as of January 1, 1951, or the opening date of the accounting period beginning after January 1, 1951, and before October I

of the same year.

In determining the maximum limit, the same methods are employed using the same attached Tables, but considering that about one year had elapsed since the first revaluation, the maximum limit is reduced by the amount of depreciation corresponding to the period from the basic date (with respect to the assets revalued, the revaluation date) to the revaluation date of the second revaluation. The amount to be reduced in determining the maximum limit is the depreciation which the corporation actually charged and allowed or to be allowed as deductions in computing taxable income. The rate and the method of payment of the revaluation tax are the same as before.

As to the incorporation of the revaluation reserve into capital, the following revision is made. A corporation may incorporate its revaluation reserve into capital to the extent of the amount equivalent to three fourth of its revaluation reserve less the revaluation tax payable (if such corporation had paid its revaluation tax in full, the whole amount of revaluation reserve, but as from January 1, 1953.) According to this article, the separate "Law concerning the incorporation of the revaluation reserve" was promulgated and put in force on July 1, 1951.

The number of corporations which availed of the tax concession of the second revaluation is about 4,600 (including the special corporations) and among which about 2,000 revalued their assets for the first time.

REVALUATION IN 1953

As mentioned above, revaluation coefficients were composed on the basis of the prices as of June, 1949. Meanwhile prices in Japan rose again, and the new coefficients were called for. The revaluation law was revised and under this revised law even taxpayers who had already revalued their assets by the first and second revaluation law, were allowed to make revaluation using the new coefficients. The main points revised are as follows.

1. January 1, 1953, became the new basic date, accordingly assets acquired after January 1, 1950, came within the scope of the revaluation.

2. The kinds of assets which can be revalued are the same as before, but the shares of stock excluded.

3. Taxpayers are able to revaluate their assets twice, once in 1953, and once in 1954, provided that the total revalued amount should not exceed the maximum limit stipulated by the law.

4. As before mentioned, indices used in revaluation are (a) land price index (b) consumer's price index and (c) wholesale commodities index. According to the actual rise of those indices, the maximum limits of the revaluation were raised, i. e., (a) about 160%, (b) about 20% and (c) 50% raised respectively. In the case of the wholesale price index the actual rise was about 70%, but it was checked at 50% in composing revaluation coefficients.

5. The revaluation tax concerning the depreciable assets is to be paid in five years. The revaluation tax on the revalued assets other than the depreciable assets, is to be paid within two months after the closing date of the accounting period involving the day of the sale or the donation of the assets concerned. But in case the revalued assets have not been sold or donated within five years after revaluation, the revaluation tax thereon should be paid within three years after the aforesaid period (five years after revaluation).

6. A corporation may incorporate its revaluation reserve into capital to the extent of the amount equivalent to nine tenth of its revaluation reserve less the revaluation tax payable.

The assets revaluation law is still valid, and the result of the third revaluation is not yet known, whether a successful effect will be obtained or not depends upon the prospect of the earning power of the business enterprises.

CONCLUSION

The revaluation is a method of matching current cost of the fixed assets against the revenue, but it is a correction only for the

inflation which had already come, and leaves the future adjustment for further changes of the price level unsolved. The accounting methods and procedures which automatically take care of the price changes, the author thinks, are to be devised.

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LAST-IN, FIRST-OUT INVENTORY METHOD UNDER THE JAPANESE TAX LAW

By Munehiro Masuzaki

Our tax regulations concerning the Last-in, First-out method (hereinafter referred to Lifo) has been introduced to Japan, for the first time, with the adjustment and alignment of the provisions on the inventory valuation with the revision of the Tax Law in 1950. Up to that time, there had existed no regulations on inventory valuation under the Japanese Tax Law, with an exception of certain working rules concerning the treatment thereof, which, however, were so simple in substance that they contained only a provision to the effect that a corporation was allowed to devaluate the ending inventories to the level of the "Cost (no detail was provided for in respect of its substance) or Market, whichever is lower" less 10% thereof.

However, such practice of devaluation, being based on no theoretical ground, was abolished by the above revision in compliance with the so-called Shoup Mission's Recommendation, and the selective adoption of rational inventory valuation methods has come to be approved under the new Tax Law for the first time. Namely, the ending inventory valuation has been approved to be effected by the methods of "Cost Basis," "Market Basis" or "Cost or Market, whichever is lower Basis" at the own option of enterprises, and as one of the methods falling under the category of the Cost Basis, the Lifo has been approved to be adopted together with other methods as the Specific invoice method, First-in, First-out method, Weighted average method, Mooving average method, Straight average method, Recent purchase method and Retail method under the same category.

The tax regulations concerning the Lifo have had a long tradition and experience under the American Tax Law, and in this

treatise, the writer is going to explain the differences between the regulations on the Lifo under the American and Japanese tax laws, giving some comments thereon at the same time.

I

The provisions concerning the Lifo under the Japanese Tax Law are laid down as follows:

Lifo—Grouping the inventories by the kind, etc. and deeming the inventories of each kind, etc. to have been acquired by the oldest purchases; the actual acquisition cost of the inventories thus deemed to constitute the inventories shall be deemed to be the acqusition cost. (Corporation Tax Law, Enforcement Regulation, Art. 20)

Furthermore, for the purpose of giving supplementary explanations to the above, the following provisions are laid down under the Working Noticification:

Under the Lifo, when the quantity of the ending inventories of same kind, etc. is smaller than that of the opening inventories, the ending inventories are deemed to consist of the oldest purchases in the order of the acquisition date and the appraisal amount at the end of the previous business year is deemed to be the acquisition cost of the said ending inventories, and when the quantity of the ending inventories is larger than that of the opening inventories, the appraisal amount at the end of the previous business year is deemed to be the acquisition cost in the part of inventories the quantity of which is not over that of the opening inventories and *the individual costs are deemed to be the acquisition costs of the part of inventories the quantity of which is over that of the opening inventories deeming the said part to consist of the nearest purchases to the opening date of the business year.* (Working Noticification No. 184, Italics by the writer)

Therefore, the provisions concerning the Lifo under the Japanese Tax Law require a valuation by a strict Lifo procedure in respect to the part of the inventories increased in the current year, which are different from the provisions of the American Tax Law (Reg. 111, Sec. 29. 22—(d)—2) which approve a valuation to be effected not only by the Lifo procedure but also by Fifo procedure, Weighted average procedure or by other procedures reflecting the income

clearly. This is the *first* point of difference of the provisions of the Lifo under the Japanese and American tax laws.

However, from the point of view that the Lifo under the Tax Law is a valuation method of the ending inventories on the periodical basis of one whole business year, the theoretical characteristics of the Lifo are not lost irrespective of the valuation procedure applied to the part of inventories increased in the year, so far as the said part is valued at the price level in the year concerned, because the principal object of the Lifo is to maintain the price level of the first Lifo year, that still remains in the ending inventories of the following business years with a far heavier weight in comparison with the quantity of inventories increased or decreased in the year. Accordingly, the application of valuation methods other than the Lifo to the inventories increased in the year with an object of avoiding troublesome computation procedures does not always spoil the characteristics of the Lifo.

The more important matter is whether the abovementioned principal object of the Lifo is taken in the tax law composition or not.

In this connection, the Japanese Tax Law lays down some unreasonable provisions violating the principle of the Lifo in respect of the appraisal amount of the ending inventories to be carried forward to the following business year, contrary to the provisions requiring the valuation by the strict Lifo procedure. Namely, the Working Noticification No. 180—7 states as follows:

> The acquisition cost of the opening inventories of a same kind brought forward from the previous business year, even in the case of the Lifo applied thereto, may be based on the average appraisal amount of the inventories as at the end of the previous business year.

Certainly, this provision has a strong point of simplifying the computation procedures for deciding individual acquisition cost, since it makes it unnecessary to catch each individual acquisition cost by each lot. However, under such an optional provision as this, the opening inventories forwarded to the current year are all deemed

to have been acquired at the same time and at a single average cost, which treatment has no difficulty when the ending inventories are larger than the opening inventories, but has some difficulty when the case is reversed, because the part of inventories decreased in the current year is delivered out at a single average price of the aggregated total cost of the opening inventories, which makes the inventories of the first Lifo year impossible to maintain the price level in the first Lifo year, even though the quantity of inventories is maintained.

It is very clear from what have been stated above that the repetition of such computation in accordance with the provisions of the Working Noticification 180–7 produces a result which is far from the strict principle of the Lifo which requires a valuation deeming the ending inventories to consist of the oldest purchases. It is not the Lifo in any sense but rather the Weighted average method from the long-run viewpoint. Such a provision as above is not found in the American Tax Law. This is the *second* point of the difference between the provisions of the Lifo under the Japanese and American tax laws.

II

As aforementioned, the Lifo under the Japanese Tax Law means, as a rule, such valuation method as of valuing ending inventories deeming one business year as one periodical unit. But the Japanese Tax Law applies this idea even to one month or one period up to the following delivery as one periodical unit, which is the *third* point of the difference between the provisions of the Lifo under the Japanese and American tax laws. The Working Noticification concerning the Corporation Tax Law NO. 184–2 and 184–3, prescribes as follows:

Such a valuation method as to compute the acquisition cost of the ending inventories of a business year, deeming the prices as computed by applying the Lifo procedure monthly to be the acquisition cost of the inventories at the end of each month and forwarding the acquision cost

thus computed to the following month by turns, shall be deemed to be the Lifo as prescribed in Article 20 of the Corporation Tax Law Enforcement Regulations (No. 184-2)

Such a valuation method as to compute the acquisition cost of the ending inventories of a business year, deeming the inventories existing at the time of each delivery after the said delivery to consist of the oldest purchases in the order of the acquisition date, shall be deemed to be the Lifo as prescribed in Article 20 of the Corporation Tax Law Enforcement Regulations (No. 184-3)

In accordance with the above provisions, the Japanese Tax Law, when the Lifo procedure is taken in the monthly inventory accounting or cost accounting, acknowledges the amount of the ending inventories computed by such procedure, deeming it to be the appraisal amount of the ending inventories under the Tax Law. The result of computation by the Lifo on one month basis or on one period up to the following delivery basis is naturally different from the result of computation by the Lifo on one business year basis. Consequently, if an enterprise adopts the Lifo in its monthly accounting calculation and the tax law acknowledges only the Lifo on one business year basis, the amount of ending inventories as figured out from the enterprise's internal calculation is attended with a result of being different from the appraisal amount of the inventories under the tax law, which requires the difference to be adjusted at the end of the business year to the extent as to meet the tax requirement. The provisions of the Working Noticification No. 184-2 and 184-3 have been prescribed with the object of saving such year end adjustment trouble.

But, it is rather disadvantageous for enterprises from the viewpoint of tax saving to compute the ending inventory amount in accordance with the above provisions when the prices of the inventories are tending upward.

However, so far as the Lifo procedure is actually taken in the monthly inventory practice or perpetual inventory practice in the business accounting, it is desirable that the tax law acknowledges

such practices in order to match tax law composition to the actual practices, because such is a matter of course to be taken into the composition of the tax law as all Lifo procedures in practical use in the business accounting are acknowledged to be taken freely at the enterprise's own selection but under the principle of "Consistency."

The *fourth* point of the difference between the Japanese and American tax laws of the Lifo is found in the idea of grouping (or pooling) of the inventories applicable with the Lifo. Under the Japanese Tax Law, the valuation of inventories are required to be effected by the kind, quality and shape, applying each valuation method thereto respectively (refer to the Corporation Tax Law, Enforcement Regulation, Art. 20 and Income Tax Law, Art. 12-9), which principle is naturally applied to the grouping of the inventories applicable with the Lifo without any exception. Moreover, the Japanese Tax Law requires, as a rule, the grouping of inventories to be effected by each stage of working process, for example, such as steel at raw material stage, at goods-in-process stage and at finished goods stage. In other words, it requires a strict grouping by the physical and/or functional dissimilarity of the inventories.

In this connection, the same idea of grouping had been also adopted in the American Tax Law for a considerable length of time since the inaugulation of the Lifo, though its interpretation had been gradually extended in compliance with the Treasury Decision 5407 [1944] and the Court Decision of the Hutzler Brother's Case in 1947. But, the adoption of the Dollar Value Method in the American Taw Law (amendments to T. D. 5756, Sec., 29, 22 (d)-1) has changed the idea of grouping of the inventories applicable with the Lifo substantially, resulting in causing a remarkable discrepancy between the Japanese and American tax laws. Because, the Dollar Value method was quite a new accounting method as to compute the quantity of inventories by the Lifo on the basis of the invested cost amount increased or decreased in the inventories instead of grouping by the physical and/or functional dissimilarity.

Tax Law interprets the homogeneity or fungibility of inventories of the same group in the sence of monetary units invested in the acquisition of inventories, giving up to interpret in the sense of the physical and/or functional dissimilarity. In this respect, the American Tax Law is quite different from the idea of grouping on the physical and/or functional dissimilarity of inventories.

III

The *fifth* point of difference between the Lifo provisions under the Japanese and American tax laws exists in the provisions concerning the relation of the Lifo and the Lower-cost-or-market method. The Japanese Tax Law allows a corporation selecting the Lifo to apply it to the inventories in collateral with the Lower-cost-or-market method, against the negative attitude of the American Tax Law.

Independently of the theoretical objections to the Lower-cost-or-market method, if a corporation that adopts other valuation methods than the Lifo entitled to the collateral application with the Lower-cost-or-market-method to the inventories under the tax law, the corporation adopting the Lifo, naturally, is entitled to the same benefits in respect to the computation of the taxable income. Then, what is the reason of the negative attitude of the American Tax Law to the collateral application of the Lower-cost-or-market method with the Lifo?

Under the American Tax Law, when the market price is lower than the cost, the appraisal amounts of the ending inventories at the market price is deemed to be the inventory (cost-) price of the inventories to be carried forward to the following business year and also deemed to be the cost of the said inventries in the following year (Reg. 111, Sec. 29. 22-(c)-3). Therefore, if the Lifo is applied to the computation of the cost in the Lower-cost-or-market method, the inventory (cost-) price declines in accordance with the fall of the market price and remains unchanged at the previous price level, even after the advance of the market price, which will end in

giving an unreasonable lenient treatement to a corporation selecting and applying the Lifo in collateral with the Lower-cost-or-market method, as compared with other inventory valuation method. This is supposed to be the reason of the negative attitude of the American Tax Law to the collatelal use of the Lifo with the Lower-cost-or-market method.

The Japanese Tax Law, to give a solution to this dilemma, lays down the following provisions:

> In case where a corporation, selecting the Lower-cost-or-market method, has appraised their ending inventories at the market price at the end of a business year because of the market price being lower than the cost, the acquisition cost of the said inventories to be used for the valuation of the ending inventories at the end of the following year, shall be computed on the basis of the actual acquisition cost instead of the appraisal amount at the end of the previous business year (Corporation Tax Law, Working Notification No. 186)

Accordingly, under the Japanese Tax Law, the ending inventory price which has declined in accordance with the fall of the market price is raised up again in the following year to the original acquisition cost and thus the acquisition costs constitute the opening inventory price of the following year. Consequently, the collateral application of the Lifo with the Lower-cost-or-market method enables the ending inventories of the first Lifo year to remain without decrease inventories, without spoiling the principle of the Lifo. The Japanes Tax Law treats the corporation selecting the Lifo to adopt the Lower-cost-or-market method to compute their taxable income, exactly in the same manner as the corporations selecting other valuation methods than the Lifo.

Now, we can take a general view of the composition of the Japanese Tax Law provisions concerning the Lifo in the course of above explanation. The main priciple of the provisions to the effect that the Lifo is a valuation method standing on the presumption that the ending inventories consist of the oldest purchases, aims at matching and charging the current cost to the current revenue,

from the point of the periodical income determination. Therefore, the consideration for the elimination of the cost at the oldest price level from its matching and charging to the current revenue shall be the measure to judge the superiority of the tax regulations concerning the Lifo.※ This is the reason of my objection against the Working Noticification No. 180–7.

However, the principle of matching the current cost to the current revenue is not always realizable because of the fact that the Lifo is nothing but a procedure for periodical allocation of cost. It is naturally possible to match the current cost to the current revenue when the cost allocated to the income consists of the cost factors of the current purchases provided that the Lifo procedure is taken on the whole year basis, but when the delivery in the current year (in other words, when the opening inventories has been liquidated by the current delivery) and also the price level of the opening inventries was different from that of the current purchases, the above principle of matching is not realizable in respect to the part of the delivery in excess of the purchase (namely, the part of liquidation) because of the inability of charging the cost to the current revenue at the same price level.

As aforementioned, the Japanese Tax Law acknowledges not only the Lifo procedure on the business year basis but also one month basis or one period to the following delivery basis and regulates strictly the grouping of the inventories applicable with the Lifo. Therefore, in comparing the Japanese Tax Law with the American Tax Law which acknowledges only the Lifo procedure on one business year basis and supervised rather leniently the grouping of inventories, the liquidation into the opening inventories is more apt to occur under the Japanse Tax Law than under the American Tax Law, though the Lifo is applied to the same case, resulting in the matching the cost at previous price level to the current revenue. These are the matters relating to the provisions concerning the Lifo under the Japanes Tax Law, to be should by further and future studies.

※ This criterion is very important for the post-war Japan. For, in post-war Japan under the enormous change in general price level, it must be emphasized that, in all group, inventories price levels have changed remarkably from one business year to another. This situation, as compared with the one in U. S. A., is as follows: (The writer divided one year, in case of Japan, into two parts——F. H. (former-half) and L. H. (latter-half), because it is customary with many Japanese corporations to take a half-fiscal year as one business term)

Wholesale Price Index Numbers by Group (January, 1948=100)

		1950		1951		1952		1953
		F. H	L. H	F. H	L. H	F. H	L. H	F. H
Textiles	Japan	314. 6	425. 5	553. 0	472. 9	417. 7	400. 4	388. 3
	U. S. A.	98. 9		105. 1		97. 0		94. 5
Fuels	Japan	310. 1	300. 3	331. 4	395. 3	450. 5	453. 4	473. 9
	U. S. A.	102. 5		106. 4		103. 8		103. 0
Metal and metal products	Japan	254. 7	358. 8	582. 5	637. 6	610. 3	575. 9	564. 3
	U. S. A.	103. 6		122. 6		128. 0		122. 5
Building materials	Japan	211. 9	250. 3	354. 4	337. 7	356. 7	384. 6	418. 7
	U. S. A.	106. 2		124. 3		——		——
Chemical Goods	Japan	232. 2	275. 4	323. 3	377. 3	396. 7	392. 2	360. 2
	U. S. A.	87. 4		101. 9		95. 0		94. 2

Note: These figures are computed by the writer from the price index tables obtained from the Statistics Dept., Bank of Japan and U. S. Dept. of Commerce

IV

As aforementioned, the principle of matching the current cost to the current revenue is impossible to realize when the ending inventories are smaller than the opening inventories, because the Lifo is after all a mere cost allocation method. But, as is generally well-known, the American Tax Law contains relief provisions applicable to the liquidation provided that such liquidation occur involuntarily due to some specific reasons attributable to war conditions or to the break of normal international business connections,

if they are only for a short period (Internal Revenue Code, Sec. 22-(d)-E, A-E [1942] F [1951]). The income determined for the year of such liquidation is distorted by the charging of the previous cost to the current income to the extent of that charging. However, by virtue of the relief provisions, the income for the year of the liquidation is redetermined in the following year tracing back to the said year of the liquidation, when the liquidation is made good in the following year by and for the amount made good, which tretment bestows on the income determination an effect as if such liquidation had never occurred.

Of course, relief provisions under the American Tax Law is a temporary measure to meet the war-time or national defence contingency. No such relief measures are provided for under the Japanese Tax Law since there exists no stress in Japan.

However, such relief provisions are not unnecessary for the Japanese Tax Law because the Japanese enterprises, depending on the foreign trade, expose themselves to the sensitive fluctuation of the international economic trend and cannot be freee from the abnormal fluctuation of the quantity of inventories due to such reasons as the inability of securing goods of some specific description from abroad or as the delay of arrival of goods owing to ship's circumstances. Such are the peace-time phenomena but they are still the reasons for the occurrence of undisirable liquidations.

Whether such relief provisions are necessary for the realization of the principle of the Lifo or they are mere political product for encouragement of industry are not discussed here, only pointing out that this is the *sixth* point of difference between the provisions concerning the Lifo under the Japanese and the American tax laws.

Hitherto, the writer has explained the provisions of the Lifo under the Japanese Tax Law, comparing them with the provisons under the American Tax Law, pointing out six differences as abovementioned, which are summarized as follows:

As to the second point of difference, Japanese tax previsions are

theoretically unreasonable compared with the American tax provisions.

As to the first point of difference, Japanese tax provisions are too strict compared with the American tax provisions.

As to the fourth and sixth points of difference, Japanese tax provisions need further to be studied, in comparison with the American tax provisions.

As to the third point of difference, Japanese tax provisions match the tax requirment to the business accounting practice better than the American tax provisions.

As to the fifth point of difference, Japanese tax provisions are superior to the American tax provisions in respect of the tax law composition.

Nowadays, the Lifo is a matter of concern to theorists, practioners and taxation authorities, as a leading problem of the inventory accounting under inflation. The writer believes that this problem may be better adjusted and aligned by further studies so as to realize the principle of the Lifo in the near future.

Addeda:

In Japan, the number of large corporations that adopted the Lifo method on their tax accounting is show in the following table:

	As June, 1951				As April, 1953			
	A	B	C	B/A	A	B	C	B/A
Finished goods or merchandises	63	4	59	6.3%	123	15	108	12.2%
Half finished goods or goods-in-process	56	4	52	7.1	107	14	93	13.0
Raw materials	57	3	54	5.4	122	21	101	17.2
Other inventories	60	4	56	6.6	125	13	112	10.4

Note: 1. A=Number of corporation under this survey
B=Number of corporation that adopted the Lifo (included the corporation that adopted the Lifo in collateral with the Lower-cost-or-market method)
C=Number of corporation that adopted other methed than the Lifo
2. These figures are computed by the writer from the survey obtained from the Federation of Economic Organizations (for part of July, 1951) and Association of Business Management (for part of April, 1953)

3. The figures in the above table give the result of the investigation about a few large corporation which adopt the modern accounting system. But, from the investigation to the all Japanese corporation, the percentage of the corporation that adopted the Lifo, at the time of inauguration of the method as well as at present, seems not to grow larger than about 2%. This is, of course, due to the future prospect of economic conditions in Japan, and to the inadequate prevalence of the knowledge of the Lifo method among the people. But, the fact that the adoption of the Lifo method or the conversion to this method from another method necessarily places a heavier burden, at the time of inauguration of the method, on the corporation than in the case of adopting other methods or converting from one method to another of different kind. This can not be overlooked. Detailed discription of this phase of the problem must wait for another occasion for the lack of space.

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THE RESEARCH INSTITUTE FOR ECONOMICS AND BUSINESS ADMINISTRATION, KOBE UNIVERSITY.

The Institute was founded in 1919 attached to the Kobe University (the Kobe Higher Commercial School at that time) with the endowment fund of the Kanematsu & Company, the pioneer firm of Japan-Australia Trade, which provided the school with the building and the fund to carry on the research work. In 1949, the Institute become an official organization attached to the Kobe University, maintained by the national treasury.

The aim of the Institute is to carry on the scientific and synthetic study of Industrial Economy in its two teams of research work, namely, the Research Team of International Economy and the Research Team of Business Administration. The former comprises four sections, each taking charge to carry on research work on Foreign Trade, Marine Economy, International Finance and International Rules and Agreements on Commerce; the latter comprises four sections, each of which undertakes to carry on the research work on Business Management, Accounting, Rationalization of Industry and Labor Problems.

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