on the Communists and the Left's suspicions of his political ambition, may perhaps swing back to the Communists some wavering elements that were tending to become detached owing to the extreme opportunism of Communist policy but, in general, it is bound to exacerbate the differences between left and right and may considerably strengthen the right-wing parties.

On the eve of France's third constitutional referendum, the situation is, therefore, full of uncertainty. Whatever the merits or demerits of the constitution, what is most in its favour is that it will—or at least may—provide a much needed element of stability. It is certainly democratic and, if not easily workable, is certainly relatively easily amended. What openings it does provide for party dictatorship are not likely to be used in the immediate future, for there is no indication that any one of the three majority parties can increase its strength to the point of obtaining a working majority over all the others. In some ways, the situation might be considerably clarified and simplified if this were so. It remains, of course, true of this new draft constitution, as of all constitutions, that its working in practice will depend more on the spirit in which it is applied than on its intrinsic merits.

D. M. P.

JAPAN'S ECONOMY IN TRANSITION

WHEN Japan surrendered to the Allies the highly organized economy which she had built up since the beginning of the Meiji era (1868) was in ruins. Most of the cities which for the last forty years had absorbed the bulk of the increase in her population had been either destroyed or severely damaged by bombing, and with them had perished part of the productive equipment on which her flourishing pre-war industries had depended. She was cut off from overseas trade and so from sources of raw-material supplies and of certain important foodstuffs. Her monetary system was undergoing a violent inflation. The dwellers in her cities were short of food and fuel, and manufactured consumption goods of all kinds were exceedingly scarce. A people who ten years previously had seemed energetic, self-confident, neat, cleanly, and well-ordered had become lethargic, bewildered, dirty, ill-fed, ill-clothed, disorganized, and ready to receive their conquerors almost with relief.

It may be useful to review briefly the condition of the Japanese economy after a year of occupation, so far as it can be judged from the facts disclosed, and to try to appraise the nature of the

economic problem with which the Japanese and their conquerors will have to deal within the next few years. The present economic position is the legacy, in part, of Japan's own efforts to mobilize her resources for the war and, in part, of the destruction of the sources of wealth that occurred through Allied action during the course of the conflict. It is also profoundly influenced, however, by the policy that the Allied Powers are at present pursuing towards her, and from now on Allied policy, which will presumably be ultimately embodied in the peace treaty, will become increasingly important in determining the shape of the economic problem. It is convenient to consider each of these three factors in turn.

As with the other belligerent countries, Japan ended the war with her resources seriously maldistributed from the standpoint of peace-time demands. The civilian industries, including agriculture and also the great textile trades, had diminished in size as their man power was drafted into the armed forces and the munitions trades. Fixed capital in the peace-time industries had been run down and, in addition, because of the shortage of materials (especially metals) during the concluding stages of the war, much equipment in those industries had been scrapped. In agriculture, land had been diverted from the production of valuable industrial crops, such as mulberry leaves for the raw silk trade, to the production of food crops. On the other hand, by the conversion of peace-time factories to munitions manufacture, and by the building of new capacity, the war industries (for example, iron and steel, engineering, shipbuilding, chemicals) had greatly increased their labour force and productive capacity. In the last part of the war Allied bombing raids, although particularly destructive of the vulnerable Japanese dwelling houses, did considerable damage to industry also, while sea and air attacks almost wiped out the formerly great Japanese mercantile marine.

The redistribution of man power among civilian industries, though handicapped by the lack of dwelling accommodation in the neighbourhood of many of the plants, is not as formidable a problem as is that presented by the deficiency of capital equipment in those industries. For instance, it would seem that through scrapping and bomb damage the number of spindles in the cotton industry has been reduced to under three million, a quarter of the pre-war number, while the mercantile marine left to Japan consists of only about one and a half million tons of shipping, compared with six million tons before the war (excluding ships under 100 tons). This is not unrepresentative of what happened to equipment in the industries that are important in peace time. Those

industries in which Japan ended the war with a larger amount of capacity than she had before it are precisely the ones which will almost certainly be restricted in the future, for they are trades closely associated with her capacity for making war. Thus the overtaking of arrears of maintenance in capital equipment is only a minor part of Japan's problem. She has to face still further de-capitalization over a considerable sector of industry, and she has to reconstitute a very large amount of the equipment in her civilian trades before she can again begin to produce on a substantial scale. This task has to be tackled at a moment when great resources are needed to rebuild the shattered cities. Even in the countryside, Japan has to re-create her mulberry plantations before she can raise the raw silk output to anything approaching pre-war quantities, and this can hardly be done at a moment when she is short of food.

Again, stocks of materials are low. Since Japan has to import most kinds of industrial raw materials, it is impossible for her to resume production in many industries even on a modest scale unless she has access to foreign supplies. The Americans have provided her with some raw cotton on credit, and S.C.A.P.[1] has approved an import-export programme for the current year. But the planned import of materials is very small, and it is hardly to be expected that foreign credits sufficient to enable Japan to import on a substantial scale will be placed at her disposal in view of the needs of worthier claimants. Unless, however, she can obtain raw materials, she cannot begin to produce manufactured goods to offer in exchange for those imports, even though her products at the present time would be most acceptable to other Asiatic countries. Thus the problem of securing access to adequate imports of raw materials is as difficult to solve as is the problem of reconstructing capital equipment.

Like the rest of the world, Japan is suffering from a shortage of fuel. During the war Koreans were sent into the coal-mines in large numbers to replace native miners drafted into the Forces. At the end of hostilities the Koreans left the mines and output became insignificant. Now that the Japanese miners are returning the production of coal is rising again; but the monthly output is still at barely half the pre-war rate. Communications also have deteriorated, partly through the running down of the railways during the war, and partly through the shortage of ships in the coastal trade. Hence it is not easy to move coal and other materials to places where they are needed.

The loss of her colonies (Korea and Formosa) and Manchuria has also inflicted damage on her economy which will have an

[1] Supreme Commander for Allied Powers.

enduring effect. Before the war Japan imported from those countries rice equivalent to between 15 and 20 per cent of her consumption, as well as most of her requirements of sugar and of soya beans. She conducted this colonial trade on favourable terms, and although ultimately the imports may be resumed, she will not again enjoy her former privileged position *vis-à-vis* these suppliers and, at the moment, she is virtually cut off from them. So, she has to content herself at present with home-produced supplies of food, apart from anything that the Americans can send her to avoid unrest. She is certainly not as badly off in this respect as Germany, or indeed, as some of the Asiatic peoples who were victims of her aggression. But her diet is far inferior to that of pre-war days and there are few hopes of substantial improvement in the near future. The shortage of soya beans, moreover, has made her diet even more seriously unbalanced than it was before the war. It is estimated that for this year Japan's food supply is sufficient to provide an average diet of about 1,400 calories per head, compared with 2,140 calories in 1936 and about 1,850 during the greater part of the war. There has been a breakdown, however, in the machinery of distribution. The Government has found it impossible to collect foodstuffs from the farmers in adequate quantities for distribution among the urban population, because there are few commodities that the cities can provide in exchange. So, while the farmer is feeding comparatively well, the townspeople are more seriously undernourished than the average figures suggest. Japan cannot obtain much relief from outside, for in view of the world shortage, an ex-enemy State can hardly expect to be provided with large food imports, especially since the deficiency in Japan is due in part to a failure to devise adequate means for distributing what is already there.

The increase of domestic food production is, in these circumstances, obviously a matter of the highest importance. Even the maintenance of the present output, however, depends on the adequacy of the fertilizer supply, and this is a source of further anxiety. Soya beans from Manchuria cannot at present be obtained; supplies of phosphates from the South Seas will be needed to relieve shortages elsewhere; and the ammonium sulphate plants in Japan are handicapped by damage to their equipment and lack of coal. In recent months the production of ammonium sulphate has certainly recovered from the low levels to which it descended at the end of 1945, but it is likely to be some time before sufficient supplies of fertilizer are available to enable food production to be considerably increased.

Not merely physical obstacles are impeding Japanese recovery. The collapse of the old régime has for the moment removed the

centres of initiative. A high proportion of the most energetic men both in government and in industry since 1931 played an active part in the formulation and execution of Japan's aggressive policy. They are necessarily excluded from authority under the Allied régime, and the more liberally-minded administrators and business men have not as yet thrown up leaders of force and imagination. The people as a whole consider that they were misled by their rulers, and are apparently more resentful of native authority than of that exercised by General MacArthur and his staff. The *Zaibatsu*[1], from whom so much initiative in economic affairs proceeded, have been dissolved on the grounds that they buttressed the war machine and that their continued existence is incompatible with the democratization of Japan. The securities owned by their central companies have been vested in a Holding Companies Liquidation Commission set up for the purpose. So far, however, no authority has been constituted to discharge the former functions of the *Zaibatsu* as economic leaders, and the future ownership of their properties remains obscure. In any case, Japanese business men cannot proceed very far with the reconstruction of their industries until they know the obligations to be imposed on their country by the Allied Powers, the plants that are to be destroyed or removed as reparations, and the level of activity in the several sections of the economy which the Allies will permit. Thus, recovery for these, as well as for purely physical reasons, is slow and hesitant. Meanwhile, foreign trade, which is, of course, wholly under S.C.A.P.'s control, is a mere trickle. It is difficult to see how it can make a considerable recovery until industrial equipment has been rebuilt, more shipping becomes available, and methods for the conduct of foreign trade under conditions of foreign occupation have been agreed between the Allies.

Present economic conditions, together with the destruction of the towns, have produced a striking contrast between the urban and rural sections of the population. As we have seen, the city dwellers have been impoverished; their food supply is precarious; most of them are without homes; clothing and other goods are very scarce, even by war-time standards; and there is heavy unemployment among the workers. The countryside, however, escaped from the physical devastation of the war, and the life of the farmers was not profoundly affected by it. This class, which had not shared proportionately in the economic improvements of

[1] The term *Zaibatsu* (literally 'money group') is sometimes applied loosely to many large business groups, and when thus used is perhaps roughly equivalent to 'plutocracy'. But when used more precisely the term can be employed to indicate four business groups—Mitsui, Mitsubishi, Sumitomo, and Yasuda.

modern times and lived before 1937 at much lower standards than the city dwellers, has emerged from the war relatively well off. They have homes, crowded though they may be with relations from the bombed towns, and they have a much better dietary than the urban population. Their economic activities, far from rendering them suspect to the Allied authorities, are being encouraged. The shutting off of food imports has greatly increased their economic importance, and inflation has destroyed the burden of debt that formerly oppressed them. They can hardly be as well off absolutely as they were before the war; but they have certainly suffered little compared with the rest of the population. It is probable that this relative improvement in the position of the peasants will be maintained. For a long time Japan will not be able to import food in pre-war quantities, and this will obviously raise the value per unit of home production. Efforts are being made by S.C.A.P. to bring about agricultural reforms (including the transference of land from non-working landlords to peasant proprietors), and these, together with the relief from the debt burden, may also help to strengthen the economic position of the peasantry in relation to that of the urban workers.

If the farmers have gained on the whole as a result of the inflation, the steep fall in the purchasing power of the yen must have shaken profoundly the economic and social structure of Japan. The monetary situation was getting out of hand even before the end of the war, and after August, 1945 there was a runaway inflation. The note-issue of the Bank of Japan, which had risen from 1,750 million yen on the eve of the China war to 30,280 million yen at the time of Japan's collapse, doubled between that date and February, 1946. The Government was then compelled to drastic action in order to bring the monetary situation under control. In March of this year bank deposits were frozen, the old yen currency was withdrawn and new yen were compulsorily substituted for the old. It is too early to judge whether Japan will escape a further period of inflation, but in any case great damage to the economy and to the social structure of the country has already been done. Recent price movements are shown in the following tables:

Bank of Japan's Wholesale Price Index (Tokyo)

1933=100

December, 1944	245
August, 1945	300
December, 1945	446
February, 1946	525

Bank of Japan's Retail Price Index (Tokyo)

1914=100

November, 1944	347
August, 1945	431
December, 1945	827
March, 1946	1030

To sum up, it may be said that at the end of the first post-war year Japanese living standards, except in the countryside, are extremely depressed, and industry is still only in the first stages of recovery. Before production can again become substantial an enormous amount of capital reconstruction is required and shortages of fuel and materials must be relieved. The economic system, moreover, will have to be completely reorganized in view of the disappearance of the *Zaibatsu* and the restrictions that the Allies are likely to impose on certain industries. It is doubtful if much progress can be made in these directions until the long-term Allied policy towards Japan has been agreed and announced.

Although that policy must have as its first aim the prevention of Japanese aggression in the future, it ought also to be such as to make economic recovery possible. No Allied interest would be served by leaving Japan to chronic impoverishment, chaos, and disease. For, in those conditions, she would become a permanent centre of unrest in the Far East, and it would be impossible to induce her people to play their part in a peaceful world. Indeed, only if reasonable economic opportunities are afforded them can the Japanese be expected to turn their back on their former political ambitions. Moreover, to destroy Japan as a centre of industry in the Far East would leave a gap that would be difficult to fill and would be detrimental to the material welfare of other peoples in that area. The raising of standards of life in East Asia and the Southern Pacific is hardly possible unless the peoples of those areas have opportunities of buying manufactured consumption goods in return for the raw materials which they themselves produce. Had Japan not taken the path of aggressive imperialism, she might have played a valuable part, which no other country seems capable of filling so readily, in providing these cheap manufactures. At the present time the peoples of those areas are badly in need of the goods which Japan formerly sold to them, and in the absence of those goods they have little inducement to increase their own production of the raw materials which the world so badly needs. Hence, although the re-emergence of Japan as a competitor would be unwelcome to some of our industries, her industrial recovery would seem to be a necessary condition

of renewed prosperity in East Asia, including many British territories.

The question which at once arises is: what are the conditions of a Japanese economy which is both viable and also free from danger to the outside world? In suggesting an answer to this question, one must assume that Japan will be permanently stripped of her colonies and that the authority of the Japanese Government will henceforward be confined to Japan proper, that is, the four main islands together with some small contiguous islands. A fact which is highly relevant to the problem is the size and age composition of the population. By 1950, when the repatriation of Japanese overseas will have long been completed, the population of Japan proper is likely to be in the neighbourhood of 80 million. As, moreover, a high proportion of the Japanese are in the fertile age groups it is to be expected that, in the absence of famine and other calamities, numbers will continue to grow fast for some years to come—possibly at the rate of 800,000 a year during the early 'fifties. The present population may be contrasted with that in the early years of Meiji when Japan was almost entirely an agricultural country. It was then about thirty million, and in spite of the improvements in agricultural technique which have occurred, it is clear that if Japan were de-industrialized she could not possibly support a population of the present size at even the low standard of life that existed eighty years ago. The growth in the population was made possible by her industrialization, and industrialization in turn depended on the development of a large overseas trade which, in the 'thirties, took the form of an export of manufactured goods and the import of raw materials and foodstuffs. Nearly all the cotton, wool, rayon pulp, ferrous and non-ferrous ores, and oil that Japan required came from abroad, and her food imports were also considerable. She paid for these imports by exporting shipping services as well as manufactured goods, and those services represented in value about one-ninth of her commodity imports.

Up to 1929 Japan's commodity export trade had been highly specialized and had consisted mainly of raw silk and cotton textiles; but during the 'thirties the export basis was broadened and metal and engineering goods, rayon, wool fabrics, and many miscellaneous goods became important items among her exports. The distribution of man-power within Japan reflected this enlargement in the field of foreign trade; for there was a great expansion of industries hitherto of minor importance, including iron and steel, engineering, chemicals, and the newer textiles. Some part of this development was bound up with rearmament policy and with capital investment in Manchuria; but there is no

doubt that, even if those stimuli had not been present, the direction of growth would have been the same. The effect of the war, as we have seen, was to accelerate the development of the heavy branches of these newer industries at the expense of trades that catered for the civilian market at home and abroad (such as textiles and miscellaneous consumption goods), and the coming of peace found the economy seriously distorted.

It is probable that in the interests of security the industries that are the mainstay of a war economy will have to be narrowly restricted. This applies especially to iron and steel and to certain branches of chemicals, and it may well be held to apply to shipbuilding and shipping and to some branches of heavy engineering. In any case a considerable quantity of the equipment that Japan still possesses in these trades will doubtless be removed as reparations. If these assumptions are correct, then Japan will not be able to rely on those industries to absorb as high a proportion of her man-power as they did in the middle 'thirties, or to provide any significant part of the exports that she will need in order to pay for her essential imports. She will thus be driven back on the consumption goods industries and to some extent will revert to the type of economy which she possessed before 1929. The textile trades in all probability will again become of outstanding importance. Since, however, the export prospects of raw silk are bleak because of the competition of nylon, that industry is unlikely to regain its pre-war level of output, and the textiles on which Japan will concentrate will doubtless be cotton, rayon, and wool. In addition, there may be considerable opportunities in such trades as pottery, toys, light electrical apparatus, small metal wares, rubber goods, and miscellaneous consumption goods. Some of these are produced in small establishments without the use of much mechanical equipment, and in the course of the next few years Japan may well turn her attention to them to an even greater extent than formerly. The quantity of these manufactured consumption goods which she will have to supply if she is to balance her accounts will be very large, even if the definition of "essential imports" is drawn very narrowly, and the quantity will be all the greater if she is deprived of an ocean-going mercantile marine.

The serious consequences of failure to supply the necessary volume of the exports, and so to secure the minimum amount of imports she needs, can easily be realized. It has been shown that Japan depends on imports for nearly all her industrial raw materials as well as for oil, some important foodstuffs, and materials for several kinds of fertilizer. Without adequate supplies of fertilizers her food production will fall; without oil, the effi-

ciency of her fishing industry and her transport system will suffer; without sugar and soya beans, her diet will be dangerously deficient; without ores, she cannot produce machinery for her industries; without textile raw materials, she cannot clothe her people nor provide for her export needs.

It is thus not an exaggeration to say that the reconstitution of a substantial export trade is a condition of Japan's survival, unless indeed she is to become a perpetual charge on the Allied nations. Yet, because of the condition to which her industries have been reduced, several years may elapse before she can reach the required volume of exports. For instance, it may well take her four or five years to rebuild capacity in the cotton industry to enable her to supply cotton goods on anything like the pre-war scale. Consequently, for a long time to come the achievement of a minimum import-export programme will mean a very low consumption of manufactured goods at home and probably also a seriously deficient diet.

It is not necessary to waste tears on the Japanese because they have to face a long period of hardship; for they have brought this on themselves, and the plight of other peoples in Asia who were victims of their aggression is at present as bad as or worse than theirs. But unless the Japanese can see reasonable hopes of better times ahead of them, they may look round in desperation for a way out of their present condition. In such circumstances, they might easily be induced to link their fortunes with those of some future aggressor, and they might well become a centre of unrest that would trouble the whole of Eastern Asia. It seems, therefore, that wisdom points towards doing nothing to handicap Japan's industrial and commercial reconstruction in fields that do not touch closely on security.

G. C. A.

BELGIUM AND HER PROBLEMS

IT is frequently stated that of all the European countries occupied by the Germans, Belgium is the one which since liberation has made the quickest recovery. This opinion would certainly seem to be justified, but it would be too optimistic to conclude from this that the situation in Belgium is completely satisfactory. Politically and economically the future is uncertain and menacing.

Before the last war the political structure of Belgium was very