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private family contract. The rights and obligations of the members of a family are determined not by the family but by the state, which undertakes to ensure "equal rights for both sexes" and to determine reciprocal obligations within the family.

These rights are defined in terms of the individual: each spouse is permitted to retain his or her family name and personal property, choose his or her occupation, and freely engage in social and political activities. Thus all family restraints on the political and economic freedom of its members are legally abrogated. Under this law, then, the family system disappears with the loss of such traditional features as collective responsibility for the political and economic actions of its members, parental or family authority over children who have attained their majority, and the prerogatives of males and heads of families.

A few conclusions might be drawn. First, the political and economic system of the Communists is incompatible with some essential features of the "traditional" Chinese family. Second, the Communists, in the interest of establishing and perpetuating their power, are endeavoring to limit the functions of the family to those areas of personal and social influence and activity which do not compete with their organizations, programs, and policies. This means the end of the traditional Chinese family system, but not of the family as a social institution.

Third, the voluntary or enforced participation of

millions of people in Communist-sponsored and controlled organizations significantly alters the social context of the Chinese family and the role of its members both within and outside of the family. Fourth, to the degree that individuals depend on non-family organizations and the state for support and protection by claiming the legal rights assured them in the new Marriage Law and other laws, the family declines in significance. Finally, part of the success of the Communists in establishing an efficient party and administrative system, relatively free of corruption and nepotism, must be attributed to their ability to neutralize family influence.

It should be pointed out, however, that this is not a simple task. The effective claims of the Party and other organized groups on their members have not been strong enough to eliminate the dangers of family influence and loyalties. Special measures to cut key personnel off from their families have been reported. For example, at several university and training centers for military, political, and security workers students are reported to be forbidden to spend the night with relatives and are encouraged to sever family ties. The state must still reckon with the Chinese family; but for millions of Chinese people who are voluntary or involuntary participants in a constellation of political, economic, and social organizations, which are undergirded by a new legal system, the family in its traditional form no longer can exist.

Japan's Economy and the Korean War

What effects has the crisis had on the revival of an economy which hinges on foreign trade? A government official discusses current trends in Japan.

BY SABURO OKITA

THE JAPANESE ECONOMY is very susceptible to external influences because of its crucial dependence on foreign trade. The changes in world economic conditions since the outbreak of the Korean war, therefore, have had important effects upon Japan, particularly since the battlefields are so nearby.

Japan had been experiencing a deflationary trend under the Economic Stabilization Program, which was recommended by Joseph Dodge, Detroit banker and adviser to SCAP, and implemented since the spring of 1949. Through the first half of 1950 inventories were increasing, prices were declining, and the revival of industrial production was less steady in many sectors.

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The outbreak of the Korean war changed this picture substantially, and the Japanese economy, like that of many other countries, is now under inflationary pressure.

Two immediate and outstanding features of this change were the new demands created by the "direct procurement" program of the United Nations forces for the Korean war, and the increase in exports and slackening of imports, which remarkably improved Japan's international balance of payments. Domestically, the economy was affected by a sharp increase in industrial production, a rapid and uneven rise of prices, and a leveling-off tendency in the recovery of the standard of living. Each of these factors must be considered in evaluating Japan's post-Korean economy.

First of all, the United Nations' "direct procurement" in Japan introduced new demands on the econ-

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omy. Direct procurement orders placed to meet the needs of the Korean war amounted to \$240 million by March 11, 1951. The breakdown by commodity groups of this sum is as follows:

TABLE I. Direct Procurement
(in millions of dollars)

Total of goods	158.6
Machinery	40.1
Metal and metal products	40.6
Textiles	36.4
Lumber and paper	17.5
Chemicals	7.7
Others	16.3
Total of services	81.8
Total of goods and services	240.4

During the first eight months of the Korean war, direct procurement amounted to about three percent of the gross national product and to about one-third of Japan's current export trade. Of the total production of important materials in the latter half of last year, the procurement program took nine percent of steel, five percent of copper, four percent of zinc, and five percent of cotton yarn.

The figures for Japan's international trade reveal an upward trend in exports even before the Korean war, especially in textiles, steel, and non-ferrous metals. The post-Korean advance of exports was much sharper, however, as shown in the following table:

TABLE II. Japanese Exports and Imports in 1950
(in millions of dollars)

	Exports	Imports	Import (—) or Export (+) surplus
Jan-Mar 1950	144	239	—95
Apr-Jun "	179	246	—67
Jul-Sep "	210.5	210	+ 0.5
Oct-Dec "	287	264	+23
Total	820	959	—139

When direct procurement orders are added to these figures, the value of exports in the second half of 1950 was 90 percent above that of the previous six months. The \$820 million total for 1950 was a considerable rise over exports of \$510 million in 1949, though the volume of exports was still only 40 percent of the pre-war 1934-36 average.

In contrast to the increase in exports, imports have been declining somewhat, as shown in the above table. This slackness could be attributed to the sudden changes in world market conditions, and to the rather inflexible import policy of both SCAP and the Japanese government, which delayed adjustment to new world conditions.

As a result of higher exports and lower imports, Japan's balance of international payments improved

remarkably in the latter half of last year. As shown in Table II, Japan had an import surplus of about \$162 million in the first half of 1950, while this changed to an export surplus of \$24 million in the latter half. When the direct procurement dollar earnings are added, Japanese foreign reserves increased by about \$300 million to reach \$519 million by the end of 1950.

This surface improvement of the balance of payments picture, however, should not be taken as a very significant sign of economic recovery. The present level of trade is still very low compared with the pre-war period, and the improvement which took place was chiefly due to the relatively low level of imports, which lagged behind the swelling export figure.

A drive for increased imports was initiated last fall, when the foreign exchange allocation for imports was liberalized. As a result imports began to rise last December, and amounted to \$512 million in the first quarter of 1951, against exports of \$287 million. The export increase has leveled off somewhat since the beginning of the year, and the trade balance is again shifting to an import surplus, with a corresponding deterioration of the foreign exchange position. Dollar reserves, which reached a peak of \$519 million at the end of last December, fell to \$447 million at the end of March.

Domestic production did not rise noticeably in the early stages of the Korean war because accumulated inventories met the immediate war needs. Industrial output began to expand only after September, with the index rising as follows (1932-36=100):

1950	June	93.6
	September	98.9
	October	108.4
	December	116.7
1951	January	112.8
	February	113.0
	March	126.9*

* Preliminary.

The production index (1932-36=100) by branches of industries is shown in the following table:

TABLE III. Industrial Production Index

	June 1950	December 1950	March 1951*	Percent of change Dec 1949 to June 1950	June 1950 to Dec 1950
Industrial production	93.6	116.7	126.9	+14	+25
Mining	111.5	120.1	128.8	+ 2	+ 8
Metals	131.2	158.2	163.5	+20	+20
Machinery	103.8	150.1	177.8	+ 2	+45
Ceramics	105.6	148.1	146.4	—10	+40
Lumber	96.3	148.1	160.9	—11	+54
Textiles	39.8	49.1	51.2	+44	+23
Chemicals	123.3	150.7	164.7	+34	+22
Food, beverages and tobacco	80.5	75.0	70.9	+12	— 7
Printing	80.6	96.0	97.3	+ 7	+19

* Preliminary.

As shown by these figures, production increased 14 percent in the first half of 1950, and jumped another 25 percent in the second half. In this increase, machinery, ceramics, and lumber, which had not been active in the first half, were the commodities most strongly affected by the Korean war.

Although this index gives the impression that the present level of industrial production considerably exceeds the prewar level, the figure is still relatively low if one considers that the present population is 23 percent above that of the base period, or if production is compared with the wartime peak. As the index of industrial output, on the same base, was 219 in 1944, present production is about half of the peak. Even in 1939, under a semi-mobilized economy, the index was 163, which is 30 percent higher than the present level.

In the early months of 1951 production declined slightly from last December's level, but this fall was due chiefly to seasonal influences. Although in some industries the shortage of materials and electric power is becoming a limiting factor to further production increases, more rational use of electricity as well as increased imports of foreign raw materials will enable production to rise still more in the course of the current year.

Prices Rise Sharply

The impact of the Korean war produced great changes in Japanese prices. The percentage of price rise during the period from June 1950 through March 1951 is as follows:

TABLE IV. Price Indices

	<i>Authorized Price</i> (Wholesale)	<i>Effective Price</i>	<i>Market Price</i>
Capital goods	62	36 (Jan)	78
Consumer goods	24	18	45
Average	43		

NOTE: "Authorized prices" (wholesale) are based on Tokyo prices surveyed by the Bank of Japan; the official price is quoted in case there is one, and the free market price is quoted if there is no official price. "Effective prices" are a weighted average of official and black market prices. "Effective prices" of producer goods are based on the Bank of Japan's survey for the entire country; "effective prices" of consumer goods are based on the Consumer Price Index for Tokyo, compiled by the Bureau of Statistics, Prime Minister's Office. "Market prices" are based on the Bank of Japan survey for Tokyo, which quotes the black market price where there is an official price and the free market price where there is no official price.

The sharp rise of prices in Japan can be attributed to such factors as the direct procurement orders, the increase in export demand, the effect of slack imports on the supply and demand balance, and the direct

impact on domestic prices of import and export price changes.

The weekly market price indices by commodities for March 17 and April 21 of this year, prepared by the Research Section of the Economic Stabilization Board, show the following increases since the outbreak of the Korean war:

TABLE V. Commodity Price Indices
(June 24, 1950=100)

	<i>March 17, 1950</i>	<i>April 21, 1950</i>
All items	163.9	173.0
Textiles	184.2	153.9
Metals	275.0	297.3
Machinery	188.6	223.8
Building materials	158.8	162.4
Fuels	136.6	149.3
Chemicals	99.7	106.2
Food	136.2	138.1
Misc. goods	165.5	177.9
(Capital goods)	175.8	189.7
(Consumer goods)	145.0	146.3

The price rise was most marked in machinery and metals, which are in great demand for export and for the direct procurement program, and are greatly affected by changes in the prices of raw material imports. The rise is rather small for fuels, chemicals, and food, which are produced largely with local raw materials and mainly for the domestic market.

The consumer price index, an important factor in the cost of living, rose by 18 percent from the outbreak of the Korean war to March 1951, but this rise was considerably below the rate for general prices. This was due to the fact that the price of food, which accounts for about 60 percent of family expenditures, was fairly stabilized. This stability, however, adversely affected the farmers' economy.

The general, sharp price rise resulting from the Korean crisis was more marked in Japan than in other countries, a trend due to both external and domestic influences. As noted before, Japan is highly dependent on imports to supply industrial raw materials, and domestic prices are greatly affected by the rise in import prices, especially in shipping freightage, which has doubled since the outbreak of the Korean war. Moreover, restrictions on trade with Communist China, tightened up last December, have made it necessary to seek iron ore, coking coal, salt, and other imports from more distant areas.

Weak Controls Encourage Inflation

Domestically, price controls have gradually been removed since 1949, and the price stabilizing function of the government has been considerably weakened. This occurred even as direct procurement, increased exports, and slackness in the import trade exercised

new inflationary pressure on the Japanese economy. And on the side of domestic import credit, the usance system initiated last fall added temporary inflationary effects for several months. Finally, there were some attempts to raise too low prices, in view of increasing demand, in areas where prices had been kept low because of slack demand under the deflationary pre-Korean economy.

As might be expected, the sharp rise in prices is gradually beginning to have an adverse effect on the export trade. This is particularly true with regard to machinery; countries in southeast Asia are severely critical of the soaring prices of machinery manufactured in Japan.

The rise began to taper off in March of this year, however, with a fall recorded even in some textiles. This was due to a worldwide sidewise trend of prices, attributable mainly to price controlling measures in the United States. A contributing internal factor was that prices rose so greatly that consumer purchasing power could not catch up and some adjustment was demanded. However, since there may be no fundamental change in the world situation, and since Japan can expect a delayed impact of price rises in industrial goods upon agricultural prices and wage levels, the basic trend of prices will be to rise still further.

War's Effect on Living Standards

A final factor of change in Japan's economy is the leveling-off tendency noticed in the recovery of prewar living standards. Despite the sharp rise in production, the average living standard of the people showed little improvement during the past few months. If family expenditures for the urban population, divided by the effective consumer price, are taken as the real consumption level, the 1950 level was 74 percent of that in 1934-36. Although this was 6.7 percent above the 1949 level of 70 percent, the quarterly analysis shows that the rise of real consumption has been leveling off since the Korean war.

TABLE VI. Trend of Consumption Level for Urban Population (Tokyo) in 1949 and 1950 (1934-36=100)

	1949 (A)	1950 (B)	B/A
Jan-Mar	65	69	106
Apr-Jun	65	76	117
Jul-Sep	69	73	105
Oct-Dec	79	80	101

SOURCE: "Monthly Report of Japanese Economy," Economic Stabilization Board. No seasonal adjustment made.

The average wage for industrial workers increased by 20 percent from the outbreak of the Korean war to February 1951. As this rise in nominal wages was offset by a 17 percent increase in the cost of living, however, the real wage increased only slightly. The rise

in industrial employment was rather small, even though production recorded a sharp increase. The result was that the value of output per worker increased nearly 20 percent during the first eight months of the Korean war, and this in turn contributed to the improvement of business profits.

Another trend to be noted is the widening difference between wage levels in big enterprises and in small ones, as shown in the following table.

TABLE VII. Relative Wage Level by Size of Factories in Manufacturing Industry

	<i>Total Average</i>	<i>Number of Employees</i>					
		<i>Over 1000</i>	<i>999- 500</i>	<i>499- 200</i>	<i>199- 100</i>	<i>99- 50</i>	<i>49- 30</i>
Apr-Jun 1950	100	115	107	101	101	85	77
Jul-Sep 1950	100	116	109	100	93	83	73
Oct-Dec 1950	100	122	112	100	90	77	69
January 1951	100	130	126	96	83	79	64
February 1951	100	122	108	98	90	80	70

"Monthly Labor Statistics," Ministry of Labor. December and January figures are influenced by the year-end bonus which is customary in the Japanese wage system.

Thus, in various ways, the Korean war has acted as a strong stimulant for the Japanese economy. But although the economy as a whole has improved considerably, the situation has not so far necessarily been favorable for farmers and small business. Fairer distribution of income and further recovery of the living standard are problems for the future.

Lastly, one must remember that the Japanese economy has been highly dependent upon the resources and markets of Asia (about 60 percent of the prewar Japanese export and import trade was with the Asiatic countries). These same countries are encountering increasing difficulty in obtaining the capital goods they need for industrial development, because of the rearmament programs in many already-industrialized countries. It is considered desirable that the industrial potential of Japan be fully utilized to aid in the economic development and improvement of living standards of the underdeveloped countries of Asia.

FOREIGN LEADERS OBSERVE US METHODS

Foreign economic leaders from abroad are currently touring the United States to observe American technical methods, under the Point Four program. According to the Technical Cooperation Administration, 200 leading citizens of 38 nations will spend two or three months gaining firsthand information on techniques of agriculture, health work, education, industry, public administration, and fields of Point Four activity. Among the observers will be representatives of Ceylon, Burma, India, Indochina, Indonesia, the Philippines, and Thailand.