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ECONOMIC CRISIS IN JAPAN

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Report of a lecture to the Royal Central Asian Society on September 22, 1954, Admiral Sir Cecil Harcourt, G.B.E., K.C.B., in the chair.

The CHAIRMAN: Dr. Duxbury, who has kindly come to speak to us on the "Economic Crisis in Japan," is a journalist by profession. He was in Japan this spring for two months with the Foreign Manager of *The Financial Times* and on his return wrote a lengthy survey for his paper. Without more ado I call on Mr. Duxbury.

I AM very conscious that this is a great honour for me, and I trust that when I say that you will not think I am indulging in any formal customary remark of that nature. In these days too many tend to visit a country for a few weeks and then return to tell others all about the economic, political and social life and prospects of the people concerned. Some visitors spend, perhaps, a few days in a country and then produce a report on what they have seen. I was sent to Japan in 1951 by *The Financial Times* to make a study, so far as I was able, of the industrial development and reconstruction that had taken place since the war in the belief that Japan, along with Germany, would be the main contender for world trade against the British in the post-war years.

In 1951 I found an early study of industrial development confirmed that there had been a remarkable revival in industrial production and in the general reconstruction and prosperity of Japan. I found also a tendency among the occupation authorities, who were dominated, of course, by the Americans, to take a somewhat romantic view of Japan's prospects in the next few decades. I was told, for example, that Japan was going to take the place in Asia, in the industrial revolution of the new age, that Britain had held in the industrial revolution here 150 or 200 years ago. That perhaps seemed a little fanciful, although the prospect now is that Japan will be able to take up the opportunities that are offered.

When I visited Japan again in March and April, 1954, it was with the aim of producing a survey of the industry and economics of Japan rather more ambitious than we had atttempted three years previously. I found on the second visit some astonishing contrasts with three years previously. In the first place, the really impressive difference was that the occupation authorities as a civil force had disappeared; that the Japanese were in full control of their own destiny, political and economic, whereas up to 1952, when the Treaty of Peace was signed, they had constantly been under the help and guidance, and sometimes perhaps the pressure, of their American friends.

Those are my few qualifications for appearing before you, and I mention them because you may be wondering why I have the temerity to

suggest the title "Economic Crisis in Japan." The word "crisis" normally brings to most of us the impression of something acute and tentative, but I chose the title deliberately because it seemed that the position of the Japanese economy, even when I was in that country in the spring of 1954, was sufficiently precarious to suggest that whatever they did in the meantime there would be continuing crises. As I see it from having studied the position on the spot, and having done all the reading one is expected to do in preparation for such a visit, Japan provides the basis for crises, political and economical, irrespective of any particular events during the last few years.

As you are all aware, Japan skirts the mainland of China closely enough to it to be very much part of it and yet just that little bit farther off than we are from the Continent of Europe, which means that Japan is, to some extent, isolated. The distance from Korea to Japan is about 100 miles, whereas we have some 20 miles between us and France. One of the results of her partial isolation has been that Japan not only has been and is very much divorced from Western contacts, but also that she was for a long time separated even from contact with Asia itself. The land itself is often described colloquially as "standing on its edge." The tremendous mountain ranges which dominate the whole of the four main islands are matched in the sea by an equally steep drop into what become the deepest parts of the ocean. Within those islands there is obviously a very heavy pressure against the population. The amount of land which is available for growing food, and in fact for normal living purposes, is very limited. All the time the population is being pushed towards the sea by the mountain ranges.

Japan, therefore, is a land of contrasts not only economically but in sheer physical conditions. There are now 87 million people all dependent for their livelihood on the four main islands. As during the war Japan lost all her overseas territories, the pressure of population is intensive because, apart from the limited amount of land available for growing food and industrial crops, if those were possible, the natural resources of the islands are meagre in comparison with the population. In minerals, in timber and in metals Japan is in very important sectors deficient. This lack of resources compels an outward projection into the modern world through exports. You may think, as many do, that in Japan more could be made of the agricultural possibilities. I do know that experts who have lived in Japan all their lives believe that more could be done to grow more food in Japan and thereby release some of the pressure to export, which is necessary, or to import food. In a general way it is true—and many who know Japan better than I do will probably agree—that in Japan every square yard of land which can be used for growing food is used. Even if you are a visitor travelling to any part of the country only for an hour it is obvious that every farmer is making the utmost use of every foot of land. On the slope behind his farm the farmer builds terraces of a foot or two feet wide on which he will grow some crop or another.

Within this setting in which both nature and economics are pressing upon a large population there is also the fact that Japan as an industrial nation has existed only for a very short time. Until one hundred years ago

the country was completely cut off even from Asia. There were very few visitors, and there had been no development of the kind which we would regard as industrial. That period of rapid development has telescoped into less than one hundred years the kind of progress and expansion of industry and of social conditions which arise from industry into a period much shorter than anything we in this country, or indeed in the United States of America, understand.

You may think I am speaking at random on some of the obvious things of which most of you are aware. I have, however, mentioned them because I believe that it is only in this setting that you can get an attitude of mind where reactions are very swift and sharp. The result is that having spent, as I did in 1954, two months in Japan one finds that almost every day somebody is suggesting that tomorrow there will be a real crisis; there is already a crisis, and if tomorrow Mr. So-and-so does this, or if something else happens abroad which affects the economic position of Japan, there will be a real crisis. That was true also politically. The Prime Minister, Mr. Yoshida, is expected to leave Japan this week-end for a trip to the United States and Britain. He was intending to leave when I was in Japan in the spring and I believe he postponed his departure. He later intended to come and once more had to postpone his visit because behind him in the political atmosphere of Japan there was a very difficult situation.

One of the most graphic examples is the swift reaction to events. There was the incident in March and April of the fishermen who were affected by radio-activity resulting from the explosion of the hydrogen bomb at the beginning of March. I sought the opinion of a good friend of mine, a reporter on a Japanese daily newspaper, who supposedly would be in touch with the likely reactions of his fellow-men on this subject. I said: " Surely as this has happened there will be a very strong reaction from the Japanese public; after all, they were the first people to receive an atomic bomb at Hiroshima and again at Nagasaki; they must be more acutely sensitive to this kind of event than we in Europe." My friend disagreed. He thought the Japanese in their new democratic situation in the post-war world had begun to realize that all these things were necessary, that scientific progress must be maintained, and that we must all on occasion make sacrifices to that end. He was utterly wrong. Within twelve hours there was a strong reaction throughout Japan against the idea of carrying out any experiments at all which were sufficiently under lack of control as to bring about results of this nature and endanger the lives of people who in Japan, incidentally, as fishermen, are regarded as among the prime producers because they provide the only animal protein which the Japanese have for food. That was an example of a sudden rush of objection which it seems to me would not have happened in this country of ours.

Within this general atmosphere of crises we can see in the post-war development of Japan's economy how a particular crisis has developed. When the Americans arrived in Japan in 1945 they found the economy in a state of collapse. Those of you who have read the sources will know that those in the United States who had studied the situation in Japan before the bombing began knew that Japan was already defeated. Her

fleet moved out of the ports only under the greatest provocation and on some occasions simply could not be provoked to come outt. The reason was that there was simply not enough oil to run the ships. So that when the Americans arrived the economy had already collapsed; there was practically no industrial activity comparable with peace-time, let alone with war-time, and at the outset the directives to the occupation authorities had prevented them from giving any help to Japan towards her recovery. I am unable to quote the exact directive given to the Supreme Commander of Allied Forces, but in effect it said that he was not responsible for the well-being of the individual Japanese. However, in a short time it was realized that that was a policy which was not only of no benefit to Japan but was a definite detriment to the occupation authorities themselves. It meant that for ever the Japanese would have to be kept because it is not possible to starve 80 million people—not over a very long time. So help was given and the result of the reversal of the original policy, as you know, was quite remarkable. In the five years following the war, the Americans not only gave organizational and technical help to the Japanese industrially and in civil affairs as well as in public works, but they provided about 2,000 million dollars in direct aid. The pace of Japan's recovery was constantly increasing during those five years. I found that in 1951, from being almost collapsed, the economy had, in fact, recovered almost to the pre-war level from the point of view of industrial activity.

In 1950 there had come the Korean war with the boom in orders which affected all of us, however distant we were from that war, but which affected Japan most of all because when locomotives, steel track, railway lines and so on had to be transported to Korea, then obviously Japan was called upon. The Korean boom meant that there was a tremendous demand which Japan was quick to satisfy and which no doubt, as elsewhere in the world, induced manufacturers and workpeople also to imagine that they stood in an easy position which they hoped would continue. During all that period Japan was able to build up a considerable dollar reserve. It was, of course, all adventitious. All this aid which had been coming up to 1951 and all the orders which were coming through Korea or were directly associated with the occupation of Japan and Korea were temporary aids which economists were steadily telling the Japanese could not be depended upon for ever.

Austerity programmes were introduced even during the occupation, following the advice of Mr. Dodge, the American banker, who saw that Japanese planned economy was running away with itself. But after the Treaty the Japanese were self-confident and possibly over-confident. The result was that in the first year of freedom from occupation the Japanese rather let the lid off. In a general sense, economically and individually, they began to spend more, hoping in the process that prosperity would build up upon itself. By the middle of 1952 Japan had a reserve in dollars of probably well over 1,000 million. Between 1950, when the Korean war started, and 1953 the national income rose by about 30 per cent., wages rose by 35 per cent., while consumption rose by about 40 per cent. Obviously in such a situation imports were increased tremendously; they were, in fact, two and a half times what they had been in 1950, and at the

same time—this is the crucial point—exports had risen by only 20 per cent. as compared with the increase in imports. People were spending more and living a fuller life, but my observation suggests that the fuller life was being enjoyed by a rather smaller proportion of the Japanese population. For the most part it can be said that although the agricultural population has now a much better living than before the war, nevertheless the real cream of this luxury spending must have occurred in the middle and other classes to whom money had come fairly easily, possibly from trade and other directions. The result has been that the balance of payment situation has deteriorated steadily. In 1950, 1951 and 1952 there was a positive balance in Japan's balance of payments of about 300 million dollars, but in 1953 not only was there no surplus but there was a deficit of 190 million dollars. Taking the fiscal year 1953, up to the beginning of April 1954 the figure is a deficit of 300 million dollars as compared with a surplus of 300 million dollars in the previous few years, so that Japan is rapidly running down her currency holdings.

The only reasons for Japan showing a surplus were, at the beginning, because of aid from the United States and, later, the procurement of orders for the Korean war plus the cost of the occupation of Japan and Korea. Altogether in the few years following the Korean war Japan received something like 800 million dollars a year from these sources, from the sale of services and goods to Korea and for occupation of troops. About half of this was due to orders from Korea; the other half, roughly, was due to the occupation forces. So long as there are United Nations Forces in Japan reliance can be placed on, perhaps, 300 million or 400 million dollars of temporary aid, which will help to balance payments. Nevertheless, the Korean war orders have declined and, in the result, Japan has gradually had to eat into her holdings of currency. The fall, as far as I can give it in figures—and these are often difficult to secure—has been from well over 1,000 million dollars last year to under 800 million dollars this present summer. Of those 800 million dollars, about 160 million dollars are frozen holdings in Indonesia and elsewhere, which cannot be used if the need arises. Hence there is urgent need for Japan, firstly, to attempt a balance of payments on her current trade and, secondly, to take the utmost steps to prevent a further decline in her currency holdings. On her visible trade in 1953 Japan had an adverse balance of about 1,000 million dollars offset by the 800 million dollars from procurement orders. The situation is precarious because in the export world Japan is finding difficulties, just as we are. There are too many countries imposing tariffs or quotas and too many other countries where there are other barriers to Japanese influence.

During all this development of trade, inflation developed in Japan so that the city banks were taking heavy loans from the Central Bank, the Bank of Japan, and they as commercial banks were lending far too much to industry and commerce, partly for investment in machinery, but partly also to finance the day-to-day dealings which are inevitable, especially when handling stock which is rising in price. The result was that for 1953 and up to February, 1954, none of the commercial banks in Japan had excess deposits for the loans; they were lending far more than they ought, and they were able to do that only because the Bank of Japan was supporting

them. There were larger imports costing dollars and sterling which could not be afforded, and, as home consumption had increased, the Government finally, in the autumn of 1953, decided that an austerity programme must be introduced to correct the adverse balance.

That austerity programme follows the obvious lines: tight money, cuts in imports and the budget, which is limited in Japan's case to within 1,000 million pounds and in which it is hoped to prevent further deterioration. But of course in Japan, as in the rest of the world, austerity is a good thing—not for me but for you. Each individual says: I agree we should all be very austere, but I would still like a new suit, and so on. In Japan, things do not differ from those here in that respect. I remember my colleague and I being taken to lunch in a very attractive place. We were taken into a bar which was about as long as the bench from which I am speaking, and there must have been at least forty different kinds of spirits there, some of which I had never before heard of and all of which I was assured were very good. As we walked in, the managing director said: "You can see some of the evidence that we are not always austere in Japan." I remember another occasion when invited to a dinner I was told that the cost of it had been £35 per head. I do not pretend to understand as a mere Lancashire man how much it would cost to give you all a dinner in London. I am aware that it costs more than in my local fish-and-chip shop, but at any rate you would have to go quite a way to spend £35 per head on a dinner. A good deal of that type of luxury spending has gone on, partly fostered by the new democratic attitude to business and industry which has developed since the war. People now believe that there are executive members of staffs who must do nothing else but keep the customers warm and keep even the friends of the customers warm although the customers have not arrived with the friends. We can only assume we were the friends of the customers who might come later on!

To this austerity programme there is the natural opposition. Industry argue: We cannot afford that you should cut imports of this or that raw material, otherwise we shall run down, production will fall, unemployment will be created and a terrible situation will arise. Similarly, commercial houses who are having to finance business say: We cannot afford to finance this business unless the banks will help us out. As in Japan many of the vast trading concerns have a turnover which is very many times more than their available capital, this is an important deficiency. If the banks decline to make loans somebody is going to go without dividends. That has been happening since the early spring of 1954. The number of failures is increasing. You may have read in some newspapers here of the increasing number of bankruptcies and failures of small concerns. The impression I was given when in Japan was that these small concerns are not, in fact, in the ordinary way industrial producers, but traders, commercial firms, who are being forced out of business possibly because there are too many of them.

In February, 1954, the banks managed to reverse the position and secure that their loans were falling below the level of deposits, and even in March and April, when the austerity programme appeared to be well under way and when the Government and the Bank of Japan appeared to

be holding firmly to it, there were arguments among some of the leading industrialists and financiers that the Government was being quite short-sighted in its handling of the foreign exchange situation; that this 800 or 900 million dollars of reserve should not be kept in the Bank but used for the development of Japanese industry, used to help to increase trade and to increase efficiency. These people argued that, after all, Japan had no ambitions for the yen to become an international currency. Japan merely wanted to maintain her position and to live. Japan had no ambition on the currency side; therefore these reserves ought to be used to help industry instead of being kept tucked away, preventing industry from making a full recovery.

That view overlooked what is a fact, and an unfortunate fact: that outside opinion in the world becomes concerned even if the currency is not intended as anything but normal currency, if, in fact, a country's reserves are gradually falling. Japan's real need is to increase her exports in order to earn more, because obviously United States aid, at one time direct, and later in the disguise of procurement orders or as payment for troops—such aid cannot continue for ever. Japan's need for increasing her exports is hampered by two quite separate problems, one of which is the problem I have already mentioned, that of having too many barriers to trade; the other is that within all the development which has occurred during and since the war in Japan there is still a very great contrast in efficiency in industrial equipment and methods. That is obvious even to a layman like myself going through a single factory. In a single factory where there is the most up-to-date plant—plant which is post-war and may even surprise some here—you will also find relics of the craftsman age. Also there are companies in iron and steel which are ill-equipped and ill-organized, and at the same time others which are highly organized, equipped with the most modern up-to-date machinery and capable of meeting almost any competition. So efficiency and the need for re-equipment constitute a prime problem in connection with Japan increasing her exports.

The reason for this is, as has been said by traders in recent years, that in many goods, except textiles, Japan's prices have been well above world levels. It is true that in iron and steel engineering products, and also in shipbuilding, Japan has been quoting prices which are higher than those quoted by Britain, much higher than world prices. In Lancashire, of course, the view is taken that Japan produces at such a low level of wage relationship that it is not possible to compete with her. I have heard it said many times in Lancashire: "We should not allow Japan to export her population problem," the implication being that if a country is increasing her population and must keep it alive, then that country should not expect others to keep it. Speaking as a Lancashire man, that seems to me a kind of argument which is likely to rebound on almost every other trading nation one might mention. It does not seem to me a solution. Nevertheless a solution must be found, and Japan herself is trying urgently to achieve a solution. She is trying to improve her efficiency; she is trying to re-equip; she is trying—a crucial point—to get even more capital for this re-equipment and reorganization; she is trying to take her place in world affairs and organizations which will help her to earn her living.

It seems to me from the brief experience I have that it would be very much better if there were more people like ourselves who were interested at least in studying these problems instead of reacting pathologically to the Japanese as a nation. It would be very much better if there were more of us anxious to know more of the problems which affect not only the Far East but the whole of the world, and anxious that we should co-operate in securing some solution. The simple fact that emerges from my brief but very intensive survey of Japan is that it is not possible to confine for ever on those four islands a population of 87 million people. By that I do not mean one must provide for their living; I mean that they must be allowed to live. If not, the obvious result will be what it was before the war: we shall give leaders of doubtful political virtue an excuse for putting forward policies which are quite easy to put forward, difficult to put into practice and very dangerous for the rest of the world. It is in the belief that there should be a less antipathetic attitude to this problem in Japan that I agreed to subject myself here to your very serious criticism, which I hope I will now have.

Group-Capt. H. St. Clair Smallwood: Did the lecturer see any signs of the return of the big combine such as Mitsui and companies of that kind which, though they were not altogether desirable, seem to have been more efficient than the present collection of small companies? Is the combine system likely to return?

Mr. Duxbury: That has already happened. There was clear evidence that the Mitsui concentration is being revived. There is some argument amongst economists as to whether that is good or bad. I offer the humble opinion that concentrations of equivalent size and power to the influence of Zaibatsu are not only regaining control of trade and industry but have in a large measure regained that control. The difference is that whereas the Zaibatsu before the war were dominated by particular families, today that is not so. I do not make a completely dogmatic statement as to that. There may be traces of family influence, but in general the capital which is utilized in these companies today comes from institutions rather than individual families. You may find a Mitsui firm amalgamated with another such firm but that the capital is not in the hands of those who are members of that particular family. We were taken to one of the great Mitsui households, now turned into a home for the staff of the group. There is no doubt that those concentrations are coming back. Friends who spent a longer time in Japan than I, and also understand the difficulties which Japan has, believe that because of present development in trade and industry that sort of concentration is essential in order that there shall be any rational trade of any kind.

Colonel Crocker: Could the lecturer tell us something in regard to the conditions of work in the factories in Japan, particularly as to the hours of work and wages of the operatives? Secondly, are the manufacturing firms subsidized by the Government in any way? I understand that they were before the war; I do not know whether that is so now.

Mr. Duxbury: Working conditions vary greatly in the factories. In general, the conditions have improved compared with what they were

pre-war. Many of the factories I visited, including those producing textiles, compared with any in the world; they compared favourably from the point of view of conditions, equipment and the general welfare of the operatives with the best textile factories in this country. Of course the Japanese—I am well aware of this—will show their best, but when we receive a visit from an American, Belgian or even a Japanese here in Britain, we naturally do not take him to the back streets—we let him see our show factories. But I was fortunate enough, by sheer luck and the interest of a reporter in Osaka, to be enabled to see one of the worst factories in Japan which is rightly described as " disgraceful " and as something which should not be allowed to exist. I admit that the conditions were inferior to those of textile factories which I know in this country. The lighting was bad, the atmosphere was bad. There was no attempt to clear the atmosphere of dust. The machinery was crowded and the building itself ramshackle. On the other hand, in the great textile factories the working conditions are very good indeed; some of the equipment is as modern as any that can be obtained. For example, two or three of the great Japanese textile firms are using processes which are sophisticated processes in other countries. There were similar contrasts between the new and the old—sometimes the two are mixed together.

As to wages, Japanese textile women workers will receive in a month about the same as a British textile worker receives in a week. Weavers will receive the equivalent of £6 a month, whereas, on an average, a weaver in a British textile factory receives £6 a week. There are the same kind of contrasts in other respects as you have between Britain and the United States of America. There is the highly skilled operator in the cogging mill of a steelworks, who makes £40 a week in the United States and in Britain £20 a week, while in Japan a similar operator will receive £20 a month.

As to whether the firms are subsidized, it depends what the questioner means by subsidies. Of direct subsidies there was no present evidence, but of indirect subsidies there were ample examples in Japan, as in other countries. In some industries raw material imports are made dependent on export performance. In some industries the import of a raw material which has nothing to do with the particular industry is made interdependent with exports from that industry itself. In the wool industry under the Anglo-Japanese payments agreement early this year provision was made by the Board of Trade in London for the Japanese to buy from Britain about £2 million worth of woollen and worsted fabrics. These can be seen in the great stores in Tokyo (and a surprising thing it is to see them on sale), but the import licences for those products are easily disposed of. Consequently, if I can secure some import quotas for this foreign cloth it pays not to import the cloth at all but to sell it to someone who will pay me two or three times what it is worth, with which I am able to subsidize my own production and export.

The Minister of International Trade and Industry, whom I had the opportunity of meeting, when asked deliberately by me whether the Government would continue what are regarded abroad as unfair methods of subsidizing trade—expressed the view—which he said was held firmly

by the present Government—that Japan should not attempt any kind of subsidies or dual pricing which would appear abroad to be a manipulation of currency. I have gathered from the Press that a recent report by the International Monetary Fund suggests that the Japanese should drop certain practices they have in this direction, but has not complained about the normal dual pricing which does occur in Japan as in many exporting countries—in other words, the policy of "soaking" the home consumer in order to export more goods at lower prices. I would not dare to say that that kind of dual pricing exists in this country, but it does exist in some exporting countries, and it is not regarded as unfair. If it is possible to get more from the home consumer to reduce the export price, well and good; but any of the other aids are frowned upon, and I should have thought the Japanese would be reluctant to allow them to continue because they need the help of international organization and finance not merely to enable them to develop, but to live at all.

Mr. BIGGS-DAVISON: Would Mr. Duxbury comment on the report that Japan is sending a delegation to the high authority of the European Iron and Steel Community in Luxemburg? I should welcome enlightenment as to what is behind that report.

Mr. DUXBURY: I can only think that, as in all other matters, the Japanese are anxious to make all the contacts they possibly can which might prove useful to them. They do realize that they have far too few contacts with the West; they realize also that they must make more contacts, irrespective of the social need for contacts; they feel they must also learn more in regard to iron, steel and coal, which are vital to Japan's economy. Their technique in the heavy industries is often much behind ours. Before the war Japan was already behind us in that regard and for virtually ten years she has been cut off; it may be that the particular delegation is intended to exchange information.

Colonel KEIGHLEY BELL: Reverting to the question of wages, to what extent do the wages paid in Japan level out with those paid in Britain? Do the workers in Japan have holidays with pay, which is a heavy overhead in this country? Are the hours of work the same in Japan, and do the employers have all those overheads which have to be met by firms here and which send up the price of our goods? My wife has a cigarette case of white metal, which before the war was given away with a packet of cigarettes. It is still a good-looking case. These cases were imported into this country from Japan at 4s. a dozen. There must be something to level up that sort of thing. Though we may sympathize with the Japanese and wish them to re-establish themselves, are we going to let their competition with us continue unrestricted, based as it is on factors with which we have to deal and they have not?

Mr. DUXBURY: It is true that the Japanese do not get as long holidays with pay as workers here, though they do, as I understood, have holidays with pay. It is true they work longer hours. Under the Labour Standards Law brought in by the Americans the hours of work are limited to forty-eight per week, but of course the Japanese work a shift system which we in this country will not allow, especially in industries where women are concerned, and there is no doubt that whatever you make of the standard

of wages and living of the Japanese worker, the labour cost is incredibly less than here. My own view would be that the labour cost is not perhaps as low as the wages suggest, in the first place because if, as in Japan, you have an ample supply of workers, if, for example, you need to do an extra bit of work which could be more easily done by ten workers than by five, you can easily bring in the extra five. In addition, the wages paid in Japan do not necessarily represent all that is paid out. There is the famous example of the Orni Spinning Company, where the workers live on the premises; they are maintained and provided with sleeping accommodation and with a certain amount of education in English, music, sewing and so on. So that there is a little addition to the wage on top of the labour cost. On the whole, I think there is no need to argue that the Japanese cost of production is vastly lower than our own—obviously it is. On the other hand, the argument that therefore one cannot allow anyone to buy their goods is a very risky one because our American friends are just as liable to turn round to us and say: "Your workers are getting only so much." Some countries have a lower wage rate than others. The most one can hope is that by international agreement, by gradually building up some kind of international give-and-take in these matters, it may be possible to enable all to live. Otherwise we shall have to give way to the Americans, who claim that they have the best, most prosperous and largest industries in the world.

Mr. ROBERTS: The lecturer emphasized the different standards of efficiency between the groups he observed in Japan. I wonder how it is that firms who are not efficient are able to compete.

Mr. DUXBURY: You mean how they compete with their own people? I can only think that there are some buffers, as in all trade operations. An efficient producer can sell me goods for export at a particular price; another less efficient sells me goods at a rather higher price, but in fact in the world markets—and this applies especially to Japan—I can get a price which is much better than even that which I pay the inefficient firm. All I need do is to take a little better profit on the cheaper goods and less on the slightly dearer goods, and my price in the world markets is still competitive. It is true, however, that many of the inefficient firms are being pushed out; where that is not happening they are carrying on, as many of our own firms here are doing. There are in this country companies operating at a profit industrially but which theoretically should be out of business; they are using machinery which is uneconomic, which in fact on a replacement value is not bringing any return, but they are managing for the time being. I have heard it said that a particular industry, or particular section of an industry, will soon be wiped out because it is so inefficient that Japan and other producers will cut it out of world markets and possibly out of the home market. That, however, takes time. Some such firms carry on for a little while. If a firm happens to go out of business, what is the result? You have seen that in Lancashire in recent years. When scrapping looms because new machinery is being put in, the firm has looms to sell. What can it get for them? With a loom worth only £5 it is still possible to make cloth. If a firm can get hold of machinery at such a low cost and in addition has cheap workers

or it can even make the working of the machine depend on a family unit, it is fairly easy then to potter along for many years.

Miss CARSON: Is there any possibility of steadying the increase of population in Japan?

Mr. DUXBURY: The population increase has been due to the high birth-rate, but it has in recent years shifted from that to a falling death-rate, and that is typical of an industrially developed nation. The death-rate falls because the conditions of life are improved: diseases are reduced, accidents and so on reduced. But even so, in Japan the population will continue to increase for the next, possibly, twenty years. I like to think, in order to impress the fact upon myself, not that the Japanese will increase from 87 million to 100 million in the next few years, but that when my daughter, who is one year old, is taking her 11-plus examination there will be at least 15 million more Japanese in the world, and as far as we are concerned they will still be entitled to live.

The CHAIRMAN: Mr. Duxbury has given us an astonishingly clear picture of a very difficult problem. Japan has to live, and what is also important is whether she is going to be able to live as a free nation or whether conditions will drive her under the Communist régime. We very much hope the first. I am sure you would all wish me to thank Mr. Duxbury very much indeed for an extremely clear talk. (Applause.)

Extracts from correspondence:

"The speaker made no reference to the question of China in relation to Japan, and, while I have no ready-made solution for Japan's problems, I am sure that they are inseparably bound up with those of China. As anyone who is familiar with Japan's meteoric rise to the position of a world power (in both the military and economic sense) knows, the chief reason why it was possible was that she had in China not only a store-house of many of the raw materials that she lacks, but also a vast and easily accessible market. As the result of backing the wrong horse in World War II she has lost both of these as well as much of her capital, all her colonies and all chance of being accepted as the leader of Asia. You may say that she can get her raw materials—especially the coking coal and iron ore on which her heavy industry depends—from other parts of the world, as she has to get oil and rubber; and that she can sell her exports to South-east Asia and Africa. This is true enough; but every hundred miles she has to go both to buy and to sell adds to her costs and wastes time, fuel and shipping space that could be put to better uses: what she really needs is the freest market in these areas *and* something like pre-war China.

"But there is more in it than this. China has long been held out as a wonderful market with her three or four or even six hundred million customers; but it has never come up to expectations, and the reason is, chiefly, that until the beginning of the nineteenth century China was self-sufficient, and even after that had ceased to be the case and all her economy had been upset by modern developments she failed to realize it and to reorganize herself accordingly. It is true that a great deal of trade has been done since the door was forced open a hundred years ago; but this was made possible only by the artificial system set up by the foreign, pre-

ponderantly British, mercantile community, which provided not only the machinery for collecting, distributing, processing, financing, insuring, etc., all goods, whether imports or exports, but also the security of extra-territoriality and the Concessions in which alone it could be carried on. Now this has all gone: this was primarily the consequence of the treaties of 1943, but the beginnings of a new system that were being worked out in the years immediately after the war were also swept away as soon as the Communists gained control, and we are back where we were 150 years ago. To British and most other merchants this does not matter very much because there is little that we must buy from China nowadays (compared with the tea and silk for which we were absolutely dependent on her then) and little prospect of being able to sell to her profitably because she has nothing to pay with. But to Japan it is a very different matter: she needs China, for the reasons given above, and there would appear little chance of Japan recovering economic stability until some solution of China's problems has been found.

"ALWYNE OGDEN."

"Sir Alwyne Ogden is quite right: Japan's relations with China are linked inevitably with her economic problems, but as my lecture attempted to show the steady course of events rather than the basic causes of Japan's current problems, I left myself no time to deal with this complex question. For, as Sir Alwyne suggests, there is more to it than the simple choice between China and the more distant and more expensive markets and sources of supply. On the question whether Japan should trade with China, there can hardly be much argument, except by those who imagine that a great industrial country can be detached permanently from her geographic and natural economic environment. During the years of the occupation the Japanese yielded, though with increasing reluctance as the time approached to a restoration of sovereignty, to the Western view that the old ties with China had been dissolved for good, and that trade with the United States and other Western countries would be sufficient to make up for the loss. A few of the officials on the staff of the Supreme Commander, Allied Powers, were aware that the China problem was a serious obstacle to Japanese recovery and that American aid had so far masked this difficulty. But publicly, at least, there was a light-hearted optimism about the new economic ties with the United States, and this view was shared by some British officials. English merchants in Tokyo and elsewhere in the East, taking a more detached and experienced view, argued that trade with China was essential, and when I was in Japan in 1951 Japanese industrialists and traders were cautiously but firmly urging the need for raw materials from China to replace those obtained more dearly over the long haul from the United States, and for markets in China to supplement export earnings in more difficult markets. On my second visit, in the spring of 1954, I found that this need for China trade was not only acknowledged by both industry and Government departments, but had become accepted policy.

"Statistics prepared for me by the Research Section, Minister's Secretariat, Ministry of International Trade and Industry, showed that for major

raw materials China had been replaced by the United States as the important supplier during the post-war period, and that prices, as well as freight charges, were considerably higher. Estimates were made of the dollar savings possible if the embargo on trade with China were removed. These put total savings at $312 m., or about 30 per cent. of Japan's total payments to the dollar area in 1953, and about 15 per cent. of her total foreign exchange payments in that year. Savings would include $117 m. for coking coal, $82 m. for iron ore, and $45 m. for soya bean. These estimates may have been optimistic, but they were based on quantities presumed available from China, and are significant figures, even if grossly exaggerated. (See table below.)

"On the straight question whether Japan should trade with China there can be little doubt of the answer. The further question whether China is willing and able to trade to the extent required is more complicated. It is overlaid by the intriguing question suggested by Sir Alwyne—whether China is the wonderful market she seems, judged by her tremendous population. Under her new masters, China may have realized that as a modern nation she cannot be self-sufficient, and she may reorganize accordingly. Whether the Communist plans for development of industry will permit of trade with Japan in the kind of materials and goods suited to Japan's needs, and, granted this trade, for how long it could be maintained, are questions providing subject for long debate."

ESTIMATE OF DOLLARS SAVED IF EMBARGO WERE REMOVED

	Peak Imports		*Provisional Import Plan from Dollar Area, 1956*		*Switch to Imports from China and Sakhalin, 1956*	
	'000 *Tons*	*Year*	'000 *Tons*	$'000	*Available* '000 *Tons*	*Saving* $'000
Coking Coal	8,303	1941	3,900	117,000	5,000	117,000
Iron ore	3,728	1942	3,400	81,600	3,500	81,600
Salt	1,289	1941	700	14,000	900	14,000
Iron scrap	36	1942	200	11,400	50	2,500
Dolomite and magnesite	433·3	1941	0·3	30	400	30
Soya bean	648·8	1942	350	45,300	1,000	45,300
Bean cake	449·5	1942	250	20,000	500	20,000
Tung oil	1·16	1939	5	4,250	5	4,250
Timber	587·7	1934	26	2,400	200	2,400
Miscellaneous	216·4	1945	450	31,500	350	24,500
Total				327,480		311,580

Source: Research Section, Minister's Secretariat, Ministry of International Trade and Industry.