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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

THE ECONOMIC POSITION AND PROSPECTS
OF JAPAN

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The Economic Position and Prospects of Japan

TABLE OF CONTENTS

	<u>Page</u>
Basic Statistics	i
Summary and Conclusions	ii
I. <u>The Post-war Economy</u>	1
Economic Growth	1
Changes in the Structure of the Economy - Production	2
Foreign Trade	4
The Cyclical Pattern of Growth	5
II. <u>Recent Developments</u>	7
Production	7
Foreign Trade	7
Balance of Payments	8
Public Finance	10
Money, Credit and Prices	12
III. <u>Economic Prospects</u>	15
Forces for Economic Growth	15
Growth Aims and Policies	16
Evaluation of Economic Aims	17
Trade Prospects - Exports	18
Imports and Balance of Payments	21
Production and Income	21
The Longer Run Outlook	23
IV. <u>Problems of Resource Allocation</u>	24
Transport Requirements	24
The Financial Problem of Public Investment	25
External Obligations	26

STATISTICAL APPENDIX

(See next page for list of tables)

TABLE OF CONTENTS
(Cont'd)

TABLES IN STATISTICAL APPENDIX

Table No.

1	External Debt Outstanding
2	External Debt Service, 1953-73
3	Growth of Population, 1945-58
4	Recent and Projected Trend of Total Population and Working Age Group
5	National Accounts Data by Fiscal Years
6	National Income by Industrial Origin, Fiscal Years
7	Indexes of Production of Agriculture, Forestry and Fishery
8	Indexes of Industrial Production, 1951-58
9	Orders Received by Japanese Industry for Machinery and Ships
10	National Government Budget (General Account), by Fiscal Years
11	National Government Loan and Investment Program, by Fiscal Years
12	Balance of Treasury Transactions with the Public, FY 1952-58
13	National Government Debt, FY 1952-58
14	External Funds Raised by Industry, 1952-58
15	Factors Affecting the Money Supply, Calendar Years 1956-58
16	Price Indexes
17	Composition of Exports
18	Composition of Imports
19	Balance of Payments, 1955-58
20	Balance of Payments, 1958
21	Gold and Foreign Exchange Reserves

BASIC STATISTICS

<u>Area</u>	142,313 sq. miles
<u>Population</u> (Estimate, March 1, 1959)	92.4 million
<u>Gross National Product and National Income</u> FY 1958 (current prices)	
Gross National Product	¥ 10,235 billion
National Income	¥ 8,475 billion
<u>Industrial Production</u> (June 1959) (1955 = 100)	180.3
<u>National Government Budget Estimate</u> General Account, FY 1959 (in billions of yen)	
Revenue	1,341
Expenditure	<u>1,444</u>
Surplus or deficit	-103
<u>Balance of Treasury Transactions</u> , excluding Foreign Exchange Fund, FY 1958 (in billions of yen)	-57.5
<u>Bank Credit</u> , (June 1959) (in billions of yen)	
Commercial Bank Loans and Discounts	6,138
Bank of Japan Loans and Discounts	380
<u>Money Supply</u> , (June 1959) (in billions of yen)	2,903
<u>Price Indexes</u> , (June 1959) (1952 = 100)	
Wholesale Prices	98.5
Consumer Prices	117.4
<u>Foreign Trade</u> , 1958 (in millions of US \$)	
Exports, f.o.b.	2,876.6
Imports, c.i.f.	<u>3,033.1</u>
Balance	-156.6
<u>Balance of Payments, Current Account</u> , 1958 (in millions of US \$)	
Receipts	3,713.5
Payments	<u>3,207.7</u>
Surplus	505.8
<u>Official Foreign Exchange Reserves</u> , (June 1959) (in millions of US \$)	1,105

Summary and Conclusions

Japan's impressive post-war record of economic recovery, adaptation and growth has been described in previous economic reports. ^{1/} Benchmarks of the record have been the financial stabilization of 1949, achievement of mid-thirty levels of output by 1951, of per capita income by 1955 and of export volume during the past year. The growth rate of the economy in the 1950's has averaged 7.5% a year. The progress of the economy at relatively reduced levels of trade, despite Japan's poor raw material situation, has been one of the more remarkable aspects of the post-war record.

Some of the influences for past economic growth may be of passing importance. Post-war expansion started, of course, from a low level and has been stimulated in the past by the Korean boom, by large U.S. aid and expenditures in Japan, and by substantial increases in world trade generally. But the forces for expansion stem also from basic and continuing characteristics of the economy and the Japanese people. Among these are the skill, vitality and determination of the population; high rates of domestic saving which average (gross) nearly 30% of GNP; and a labor force which is growing at about twice the rate of the population as a whole. Trends of growth in output and trade should continue to be relatively high although probably not so high as in the past decade. For the longer run, however, there is the prospect of slower rates of expansion more in line with those in other industrial countries. Rapid growth of the labor force is expected to taper off and approximate that of the total population during the next decade or so. Saving propensities may also diminish. For these reasons Japan's unusual pace of economic expansion seems unlikely to continue indefinitely and may not outlast the late sixties or early seventies.

Although high on the average, the trend of economic growth in Japan has been quite uneven. Because of the strong expansionary pressures, the economy tends to outrun its capacities with consequent periodic crises in the balance of payments. Economic activity is, however, highly sensitive to monetary restraints and these have been effectively applied when necessary to re-establish balance and recoup exchange losses. Japan has been through two such cycles since 1950. In the most recent one, a rapid upswing in 1956 and 1957 culminated in a current payments deficit in the latter year of about \$500 million. In 1958, however, the payments position was reversed with a current surplus of equal magnitude as a result of monetary brakes and a consequent heavy drop in imports. With subsequent relaxation of restrictions the economy appears now to be on another marked upswing in production and trade.

^{1/} See FE 2a, July 1957; FE 4a, January 1958; FE 9a, December 1958.

It seems probable that this pattern of expansion in spurts will continue. The government is committed to a fairly rapid expansion of national income and is unlikely to call a halt on rising economic activity until clearly necessary. At the same time, it is also government policy to avoid inflation and to increase reserves with the aim of relaxing restrictions on yen convertibility. As in the past, checks on excessive expansion will probably at times be belated. But willingness and ability to bring the economy back into line and to recoup, or more than recoup, exchange losses has been demonstrated in the past and there is no reason to expect that this will not be the pattern in the future.

The government does, however, face a difficult fiscal problem in financing substantial public investment needs which have been relatively neglected. The most seriously neglected facilities for further expansion of the economy have been in transportation which may be a bottleneck within the next few years unless investment is stepped up by a substantial amount. Some relative reallocation of investment resources is needed in favor of the public sector. But this is difficult for fiscal reasons and in the face of a sustained high demand for credit in the private sector. The process could be eased by further foreign borrowing, either directly by the government or by private industry in lieu of government credit which is now supplied to the private sector.

Japan's debt servicing capacity appears adequate for substantial additional foreign borrowing. Service of existing and presently prospective debt does not exceed 5 or 6% of 1958 foreign exchange earnings on current account except in 1962 (around 6.5%) when substantial amortization of pre-war debt is due. Considering prospects for further export expansion and rising transportation and tourist income, Japan should have ample scope for additional foreign borrowing.

THE ECONOMIC POSITION AND PROSPECTS OF JAPAN

I The Postwar Economy

Economic Growth

During the postwar period the record of the Japanese economy has been remarkable in recovering from wartime destruction, overcoming the loss of its traditional market and source of raw materials on the Chinese mainland, catching up in industrial technology, and adapting the structure of production to meet changing domestic and foreign demands. At the same time, while dealing with these problems, the growth rates in the economy have been very rapid. Total national output surpassed the prewar level in 1951, and since that time the economy has expanded considerably faster than most western industrialized economies. The rate at which the Japanese economy has been expanding is indicated in the following table.

Table 1

	<u>Indicators of Economic Growth</u>	
	<u>Percentage Increase 1951-1958</u>	<u>Average Annual Percentage Increase 1951-1958</u>
Gross national product ^{1/} (constant prices)	64.0	7.5
National income ^{1/} (constant prices)	63.5	7.4
National income per capita ^{1/} (constant prices)	50.2	6.0
Agricultural production	29.2	3.7
Industrial production	118.1	11.8
Export volume	175.4	15.8
Import volume ^{2/}	135.2	13.0
Wholesale prices	1.2	0.2

^{1/} Data refer to fiscal years.

^{2/} In these calculations the average import volume for 1957-1958 was used instead of the import volume for the year 1958.

The postwar expansion has been led by industrial production, which more than doubled between 1951 and 1958, mainly as a result of large-scale private investment to modernize and expand capacity and to develop and market new products. Gross domestic investment during this period averaged about 28% of GNP, and almost half of the total was for producers' durable equipment. Exports increased even more rapidly than industrial production, indicating that a rising proportion of the output has gone to overseas markets. Imports rose slightly faster than industrial production but considerably less rapidly than exports. In agriculture, the growth rate appears rather low in comparison with the other sectors, but considering the high yields already attained by Japan before the war and the limited land area, the average annual increase in production of 3.7% between 1951 and 1958 was substantial. Among other benefits, the increase of more than 30% in rice production during this period has brought a large reduction in rice import requirements.

As a result of the rapid growth of the economy, real income per capita has also risen sharply since 1951. The standard of living of the Japanese people today is higher than before the war; e.g., in the fiscal year 1958 real income per capita was about 19% more than in 1938. The present per capita income is now above Asian levels but well below Western standards except in the less developed countries of Europe, such as Spain, Greece and Turkey. An exchange rate conversion of the 1958 per capita income into dollars gives a figure of about \$250.

In connection with per capita income, it is of interest to note that significant changes have occurred in Japanese population growth rates during the postwar period. In the early postwar years the birth rate increased while the death rate declined, and the natural rate of population growth for a short time exceeded 2%. Moreover, particularly in 1945 and 1946, the natural growth was augmented substantially by the return of large numbers of Japanese from overseas. In 1949, however, the birth rate began a downward trend and, although the death rate declined further, the rate of population growth dropped to approximately 1% in 1957 and 1958. It is estimated that the population will continue to increase at a gradually diminishing rate in the future. However, during the next 10 to 15 years, as a result of the past pattern of total population growth, the population in the working age group (age 15 to 59) will increase much more rapidly than the total population. Thus it is estimated that the working age population is increasing at about 2% annually at present and that the rate will increase to 2.3% in the period 1961-1965. Thereafter the rate would decline during the period 1966-1970 to 1.5% and to less than 1% after 1970.

Changes in the Structure of the Economy - Production

Since 1951 secondary and tertiary industries have expanded much faster than primary industry, and the contribution of primary industry to national income has declined in importance as compared to the other sectors, approaching more nearly its relative prewar position.

Table 2

National Income
(Percentage contribution by sectors)

	1934-1936 <u>Average</u>	<u>FY 1951</u>	<u>FY 1957</u>
Agriculture, forestry, fisheries	19.8	25.0	18.4
Mining, construction, manufacturing	30.8	32.4	33.7
Utilities and services	<u>49.4</u>	<u>42.7</u>	<u>48.4</u>
Total	100.0	100.0	100.0

As indicated above, the contribution of utilities and services has shown the greatest increase since 1951. This is due partly to differences in price changes among the sectors and partly to the fact that in the early postwar years major emphasis was placed on raising production in agriculture and in secondary industries. Activities in the service sector were relatively neglected and consequently their more recent recovery has been more rapid.

Within the various sectors, the most striking changes have occurred in manufacturing industry in response to changing demands in both the export and home markets. As compared with prewar, heavy and chemical industries have become much more important while textile and light industries have become relatively less important. Thus in 1957 the output of the machinery, chemical and metals industries ranged from 200% to more than 400% above the prewar level. By contrast the output of textiles had increased by only 9%. Within the textile category, declines in the production of silk and cotton goods had been offset by substantial increases in rayon and synthetic textiles. The production gains in selected industries are indicated in the following table.

Table 3

Production Increases in Manufacturing Industry
(Percentage increase from 1934-1936 average to 1957)

All manufacturing	173
Machinery	426
Chemicals	343
Metals	208
Ceramics	153
Food and tobacco	136
Wood products	128
Textiles	9

Foreign Trade

Despite the very rapid increase in foreign trade since 1951, both exports and imports have risen much less in relation to prewar levels than total national output. In 1958 the volume of exports reached approximately the prewar level for the first time since the war. Imports have increased somewhat more than exports, but in 1957-1958 the import volume was only about 30% above prewar,^{1/} as compared to increases of 82% in GNP and about 175% in manufacturing production. As a result of these trends, foreign trade is now substantially smaller in relation to total economic activity than was the case before the war. Thus in 1958 exports were equivalent to about 12% of national income compared to an average of 17% in the period from 1934 to 1936. Imports in 1957-1958 were equivalent to 15% of national income, against 23% in the prewar period.

The decline in Japan's import dependence has been opposite to the general world trend, for with a few exceptions, such as Belgium, France and the United States, the import dependence of the major trading nations of the free world has increased in comparison with prewar. Moreover, in those few cases where the dependence has declined, the declines have been considerably smaller than in the case of Japan. As indicated in the table below, Japan's import dependence is now one of the lowest among the major industrial nations.

Table 4

Import Dependency of Principal Industrial Nations^{a/}

	<u>1934-1936</u>	<u>1957-1958</u>
	<u>Average</u>	<u>Average</u>
United Kingdom	18.9	21.9
West Germany	16.5 ^{b/}	18.9
Italy	9.0	17.9
Japan	22.8	15.1
France	12.5	14.0
United States	3.6	3.6

a/ The figures represent the percentage ratio of imports to national income for all countries except West Germany; for the latter the figures represent the ratio of imports to gross national product.

b/ Data for 1936.

The decline in Japan's import dependence has been made possible mainly by the change in the industrial structure and by more intensive exploitation of domestic resources. As noted previously, the industrial structure has shifted away from textiles made of natural fiber, where

1/ Since Japan's imports were abnormally high in 1957 and abnormally low in 1958, the 1957-1958 average has been used here for comparisons with earlier periods.

import dependence is high, toward the machinery and chemical industries, where the dependence is lower. Moreover, the development of domestic capacity has permitted a decrease in imports of many finished and semi-finished goods, such as paper, pulp, pig-iron, steel and glass. Examples of industries where import dependence has been substantially reduced through exploitation of domestic resources include the rayon industry and chemical fertilizers. In the former case, methods have been developed for producing rayon pulp from domestic broad-leaved trees instead of imported wood; in the latter case ammonium sulphate is now produced from natural gas instead of from imported raw materials. Finally, the increase in agricultural production, particularly rice, has permitted a saving on imported foodstuffs.

The Cyclical Pattern of Growth

While the average rate of economic growth in the postwar period has been relatively high, the rate has varied considerably from year to year in a marked cyclical pattern. The strong expansionary forces in the economy (discussed later) have pushed up growth and expenditure rates beyond the country's own resources, and balance of payments difficulties have resulted. Periodically, therefore, it has become necessary for the Government to impose monetary and fiscal restrictions to check the expansion. Growth rates were then sharply reduced until the restrictions were lifted. The following table shows clearly the two distinct cycles through which the economy has passed during the period 1952 to 1958.

Table 5

Key Indicators of Cyclical Fluctuations (Annual percentage changes)

	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>
GNP ^{1/}	+9.7	+8.6	+3.7	+9.6	+8.5	+7.3	+4.4
Industrial production	+8.7	+16.1	+9.0	+8.8	+22.4	+18.1	+0.1
Net bank credit ^{2/}	+44.3	+13.2	-0.8	-1.5	+27.3	+23.2	+5.8
External balance, goods and services ^{3/}	+190	-226	-80	+205	-59	-590	+460
Export volume	+6.1	+8.2	+33.3	+30.6	+19.4	+11.2	+3.6
Import volume	+10.2	+35.9	+3.6	+5.1	+27.0	+24.7	-17.7
Wholesale prices	+2.0	+0.7	-0.7	-1.8	+4.4	+3.0	-5.8

^{1/} Data for GNP refer to fiscal years beginning April 1 of year indicated; other data refer to calendar years.

^{2/} Bank loans and discounts minus time and savings deposits with banks.

^{3/} Data in millions of U.S. dollars.

The Japanese economy is highly sensitive to changes in monetary policy, because industry is dependent to a large extent on bank credit for both investment and working capital, and because the liquidity of the banks is relatively low. In periods of rising credit activity, the private banks are heavily dependent on credits from the central bank.

Credit has been tightened on two occasions since 1951, first in late 1953 and again in mid-1957. As indicated in the above table, in both instances the period prior to the restrictions was characterized by very high rates of investment, production and bank credit expansion, as well as sharply rising imports. In both instances after the restrictions were imposed, the economy responded quickly with investment, production and price adjustments and a sharp curtailment in the rate of credit expansion. Improvement in the balance of payments followed immediately. In 1954 as domestic demand was curtailed, Japan was able to take advantage of favorable world market conditions to expand her exports substantially. Imports leveled off but were not cut back from the level of the preceding year. In 1958, it was possible to increase exports only slightly, due to the recession abroad, and the balance of payments adjustment was accomplished mainly by a reduction in imports. The restrictions introduced in 1957 have been gradually relaxed since about the middle of 1958. Developments since the end of 1958 indicate that the economy is once again on the upswing.

II Recent Developments

Production

As noted above, 1958 was a year of adjustment during which economic activity slowed down considerably. Reduced domestic demand coincided with weakened overseas demand, and industry was burdened with large inventories of finished goods which had accumulated in the latter part of 1957, following the introduction of the "tight money" policy. As a result, 1958 was the first year since the war that industrial production failed to register a sizeable increase.

However, while the average level of production remained unchanged in 1958, the pace of activity began to pick up in the latter part of the year. In the first half of 1959 private orders for new machinery were 60% higher than in the comparable period of 1958; industrial production was 19% above the first half of 1958 and 17% above the first six months of 1957. As indicated in the table below, the recent gains have been widespread and shared by virtually all branches of industry.

Table 6

	<u>Indexes of Industrial Production</u> (1955 = 100)					
	<u>General</u>	<u>Ferrous</u>	<u>Non-ferrous</u>	<u>Machinery</u>	<u>Chemicals</u>	<u>Textiles</u>
	<u>Index</u>	<u>Metals</u>	<u>Metals</u>			
Jan-Jun 1957	145	141	134	196	140	130
Jan-Jun 1958	142	122	125	205	143	115
Jan-Jun 1959	169	156	162	273	164	129

In agriculture, 1958 was a better year than in industry. Production increased by 3% to a new high, led by rice and livestock production which rose by about 4% and 15%, respectively. The 12 million ton rice crop was just slightly below the record harvest of 1955.

In view of recent trends in the economy, the Government now expects an increase in gross national product in the current fiscal year (ending in March 1960) by at least 8%.

Foreign Trade

Although the incentive to export was strong in 1958 because of sluggish domestic demand, exports increased only slightly due to the recession abroad. On the other hand, with the leveling off of industrial production, industries operated to a considerable extent by drawing on the large inventories of imported raw materials accumulated during the 1956-1957 boom.^{1/} As a result, imports dropped substantially and the heavy trade

^{1/} Accumulation of inventories of imported goods was accentuated by the Suez crisis. Statistics are inadequate to determine what part of the 1957 import surplus went into inventories but it was undoubtedly substantial.

deficit of 1957 was cut by nearly 90%. By the latter part of 1958, with the recovery in both foreign and domestic demand, exports began to rise. This trend continued in the first half of 1959, and imports also began to increase in early 1959. The recent trade position is summarized in the following table.

Table 7

Foreign Trade Summary
(In millions of U.S. dollars)

	A	B	$\frac{B}{A}$	C	D	$\frac{D}{C}$
	1957	1958	A	Jan-June 1958	Jan-June 1959	C
Exports, fob	2,858	2,877	+ 0.7%	1,391	1,542	+10.9%
Imports, cif	<u>4.284</u>	<u>3.033</u>	<u>-29.2%</u>	<u>1.579</u>	<u>1.736</u>	<u>+9.9%</u>
Balance	-1,426	-157	--	-188	-194	--

Japan's recent trade position has also been affected substantially by an improvement in the terms of trade, which had been moving against Japan from 1953 through 1957. The unit values of both exports and imports have declined fairly steadily since 1957, but the decline in import unit value has been much greater than in that of exports, as indicated in the following table.

Table 8

Terms of Trade
(Index 1953 = 100)

	<u>Export Unit Value</u>	<u>Import Unit Value</u>	<u>Terms of Trade</u>
1957	96.8	103.1	93.9
1958	94.0	88.8	105.9
Jan-June 1959	93.4	83.7	111.5

Balance of Payments

The deterioration in Japan's balance of payments during the 1956-1957 boom and the subsequent correction in 1958 are shown in the following table.

Table 9

Balance of Payments on Current Account
(In millions of U.S. dollars)

	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>
Exports, fob	2,006	2,481	2,854	2,870
Imports, fob	<u>2,060</u>	<u>2,612</u>	<u>3,256</u>	<u>2,501</u>
Merchandise balance	-54	-131	-402	+369
Transportation and insurance	-157	-315	-518	-176
Foreign military expenditure	+505	+498	+449	+404
Other invisibles	<u>-45</u>	<u>-66</u>	<u>-73</u>	<u>-91</u>
Total	+248	-14	-544	+506
Errors and omissions	-19	+11	+20	+26

As a result of the improved trade position, Japan's merchandise balance, normally in deficit, recorded a large surplus in 1958. This shift was the factor primarily responsible for the change in the over-all balance on current account from a record deficit of \$544 million in 1957 to a record surplus of \$506 million in 1958.

Among the invisibles, the transportation account showed a marked improvement in 1958, reflecting the reduced volume of trade and lower world freight rates, as well as the fact that Japan's growing merchant fleet carried an increased proportion of the trade. Foreign military expenditures (which consist of both procurement of military goods and services in Japan and expenditures of foreign military personnel stationed in Japan) have declined appreciably since the withdrawal of U.S. ground forces from Japan during 1957, but the decline has been less than had generally been expected.

On capital account, the major receipts have been in the form of loans. Long-term loans have been mainly from the IBRD and the U.S. Export-Import Bank. Short-term loans have come from the Export-Import Bank (e.g., revolving credits for purchase of cotton) and from private U.S. and U.K. banks to their correspondents in Japan. The major items of capital outflow have been amortization payments on external debt, reparations, extension of export credits, and investments abroad mainly for development of new sources of raw materials. In 1958 the gross inflow of long-term capital amounted to about \$178 million and the net inflow about \$40 million.

As a result of the favorable current account position and the inflow of capital, Japan was able to accumulate some \$400 million of gold and foreign exchange reserves, repay an IMF drawing of \$125 million, finance some \$19 million of releases of 18% subscription to the IBRD and repay \$26 million of short-term banking liabilities.

With regard to reparations, Japan concluded an agreement with Indonesia in 1958 and, more recently, with Viet-nam. These, in addition to the earlier agreements with Burma and the Philippines, completed settlements with the countries which have placed reparations claims. There are, however, a number of war damage claims to be settled. Reparations payments are running around \$70 million a year.

Japan's published official foreign exchange reserves include only the gold and foreign exchange holdings of the Government and the Bank of Japan. Holdings of commercial banks and balances of bilateral accounts ("open accounts") are excluded. Consequently, while the official series shows general trends, it does not reflect fully the effects of all international transactions. The published series reached a high of \$941 million at the end of 1956 and thereafter dropped by more than 50% to a low of \$455 million in September 1957. Since that time, the improvement in the balance of payments has brought a steady increase in the reserves. They rose by \$337 million during 1958, surpassed the 1956 peak in March 1959 and reached \$1,105 million at the end of June 1959.

Public Finance

The following table shows a consolidated statement of receipts and payments of the central Government, excluding the separate enterprises (such as the national railways) and the foreign exchange special account.

Table 10

Summary of Central Government Finances, Fiscal Years 1953-1958
(In billions of yen)

	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u> 1/
<u>Revenue</u>	<u>1014</u>	<u>982</u>	<u>982</u>	<u>1137</u>	<u>1237</u>	<u>1242</u>
<u>Expenditure</u>	<u>1317</u>	<u>1292</u>	<u>1257</u>	<u>1300</u>	<u>1521</u>	<u>1710</u>
Ordinary (General account)	1017	1041	1018	1069	1187	1353
Public loan & investment program	300	251	239	231	334	357
<u>Deficit</u>	<u>303</u>	<u>310</u>	<u>275</u>	<u>163</u>	<u>284</u>	<u>468</u>
<u>Deficit Financing</u>	<u>303</u>	<u>310</u>	<u>275</u>	<u>163</u>	<u>284</u>	<u>468</u>
Postal savings	81	102	82	112	103	86
Postal annuities	48	52	57	68	90	98
Other deposit, insurance, loan and trust accounts	111	91	91	133	189	205
Other net transactions and adjustments to cash basis	-20	-55	-62	-50	48	21
Use of cash and BOJ credit	83	120	107	-100	-146	58

1/ Preliminary, partly budget estimates.

Fiscal policies have been rather conservative, and the net monetary influence of government operations has been small relative to private bank credit. Fiscal operations have been coordinated reasonably well with monetary policy. Along with the "tight money" decision of mid-1957, the government postponed investment expenditures and absorbed cash from the public to the extent of ¥146 billion for the year rather than running a cash deficit of ¥35 billion as originally budgeted. In 1958, when monetary policy was relaxed, the government eased spending restrictions and had a ¥58 billion cash deficit. Counter-cyclical aims and other objectives and pressures involved in fiscal policy are not, however, always mutually consistent. Pressures for tax cuts and increased welfare expenditures tend to be acceded to in boom years when revenues are rising sharply. And these concessions have been made despite a serious problem of financing larger public investment expenditures (discussed later).

Government investment has ranged between ¥400 billion and ¥650 billion in recent years. The major part has been for capital formation in the public sector, such as irrigation, flood control and transportation facilities. However, as indicated in the following table, a sizable portion has also gone into the private sector, through loans and investments to the Japan Development Bank, the Export-Import Bank and other government financial institutions.

Table 11

Central Government Investment Expenditures 1/
(In billions of yen)

	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958 3/</u>
Investment in public sector 2/	338	342	466	490
Transfers to private sector	<u>104</u>	<u>95</u>	<u>166</u>	<u>163</u>
Total	442	437	632	653

1/ These expenditures include the "Public loan and investment program" shown in the preceding table, plus public works outlays included in ordinary budget expenditures, plus investment of government enterprises financed from their own resources.

2/ These figures from treasury accounts are somewhat lower than shown as National Government capital formation in national income statistics, probably because of differences in classification.

3/ Based on budget estimates.

In spite of the fact that a number of investments were postponed, total investment expenditures rose sharply in 1957 mainly to relieve bottlenecks in power, transportation and steel which appeared during the rapid expansion of 1956-1957. These higher outlays were continued in 1958.

The budget for the current fiscal year (beginning April 1, 1959) envisages the release of cash amounting to ¥144 billion, which would be a record cash deficit. The budget was prepared in the latter part of 1958 under the influence of easier money policy when it was not clear whether or how fast economic activity would pick up during 1959. It also reflected political promises made by the Government during the 1958 election campaign. Personal income taxes were reduced (central government revenue is estimated at about ¥1340 billion, or ¥43 billion less than the estimate before the tax cut), and expenditures for welfare purposes and investment were increased.

Actually the release of cash in 1959 may be less than estimated. Revenue forecasts are normally conservative, and part of the investment appropriations will probably be carried forward. Moreover, judging from the past record and from announced official policy, it is reasonable to expect the government to make necessary adjustments in its fiscal operations if economic activity begins to expand too rapidly.

Money, Credit and Prices

In Japan the capital market is less developed and the private banking system plays a more important role, both as a collector of savings and as a source of capital funds than in many western industrialized countries. The major part of transferable savings by the public traditionally has been in the form of deposits with the banking system, and the high rate of savings has been reflected in a steady and rapid growth in time and savings deposits, which in the past several years have accounted for 45-50% of total bank deposits. Industry obtains substantial funds from government and private financial institutions other than private banks, but it relies heavily on the private banking system both for working capital and long-term investment. Thus in recent years, the private banking system has provided around one-half of the total external funds raised by industry.

The rapid growth of the economy has kept the banks under almost constant pressure to expand credit. Despite the increase in deposits the banks' liquidity position has been tight, and during most of the 1950's the banks have been fairly heavily in debt to the Bank of Japan. They are, therefore, very sensitive to changes in Bank of Japan policies.

The principal accounts of the banking system since 1955 are as follows:

Table 12

Principal Accounts of Private Banks
(In billions of yen)

<u>End of Period</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>June 1959</u>
A. Loans and discounts	3,196	4,066	5,024	5,813	6,138
B. Total deposits	3,754	4,764	5,505	6,484	6,663
C. Time and savings deposits	1,688	2,141	2,653	3,305	3,631
D. Due to Bank of Japan	30	127	542	352	351
A - C	1,508	1,925	2,371	2,508	2,507
(Annual percentage increase)	-1	27	23	6	--

The 1956-1957 boom is clearly evident in the sharp jump in bank credit and in borrowings from the Bank of Japan. In 1958 with the large accumulation of exchange, the liquidity of the economy increased substantially. Most of this liquidity was not, however, accumulated in the form of idle funds in the banks or elsewhere. It went instead to repay part of the heavy indebtedness which the banks had incurred to the Bank of Japan during 1957. The size of this liquidation was just about equivalent to the balance of payments surplus in 1958. Liquid assets within the banks improved only slightly and their debt to the Bank of Japan remained at the end of 1958 at more than twice the level at the end of 1956.

In 1958 the money supply increased by 12% (¥321 billion) as compared to an increase of only 4% in 1957. In 1957 the effects of the credit expansion were offset by the drop in foreign exchange holdings and a sizeable government cash surplus. But in 1958, although the excess of credit expansion over additional savings deposits slowed down, there was a considerable rise in foreign exchange reserves and a small government deficit. (See Table 15, "Factors Affecting the Money Supply", in Statistical Appendix.)

The price level in Japan has been relatively stable over the past several years. Money supply has risen somewhat faster than GNP, but when inflationary pressures have developed, the main impact has been reflected in a drain on exchange, rather than in price increases. Thus during the 1956-1957 boom wholesale prices rose by less than 10%, and even this increase was wiped out in 1958. Consumer prices have been less flexible than wholesale prices. They rose about 5% between 1955 and 1957 and have since remained on a more or less even level.

During the first half of 1959, with the pick up in economic activity, bank loans and discounts increased more rapidly than in the comparable period of 1958. Savings and time deposits increased by approximately the same amount as credit, whereas in the first half of 1958 the rise in savings was considerably larger than the credit expansion. The money supply showed a decline, due mainly to seasonal factors (government cash surplus), but the decline was much smaller than in the first half of 1958. Prices in the first half of this year were firm but did not rise appreciably on the average.

Taking the first half of 1959 as a whole the picture was one of a fairly rapid but not excessive growth in economic activities in the framework of an easy money situation. However, toward the end of this period, and subsequently, there have been expressions of official concern as well as some indications that the upswing may be developing into a boom which could lead to inflationary consequences.

III Economic Prospects

Forces for Economic Growth

The actual performance of the Japanese economy in the past has usually outdistanced predictions and it seems safe to forecast relatively high rates of economic growth in the future - although probably at a somewhat slower average pace than in the past.

A number of forces appear to have contributed to Japan's rapid postwar expansion, some of passing importance, such as the low levels from which the growth of the last decade started, the stimulation which the economy received from the Korean war, and the large external assistance and expenditure by the U.S. Government in Japan. There has also been the stimulation to the Japanese economy from sharply rising world trade, which may increase at a somewhat slower rate than during 1950-1957.

Much of the expansion can, however, be attributed to basic and continuing characteristics of the economy and the Japanese people. The skill, vitality and determination of the people, and their ability to find and capitalize on new economic opportunities have been frequently noted. And these attributes are reflected, not only in Japan's manufacturing and trading activities, but in the traditional fields of primary production as well. In agriculture, for example, the reputation of the Japanese farmers for unusually high yields was already established long before the war. Yet, through what might almost be called a technical revolution in the adaptation of horticultural advances and mechanical methods to very small-scale cultivation, the farmers are continuing to improve their productivity. As a result total agricultural production has risen by almost 25% in the period 1951-1952 to 1957-1958.

The unusually high saving propensities of the people are a further factor for rapid growth. Gross domestic saving in the period 1950-1957 has averaged nearly 30% of the gross national product and personal saving out of disposable personal income has averaged 15%. There has been no sign of a downward trend in these rates in recent years nor is there evidence as yet of a prospective decline in the future.

A further factor on which Japanese economists place major emphasis in explaining rapid growth is the size and character of the labor supply. As noted earlier, the population of working age is increasing at more than 2% a year or about twice the rate of increase of the population as a whole. Furthermore, it is roughly estimated that the labor surplus now absorbed through underemployment in primary production and small-scale enterprise may be as high as 10 or 15% of the employed population. This constitutes a reservoir of labor for expansion of industrial and service activities as reflected in the substantial shift of labor from agriculture to industrial employment in recent years. In these circumstances, it is noted that Japan is in an advantageous position from the standpoint of growth in comparison both with the underdeveloped countries on the one hand and with other industrial countries on the other hand.

By comparison with the former, Japan has the advantage of a working population with training, discipline and mobility. And by comparison with the latter, Japan's working age population is large enough relative to requirements to avoid the problems of labor shortage and of the tendency of real wage advances to exceed those of labor productivity in periods of rapid expansion. Between 1950-1955 the increase in labor productivity was roughly 25% greater than in real wages in the opinion of the Federation of Economic Organizations (Japan's approximate counterpart to the U.S. National Association of Manufacturers.) The Federation considers that the margin has been narrowing in recent years. Yet during the rapid upswing of the economy from 1955 to 1957 real wages in manufacturing rose by almost 15%, but appear still to have lagged well behind the rates of increase in real output per worker and in corporate profits. This situation undoubtedly contributes to the buoyant incentives for investment and expansion in Japan, especially in an expanding world trade situation.

These incentives, coupled with the vigor and ingenuity of the population and the labor and saving capacity of the economy, undoubtedly explain not only Japan's unusual economic drive but also its demonstrated ability to adapt to the greatly reduced level of trade relative to GNP as compared with prewar, and to changes in world market conditions.

Growth Aims and Policies

In view of Japan's record of economic expansion in the past, it is not surprising that the aims of economic policy for the future are ambitious. As a slogan, the official aim has been described in terms of doubling the national income in ten years. More careful forecasts of the Economic Planning Agency, completed in late 1957, are only slightly more modest and involve an average annual growth rate for GNP of 6.5%. Planning Agency officials consider this still a reasonable estimate for prospective growth on the average and in many official and business circles it is felt to be, if anything, too conservative.

At the same time, official policy is committed to the maintenance of sound monetary and balance of payments conditions. In fact, it is the aim of the Government to add further to Japan's foreign assets (now at about 40% of current annual payments) not only because of prospective further growth in trade but also with the objective of moving toward yen convertibility. Officials believe that reserves are not yet adequate for convertibility, even to the extent of non-resident accounts, because of the fluctuating character of Japan's economy and payments position and the possibility that convertibility would tend to aggravate swings in the balance of payments.

Hence, there is a kind of ambivalent preoccupation in official policy with the achievement of the highest possible economic growth rates on the one hand, and with the accumulation of reserves and the prevention of inflation on the other. The policy might be described as a kind of economic "brinkmanship" which permits the forces of expansion to carry the economy as nearly as possible to the edge of inflation and exchange

difficulties without slipping over. It is not surprising that the economy does slip over from time to time as in 1953 and 1957 when there were heavy balance of payments deficits. Such slips will probably occur again. But when they do occur, the Government has demonstrated its willingness and ability to bring the economy back into line and to recoup reserve losses. There is no reason at present to expect any less vigorous adjustment measures in the future when they are required.

It appears unlikely, however, that brakes on expansion can be expected before they are clearly necessary (which may sometimes be too late) in view of the pervasive dedication in Japan, including official circles, to rapid economic improvement. It is also emphasized that high rates of growth are especially needed during the next decade to absorb the growth "hump" in the population of working age and to reduce underemployment. The 6.5% growth rate in GNP estimated as reasonable by the Planning Agency is expected not only to provide employment for the annual additions to the labor force during the next several years, but also to make some dent in present underemployment.

Evaluation of Economic Aims

As noted, the slogan of doubling income in ten years (about a 7% annual growth rate) and Planning Agency estimates of reasonable growth expectations during 1956-1962 (a 6.5% rate) are not very different.

Rates of real annual growth in major components of the Planning Agency forecasts, and comparison with comparable average annual figures for the period 1951-1958 are as follows:

Table 13

Economic Growth Rates
(Percentage, annual average)

	<u>Planning Agency</u> <u>Forecasts</u> <u>1956-1962</u>	<u>Actual Rates</u> <u>1951-1958</u>
Gross national product	6.5	7.4
Agriculture	3.3	3.8
Industrial production	8.2	11.8
Tertiary activity	7.2	9.0 ^{b/}
Exports	10.0	15.6
Imports	7.0 ^{a/}	13.0 ^{c/}

^{a/} Adjusted for abnormally high imports in the base year.

^{b/} Only approximately adjusted for price changes.

^{c/} 1958 taken as the 1957-1958 average.

Rates of saving and investment relative to GNP are expected to remain at about the same high levels of recent years (28-30%) but expectations of slower growth are attributable to a probable adverse change in the favorable capital-output ratios of past years, and to the limitations on growth rates imposed by slower expansion in foreign trade. The latter expectation is based primarily on expectations of slower growth rates in world trade generally.

The above projected rates are not, of course, meant as definite predictions but rather as a reasonable hypothesis of trends on the basis of reasonable assumptions concerning the different variables and the interrelationships among the variables. The complexity of the economy, its fluctuating character and its sensitivity to external influences make the forecasting of particular growth rates a dubious business.

Consideration may be given, however, to the reasonableness of the trade projections, their balance of payments implications, and the relationships between trade and other growth elements in the economy.

Trade Prospects - Exports

As noted, slower trade expansion is expected because of prospective slower growth in world trade generally than during the 1950-1956 period. It is nevertheless considered feasible for Japan to continue to keep ahead of the world pace in the expansion of exports.

Possibly this is over optimistic in view of a number of obstacles to be faced. Ship exports, about 12% of the total in 1958, are more likely to decline than to increase during the next few years. The rate of growth of textiles, about a third of 1958 exports, has been declining and may continue to do so. Metal exports, 13% in 1958, have uncertain prospects because of increasing capacity in important Japanese markets. Japan is continually confronted with the problem of opposition to Japanese goods in the U.S. and European markets which now take about 40% of total exports. The Mainland China market is uncertain and competition from Mainland China in other Asian markets is a further uncertainty in Japan's export outlook.

Yet all these problems, except the slump in ship exports, have confronted Japan over the past several years. In spite of them exports increased by 40% during 1955-1958 and the increase in items other than ships was 30%. World exports increased in this period by about 13%. Even in 1958 when world trade fell by about 5% Japan's exports increased slightly. And in the first half of this year the upward trend was again in full swing with exports higher than in the first half of 1958 by 11%.

It is also of interest that the increase in exports has been widely distributed geographically, the only regional exception in recent years being South America because of exchange and settlement difficulties in Argentina and Brazil.

Table 14

Geographical Distribution of Japanese Exports
(In millions of U.S. dollars)

	<u>A</u> <u>1950</u>	<u>E</u> <u>1955</u>	<u>C</u> <u>1958</u>	<u>C</u> <u>A</u>	<u>C</u> <u>B</u>
Asia	383	842	1,072	280	127
Europe	100	206	333	333	162
N. America	211	533	847	401	159
S. America	31	150	114	368	76
Africa	75	206	417	556 ^{a/}	202 ^{a/}
Australasia	<u>31</u>	<u>75</u>	<u>89</u>	<u>287</u>	<u>119</u>
Total	831	2,012	2,872	346	143

^{a/} These figures for Africa are misleading since they reflect the large increase in exports of ships for Liberian registry.

It is to be noted that the most rapid growth has been (and continues to be) in the developed markets of the United States and Europe. This has taken place despite frictions arising from competition between Japanese and domestic goods. Concern about imports from Japan in these markets is reflected in Japan's exclusion by a number of GATT members from most-favored-nation treatment, and by the necessity for Japan to maintain "voluntary" regional and commodity limitations on exports to avoid restrictive measures in importing countries, especially in the United States.

Such limitations apply to a substantial list of exports to the U.S., the most important of which are cotton fabrics, fish, plywood, some clothing items, pottery, sewing machines, rugs, linens and metal tableware. These accounted for over a third of exports to the U.S. in 1955. Yet in spite of the limitations, exports to the U.S. increased by 50% during 1955-1958. Although total U.S. imports of manufactured goods were down slightly in 1958, those from Japan increased by 14%. Shipments of items under limitation (except sewing machines and metal tableware) have grown more slowly than total exports to the U.S. But this has been much more than offset by very large increases in a wide variety of other items including clothing (other than limited kinds), silk and woolen fabrics, electrical and electronic equipment, wood products, optical instruments, cameras, toys, footwear, pearls, smoking articles, kitchen ware and sporting goods.

Similar commodity adaptability has continued to be characteristic of Japan's exports generally. Slow growth in cotton, silk and rayon filament textiles and in basic metals has been far offset since 1955 by large increases in other exports including ships (430%), machinery (64%), fish (225%), spun rayon fabrics (50%), clothing (42%), chemicals (47%), fabricated metal products (46%) and the large category of miscellaneous exports (62%). Most of these items, except ships in the near future, have promising further expansion prospects. And recovery of ship exports is to be expected in the longer run as world excess shipping capacity is worked off.

Reasons for expecting Japan to continue to be a strong export competitor vis a vis other industrial countries include, not only its demonstrated adaptability to changing commodity and market conditions, but also a relative advantage in labor supply, in the shifting pattern of exports towards higher value added items, and in prospects for some reduction in Japan's cost disadvantage on raw materials as the efficiency of Japan's shipping, port facilities, internal transport and material handling is improved.

For all these reasons a high average rate of increase in Japan's exports seems probable and growth considerably above that in total world trade does not appear to be an unreasonable expectation. In view of Japan's favorable export record, especially during the recent world trade recession, it seems reasonable now to assess export prospects more favorably than in previous economic reports when there was considerable uncertainty about the extent to which Japan was a residual supplier in world markets and especially vulnerable to adverse world trade developments.

It is also reasonable to expect that some part of exports will continue to be financed on Japanese credits and investments in view of the highly competitive character of much of Japan's export trade and the prevalence of export credit as part of the world-wide competitive patterns. Gross outflow of Japanese capital has so far been relatively small (about \$50 million in 1957 and \$75 million in 1958). Although some absolute increase is to be expected, the amounts will probably continue to be small in relation to prospective export levels.

In view of Japan's internal capital requirements, however, a somewhat more careful scrutiny of capital outflow appears needed to avoid repetition of cases of export credit accumulations in countries with serious exchange difficulties and of investments in foreign enterprises of dubious merit or with little prospect of benefit to the Japanese economy.

Imports and Balance of Payments

With favorable export prospects, Japan should also be able to meet its import requirements at a substantially expanding rate. Expected limitations on the rate of growth in imports relative to exports include rising annual debt service charges up to 1962 (by perhaps \$125 million if allowance is made for settlement of obligations to the U.S. for post-war aid and of outstanding war damage claims), a probable decline in special expenditures of the U.S., some increase in capital outflow along with the growth in exports, and the policy of further accumulation of foreign exchange. Some of this will, however, be offset by a reduction in Japan's shipping deficit with an expected growth in the merchant marine at a somewhat faster rate than trade and with prospects for a continuing substantial growth in tourist income.

Taking account of all these non-trade factors, it will not be possible for imports to increase as fast as exports within a balanced payments position (or really a slightly surplus position in accordance with present policy). However, the difference between growth trends in exports and imports should not be large, and the increase in imports assumed by the Planning Agency (about 7%) should be possible on the average even with a somewhat slower export growth than the Agency estimates assume.

Production and Income

There are, however, grounds for questioning the Planning Agency's assumed relationship between growth rates in imports and in GNP (or more specifically between imports and industrial production). As noted, the assumed rates are about 7% for imports and about 8% for industrial production.

Over the past decade there has been a fairly close correspondence between these two variables. This is not surprising considering that 75% of Japan's imports consist of raw and semi-processed materials, fuels, chemicals and machinery. For the most part, however, import growth has been somewhat higher than industrial production rather than somewhat lower as is assumed for the future by the Planning Agency.

The Planning Agency has calculated trends in import requirements in accordance with an assumed industrial pattern in 1962. It is further argued in support of faster growth in industry than in imports that Japan has a very high marginal import propensity and that with slower industrial growth the rate of increase in industrial import requirements will decline by an even larger amount. Emphasis is also placed on a prospective relative increase in industries with lower than average import dependency, such as machinery, electrical equipment and chemicals. Finally the expected slow growth in food imports is noted, with prospects now that rice import requirements will increase even more slowly than previously estimated and may even decline.

These appear to be valid arguments on the whole although it is to be noted that the increase in machinery, electrical and chemical production relative to industry as a whole has been going on for the last several years without a significant decline in industrial import dependency. The real question arises, however, over the year-to-year movements in industrial production that are reasonably to be expected.

If these movements were to be fairly smooth and without sharp annual fluctuations, the assumption of declining industrial import dependency would be more reasonable. But, as discussed above, this has not been the pattern in the past and seems unlikely to be the pattern in the future.

As industrial expansion proceeds in rapid spurts, capacity which is less efficient in material consumption is brought into use and domestic supplies and equipment have to be supplemented by imports at a rate which becomes disproportionately faster than the increase in production. Furthermore inventory accumulation tends to take place in these circumstances under relaxed purchasing standards with a consequent increase in average unit import costs.

For these reasons it is to be expected that a growth rate of, say, 8% in Japanese industrial output which results from fluctuations between rates of 12 and 4% would require a considerably higher average annual increase in imports than would be the case with the same average growth rate but smaller year-to-year fluctuations.

In the light of these considerations, the 8% growth rate for industry may prove too high within a payments position which is balanced or slightly over-balanced on the average. And growth of income, which is closely related to that of industrial production (assuming a continuing small but steady rise in agricultural output), may therefore fall somewhat short of the average necessary for a "doubling in ten years".

The extent to which it falls short seems unlikely, however, to be serious in terms of per capita income growth considering that population is rising only at about 1% a year. It will be more of a problem for employment. It is estimated that the minimum growth rate in GNP necessary to employ the 2% annual increase in the labor force is about 5%, taking account of rising labor productivity. There seems every reason to expect at least this to be achieved. But unless there is a somewhat higher trend rate in GNP there will not be much scope for reduction in the substantial underemployment which exists in Japan. Thus, if the economy moves ahead more slowly than the aims of the Government, the shift of labor from the sectors of underemployment which has been evident in the past five years may be interrupted until the latter sixties when current rates of growth in the total labor force are expected to slow down.

This problem appears unlikely, however, to be of proportions which would lead the Government to permit a continuation of excessive expansion despite balance of payments difficulties. Past performance and firmly stated present intentions justify confidence that measures will be taken to bring a lop-sided balance of payments position into adjustment. And although such measures may at times be belated, adjustments can be expected of sufficient magnitude and duration not only to re-establish an external balance but also to restore or more than restore exchange losses that may take place.

The Longer Run Outlook

While fairly rapid expansion is likely to continue to be characteristic of the Japanese economy for a number of years, it seems probable that in the longer run Japan's economic growth rate will taper off to a pattern corresponding more closely with other industrial countries.

The clearest prospect for such change is in the projected rate of increase in the labor force which is expected to decline substantially in the latter sixties and to fall into line with the growth rate of the population as a whole in the early seventies. Some of the consequent loss in economic buoyancy may be delayed through rising full-time employment of presently underemployed labor as the rate of increase in the working age population begins to fall. But eventually the change toward a population of more mature age composition will tend to reduce the rate of gain in per capita output and may also have adverse effects on incentives for expansion and on the comparative advantages which Japan now enjoys in lines of relatively labor intensive production.

There is also the possibility in the longer run that the high saving propensity of the Japanese may drop with sustained achievements of higher income levels, with prolonged exposure to the recently widening variety of consumption goods available in Japan, and with progressive expansion of welfare and security programs.

For these reasons, the continuation of Japan's comparatively rapid economic growth seems unlikely to be of indefinite duration and may not outlast the late sixties or early seventies.

IV Problems of Resource Allocation

While total Japanese investment can be expected to continue for some time at fairly high levels, there is a growing problem of lagging investment in public economic services. The consequent need is for some relative reallocation of resources in accordance with relatively rising public investment priorities.

For a number of years major emphasis has been placed on private investment and the resources for private investment have included a substantial flow of funds from the Government.^{1/} Public investment has also been large but not large enough to avoid neglect of major requirements. The most serious neglect for the economy as a whole has been in transportation facilities, but communications, municipal services and housing have also fallen behind essential needs.

Transport Requirements

The extent and condition of Japan's road network is notoriously poor. The route length, about 950 thousand kilometers, has hardly increased since the war, and most of this is local roads. Of national and regional roads wider than 3.6 meters (133,000 kilometers) only about 10% is paved. Since 1950 national and regional roads wider than 3.6 meters have increased about 14% and the paved portion has risen from about 6% to about 10%. But in the same period road motor vehicle registration has increased six times and the number of buses and trucks has almost doubled. The proportion of ton-mileage of domestic freight carried on the roads has increased from 6% in 1950 to over 12% at present. The relative importance of passenger travel by bus has risen similarly. Prospective annual growth in truck and bus traffic by 10% and in automobile registrations by 15% threaten serious congestion and transport difficulties unless the rate of expansion and improvement of the road system is substantially increased.

In railway transport, major bottlenecks have already appeared from time to time during upswings of the economy. There has been a rapid post-war extension of electrified lines and expansion of rolling stock but track mileage has been almost stationary. At present only about 13% of the National Railway is double tracked and it is contended that the number of trains on the main traffic route is nearing the saturation point. Even with a liberal allowance for highway extension and growth in motor traffic, railway capacity is expected to be adequate for prospective requirements only with a major line construction program, particularly between Tokyo and the Kobe-Osaka area.

In coastal shipping, over half of the present fleet is considered obsolete and slow, inefficient and expensive to operate. The tonnage of coastwise shipping has increased by over 40% in the last five years. Yet its relative importance in the national transportation system has been declining for reasons attributed to inefficient carrying and handling equipment and financial difficulties. Part of the problem undoubtedly lies in a disadvantageous rate structure compared to the low rates maintained on the railways.

^{1/} Including private savings accumulating in the government sector through postal savings deposits and annuities, insurance, etc.

Other public investment requirements considered of high priority in water transport include improvement of cargo storage and handling facilities in six major ports, deepening to 12 meters of three ports for handling larger oil tankers and of two additional ports to handle large ore carriers, and deepening of the straits between Honshu and Kyushu.

The problem in telecommunications is primarily one of inability to keep up with urban demands for new telephone installations. The reported arrears of orders for new connections amounted to 580,000 at the end of 1957, have now increased to about 700,000 and are expected to be almost 800,000 by the end of this year.

The Financial Problem of Public Investment

Preliminary estimates indicate that adequate provision for major transport and communication requirements would involve an increase in average annual expenditures by over ¥200 billion. Included would be additional road expenditures of over ¥80 billion, a similar addition for railways (allowing for the proposed Tokyo-Osaka line), and further substantial increases in harbor and telecommunications investments. These estimates may be high in terms of essential need. But they would probably not exaggerate the problem if provision were included for additional public investment requirements other than in transport and communications. Additional annual investment by the central government of ¥200 billion would represent an increase over 1958 levels by more than 40%.

Judging from past trends in government resources and non-investment expenditures it would be several years before such an increase could be reached through normal growth in government receipts. Past growth might have been higher but for tax reductions, and the growth trend should be stepped up if there is greater resistance in the future to tax cut pressures. But much of this growth is likely to be absorbed in rising non-investment outlays.

Nor are there promising possibilities for augmenting government investment resources through higher taxation. Rates are already high and the ratio of tax revenue to national income is at the fairly large figure of 20%. The real problem here, as noted, is one of resisting political pressure for tax reduction and it is doubtful that a substantial increase in revenue through higher taxation would be a political starter.

If then it is unlikely for some time that adequate financing for public investment can be expected from prospective growth in fiscal resources, the only alternatives for financing these needs without inflation are measures to divert a larger share of domestic savings to government investment or foreign borrowing or both.

The former could be accomplished through increased domestic borrowing by the government or through a curtailment of public credit to the private sector. Provision for public borrowing (by public corporations) has been increased this year by about ¥45 billion and a continuation at this rate would help toward meeting additional investment requirements. The

scope for still larger issues is limited, however, by the narrow market for bonds outside the banking system and by understandable official reluctance to sell issues to the banks in substantial volume because of inflationary potentialities and weakening effects on monetary control.

The flow of government credit to the private sector was at the substantial annual level of ¥160 billion in 1957 and 1958. Some curtailment of this activity should be possible. If, for example, power rates were increased the dependence of the power companies on public financing would be reduced. But aside from the adverse effects on the private sector (almost 10% of external industrial financing has been from government institutions in 1957 and 1958), there is also official reluctance to curtail severely this credit activity because of its importance in influencing the marginal distribution of investment toward private activity which has difficulty in competing for private credit such as small-scale enterprise, agriculture, forestry and fishing, and housing; export promotion, especially of ships, through export credit; and industries given special official emphasis (e.g. power and the merchant marine).

Basically, of course, some substantial shift of domestic savings from private to public investment is feasible in Japan despite the obstacles and disadvantages involved. It would probably be accomplished by the Japanese authorities if necessary to prevent severe transport or other public service bottlenecks in the economy. But they would obviously prefer to expand public investment without curtailing the share of private investment in domestic savings in view of sustained high capital requirements and demands throughout the private sector and in the interest of Japan's employment needs and income aims. It is here that foreign borrowing, either by private companies in lieu of credit from the Government or by the Government directly, can play a substantial role in facilitating a relatively larger allocation of resources to public investment without significant adverse effects on the level and flexibility of private investment.

External Obligations

Long term foreign exchange obligations of Japan at present amount to \$1,550 million (including settled reparations agreements, but excluding war damage claims of a number of countries, obligations for post-war economic aid from the U.S., and revolving U.S. commodity credits). Of this amount reparations obligations are the equivalent of \$878 million and the balance includes the outstanding amount of pre-war publicly issued debt of about \$271 million in dollars, sterling and French francs; ^{1/} IBRD loans of \$250 million; U.S. Export-Import Bank loans of \$84 million; privately placed obligations to U.S. suppliers and banks of \$38 million, and a publicly offered post-war issue in U.S. dollars of \$30 million.^{2/}

^{1/} An agreement on one pre-war French franc issue (City of Tokyo) remains to be settled and has been referred by the parties concerned to mediation.

^{2/} Japan has made drawings on the IMF in 1953 and 1957 which were cancelled by repurchases in 1955 and 1958, respectively.

Service requirements on external obligations have increased over the last five years from \$41 million in 1954 to \$118 million this year. They will continue to increase on existing debt commitments to a peak of \$205 million in 1962 when repayment of about \$80 million of pre-war debt is due, and decline sharply thereafter (to around \$100 million during 1965-1968 and \$55-70 million during 1969-1973). There are, however, other prospective additions to future debt service, including a possible settlement of the obligations to the U.S. for post-war relief supplies (GARIOA debt) and of numerous war damage claims, as well as service on further IBRD loans now under consideration. These may increase annual debt service by amounts rising to perhaps \$45 million in a few years and for a number of years thereafter.

Adding this to service of existing debt commitments, the service schedule in relation to gross current exchange earnings in 1958 (about \$3,700 million) would be about 4.0% in 1960 and 1961, 6.5% in 1962, 5.5% in 1963 and 1964, about 4.0% in 1965-1968, and a rapidly declining percentage thereafter.

The percentages are thus not large in relation to present earnings. Considering prospects for further export expansion and rising transportation and tourist income, Japan should have ample scope for additional foreign borrowing.

STATISTICAL APPENDIX TABLES

Table 1

External Debt Outstanding^{1/}
(In thousands of U.S. dollar equivalents)

<u>Item</u>	<u>Amount</u>
TOTAL EXTERNAL PUBLIC DEBT - DECEMBER 31, 1958 ^{2/}	<u><u>1,472,250</u></u>
Outstanding	-
Undisbursed	108,694
U.S. DOLLARS	<u>426,122</u>
Outstanding	317,928
Undisbursed	108,194
Publicly-issued bonds	<u>77,464</u>
Privately placed debt	<u>37,902</u>
Outstanding	37,438
Undisbursed	464
IBRD loans	<u>227,002</u>
Outstanding	121,336
Undisbursed	105,666
Export-Import Bank loans	<u>83,754</u>
Outstanding	81,690
Undisbursed	2,064
POUNDS STERLING	<u>200,662</u>
Publicly-issued bonds	192,921
IBRD loans	685
Reparations	7,056
OTHER FOREIGN CURRENCIES	<u>13,112</u>
Outstanding	12,612
Undisbursed	500
Publicly-issued bonds	<u>727</u>
IBRD loans	<u>12,385</u>
Outstanding	11,885
Undisbursed	500
DEBT PAYABLE IN GOODS AND SERVICES (reparations)	<u>832,354</u>
MAJOR REPORTED ADDITIONS TO MAY 31, 1959	<u><u>79,000</u></u>
U.S. DOLLARS	<u>40,000</u>
Publicly-issued bonds	30,000
IBRD loan	10,000
DEBT PAYABLE IN GOODS AND SERVICES (reparations)	<u>39,000</u>

^{1/} Includes national debt, government guaranteed debt, and debt of political subdivisions outstanding December 31, 1958 with major reported changes through May 31, 1959.

^{2/} Excludes U.S. Export-Import Bank cotton credits which turn over each year.

Source: IBRD Economic Staff.

Table 2
External Debt Service, 1953-73
(In thousands of U.S. dollar equivalents)

	<u>Payable in Foreign Currencies</u>					<u>Payable in Goods</u>		<u>Grand Total</u>	
	<u>Total</u>	<u>Service due in</u>				<u>Total</u>	<u>Service</u>	<u>Total</u>	
	<u>Outstanding</u> <u>January 1</u>	<u>Dollars</u>	<u>Sterling</u>	<u>Other</u>	<u>Total</u>	<u>Outstanding</u> <u>January 1</u>		<u>Service</u>	
1953	460,861	13,100	29,736	-	42,836	-	-	460,861	42,836
1954	482,980	14,135	27,059	-	41,194	-	-	482,980	41,194
1955	468,483	13,271	51,087	-	64,358	200,000	-	668,483	64,358
1956	434,797	26,393	36,817	-	63,210	200,000	14,434	634,797	77,644
1957	503,078	21,146	32,968	3,625	57,739	735,566	66,306	1,238,644	124,045
1958	480,881	22,182	32,912	966	56,060	669,260	59,986	1,150,141	116,046
1959	639,894	37,445	25,042	886	63,373	832,354	54,274	1,472,248	117,647
1960	643,341	44,881	22,239	1,444	68,564	817,080	75,000	1,460,421	143,564
1961	604,510	48,087	20,246	2,153	70,486	742,080	75,000	1,346,590	145,486
1962	564,156	53,306	74,717	2,215	130,238	667,080	75,000	1,231,236	205,238
1963	461,430	67,791	9,272	1,660	78,723	592,080	69,500	1,053,510	148,223
1964	406,800	60,353	29,973	1,759	92,085	522,580	69,500	929,380	161,585
1965	336,584	38,284	7,933	1,760	47,977	453,080	65,000	789,664	112,977
1966	306,258	35,982	7,914	1,757	45,653	388,080	45,000	694,338	90,653
1967	276,627	32,987	7,892	1,723	42,602	343,080	50,000	619,707	92,602
1968	248,499	33,381	15,129	1,625	50,135	293,080	50,000	541,579	100,135
1969	211,064	30,506	4,173	1,530	36,209	243,080	33,080	454,144	69,289
1970	185,745	30,060	4,173	1,490	35,723	210,000	30,000	395,745	65,723
1971	159,545	28,268	2,780	1,373	32,421	180,000	30,000	339,545	62,421
1972	135,195	24,168	887	999	26,054	150,000	30,000	285,195	56,054
1973	115,993	23,506	887	998	25,391	120,000	30,000	235,993	55,391

Source: IBRD Economic Staff.

Table 3
Growth of Population, 1945-58
 (Thousand persons)

<u>Year</u>	<u>Population^{a/}</u>	<u>Natural Change</u>			<u>Change due to Migration</u>	<u>Total Net Change</u>	<u>Percentage Increase</u>
		<u>Livebirths</u>	<u>Deaths</u>	<u>Net Increase</u>			
1945	72,200	1,576	1,369	207	3,470	3,600	4.99
1946	75,800	2,623	1,164	1,460	1,001	2,352	3.10
1947	78,101	2,718	986	1,732	318	1,905	2.44
1948	80,010	2,711	943	1,768	149	1,773	2.22
1949	81,780	2,447	915	1,532	31	1,419	1.74
1950	83,200	2,229	872	1,356	2	1,343	1.61
1951	84,500	2,058	786	1,273	6	1,265	1.50
1952	85,800	1,921	772	1,149	37	1,172	1.37
1953	87,000	1,785	728	1,057	8	1,054	1.21
1954	88,200	1,761	708	1,053	-4	1,038	1.18
1955	89,276	1,690	705	985	-7	977	1.09
1956	90,300	1,596	761	835	-10	825	0.91
1957	91,100	1,624	699	925	-7	918	1.01
1958	92,000	--	--	--	--	--	--

a/ Estimate as of October 1 of the years indicated.

Source: Government of Japan, Prime Minister's Office.

Table 4

Recent and Projected Trend of Total Population and Working Age Group

<u>Year</u>	<u>Total Population</u> (000 persons)	<u>Working Age Group (15-59)</u> (000 persons)
1950	83,200	47,354
1955	89,275	52,073
1960	93,371	57,529
1965	96,398	64,033
1970	99,579	68,331
1975	102,729	70,205
1980	104,592	70,992
<u>Average Annual Increase</u> (000 persons)		
1951-55	1,215	944
1956-60	819	1,091
1961-65	605	1,301
1966-70	636	860
1971-75	630	374
1976-80	373	157
<u>Average Annual Increase</u> (Percentage)		
	%	%
1951-55	1.5	1.9
1956-60	0.9	2.1
1961-65	0.6	2.3
1966-70	0.7	1.3
1971-75	0.6	0.5
1976-80	0.4	0.2

Source: Ministry of Welfare.

Table 5

National Accounts Data by Fiscal Years
(In billions of yen)

	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958^{a/}</u>
GROSS NATIONAL PRODUCT								
At current prices	5,444	6,118	7,085	7,462	8,197	9,232	10,046	10,233
At constant prices (Index 1951=100)	100.0	109.7	118.6	123.0	134.8	146.2	156.9	164.0
Consumption expenditures	3,571	3,361	5,119	5,580	5,942	6,381	6,921	7,336
Private	3,018	3,679	4,352	4,734	5,076	5,436	5,877	6,230
Government	553	682	768	846	866	945	1,044	1,106
Gross domestic investment	1,664	1,678	1,978	1,752	2,114	2,952	3,179	2,708
Percentage of GNP	30.6	27.4	27.9	23.5	25.8	32.0	31.6	26.5
Gross public investment	412	474	643	593	738	710	814	905
Gross private investment	1,252	1,204	1,335	1,160	1,375	2,242	2,365	1,803
Personal residential construction	72	96	127	133	142	169	214	223
Producers' durable equipment	610	713	801	762	778	1,372	1,674	1,564
Changes in business inventories	571	395	408	265	455	701	477	15
Surplus on current international account	209	80	-13	130	141	-101	-54	189
NATIONAL INCOME								
At current prices	4,525	5,085	5,748	6,021	6,671	7,620	8,341	8,475
At constant prices (Index 1951=100)	100.0	109.7	115.8	119.4	133.9	145.2	157.1	163.5
At constant prices per capita (Index 1951=100)	100.0	108.1	112.4	114.3	124.9	136.0	145.4	150.2
PERSONAL DISPOSABLE INCOME								
At current prices	3,729	4,358	4,865	5,308	5,895	6,543	7,176	n.a.
Percentage saved	19.3	15.8	10.8	11.0	14.2	17.1	18.3	n.a.

a/ Preliminary.

Source: Economic Planning Agency.

Table 6

National Income by Industrial Origin, Fiscal Years
(In billions of yen)

	<u>1951</u>	<u>1953</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>
Primary Industry (Agriculture, forestry & fisheries)	1,128	1,267	1,508	1,444	1,535
Secondary Industry (Mining, construction & manufacturing)	1,465	1,840	2,027	2,518	2,807
Tertiary Industry (Commerce, finance, services, etc.)	1,935	2,653	3,162	3,690	4,038
Net Income from Overseas	<u>-3</u>	<u>-11</u>	<u>-25</u>	<u>-32</u>	<u>-39</u>
Total	4,525	5,748	6,671	7,620	8,341

Source: Economic Planning Agency.

Table 7

Indexes of Production of Agriculture, Forestry and Fishery
(1950-52 = 100)

	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>
AGRICULTURE	94.7	97.5	107.8	93.4	102.9	124.5	117.4	122.1	126.0
Rice	101.2	94.7	104.1	86.2	95.5	124.5	109.8	115.4	120.7
Wheat & barley	92.7	103.1	104.2	97.4	115.8	109.5	104.8	98.2	94.0
Pulses	88.6	96.7	114.7	90.4	84.9	118.2	103.3	119.4	119.6
Potatoes	102.7	94.7	102.6	91.0	92.8	119.6	116.3	113.4	115.3
Vegetables	90.3	105.3	104.5	92.6	95.2	110.9	109.6	116.4	113.5
Fruits	94.7	82.3	123.0	96.9	121.1	122.0	168.0	181.7	189.2
Miscellaneous cereals	104.5	92.2	103.0	92.7	79.9	103.0	92.0	100.5	109.6
Livestock & livestock products	72.1	106.5	121.4	126.7	148.6	173.3	178.3	189.3	207.1
FORESTRY	83.2	110.0	106.9	109.4	103.9	110.5	115.4	120.7	n.a.
FISHERY	86.6	102.1	111.3	109.8	119.8	137.3	137.6	161.1	n.a.

Source: Ministry of Agriculture and Forestry.

Table 8
Indexes of Industrial Production, 1951-58
(1955 = 100)

<u>Year</u> (Av.)	<u>Industrial Production</u>	<u>Manufacturing Production</u>					
		<u>Total</u>	<u>Ferrous Metal</u>	<u>Non-ferrous Metal</u>	<u>Machinery</u>	<u>Chemicals</u>	<u>Textiles</u>
1951	66.7	63.5	68.5	70.9	n.a.	n.a.	58.1
1952	72.5	69.5	72.2	74.8	n.a.	n.a.	66.9
1953	85.7	84.2	85.4	80.8	87.7	75.9	82.5
1954	92.9	92.4	89.5	93.8	98.8	86.5	89.6
1955	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1956	122.4	123.5	121.8	120.0	145.2	120.8	118.8
1957	144.5	146.4	138.7	134.0	202.1	142.0	131.2
1958	144.8	147.0	130.2	130.9	216.4	147.3	117.7

Source: Ministry of International Trade and Industry.

Table 9

Orders Received by Japanese Industry
for Machinery and Ships
(In billions of yen)

	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>Jan-Jun</u> <u>1958</u>	<u>Jan-Jun</u> <u>1959</u>
Machinery	159	190	187	204	422	515	365	170	250
Ships	<u>58</u>	<u>65</u>	<u>68</u>	<u>166</u>	<u>283</u>	<u>218</u>	<u>91</u>	<u>21</u>	<u>24</u>
Total orders received	217	255	255	370	706	733	456	191	274
Orders for account of:									
Export & special procurement		29 ^{a/}	55	145	205	135	87	18	25
Government & public bodies		44 ^{a/}	52	38	55	84	74	38	32
Private domestic		162 ^{a/}	148	197	446	514	295	135	217
Unfilled orders, end of period		144 ^{a/}	156	287	618	816	685	715	675

^{a/} Fiscal year.

Source: Economic Planning Agency.

Table 10

National Government Budget (General Account), by Fiscal Years
(In billions of yen)

	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u> (Estimate)	<u>1959</u> (Estimate)
<u>Revenue</u>					
Taxes	796	950	1,050	1,034	1,121
Monopoly profits	114	115	122	120	120
Other	<u>72</u>	<u>72</u>	<u>64</u>	<u>79</u>	<u>100</u>
Total	982	1,137	1,237	1,233	1,341
<u>Expenditure</u>					
Public works	141	142	165	182	221
Defense	133	141	141	146	154
Education	128	136	157	170	182
Social security	99	110	117	130	137
Pensions	90	100	104	111	134
National debt service	44	39	36	67	55
Other	<u>383</u>	<u>401</u>	<u>468</u>	<u>527</u>	<u>561</u>
Total	1,018	1,069	1,188	1,333	1,444
<u>Excess of Revenue (✓) or</u> <u>Expenditure (-)</u>	-36	468	449	-100	-103

Source: Ministry of Finance.

Table 11

National Government Loan and Investment Program, by Fiscal Years
(In billions of yen)

	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>
Government Financial Institutions:					
Japan Development Bank	18	-	38	23	45
Export-Import Bank of Japan	21	14	2	8	36
Agriculture, Forestry and Fishery Finance Corporation	18	16	16	20	29
Small Business Finance Corporation	12	16	30	28	28
Housing Loan Corporation	18	20	23	27	33
Others	<u>17</u>	<u>29</u>	<u>57</u>	<u>47</u>	<u>45</u>
Total	104	95	166	163	216
Other Investments and Loans:					
Electric Power Development Co.	27	29	44	34	40
Japan Highway Public Corporation	-	2	5	10	8
Japan National Railways	12	6	12	20	27
Telegraph & Telephone Corporation	-	-	3	4	3
Purchase of Local Gov't Bonds	87	85	82	85	85
Others	<u>9</u>	<u>14</u>	<u>22</u>	<u>41</u>	<u>52</u>
Total	135	136	168	194	215
Grand Total	<u>239</u>	<u>231</u>	<u>334</u>	<u>357</u>	<u>431</u>

Source: Ministry of Finance.

Table 12

Balance of Treasury Transactions with the Public, FY 1952-58
(In billions of yen)

(-) = surplus of payments
(/) = surplus of receipts

<u>Fiscal Year</u>	<u>General Account Budget</u>	<u>Special Accounts, Public Corporations and Others</u>	<u>Foreign Exchange Fund</u>	<u>Total</u>	<u>Total excluding Foreign Exchange Fund</u>
1952	/193.7	-172.7	-18.6	/2.4	/21.0
1953	/141.5	-176.4	/129.8	/94.9	-34.9
1954	/43.3	-159.4	-74.1	-190.2	-116.1
1955	/61.3	-168.0	-169.9	-276.6	-106.7
1956	/205.8	-105.7	/63.3	/163.4	/100.1
1957: <u>Total</u>	<u>/166.9</u>	<u>-20.6</u>	<u>/113.4</u>	<u>/259.7</u>	<u>/146.3</u>
1st quarter	/13.1	/42.1	/122.5	/177.7	/55.2
2nd "	/73.6	-33.9	/61.6	/101.3	/39.7
3rd "	-20.8	-153.6	-28.6	-203.0	-174.4
4th "	/101.0	/124.8	-42.1	/183.7	/225.8
1958: <u>Total</u>	<u>/120.5</u>	<u>-178.0</u>	<u>-193.5</u>	<u>-251.0</u>	<u>-57.5</u>
1st quarter	-15.3	-9.4	-32.7	-57.4	-24.7
2nd "	/73.1	-39.0	-57.2	-23.1	/34.1
3rd "	-28.2	-248.8	-68.6	-345.6	-277.0
4th "	/90.9	/119.2	-35.0	/175.1	/210.1

Source: Bank of Japan.

Table 13

National Government Debt, FY 1952-58^{a/}
(In billions of yen)

<u>TYPE OF DEBT</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>
Bonds							
Domestic	335.2	445.0	440.9	425.8	409.3	405.8	400.3
Foreign	<u>102.3</u>	<u>98.5</u>	<u>94.6</u>	<u>88.8</u>	<u>84.4</u>	<u>80.7</u>	<u>87.5</u>
Total	437.5	543.6	535.5	514.7	493.7	486.5	487.8
Short-term Bills							
Food bills	147.1	195.1	194.1	310.0	329.8	263.1	289.3
Foreign Exchange							
Fund bills	<u>132.0</u>	<u>45.0</u>	<u>140.0</u>	<u>145.0</u>	<u>80.1</u>	<u>100.0</u>	<u>178.0</u>
Total	279.1	240.1	334.1	455.0	409.9	363.1	467.3
Other Borrowing	<u>110.1</u>	<u>67.4</u>	<u>63.1</u>	<u>87.4</u>	<u>96.6</u>	<u>120.7</u>	<u>121.1</u>
Grand Total	<u>826.7</u>	<u>851.1</u>	<u>932.7</u>	<u>1057.1</u>	<u>1000.2</u>	<u>970.3</u>	<u>1076.2</u>
<u>HOLDERS OF DEBT</u>							
Government	268.8	260.8	55.1	78.1	93.4	187.9	256.9
Bank of Japan	238.4	198.9	492.8	570.7	518.7	407.6	445.4
Others	319.5	391.4	384.8	408.3	388.1	375.2	374.0

a/ Amount outstanding end of fiscal year.

Source: Bank of Japan

Table 14

External Funds Raised by Industry, 1952-58
(Percentage by source)

<u>Year</u>	<u>Stocks and Shares</u>	<u>Corporate Debentures</u>	<u>Private Banks</u>	<u>Other Private Financial Institutions</u>	<u>Government Financial Institutions</u>	<u>Total</u>
1952	12.0	3.6	57.2	20.8	6.4	100.0
1953	15.6	3.9	48.3	20.9	11.3	100.0
1954	23.2	3.0	34.6	31.6	7.6	100.0
1955	14.1	3.9	36.5	32.4	13.1	100.0
1956	12.5	4.1	57.9	18.9	6.6	100.0
1957	15.9	2.9	53.3	20.0	7.9	100.0
1958	14.3	3.5	46.7	25.7	9.8	100.0

Source: Bank of Japan.

Table 15

Factors Affecting the Money Supply, Calendar Years 1956-58
(In billions of yen)

	<u>1956</u>		<u>1957</u>		<u>1958</u>	
	<u>Increas-</u> <u>ing</u>	<u>Decreas-</u> <u>ing</u>	<u>Increas-</u> <u>ing</u>	<u>Decreas-</u> <u>ing</u>	<u>Increas-</u> <u>ing</u>	<u>Decreas-</u> <u>ing</u>
Balance of Treasury transactions with the public ^{1/}		61		101	50	
Balance of foreign exchange account ^{2/}	48			231	201	
Credit of financial institutions ^{3/}	1,172		1,371		1,221	
Savings and time deposits ^{4/}		591		804		979
Other factors	—	<u>144</u>	—	<u>128</u>	—	<u>170</u>
Total	1,220	796	1,371	1,264	1,471	1,149
Net increase (✓) or decrease (-) in the money supply	✓424		✓106		✓321	
Money supply, end of year		2,573		2,679		3,000

^{1/} Excluding foreign exchange transactions. An entry in the "Increasing" column indicates a Treasury deficit, and an entry in the "Decreasing" column indicates a Treasury surplus.

^{2/} An entry in the "Increasing" column indicates net purchases of the Foreign Exchange Fund from the public (rising foreign exchange reserves), and an entry in the "Decreasing" column indicates net sales of foreign exchange (declining foreign exchange reserves).

^{3/} An entry in the "Increasing" column indicates an increase in credit. Inter-bank transactions have been netted out.

^{4/} An entry in the "Increasing" column indicates a decline in savings and time deposits, and an entry in the "Decreasing" column indicates a rise in savings and time deposits.

Source: Bank of Japan.

Table 16

Price Indexes
(1952 = 100)

	<u>Wholesale Prices</u>	<u>Consumer Prices (Tokyo)</u>
1952	100.0	89.5
1953	100.4	107.5
1954	99.7	113.4
1955	97.9	111.7
1956	102.2	112.8
1957	105.3	116.1
1958	98.4	117.3
June 1958	97.9	118.0
June 1959	98.5	117.4

Source: Bank of Japan and Prime Minister's
Office.

Table 17

Composition of Exports

(Quantity in thousands of unit - value in millions of U.S. dollars)

Group and Commodity	Unit	1952		1955		1956		1957		1958	
		Quantity	Value								
<u>Textiles</u>			453		749		871		1,015		892
Raw silk	Bs ^{1/}	72	44	87	50	75	42	75	42	47	22
Cotton fabrics	SM ^{2/}	637	180	952	230	1,055	267	1,228	317	1,041	277
Synthetic fabrics	SM ^{2/}	253	66	722	143	948	210	1,116	228	1,026	188
Woolen & worsted fabrics	SM ^{2/}	1	2	15	28	19	33	24	45	20	34
Silk fabrics	SM ^{2/}	26	13	25	16	40	25	54	32	56	34
Clothing			38		107		123		143		149
<u>Metal and Metal Products</u>			341		386		340		323		371
Iron & steel	MT	1,633	263	1,989	259	1,291	223	1,002	209	1,690	250
<u>Ships</u>	GT	53	11	384	78	1,159	257	1,452	349	1,177	332
<u>Machinery (excl. Ships)</u>			99		169		226		281		296
Electrical machinery & appliances	MT	14	19	29	31	41	51	56	78	55	99
Sewing machines	NO.	882	20	1,536	35	1,485	34	1,745	43	1,732	43
Textile machinery			21		27		37		32		27
Railway vehicles			7		22		29		34		24
Motor vehicles			5		10		17		29		27
Power generating machinery			6		6		8		8		9
Mining & construction machinery	KG	3,724	2	9,082	6	7,820	5	7,505	8	12,887	16
Machine tools			1		2		1		4		3
Agricultural machinery & implements	KG	833	1	1,115	1	1,044	1	941	1	1,722	2

See footnotes at end of table.

Table 17
(Cont'd)

Composition of Exports
(Quantity in thousands of unit - value in millions of U.S. dollars)

Group and Commodity	Unit	1952		1955		1956		1957		1958	
		Quantity	Value								
<u>Food and Beverages</u>											
Fish & fish preparations	MT	100	46	155	76	196	121	208	122	268	98
<u>Chemicals and Drugs</u>											
Chemical fertilizers	MT	231	16	763	42	919	50	1,084	64	1,202	66
<u>Other Exports</u>											
Toys & games	MT	18	16	47	42	61	55	61	61	60	62
Pottery & glassware	MT	109	34	129	50	152	59	144	61	124	58
Plywood	SM ^{2/}	5	3	59	37	65	43	82	55	86	56
Cement	MT	798	18	1,206	22	2,112	38	2,220	38	1,637	27
Rubber manufactures	MT	3	5	12	12	21	23	26	28	25	24
Optical instruments	KG	835	7	2,043	13	2,683	17	3,158	20	3,881	24
Photographic equipment	KG	202	3	572	8	1,090	14	1,551	19	1,886	23
<u>Total Exports</u>			1,273		2,011		2,501		2,858		2,877

^{1/} Thousand bales; one bale equals approximately 133 lbs.

^{2/} Million square meters.

Source: "Monthly Return of the Foreign Trade of Japan", Ministry of Finance, Tokyo.

Table 18

Composition of Imports

(Quantity in thousands of unit - value in millions of U.S. dollars)

Group and Commodity	Unit	1952		1955		1956		1957		1958	
		Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
<u>Food - Total</u>	-	-	<u>595.2</u>	-	<u>611.2</u>	-	<u>548.8</u>	-	<u>567.9</u>	-	<u>522.1</u>
Wheat, unmilled	MT	1,661.8	156.1	2,287.5	167.4	2,277.0	165.3	2,239.5	163.3	2,280.1	154.2
Rice - Total	MT	978.5	184.4	1,246.4	196.7	759.6	108.3	347.2	48.2	505.5	72.5
Barley, unmilled	MT	945.8	84.4	576.4	39.9	922.4	62.0	852.6	56.4	716.0	41.4
Maize, unmilled	MT	66.9	6.1	342.6	25.9	344.8	25.5	515.9	36.5	666.2	40.0
Wheat flour	MT	8.9	1.1	32.6	3.2	45.9	4.4	56.9	5.7	58.5	5.4
Raw sugar	MT	682.5	92.4	1,062.6	114.4	1,192.6	126.7	1,159.3	160.6	1,220.6	120.1
<u>Beverages and Tobacco - Total</u>	-	-	<u>22.5</u>	-	<u>13.8</u>	-	<u>9.5</u>	-	<u>6.2</u>	-	<u>7.1</u>
<u>Crude Materials, inedible except Fuel - Total</u>	-	-	<u>966.8</u>	-	<u>1,225.8</u>	-	<u>1,710.4</u>	-	<u>2,009.6</u>	-	<u>1,299.2</u>
Oilseeds, nuts & kernels	MT	276.6	38.6	1,135.1	147.0	1,039.4	134.8	1,130.4	141.1	1,235.7	134.6
Rubber, crude (incl. synthetic & reclaimed)	MT	80.5	49.4	109.1	74.7	139.1	88.6	173.7	101.7	163.2	86.4
Wood	CM	-	15.7	2,051.9	61.8	2,586.0	81.8	2,891.9	79.0	4,159.9	88.3
Sulphite rayon pulp	MT	43.2	12.3	68.2	13.5	114.2	23.2	113.9	23.4	42.9	8.5
Wool & other animal hair	MT	69.9	140.8	97.2	176.0	147.1	258.7	142.0	308.9	136.2	216.3
Raw cotton	MT	427.9	418.0	440.9	362.0	601.1	451.4	588.5	420.4	509.8	340.3
Iron ore & concentrates	MT	4,768.1	92.5	5,459.5	81.5	7,869.5	146.5	9,466.5	205.7	7,613.8	123.1
Iron & steel scrap	MT	505.8	27.6	1,287.0	63.8	2,583.5	183.4	3,331.8	284.5	1,352.5	64.9
<u>Mineral Fuels, Lubricants and Related Materials - Total</u>	-	-	<u>234.2</u>	-	<u>289.0</u>	-	<u>412.6</u>	-	<u>679.8</u>	-	<u>514.3</u>
Coal - Total	MT	1,355.4	83.6	2,861.9	56.2	3,821.2	90.6	6,431.8	174.6	4,645.8	96.7
Petroleum, crude & partly refined	KL	4,264.5	101.7	8,501.5	148.6	11,586.9	223.8	13,531.5	296.8	14,875.0	299.2
Petroleum products	MT	-	48.8	3,542.3	84.2	3,295.2	90.0	5,138.6	162.7	3,133.5	76.8

Table 18
(Cont'd)

Composition of Imports
(Quantity in thousands of unit - value in millions of U.S. dollars)

Group and Commodity	Unit	1952		1955		1956		1957		1958	
		Quantity	Value								
<u>Animal and Vegetable Oils and Fats - Total</u>	-	-	<u>16.1</u>	-	<u>36.4</u>	-	<u>33.7</u>	-	<u>36.8</u>	-	<u>31.2</u>
<u>Chemicals - Total</u>	-	-	<u>44.3</u>	-	<u>80.2</u>	-	<u>163.3</u>	-	<u>183.4</u>	-	<u>166.3</u>
<u>Manufactured Goods - Total</u>	-	-	<u>41.1</u>	-	<u>58.5</u>	-	<u>155.6</u>	-	<u>462.6</u>	-	<u>102.1</u>
<u>Machinery and Transport Equipment - Total</u>	-	-	<u>90.5</u>	-	<u>132.4</u>	-	<u>161.2</u>	-	<u>288.4</u>	-	<u>341.3</u>
<u>Miscellaneous Manufactured Articles - Total</u>	-	-	<u>16.0</u>	-	<u>21.9</u>	-	<u>32.0</u>	-	<u>44.0</u>	-	<u>45.1</u>
<u>Miscellaneous Transactions and Comm. n.e.s.</u>	-	-	<u>0.9</u>	-	<u>0.3</u>	-	<u>0.3</u>	-	<u>0.4</u>	-	<u>0.8</u>
<u>Grand Total</u>	-	-	<u>2,028.8</u>	-	<u>2,471.4</u>	-	<u>3,229.7</u>	-	<u>4,283.6</u>	-	<u>3,033.1</u>

Source: "Monthly Return of the Foreign Trade of Japan", Ministry of Finance, Tokyo.

Table 19

Balance of Payments, 1955-58^{a/}
(In millions of U.S. dollars)

<u>Item</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>
<u>CURRENT ACCOUNT</u>				
Merchandise				
Exports f.o.b.	2,001.9	2,476.3	2,838.9	2,869.1
Imports f.o.b.	-2,021.9	-2,537.6	-3,292.6	-2,511.9
	-20.0	-61.3	-453.7	357.1
Other	-34.4	-69.8	51.3	11.7
Total	-54.4	-131.0	-402.4	368.8
Non-monetary Gold Movement (net)	1.5	0.4	0.5	0.5
Foreign Travel	6.2	4.2	7.3	8.4
Transportation	-148.6	-303.2	-501.3	-166.0
Insurance	-8.6	-12.8	-17.2	-9.9
Investment Income	-41.4	-38.8	-48.7	-39.5
Government Transactions, not included elsewhere	510.5	504.6	465.9	402.8
Foreign military expenditures in Japan, and surplus property	505.1	498.0	449.4	403.7
Other	5.3	6.6	16.5	-0.9
Miscellaneous	-60.2	-82.5	-94.2	-105.3
Total Goods and Services	204.9	-59.1	-590.1	459.8
Donations	43.2	45.1	45.9	46.0
Personal and institutional remittances	30.1	32.4	35.1	39.0
Other private transfers	0.4	0.5	0.3	0.3
Official grants	12.6	12.3	10.5	6.8
Total Current Transactions	248.1	-14.0	-544.2	505.8
Errors and Omissions	-19.3	11.1	20.0	26.0

See footnote at end of table.

Table 19
(Cont'd)

Balance of Payments, 1955-58^{a/}
(In millions of U.S. dollars)

<u>Item</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>
<u>CAPITAL ACCOUNT</u>				
Private (excl. banking institutions)				
Long-term capital	-8.8	-48.2	-26.5	-58.6
Short-term capital	-76.3	50.6	-38.3	12.8
Official and Banking Institutions				
Long-term capital	28.9	-5.9	37.4	8.1
Short-term capital	283.6	0.2	-497.2	539.2
Payments and clearing agreements	52.6	22.1	36.8	11.9
Liabilities to IMF and IBRD	62.4	2.4	-117.7	144.1
Other liabilities to official and banking institutions	-91.8	-175.0	54.1	26.0
Other	260.4	150.8	-470.5	357.2
Monetary Gold	1.5	0.4	0.5	30.4
Total Movement of Capital and Monetary Gold	228.9	-2.9	-524.1	531.8

^{a/} In preparing this table, Japan's official balance of payments estimates were adjusted in two respects:

- (a) in each year, reparations payments were transferred from the Current Account (Donations) to the Capital Account (Official Long-term capital);
- (b) in 1958, the write-off (as part of a reparations settlement) of Japan's credit balance under the payments agreement with Indonesia, amounting to \$176.9 million equivalent, was deducted from both the Current Account (Official grants) and the Capital Account (Payments and clearing agreements).

Source: Bank of Japan.

Table 20

Balance of Payments, 1958^a
(In millions of U.S. dollars)

<u>Item</u>	<u>Receipts</u>	<u>Payments</u>	<u>Balance</u>
<u>CURRENT ACCOUNT</u>			
Merchandise	2,870.3	2,501.5	368.8
Export and imports (both f.o.b.)	2,869.1	2,511.9	357.1
Other	1.2	-10.4	11.7
Non-monetary Gold Movement (net)	0.5	-	0.5
Foreign Travel	21.3	15.9	5.4
Transportation	240.1	406.0	-166.0
Gross freight	177.7	186.8	-9.2
Other	62.4	219.2	-156.8
Insurance	22.2	32.1	-9.9
Investment Income	27.1	66.6	-39.5
Direct investment	4.9	10.5	-5.6
Other interest	22.2	54.6	-32.5
Other equity	-	1.5	-1.5
Government Transactions Not Included Elsewhere	426.5	23.7	402.8
Military expenditures and surplus property	403.7	-	403.7
Other	22.8	23.7	-0.9
Miscellaneous	51.3	156.6	-105.3
Total Goods and Services	3,662.2	3,202.5	459.8
Donations	51.2	5.2	46.0
Personal and institutional remittances	39.9	0.9	39.0
Other private transfers	1.2	0.9	0.3
Official grants	10.2	3.4	6.8
Total Current Transactions	3,713.5	3,207.7	505.8
Errors and Omissions			26.0

See footnote at end of table.

Table 20
(Cont'd)

Balance of Payments, 1958^a/
(In millions of U.S. dollars)

<u>Item</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Net Assets</u>
<u>CAPITAL ACCOUNT</u>			
Private (excl. banking institutions)			
Long-term capital	24.9	83.6	-58.6
Direct investment	27.0	11.5	15.5
Portfolio securities - bonds	-	-	-
Portfolio securities - shares	-	4.2	-4.2
Amortization	-	-13.1	13.1
Other contractual repayments	-1.3	-	-1.3
Other	-0.8	80.9	-81.7
Short-term capital	11.3	-1.5	12.8
Currency, deposits, government obligations	-0.8	-	-0.8
Other	12.1	-1.5	13.5
Official and Banking Institutions			
Long-term capital	1.1	-7.0	8.1
Official loans	-	74.9	-74.9
Bank loans	-	-	-
Portfolio securities	0.9	-	0.9
Amortization	-	-3.3	3.3
Other contractual repayments	-	-78.7	78.7
Other	0.2	-	0.2
Short-term capital	363.0	-176.2	539.2
Payments and clearing agreements	5.7	-6.2	11.9
Liabilities to IMF and IBRD	-	-144.1	144.1
Other liabilities to official and banking institutions	-	-26.0	26.0
Other	357.3	-	357.2
Monetary Gold	30.4	-	30.4
Total Movement of Capital and Monetary Gold	430.7	-101.1	531.8

a/ In preparing this table, Japan's official balance of payments estimates were adjusted in two respects:

- (a) reparations payments amounting to \$64.2 million equivalent were transferred from the Current Account (Donations) to the Capital Account (Official Long-term capital);
- (b) the write-off (as part of a reparations settlement) of Japan's credit balance under the payments agreement with Indonesia, amounting to \$176.9 million equivalent, was deducted from both the Current Account (Official grants) and the Capital Account (Payments and clearing agreements).

Source: Bank of Japan.

Table 21

Gold and Foreign Exchange Reserves^{1/}
(In millions of U.S. dollars)

<u>End of Period</u>	
1952	979
1953	823
1954	738
1955	769
1956	941
1957:	
1st Quarter	738
2nd "	511
3rd "	455
4th "	525
1958:	
1st Quarter	629
2nd "	718
3rd "	759
4th "	861
1959:	
1st Quarter	974
2nd "	1,105

^{1/} Includes gold and foreign exchange holdings of the Government and Bank of Japan only. Excludes gold and foreign exchange holdings of commercial banks and outstanding balances under bilateral payments agreements.

Source: Ministry of Finance.

