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REVIEW OF FOREIGN DEVELOPMENTS

July 31, 1951

Canadian Balance of Payments for 1950
By Gail M. Hartmann

7 pages

Japanese Three-Year Plan for Economic Self-Support
By Frank H. Golay

7 pages

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July 31, 1951

CANADIAN BALANCE OF PAYMENTS
FOR 1950 - CURRENT ACCOUNT

Gail M. Hartmann

The Canadian balance of international payments for 1950 estimates a current account deficit of \$316 million ^{1/} as compared to a surplus of \$187 million for 1949. While the overall figures indicate an apparent deterioration in Canada's external position, detailed analysis of the Canadian foreign trade figures by major areas shows that for trade alone there was an important movement toward balance during 1950. This movement toward balance was at a time when total trade reached the highest level since 1945 due to higher export prices and increases in the volume and prices of imports. The relatively large deficit on current account was accounted for largely by the elimination of an export balance with the sterling area, as well as large payments of interest and dividends of a non-recurring nature, increased freight and shipping charges, and a considerable increase in other current payments.

Table I

Canadian Balance of Payments - Current Account
(In millions of Canadian dollars)

<u>Current account</u>	<u>1949</u>	<u>1950</u>	
Exports (adjusted)	2,989	3,139	
Imports (adjusted)	<u>2,696</u>	<u>3,129</u>	
Trade balance	+ 293		+ 10
Gold available for export	+ 139		+ 163
Net tourist expenditures	+ 94	+ 53	
Net interest and dividends	-307	-381	
Net freight and shipping	+ 50	- 14	
Net inheritance and immigrants and emigrants funds	+ 13	- 7	
Other current payments and Other current payments and receipts - Net	<u>- 95</u>	<u>-140</u>	
Net Current Account Balance	- 245 + 187		- 489 - 316

Source: Dominion Bureau of Statistics.

^{1/} All amounts are expressed in Canadian dollars.

Foreign trade

During 1950 total Canadian trade as well as the regional distribution shifted further in the direction of balance. The export surplus, which was \$195 million in 1938 or 13% of total trade, increased to \$293 million in 1949, but only 5% of total trade. In continuation of the trend, the export surplus in 1950 was reduced to the negligible amount of \$10 million. Table II shows that the trend toward balance in trade with the United States and the United Kingdom has been in evidence since 1938, but the movement from 1949 to 1950 was particularly striking. Between 1949 and 1950, Canada's trade deficit with the United States declined from \$363 million to \$56 million, while the surplus with the United Kingdom declined from \$421 million to only \$64 million and the account with the other sterling area switched from a Canadian surplus of \$110 million in 1949 to a deficit of \$62 million last year. As a result, Canada's sterling area trade was in virtual balance, the dollar deficit was substantially reduced, and the surplus with the continental European area was partially offset by a deficit with all other countries.

Table II

Canada - Foreign Trade
(In millions of Canadian dollars)

Distribution of Exports

Year	Total Trade		United States		United Kingdom		Other Sterling Area		Other Countries	
	%	Amount	%	Amount	%	Amount	%	Amt.	%	Amt.
1938	100	844	32	268	40	337	12	105	16	134
1949	100	2,989	51	1,524	24	717	10	299	15	449
1950	100	3,139	65	2,040	15	470	6	188	14	438
<u>Source of Imports</u>										
1938	100	649	62	400	18	119	10	65	10	65
1949	100	2,696	70	1,887	11	296	7	189	12	324
1950	100	3,129	67	2,096	13	406	8	250	12	374
<u>Trade Balances</u>										
1938		+ 195		- 132		+ 218		+ 40		+ 69
1949		+ 293		- 363		+ 421		+110		+125
1950		+ 10		- 56		+ 64		- 62		+ 64

Source: Annual Report of the Foreign Exchange Control Board - 1948 and 1950 (Canada).

It is surprising to note that this movement toward inter-regional balance was not the result of tightened Canadian trade restrictions. On the contrary, Canada's exports and imports both reached high levels during 1950 at the same time Canada significantly reduced restrictions against United States goods (the remaining controls were removed as of January 2, 1951). As the material in Table II indicates, the increased restrictions by non-dollar area countries against Canadian goods contributed to the reduction of the export balance. In addition, Canadian imports from these countries increased sharply during 1950 thus reducing the dollar gap to manageable proportions. Canadian sales to the United States rose from 32% of total exports in 1938 to 51% in 1949 and 65% in 1950, by contrast, sales to the sterling area declined from 42% in 1938 to 34% and 21%, respectively in 1949 and 1950. Analysis of the trade data by commodity groups, found in Table III, shows that this shift from sterling countries to the United States is not accounted for entirely by a direct shifting of the same products although some switching did occur.

Table III

Changes in 1950 Exports and Imports as Compared with 1949 ^{1/}
(In millions of Canadian dollars)

<u>Classification</u>	<u>EXPORTS</u>			<u>IMPORTS</u>		
	<u>Total</u>	<u>U.S.</u>	<u>U.K.</u>	<u>Total</u>	<u>U.S.</u>	<u>U.K.</u>
Agricultural Food products	-166	+12	-112	+70	+26	+ 6
Agricultural non-food products	- 18	- 5	--	+37	+ 9	+ 1
Animals & animal products	+ 27	+53	- 19	+13	+ 4	+ 3
Fibres, textiles & products	+ 6	+ 7	--	+32	+17	- 7
Wood, wood products & paper	+240	+307	- 44	+14	+13	--
Iron & Iron products	- 42	+28	- 12	+88	+17	+67
Non-ferrous metals & products	+ 32	+71	- 30	+41	+14	+17
Non-metallic minerals	+ 30	+21	+ 2	+77	+47	+ 4
Chemicals & allied products	+ 31	+25	--	+27	+19	+ 6
Miscellaneous commodities	- 62	--	- 20	+18	+13	- 2
Total	+128	+519	-235	+417	+179	+95

Source: Canadian Statistical Review
Trade of Canada, 1950 - Exports and Imports.

^{1/} Trade figures are approximate since they are selected and non-adjusted.

Price changes and terms of trade

The increase of \$150 million or 5% in total exports over 1949 appears to be entirely a result of price increases inasmuch as the price index of Canadian exports rose from 103.1 in 1949 to 108.9 in 1950 while the index of export volume dropped from 94.4 in 1949 to 92.9 in 1950. The large increase in total imports resulted from a 7% increase in volume coupled with an 8% increase in prices.

During the fall of 1949 and early 1950, the behavior of Canada's export and import prices (in Canadian currency) reflected the impact of the 10 percent devaluation of the Canadian dollar. Import prices rose more sharply than did export prices, as shown in Table IV; as a consequence, Canada's terms of trade (export prices divided by import prices) deteriorated from 100 in August 1949 to a low of 96 in February 1950 and remained at that level through May.

Table IV

Canada - Selected Indices

<u>Date</u>	<u>Indices of Prices</u> 1948 = 100		<u>Index of Terms of Trade</u> (Exports/Imports) August 1949 = 100
	<u>Exports</u>	<u>Imports</u>	
<u>1949</u>			
August	101	101	100
September	100	101	99
October	103	102	101
November	103	104	99
December	104	107	97
<u>1950</u>			
January	105	107	98
February	104	108	96
March	105	109	96
April	106	110	96
May	105	109	96
June	108	109	99
July	110	110	100
August	112	111	101
September	113	113	100
October	112	114	98
November	113	114	99
December	113	117	96

Source: Dominion Bureau of Statistics

Just before and following the invasion of South Korea late in June, export prices rose sharply and the terms of trade had recovered to 99 by June and to 100 by July. With the rapid rise of U. S. prices in the fall of 1950, however, import prices once more began to rise above export prices, reaching 117 in December while export prices levelled off at 113. Accordingly, the terms of trade deteriorated from 100 in September to 96 in December. The unpegging of the Canadian dollar in October, 1950 and its appreciation by approximately 5% appears to have moderated slightly the rising trend of import prices.

Canadian trade with the United States

The marked expansion in Canadian exports to the United States was largely the result of major increases in wood and paper products amounting to \$307 million (which alone accounted for 59% of the increased exports to the United States). This increase was due largely to housing boom demand for planks and shingles, and the expanded wood pulp and newspaper requirements resulting from increased newspaper and periodical circulation. Other increases included non-ferrous metal products amounting to \$71 million, caused by the inventory accumulation of aluminum, copper, lead, nickel and zinc, and in animal products of \$53 million reflecting the higher level of national income in the United States.

More generally, this increase in trade with the United States was the result of an increased demand in the United States for raw materials attributable largely to construction demands and increased production of consumer durables; Canadian efforts to reduce the deficit with the United States; and the British dollar conservation program which forced Canada to redouble its efforts to export more goods to the United States in order to make up for the reduction of exports to the United Kingdom.

The large increase in Canada's exports to the United States has been partly offset by a sizeable increase (\$179 million) in imports from the United States. The increase was due mainly to the relaxation of import controls, and the expanding defense program and industrial expansion of Canada. Non-metallic minerals showed the most important export increase in 1950 rising by \$47 million over 1949, of which coal (mainly to replenish stocks), petroleum and petroleum products accounted for the larger part. Next in importance was an increase of \$19 million in chemicals and allied products with particular emphasis on resin and antimony. Other increases in imports of industrial commodities were: fibres and textiles -- mainly raw cotton, \$17 million (price and volume increases); iron and its products \$17 million -- particularly iron ore, automobile engines and parts, and pipes; non-ferrous metals \$14 million, bauxite ore, electroplated ware and electronic equipment; and wood and its products \$13 million, magazines, newspapers, books and other printed material. Agricultural food and non-food products (corn, soya beans, cotton seed oil, rubber manufactures, etc.) showed a substantial combined gain of \$35 million over 1949.

Canadian trade with United Kingdom

Canadian exports to the U. K. during 1950 declined to \$469 million from \$701 million in 1949. This reduction of \$232 million was largely the result of reduced British purchases of goods from the dollar area as a result of import licensing policy, the reduction of \$155 million over 1949 of ECA offshore purchases in Canada, and increased competition from Continental Europe. The reduction of exports to the U. K. appeared mainly in agricultural food products, wood and wood products and non-ferrous metals.

Agricultural food products declined by \$112 million from the 1949 figure of \$331 million. Of this amount wheat and wheat flour exports account for \$107 million, probably attributable to a poor crop year (for exportable grades of wheat) in which overall wheat and wheat flour exports declined from \$531 million in 1949 to \$419 million in 1950. In wood and wood products, the reduction of \$44 million represented mostly planks, woodpulp, and newsprint, and was the result of increased competition from the continent as well as the British policy of reducing dollar imports. Contrary to expectations, exports of non-ferrous metals, represented by aluminum, lead, nickel, and zinc, declined by \$30 million as compared to 1949. The reason for this may be attributed partly to the dollar conservation program, and partly to the heavy build-up of stocks of these metals by the British in 1948 and 1949, which enabled them to reduce imports of the higher priced metals in 1950 and to draw on existing stocks instead. The balance of the decline in Canadian exports to the U. K. occurred in animals and animal products, iron and its products, and other classifications.

In addition to the substantial reduction of exports to the U. K., imports from the U. K., as shown in Table III, were increased by \$95 million during 1950, thus bringing the commodity trade with the U. K. nearly into balance. Of the total net gain of \$95 million 88% was concentrated in the iron products and non-ferrous metals groups. The heavy increase in the iron products group reflects the success of British automotive and other engineering product manufacturers in promoting exports to the dollar area. The increase in non-ferrous metals imports indicates the needs of the expanding Canadian economy for certain metals and electronic equipment. Fibre and textile products and miscellaneous commodities were the only classifications registering a decline for the period. In the case of the former, the decline resulted from reduced imports of cotton and worsted fabrics which in turn resulted from the world shortage of raw cotton and wool. The decline of the latter classification may be attributed to the cessation of Canadian purchases of British military goods as a result of the recent decision to convert to U. S. type military equipment.

Freight and shipping

Canadian receipts from freight and shipping declined by \$16 million during 1950 as compared with 1949 despite an increase in the volume of exports and rising shipping rates the world over. The explanation for this lies in the transfer of more than 95 ships to British registry during

1950. This transfer, which was made to enable Canadian shipping to participate in sterling traffic, will leave only 50 or 60 ships under Canadian registry. Canadians paid out \$48 million more in 1950 for freight and shipping charges and much of this because of the aforementioned transfer.

Interest and dividends

Canadian receipts of interest and dividends for 1950 showed an overall gain of \$10 million over 1949 which was completely overshadowed by increased interest and dividend payments of \$84 million for the same period. These increased payments (payments to U. S. increased by \$85 million while payments to the sterling area decreased by \$1 million) reflect partly the rising flow of U. S. investment capital to Canada in recent years with its proportionate increase in dividend and interest payments. In addition, the revision in exchange control regulations in 1950, permitting the withdrawal of dividends on a quarterly rather than on an annual basis, resulted in temporarily inflated payments.

Tourist expenditures

Canadian tourist expenditures for 1950 showed an increase of \$30 million over 1949 while during the same period foreign tourist expenditures in Canada decreased \$11 million over the 1949 figure. This increase reflects the rising level of income and relaxed foreign exchange control regulations.

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July 31, 1951

JAPANESE THREE-YEAR PLAN FOR ECONOMIC SELF-SUPPORT

Frank H. Golay

U. S. aid shipments to Japan in the postwar period (August 1945-December 1950) have totalled \$1,943 million. Current U. S. negotiations with respect to a Japanese peace treaty have been based on the assumption that post-treaty Japan will be economically self-supporting, and that U. S. aid will be terminated after a short transitional period.

Professional economic discussion in Japan since the first of the year has been increasingly concerned with forecasting the conditions of Japan's economic self-support. The frame of reference within which this discussion has been conducted was defined by the Economic Stabilization Board (ESB) of the Japanese Government. This Board occupies in the Japanese Government a position somewhat analogous to that of the Council of Economic Advisers in the U. S. Government. An American economist, in analyzing alternative financial policies advocated in Japan, characterized ESB policies as "closer to the American New and Fair Deals than is the Dodge (Stabilization Program) line, and closer to the British Labour Party than to the American New Deal." As might be expected, policies advocated by the ESB have had only minority support in the present Liberal Party (conservative) government and in SCAP.

Policies advocated by the ESB reflect a preference for recovery of the Japanese standard of living and productive capacity rather than price level stability, as the immediate objective of financial policy. Capital investment, to be supplied largely by government investment in public works and in new industries, is regarded as the key to this recovery. Dependence on private capital, either domestic or foreign, is to be avoided. Mass consumption is to be maintained or increased by keeping wages high relative to profits, by low taxes on low income consumers, and by price subsidies.^{1/}

Basic assumptions

The Economic Stabilization Board has formulated the following assumptions as basic to Japanese planning for economic self-support:

(1) The third world war will not materialize during the next three years (1951-1954), although the tension between the United States and the Soviet Union "will continue and the world-wide rearmament tendency will be stepped up."

(2) Domestic inflation will be halted and the existing yen exchange rate will be maintained.

(3) The standard of living will improve in each year of the plan.

(4) Japanese population will increase at the rate of 1 1/2 per cent per year.

^{1/} M. Bronfenbrenner, Four Positions on Japanese Finance, Journal of Political Economy, August 1950, pp. 281-288.

Japanese Three-Year Plan

On January 20, 1951, the Self-Supporting Economy Council, a private organization whose members work closely with the ESB,^{1/} submitted to the Japanese Cabinet a "Report on Economic Self-Supporting Program," in which a three-year plan to make the Japanese economy self-supporting is proposed. The self-supporting economy is defined as "of such nature as will enable not only balancing of international payments, but also simultaneous improvement in living standards." The elements of the three-year plan for Japanese economic self-support may be summarized in the following tables:

Japanese Self-Supporting Economy Program

	JFY 1949-50 <u>a/</u>	JFY 1950-51 <u>a/</u>	JFY 1951-52 <u>b/</u>	JFY 1952-53 <u>b/</u>	JFY 1953-54 <u>b/</u>
National income (¥ billion) ...	2,874	3,300	3,753	3,951	4,164
Real national income, 1930-34 = 100	88	103	111	116	123
Standard of living, 1934-36 = 100	69	78	83	86	89
Population (millions), October 1935 = 68.6	81.9		85.6	86.9	88.2
Industrial production, 1932-36 = 100	80	<u>c/103</u>	114	123	131
Industrial activity, 1932-36 = 100	90	<u>c/116</u>	125	134	142
Agricultural, forestry, and aquatic production, 1930-35 = 100			100	104	109
Exports (\$ million)	535	919	1,220	1,363	1,551
Commercial imports (\$ million).	422	962	1,356	1,513	1,653
External aid (\$ million)	494	<u>c/300</u>	147	100	58
Balance of payments on current account (\$ million)	+234	277	+13.0	+4.5	+55.6

a/ National income, real national income, and standard of living, ESB, Monthly Economic Report. Population, production, and external aid, SCAP, Japanese Economic Statistics. Trade and balance of payments, Foreign Exchange Control Board, Foreign Exchange Statistics Monthly.

b/ Self-supporting Economy Council, Report on Economic Self-Supporting Program (Tokyo, 20 January 1951). These tables are derived from the report and are not presented in the report in this form.

c/ Estimated on basis of first three quarters of JFY 1950-51, April 1, 1950 - December 31, 1950.

1/ The Self-Supporting Economy Council is composed of industrial and banking officials and Japanese Government officials acting in a private capacity. While the report has no official status, and may be regarded as a purely informal study of the various ESB programs and policies relating to economic self-sufficiency, it is considered by ESB officials to be an impartial report on the objectives of the ESB.

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Proposed "National Economy Budget" for the
Three-Year Plan for Economic Self-Support a/
(Billion yen)

	JFY 1951-52	JFY 1952-53	JFY 1953-54
Gross national product.....	4,285	4,513	4,722
Personal consumption expenditure.....	2,530	2,657	2,777
Gross private capital formation.....	750	764	802
Industrial equipment.....	209	242	255
Industrial working capital.....	399	372	391
Other.....	142	150	156
Government expenditures.....	872	880	906
Consumption expenditures.....	549	520	514
Capital formation.....	300	338	369
Price subsidies.....	23	23	23
Net discrepancy b/.....	134	212	238
Gross national product.....	4,285	4,513	4,722
Depreciation.....	188	217	233
Indirect taxation.....	296	310	324
Net receipts from overseas c/.....	48	34	1
National income.....	3,753	3,951	4,164

- a/ National income, real national income, and standard of living, ESB, Monthly Economic Report. Population, production, and external aid, SCAP, Japanese Economic Statistics. Trade and balance of payments, Foreign Exchange Control Board, Foreign Exchange Statistics Monthly.
- b/ The "net discrepancy" item apparently includes, among other things, the net surplus in external payments projected in the plan.
- c/ Net receipts from overseas is equivalent to the difference between "External aid" and the surplus in the "balance of payments on current commercial account" (excluding foreign aid).

Analysis of the plan

The planned rates of increase of national income, standard of living, productivity, foreign trade, and balance of payments are not unrealistic, at least in real terms. Granted the assumption of continued high levels of demand for Japanese exports, these objectives are likely to be attained. However, further analysis indicates that the plan for "self-support" is inconsistent with the assumption that "domestic inflation will be halted."

In the first place, the plan is internally inconsistent with the assumption of price level stability. The Report estimates (p. 20), that "national income will increase over 27 per cent in the three years" (of the plan) as compared with an increase of "14.7 per cent in real per capita national income." The Report assumes that population will increase by 4.6 per cent during the three years. Therefore, real national income is expected to be 120 per cent (114.7 x 104.6) of the 1950-51 level. The increase in (money) national income will exceed the increase in real national income only if Japanese price levels are rising.

Japanese Three-Year Plan

Personal consumption estimate

The estimates of Japanese personal consumption expenditures are exceedingly sanguine. This is the key assumption in the "National Economy Budget," since implicit in estimates of personal consumption expenditures are levels of personal savings and taxation which would permit the planned investment and government outlays without recourse to an expansion in the money supply. It is to be noted, however, that part of the gross national product was left unallocated and the "net discrepancy" shown in the table might well be used to adjust personal consumption expenditures upward. If, even with this adjustment, personal consumption expenditures are substantially underestimated, an inflationary divergence between planned savings and planned investment will result. In the absence of offsetting increases in productivity, this "inflationary gap" will result in further price inflation.

The Japanese standard of living is low compared with Western countries, although not as compared with other countries of Asia, and it is still substantially below prewar levels. By the middle of 1949, per capita consumption of staple food had recovered to 90 per cent of prewar (1934-36), non-staple foods to 70 per cent, fuel and light to 90 per cent, clothing to 10-20 per cent, and other consumption to 50-60 per cent of prewar.^{1/} The proportion of food in total household expenditures, which averaged 35 per cent before the war, increased in the postwar period to 65 per cent. These ratios are Japanese estimates which it has not been possible to check. The variations are partly due to changes in relative prices, and the proportion of food expenditures has probably declined since 1949, with the decline in black market prices.

The three-year plan provides for personal consumption expenditures averaging only 67.1 per cent of estimated national income, or 70.9 per cent, if personal consumption is adjusted to eliminate the unallocated item "net discrepancy" in gross national product. In view of the low standard of living, it is optimistic to expect the Japanese population to limit consumption outlays to this level in the absence of inflation. In the United States, with a standard of living several times higher than that of Japan, personal consumption in the period 1946-50 averaged 80.8 per cent of national income.^{2/}

Levels of Japanese savings

Further evidence of the discrepancy between intended savings and planned investment is to be found in statistics of Japanese savings in the postwar period.

^{1/} Institute of World Economy, Economic Condition of Present Day Japan, Tokyo, July 1949, p. 32.

^{2/} Federal Reserve Bulletin, March 1951, p. 328.

Japanese Three-Year Plan

In the period January 1, 1949 to June 30, 1950, Japanese savings were of the order of magnitude of ¥425 billion (¥284 billion annually), or 8-9 per cent of national income during that period.

Japanese Savings a/
January 1, 1949 - June 30, 1950

(¥ billion)

Increase in time deposits in financial institutions b/.....	268
Increase in assets of insurance companies b/.....	16
Sales of newly-issued non-governmental securities to the public c/.....	87
Internal savings of business c/.....	62
Less: Net redemption of government debt held by public outside banks d/.....	10
Total	<u>423</u>

a/ The "shaky" definition of savings employed here has been used before in this Review. See: J. Herbert Furth, Equilibrium and Disequilibrium in the German Economy, this Review, April 10, 1951, p. 3.

b/ Bank of Japan, Financial Statistics Monthly.

c/ Fuji Bank Bulletin, January 1951, p. 17.

d/ Derived from reported holdings of government debt by financial institutions.

Present levels of governmental revenues will, if maintained during the three-year plan, cover the planned governmental outlays including capital formation. Therefore, if the Japanese Government should keep its budget balanced, the inflationary gap implicit in the three-year plan will be approximately equal to the excess of planned investment over intended savings plus net receipts from overseas. The three-year plan calls for average annual gross private domestic investment of 17 per cent of gross national product. Average annual net private investment (the gross figure less depreciation) would be ¥556 billion. Therefore, if savings should, as in 1949-50, average 8-9 per cent of national income, annual savings would average ¥316-356 billion annually.^{1/} If this should be the case, the excess of intended investment over intended savings would be ¥200-240 billion annually, or 36-43 per cent of net private capital formation.^{2/}

^{1/} During the period January 1, 1949 - June 30, 1950, the Stabilization (Dodge) Program was enforced in Japan, and Japanese prices were relatively stable. If the three-year plan should achieve the announced objective of "stable prices" there is no reason to assume that levels of savings would depart from those experienced in the earlier period of price stability.

^{2/} In the postwar period 1946-49, gross private domestic investment in the United States averaged 14 per cent of GNP.

Japanese Three-Year Plan

Sources of investment funds

Further evidence of the inflationary potential of the "Economic Self-Supporting Program" is to be found in an analysis of current sources of industrial funds. Existing conditions in Japanese security markets will limit the industrial funds which may be obtained from the sale of securities. At the same time, the high levels of Japanese interest rates will result in large outlays by industry for interest and dividends, and will preclude raising a large proportion of the planned industrial investment from business savings 1/ unless there is a great increase in profits.

During the period January 1, 1949 - June 30, 1950, as the following table shows, new investment funds totalling ¥795 billion became available to Japanese industry. Of these funds ¥198 billion (25 per cent) were derived from sales of securities (partly to banks) and from internal savings, and ¥570 billion were provided by bank loans. 2/ If industrial equipment and working funds planned during 1951-54 are provided from the same sources in similar ratios, something like ¥500 billion of bank credit expansion will be required in each year of the plan. 3/ This rate of bank credit expansion is far in excess of the rate of increase in time deposits which might be expected during the period of the plan. 4/

Sources of Supply of New Investment Funds a/
(Billions of Yen)

Sources	1949				January-June 1950			
	Equip- ment funds	Working capital	Total	Per Cent	Equip- ment funds	Working capital	Total	Per Cent
Bank loans.....	31	382	413	71.7	23	135	157	71.6
Counterpart fund....	25	0	25	4.3	4	0	4	1.8
Sale of debentures b/	19	8	27	4.6	13	7	20	9.1
Sale of equities b/	36	37	74	12.8	7	8	15	6.6
Internal business savings	19	19	38	6.6	12	12	24	10.9
Total.....	130	446	575	100	58	161	220	100

a/ Fuji Bank Bulletin, January 1951, p. 17.

b/ Japanese bank holdings of non-government securities increased by ¥30 billion between January 1, 1949 and June 30, 1950. This represented 22 per cent of total industrial funds raised by sales of securities as shown in this table. In the first half of 1950, the increase in non-government securities held by banks represented 70 per cent of the industrial funds raised by sales of securities.

1/ As of November 1, 1950 the average yield (dividends related to market prices) on all issues listed on the Tokyo Securities Exchange was 10.1 per cent. As of December 31, 1950, for those companies declaring dividends (69.1 per cent of the companies listed) the average yield was 16.3 per cent. Oriental Economist, January 27, 1951, p. 73.

2/, 3/ and 4/ - see next page.

Japanese Three-Year Plan

It is widely held that a substantial proportion of Japanese productive resources are at present under employed and unemployed. If this is true, it does not necessarily follow that the increased money incomes generated by the relatively high levels of investment proposed in the three-year plan will result in price increases. Nevertheless, while it is conceivable that increases in money incomes may be fully offset by expanded productivity, this has not been true in Japan in the postwar period. The recovery of Japanese production has been slow relative to Western European recovery, and future advances depend more on further expansion of Japan's imports (and exports) than on expansion of domestic purchasing power.

In the absence of a compensating decrease in the velocity of circulation of money, the credit expansion implicit in the three-year plan, will result in a continuation of the price inflation which has been experienced in Japan since the outbreak of hostilities in Korea.^{1/} The principal danger in the plan lies in superimposing the inflation inherent in the high rate of investment on the price increases which have occurred since June 1950. However, it is apparent that only by monetary inflation and "forced savings" would it be possible to divert to capital formation, both private and public, the planned proportion of national income.

^{2/} from page 6. - Japanese price stability was maintained during the period (1/1/49 - 6/30/50) in the face of the expansion in bank credit, by an over-balanced government budget, accounted for primarily by the employment of U. S. aid counterpart funds to retire government debt and by the employment of tax revenues to provide yen funds to acquire the current commercial account surplus in Japanese payments.

^{3/} from page 6. - Assuming that current rates of taxation, collecting 21-23 per cent of national income, are imposed. Granted this assumption governmental revenues will cover planned outlays including capital formation by the government.

^{4/} from page 6. - Supra, p. 5.

^{I/} As of March 3, 1951 the Economic Stabilization Board reported that the Japanese price level (including free and controlled prices) was 59 per cent higher than on June 24, 1950. The Bank of Japan index of free and black market prices as of February 28 was 35 per cent higher than on June 30, 1950. While the major portion of the post-Korean increase in Japanese prices is attributable to non-monetary factors, i.e., increases in prices paid for imports, removal of domestic price controls, and reduced outlays for price subsidies, there is evidence that bank credit expansion has been increasingly responsible for continued increases in price levels.