
IMPEDIMENTS TO THE REVIVAL OF INDUSTRY AND COMMERCE IN JAPAN

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The purpose of this paper is to describe and analyze some of the major obstacles to the revival of industry and commerce in Japan. The information contained in the paper, to a large measure, is based on the experience acquired and observations made while serving with the military government in Japan from August 1946 to April 1949. Additional statistical data and material pertaining to recent policy changes has been taken from recent publications.

The economic problem of Japan today is not necessarily different from that which existed at the end of the war, or perhaps during any earlier period. Raw materials must be imported, processed and exported in sufficient quantities to yield, in the economic sense, a part of the food to supply the population and to pay the cost of the raw materials. The ability to increase the production rate relative to the population may well determine the level of living in Japan at present and in the future, just as it has tended to do in the past.

To help understand the scope of the problem at present, it may be worthwhile to point out that the land area of Japan today is about 149,000 square miles, or a reduction of some 43% from prewar. Into this area is crowded 83 million people. Yet only 16% of the land area is suitable for cultivation. This means 5.5 persons are expected to derive their subsistence from 1 acre of cultivatable land. By comparison, in the United States, 2.7 acres of cropland alone are available to each person.

Other natural resources are almost entirely lacking. Coal and other ores present are of low quality. Yet with these limitations, Japan operated as a highly industrialized country under the economy organized by the military type of government in power just prior to and during World War II. All basic industries were in production and both consumer and capital goods were exported in large quantities.

At present, with comparatively less in terms of resources and agricultural land, and considerably less import-export trade and freedom of trade, Japan is struggling to meet the subsistence requirements of her population which is growing at the rate of 1 million yearly.

Historically, Japan had risen from a feudal peasant state to an industrial nation since 1868. This rapid industrial and commercial growth was not accompanied by a corresponding development of individualism as in western nations. Vestiges of feudalistic society had continued to exist in most institutions. For example, the state religion called Shinto, which taught the divinity of the Emperor and the code of ethics, copied from the code of feudal warriors, was taught in all public schools.

The highly centralized state and the continuation of feudal institutions were instrumental in the perversion of industrial strength to military conquest; therefore, fundamental changes in the policies of existing institutions were recognized as the primary problem within Japan, by the occupation authorities. As a result of the alteration of political and social institutions, it was necessary to redirect the emphasis of the industrial and manpower potential of the nation.

This paper deals primarily with the economic aspects of the necessary industrial and commercial adjustments, consistent with occupation objectives, which supposedly would attain the goal of self sufficiency and a normal standard of living.

For simplicity of presentation, the economic problem was divided into three categories: (a) the physical problem; (b) the institutional problem; and (c) the market problem.

The first job of the occupation authorities was to examine the industrial plant of Japan at the end of the war to determine the extent of damage and to evaluate its probable useful capacity. Bomb damage to industrial plants and shipping was extensive, but this damage had been concentrated in military arsenal districts and aircraft industries. Probably 70% of the physical industrial plant capacity was not damaged. However, obsolescence and wartime deterioration had decreased the portion of the capacity that could be used in the production of goods for export markets. Nearly all the capacity could be used to produce some goods for home consumption.

As a matter of policy it was decided by the allied powers to withdraw the excess industrial capacity from Japan, to reduce her war-making potential, and to help rebuild the war damaged industry in the allied nations. The general attitude was to remove the best industrial equipment, that is the most useful, and let Japan revive her trade with the remaining portion. The attitude held by the United States, however, was just the opposite—determine first how much was necessary to bring trade into balance and reparate the residual. The U. S. position has in general prevailed. To determine the amount of excess industrial capacity, the average production level in Japan for 1930-34 was established by international agreement as the production criterion. In consideration of the 15 million increase in population from the base period, and the obsolescence of plant, the amount of equipment made available for reparations had to be sharply revised downward.

In addition, the reparations question was and continues to be of considerable strategic importance and the changing international situation caused frequent policy changes. The affected industries within Japan were beset with restrictions and uncertainties. Repair and production within the designated concerns was not felt justifiable even to meet the critical domestic shortages of goods.

The shortages of goods at the end of the war was not due entirely to the reparations question. Raw materials were not available. The resources of Japan are limited to inferior grade coal deposits, traces of petroleum, and small amounts of non-ferrous ores and lumber. Most of the materials used to produce export commodities as well as domestic goods must be imported. Many of the sources of materials which were formerly within the boundaries

of the Japanese empire were no longer available when the war ended. Also, the merchant fleet which moved these materials into and from Japan was virtually destroyed.

The system of railroads along the coastal regions within Japan was still good, but highway transportation facilities to interior points were poor. Yet the heavy wartime strain on all the internal transportation system had caused deterioration.

Still another physical limitation to the economic revival of Japan was and is the shortage of agricultural land. Every suitable acre of land is intensively cultivated and yet the production is still about 20-25% short of the amount necessary to feed the population. The productive capacity of the land and the food requirements of the people, under present trade restrictions, tend to limit indirectly opportunities of employment in non-agricultural industry. There is little possibility of increasing the domestic agricultural production, so the solution lies in other directions, reducing the rate of population increase and increasing the opportunity for productive employment of labor in non-agricultural and non-military pursuits.

The program of reducing tenancy through the transfer of ownership of agricultural land to the cultivators, which was encouraged by occupation authority, has proved to be an incentive to greater production wherever greater production was possible, but the major agricultural problem continues to be the supply of productive land in relation to the population.

Now, turning from the physical problem, it may be helpful to review some of the institutional changes occurring within Japan, both voluntarily and as a result of specific directives of the occupation authorities; one of the most specific requirements of the occupation authority was the removal of obstacles to the growth and development of free, democratic organizations within labor, agriculture, industry and other sectors of national life.

A vigorous labor movement started as soon as restrictions were removed. Labor had been active for many years, but the organizations had been turned into a nationalistic front by the government in the early nineteen thirties. By 1948, there were some 36,000 locals with 6½ million members, and these unions were further organized into industry wide national unions and numerous federations. The rapid growth and loose organization were a severe test to labor movement objectives, largely because of the limited knowledge and experience of the leadership. At the local level, unions were organized in factories of 3-10 workers and labor disputes were started at times apparently because it seemed the "democratic" thing to do. At the national level, labor organizations became closely affiliated with political parties. A strenuous effort to control unions at the national level was made by the communist party. This trend has not been successful to date.

Great progress has been made by labor in the five years since the end of the war toward a strong, independent labor movement. Yet, confusion of organization and the encouragement extended labor groups by new legislation has caused some dislocations in production.

Before the end of the war, industry and commerce were largely controlled by a small number of wealthy families known as the "Zaibatsu" or industrial clique. These families were influential in the financial institutions of the country, and their industrial firms received the benefits of government subsidy and special privilege. They in turn helped to finance the war effort. The industrial organization within the country was made up of a small number of very large companies, and a great number of small firms. Growth of independent enterprise tended to be restrained through the control of allocations of raw materials and the restriction of capital.

Immediate measures were taken by the occupation forces to break the power held by these industrial families. Their firms were decentralized. A purge of the members of the families from active participation in public affairs also removed their control from financial institutions and economic policy. Such actions have resulted in some disruptions in the economic system of the nation. However, the lack of independent small business men to replace the industrial leaders is being overcome and the social benefits of the purge are considered to be sufficient to warrant enforcement regardless of any immediate sacrifice to production or economic recovery.

Many other social and cultural factors are present which affect the direction and speed of economic revival in Japan. They cannot be discussed in detail but, for example, the language, so tediously written and typed, is a retarding factor. Another example is the family group or clan. The clan has been a stronger institution than the economic occupational group and has checked the growth of individualism and individual freedom in the past, and may still influence the direction of the government and economy.

Since Japan is dependent on imports of raw materials and exports of finished goods for economic survival, the situation regarding markets should be examined. Prior to the war, about fifty per cent of the trade of Japan was with Asia. The imports were mostly food and raw materials and the exports were consumer goods and machinery. Exports to the rest of the world were chiefly consumer goods and imports consisted of capital goods and some raw materials. Shipping accounted for a considerable portion of her trade balance.

This situation has changed. The former markets in Asia have been partially absorbed by industrialization programs within the Asiatic countries. The political situation in Asia has made the purchase of raw materials difficult and exchange controls have created difficulties in balancing the trade with particular countries. Since the war, most of the food imports and raw materials have come from the dollar countries, the countries that have the greatest buyer resistance and least need of Japanese consumer goods.

A further complication of the markets problem is the absence of Japanese shipping. All goods to and from Japan since the war have been carried in foreign ships. There are no longer overseas investments to yield credits. Businessmen have not been allowed to travel to other countries to sell Japanese goods or to determine possible demand, and the ten years of isolation from the rest of the world has put the technology far behind that of other nations.

In view of the numerous obstacles considered here, what is the prospect of the revival of industry and commerce in Japan?

The volume of production in all industries, at least in the near future, must depend on the capacity and industries which are allowed to remain after reparations claims are settled. In light of recent events in the Far East, the reparations question probably has receded in importance. The heavy industries, those most likely to be of strategic importance if Japan rearmed for aggression, are those most uneconomical to remove.

Since these industries depended on imported raw materials they were mostly high-cost producers and were supported by government subsidies. If all government special privileges were removed from these industries and the restriction enforced, the industries such as iron and steel, machine tools, rubber, etc., would probably die a natural death.

Certain light industries, chiefly the textile industry, although dependent on imported raw materials, can compete with other producers for world markets. These industries probably would develop to the extent of the market for their finished products. Other industries which use indigenous resources

would be likely to expand to the limit of their supply of raw materials and market outlets. Examples of such industries are the silk, chinaware, paper, and woodenware industries.

Capital and credit probably would be productive if made available to small and medium sized firms. In the past, very large and very small firms have existed side by side, and medium sized independent enterprise could probably be developed if the proper business atmosphere was created. This will require high risk lending and the concurrent development of raw materials sources, industry and market outlets.

Measures which would increase the productivity of agriculture should be a part of the overall program for increasing the productivity of labor in industry. The amount left from the proceeds of production for export and to furnish capital to buy raw materials for further production is closely related to the productivity of labor in both agriculture and industry. Agricultural land is approaching the upper limit of productivity so any further gains will likely come from increased productivity of industrial labor and revived foreign trade.

A great deal of progress has been made toward establishing the democratic institutions required by the surrender documents. Whether they will survive beyond military control will depend at least in part upon the successful revival of trade and industry. The new economic, political, and social institutions may take root and flourish if sufficient food, shelter and other necessities are produced. Further, these new institutions must demonstrate the ability to provide stable and satisfactory internal conditions if they are to survive.
