INFLATION IN JAPAN—A PROBLEM OF CONTEMPORARY ECONOMIC GROWTH

ROBERT S. OZAKI

1. INTRODUCTION

A glance at the historical as well as cross-sectional price data for various countries seems to suggest a certain aggregate model of price-determination whereby the consumer price index is an increasing function of the stage of economic development. According to this model the consumer price index in a given country is bound to increase over time in the process of its economic growth or, alternatively, at a given point in time the higher the developmental stage of a given country the higher will be the level of consumer prices in that country relative to those in other countries.

Even on a priori grounds we may attempt a tentative substantiation of the above model. Economic growth is tantamount to a rise in per capita real income or, more simply, to a higher wage rate while the aggregate level of demand for services also increases. Productivity of the service industry can rise only slowly or often not at all, except at the loss of quality of the service in question. Given the increasing wages, the rising level of demand for services, and the slowness or even the absence of productivity gains in the service industry, the only natural consequence is for service prices to increase. This rise in the relative price of services of and by itself does not lead to a consumer price inflation provided that there takes place simultaneously a sufficient, offsetting decline in the relative prices of non-service items included in the consumer price index. The likelihood of such an offsetting development in other prices is close to nil, however, in view of the twin pillars of modern economic society, that is, the labor unions resisting
any downward movement of wages and the oligopolization of the manufacturing industry with a strong tendency toward absorbing the higher wage cast by higher prices or dissolving productivity gains into higher profits and/or higher wages.

We may identify the welfare-and-growth orientation of national governments as another general factor responsible for the downward rigidities, if not the upward trends, in the price structure of the contemporary world; for the central governments' active participation in the creation of effective demand through fiscal policy, their flexible monetary policy unrestricted by the rules of the gold standard, the explicit as well as disguised price-support programs with respect to many commodities seem to have provided an institutional setting conducive to a mild consumer-price inflation in the advanced economies.¹

Up to 1959 the case of Japan's postwar economic growth seemed to defy, as it were, all the commonsense and working rules of Western economic growth. Except for cyclical price changes, Japan's growth at an average annual rate of some 9.2 per cent during the decade of the 1950's proceeded without any secular upward trends in both the wholesale and consumer price indexes. Prior to 1959 Japan had experienced two major inflations of the demand-pull variety. The first one was a classic example of hyperinflation lasting from the end of World War II till the Dodge deflation and the monetary reform of 1949. The inflationary price behavior lasted from the second half of 1950 through 1953. These two inflations were clearly brought forth by a temporary excess of aggregate demand over aggregate supply, and had extraneous origins, namely, the critical shortage of supply due to

the extensive internal destruction suffered during the Second World War, and a massive upsurge of demand due to the Korean War.

During the decade of the 1950’s the Japanese economy manifested a remarkable resiliency and viability in comparison with Western economies. In each boom the wholesale price index rose actively but swiftly returned to the pre-boom level once deflationary measures were undertaken. After a lag the consumer price index also rose actively and fell, after the boom, to a level merely 1 to 2 per cent higher than the pre-boom peak. These sequences persisted throughout the decade with the overall result that, except for short-run, cyclical variations, both wholesale and consumer price indexes remained stable during the entire period.

II. THE NEW INFLATION

As Table 1 indicates, the period after 1959 has witnessed a new development that has aroused considerable political and economic debate in Japan.² The new development refers to the continuing stability of the wholesale price index while the consumer price index has been rising at an alarming rate of over 6% per annum. The present inflation should be appreciated in conjunction with the following facts: (1) the year 1959 is one in which the well-publicized Income-Doubling Plan was officially pronounced; (2) during the period 1959-1963 the Japanese


³ The Income Doubling Plan predicted that there would be cyclical price fluctuations as well as “structural” changes within the economy causing shifts in relative prices. The Plan optimistically anticipated, however, the stability of the general price level (i. e., the implicit GNP deflator). It must be noted that during the first three years of the Plan period the Japanese economy grew about twice as fast as the projected rate. In retrospect we may say that the price-raising factors were stronger, and the price-lowering forces weaker than anticipated by the Plan.
economy grew at what appears to be an abnormal rate of 13.5 per cent in real terms; (3) the household budget has been considerably affected by the inflation; (4) much of the increase in money wages has been offset by the rising cost of living for workers; and (5) the rate of increase in the consumer price index has been higher than the rate of interest paid on bank deposits with a grave potential impact on the saving propensity of the Japanese. About 80 per cent of the commodities whose prices determine the wholesale price index are manufactures, and many of them are produced in the advanced sector. With 1960 as 100 the wholesale index for all commodities stood at 101.3 in 1964. During the same period, however, the following commodity groups showed an upward trend: foodstuffs (106.8); textiles (104.4); timber and products (125.8); ceramics (107.1); paper, pulp and products (107.3); miscellaneous (105.7). On the other hand the following groups manifested a falling tendency: iron and steel (91.3); nonferrous metal (99.5); metal products (99.8); machinery (94.9); oil, coal and products (91.3); and chemical goods (94.1).4

In this connection two points of observation are in order. First, the overall stability of the wholesale price index has been due not to the stability of all prices included in the index but rather to the net effect of shifts in wholesale prices of different commodities. Second, goods and services in the price-rising category, by and large, refer to those commodities produced in the relatively backward segments of the economy, whereas the group of commodities whose prices have moderately fallen corresponds to products manufactured in the technologically advanced and progressive sectors.

As we focus on consumer goods, we observe that the consumer price index with 1960 as 100 rose to 125.5 in 1964, only a matter of four years. In contrast to the wholesale index all the major commodity groups showed a rising trend in price. The price indexes in 1964 were; 128.8 for foods; 122.2 for housing; 107.6 for fuel and light; 119.2 for clothing; and 128.0 for miscellaneous.5

5 Ibid., p. 297.
The structure of the consumer price index in question is based upon the Household Finance Survey of 1960, and its movement is designed to reflect the impact of price changes on household finance on the basis of a typical bundle of consumer goods and services for an average family. There are considerable compositional differences between the wholesale and consumer price indexes. The movement of the wholesale index is predominantly conditioned by price changes among products of the manufacturing industry. On the other hand, the behavior of the consumer price index is significantly influenced by variables that assert little impact on the wholesale index. For example, the consumer price index is affected by: (1) retail margins on manufactures; (2) fresh foods such as vegetables, fruits, fish, meat, milk, eggs; (3) processed foods such as noodles, bread and pickles; (4) rent on houses and lands; (5) private service charges such as public bath, haircuts, laundry, cinema and theatre; and (6) public and quasi-public services such as train and bus fares, gas and electric utilities and tuitions. In other words, developments not only in the manufacturing industry but also in agriculture, private services, small businesses, and public utilities influence the behavior of the consumer price index. Table 1 shows that the consumer prices of "foods" and "services" have been rising much faster than those of "manufactures." An analysis of the extents to which various commodities have contributed to the inflation is given in Table 2.

III. DIAGNOSIS

In our attempt to account for the phenomenon of the consumer-price inflation since 1959 we shall first put forth the following set of propositions as a general frame of reference.

(1) In applying the demand-pull versus cost-push concepts it is useful to return to Marshall and bear in mind the importance of the interaction between supply and demand. For example, the workability of the cost-push thesis usually rests upon the tacit assumption that market demand is sufficiently strong.

(2) The determination of relative prices is largely a function of the kinds of competition in the factor and goods markets, the direction of technological change (or shifts in production functions), changes in factor endowments, and shifts in consumer tastes.
(3) How the relative-price changes translate themselves into changes in absolute prices depends upon a multitude of particular, institutional factors residing in the economy in question.

(4) Productivity gains in the advanced sector of the Japanese economy seem to have been absorbed largely by higher wages and profits rather than by price reductions.

(5) Practically all commodities whose prices have been rising come from the low-productivity sectors of the economy.

(6) Income generated by rapid economic growth has sustained a high level of demand for consumer goods.

Of the institutional factors that ought to be examined for an understanding of the determination of absolute prices, the most important seems to be the disintegration of the mechanism that held intact the inter-firm wage gaps for many decades since the prewar period. The wage gap as such, with large, technologically advanced firms paying higher wages than small, low-productivity firms, has been observed in many Western countries as well. What seems to distinguish the Japanese case is its scope: up to around 1959, small-firm wages had amounted to about 30 to 40 per cent of those paid by large firms— in contrast to the 80 to 90 per cent in the advanced Western countries such as the United States and Great Britain. The fundamental explanation of such a notable disparity is the abundance of labor supply that has characterized Japanese development. Until recently labor shortage has been an alien notion in Japan. An increasing number of workers have been drawn into advanced, large-scale, manufacturing firms in the course of industrialization. But, somewhat in the style of Arthur Lewis's infinite supply of surplus labor, the advanced sector has been surrounded by extensive layers of underemployed labor in the primary industry, personal services, and small businesses.

During the postwar period workers employed in the advanced sector managed to achieve what is sometimes described as a peculiarly Japanese profit sharing plan; that is, on the basis of enterprise unions organized labor continued to demand and gain wage increases while
the collectivization of labor hardly touched the massive layers of underemployed outside the advanced sector. This mechanism, which perpetuated the wage gaps, could function as long as an oversupply of labor persisted in the total labor market. Around 1959, however, for the first time since Meiji industrialization reached the point of inducing an excess of aggregate demand for labor over its supply. The proportion of new graduates entering the backward sectors began steadily to decline. The difficulty of recruiting not only the highly skilled but the unskilled as well became increasingly visible and widespread in recent years. As a natural consequence wages in the backward sectors began to rise much faster than in the past. 6 As of the second half of 1964 starting wages in the backward sectors became approximately the same as those in the advanced sector. The overall average wage paid by small firms approached about 60 per cent of that in large-scale enterprises, and the closing of the gap has been continuing up to the present.

We noted earlier that about 80 per cent of the commodities included in the wholesale price index are manufactures produced in the advanced sector. In our judgement the observed stability of this index seems to be attributable to the formidable labor unions operating in the advanced sector and the pattern of oligopolistic competition prevailing in the leading, large-scale industries such as steel, shipbuilding, heavy machinery, electronics, and petro-chemicals. These are the industries in which innovations have been most vigorous and which have spearheaded Japan's postwar economic expansion. On the assumption of sufficient competition in the factor and goods markets the tremendous productivity gains stemming from the unending technological advancement would have been dissolved into a sizeable reduction of wholesale prices. This has not happened because much of the productivity gains has been absorbed by wage increases thanks to organized labor. At the same time the fact that wholesale prices have not risen strongly suggests the existence of a high degree of

6 According to the Monthly Wage Statistics of the Ministry of Labor, in 1962 wages paid by the manufacturing firms with 500 or more employees rose 5.3 per cent, whereas wages in the small firms with 5 to 29 employees increased 23 per cent in the same year.
competition among the oligopolists. In this connection the Galbraithian concept of countervailing power seems to bear considerable relevance. Big and powerful as they are, the Japanese oligopolists are confronted with equally big and powerful oligopsonists. Given the intensity of overall demand in the domestic economy, it seems reasonable to assume that in the absence of the oligopolist-oligopsonist competition wholesale prices would have shown a steady upward trend. Furthermore, the recently observed tendency towards greater cartelization and nonprice competition among the large firms appears to have added to the downward rigidities of the wholesale prices already fortified by the labor unions.

The inflation of the consumer price index has been mostly due to increase in prices of foods (fresh and processed), services, utilities, and rent. The most important observation here is that these are the products of the relatively backward sectors of the economy whose productivity is low and can increase only slowly. Productivity of the heavily protected Japanese agriculture is low relative to Western standards as exemplified by the fact that the government-supported price of Japanese rice is about twice as high as the California rice of comparable grade. Food processing typically takes place in numerous, little shops. The marketing and distribution systems for foods and other consumer goods in Japan are, in many respects, startlingly backward and inefficient in the light of the stage of industrialization the country has already achieved. Productivity of many personal services such as haircuts and housecleaning cannot increase except at a probable loss of quality.

Wages in the backward sectors that supply a large proportion of consumer goods and services have been rising much faster than the rate of productivity increase in those sectors. In the face of rising wages and stagnant productivity the alternative of no price increase would eventually lead to bankruptcy of the firm. The price will be raised provided the price elasticity of demand is less than unitary. Here we have an example of the joint action of the demand-pull and cost-push elements. Prices of labor-intensive consumer goods have been pushed upward most significantly by rising labor costs. However, this could not have happened in the absence of inelastic demand and
or the rightward shift of the demand function with respect to consumer goods. Tentative evidence of inelastic demand is given in Table 3. We observe that in 1961–1962 the overall price elasticity of demand with respect to a bundle of 121 consumer goods was −0.3.

On his recent visit to Japan, Professor Milton Friedman made an observation that perhaps to a greater extent than is realized in Japan inflation has been caused by an unwarrantedly high rate of increase in the money supply. Application of the quantity theory to the Japanese inflation is somewhat to be expected of Professor Friedman, and monetary statistics do indicate that in recent years the Japanese money supply (cash plus demand deposits) has been increasing faster than the production index. Nevertheless, his argument seems to face some serious difficulties. First, even under full employment an increase in money supply does not necessarily lead to inflation if, for example, the velocity of circulation declines simultaneously, and there has been some indication of a rise in the Marshallian in Japan in recent years. Second, the credit expansion theory as it fails to account for the stability of Japanese wholesale prices. Third, the argument involves a chicken-or-egg problem, that is, the increase in money supply might have been an effect (rather than a cause) of the inflation as the inflation has sizeably increased the money value of transactions. Fourth, for the argument to be sound econometrically we must assume that investment has been independent of credit expansion. This assumption, however, is exceedingly difficult to swallow in view of the expansionary monetary policy pursued by the Bank of Japan.

Notwithstanding these difficulties we feel it safe to presume that credit expansion has been a factor...perhaps an important factor in the picture. One sensible way of applying the credit theory to the Japanese inflation seems to be that to a large extent investment was induced by the expansionary credit policy of the Japanese monetary authorities which in turn, through the multiplier effect, resulted in a vigorous growth of personal income and consumer demand. Given the rapidly rising level of consumer demand unmatched by productivity gains on the supply side, the supply inelasticities of the backward sectors accounting for a large proportion of consumer goods inevitably induced an upward movement of consumer prices.
On the basis of the foregoing appraisal it is evident that the Japanese inflation fails to fall into a clear-cut category of the demand-pulled or cost-pushed variety. What emerges from our discussion might be called the catching-up theory of the Japanese inflation. Relative-price changes did not dissolve themselves into a fall in wholesale prices sufficient to offset consumer-price inflation; in actuality they resulted in the rapid rise of absolute prices of consumer goods along with stable absolute prices at the wholesale level. In many respects this phenomenon may be identified as a manifestation of Japan's catching-up process vis-a-vis the advanced Western economies in terms of shifts in the price structure of the Japanese economy. Increasing oligopolization and strong labor unions with all their implications seem to be an approach towards some of the basic "facts" of a mature, capitalist society. For decades Japanese farmers, small-shop workers, barbers, delivery men, maids and the like have had to be content with low wages, underemployment, and inadequate working conditions. Japanese economic development has finally come to the point where these secondary citizens of the country are becoming capable of obtaining the fruits of an affluent society. Until recently Japan's catching-up has meant the vigorous expansion of the manufacturing industry while a large segment of the population stood, as it were, outside the mainstream of modern industrialism.\(^7\) The recent inflation is a symptom of the fact that labor shortage is becoming a reality for the first time in Japanese economic history and that, with a steady disintegration of the dual economy, compensations for human resources at large are beginning to approximate those in the advanced Western countries.

Consumer-price inflation at the annual rate of 6 to 7 per cent appears alarming. In connection with the above catching-up theory of Japanese inflation, however, the speed of inflation ought to be appreciated in comparison with the pace of economic growth during the same period. According to a recent study by the Ministry of

---

\(^7\) In 1962 Japan was the largest ship-builder in the world; the second in synthetic textiles, T. V. sets, and radio; and the third in cotton yarns, and cement. Japan's per capita national income in 1963, however, was $512.00 or 22nd after Venezuela.
International Trade and Industry the regressions for the consumer price index \( P \) as a function of per capita real national income \( Y \) were calculated as follows:

For the United States, 1953-1963;
\[
\log P = 1.09 / 0.425 \log Y \quad R = 0.890
\]

For Japan:

(a) 1953-1964
\[
\log P = 1.39 / 0.253 \log Y \quad R = 0.945
\]

(b) 1959-1964
\[
\log P = 1.11 / 0.380 \log Y \quad R = 0.980
\]

Assuming the accuracy and general reliability of these results, the above regression coefficients imply that in the case of the United States for the period 1953-1963 a 10 per cent increase in per capita real national income induced about 4.2 per cent increase in the consumer price index; while for Japan a 10 per cent increase in per capita real national income meant a 2.5 per cent rise in the consumer price index for the period 1953-1964, and a 3.8 per cent price inflation for the period 1959-1964. The last period refers to the inflationary period under discussion. The point to be noted is that even during this period per unit percentage rate of economic growth, the Japanese inflation has been milder than that in the United States during the period 1953-1963. The impression afforded by 6 to 7 per cent increase per annum in consumer prices in Japan becomes less alarming when we consider the fact that during the period 1959-1964 the Japanese GNP increased at an annual average rate of over 12 per cent in real terms.\(^8\)

VI. POLICY

One implication of the catching-up theory of the Japanese inflation is that the inflation has not been totally undesirable in so far

---

as it acts as catalyst to the dissolution of the wage gaps. This is far from conceding, however, that the recent price increase in Japan deserves little policy consideration. There are at least three difficult problems associated with an inflation that proceeds at a trotting pace. The first is the question of equity. Granted that inflation has meant a rapid wage-increase on the part of many workers, money income does not rise in the course of any inflation at an even and uniform rate throughout the different segments of the economy. Consequently, those whose incomes are fixed or increase only slowly—such as retired people, teachers, and government employees—are forced to bear a disproportionate share of the burden. The question that must be answered is to what extent this inequity should be tolerated for the sake of whatever are the alleged merits of the inflation.

Secondly, inflation may soon begin seriously to undermine the saving motive of the general public—although this has not happened thus far. Indeed it is a peculiar fact, in the light of what is usually found in economics textbooks concerning the impact of inflation on savings, that the annual rate of increase in the consumer price index, exceeding the rate of interest paid on saving deposits at commercial banks, has not induced a wholesale corrosion of personal savings in Japan. Bank deposits and life insurance are the two most important forms of personal savings in Japan. A recent survey indicates that the Japanese typically save for (1) future contingencies and (2) education of children. The motive for earning interest income seems to assume only a minor role. It is of interest to note that the same survey conducted in 1962 found that the majority of people indicated that they would increase their saving during the forthcoming one-year period.9

These observations suggest a formulation of the following set of hypotheses as regards saving motives, whose applicability may not be confined to Japan.

9 According to the Economic Planning Agency, Shoisha Doko Yosoku Chosa (Consumer Trends Forecasting Survey), August 1962, the breakdown of the saving motives was as follows: (1) reserve for illness and other future contingencies (59.4 per cent); (2) reserve for education of children (44.4 per cent); (3) postretirement security (25.8 per cent); and (4) to earn interest income (3.1 per cent). (Keizai Hakusho Fiscal 1963, pp. 240 241.)
(1) Personal saving is a function of the rise in personal money income; therefore, as long as the money income continues to rise, people do not reduce their savings.

(2) Heterodox though it may sound, inflation encourages saving as people anticipate the future increase in the cost of living.

(3) It takes an extraordinarily high rate of price increase to make people critically conscious of inflation.

(4) Even if people become conscious of inflation there is a considerable time lag before they actually begin to reduce their savings.

Whether a major deterioration of the saving motive will occur as a result of the recent inflation remains to be seen. If and when this happens, the rate of capital accumulations will slow down, generating disruptions in the course of the country’s economic growth.

The third anticipated difficulty which prolonged inflation will most certainly bring forth is the pathological breakdown of the resource-allocative function of the price mechanism. Given the uncertainty of future prices the firms will lose a sound basis for present investment plans. Once the fundamental confidence in the price mechanism is shaken, both firms and consumers will progressively lean toward speculative ventures. More and more will be spent on lands, antiques, precious metals, and the like. Only a small fraction of the individual savers has sufficient resources that can be shifted from bank deposits to common stocks and real-estate investments. The majority of consumers maintain only modest saving accounts too small to provide effectively for such speculative undertakings. Consequently, they are bound to be hurt most.

The problem of prescription for the present inflation involves the difficult task of choosing a set of objectives and weighing them against other alternative objectives. If our sole and ultimate objective is consumer-price stability, then the prescription is an easy one. The government can launch a series of stringent deflationary measures so that the deceleration of investments will bring about a drastic fall
of income which in turn will lead to a sufficient, leftward shift of the demand curve with respect to consumer goods. This approach, however, is analogous to the method of eliminating pains by killing a patient, and totally contradicts the welfare goals of economic growth. Similarly, consumer prices can be stabilized through strict price regulations. If this method is adopted while wages are permitted to continue their move upward, the rate of business mortality will assuredly increase. If only wages are regulated while prices continue to rise, the workers' real income will diminish with a furthering of wage gaps the dissolution of which is presumably one of the important policy objectives of the government. If both wages and prices are regulated, this is a case of the regimented economy par excellence with all its unfortunate consequences.

There is an extremely optimistic view that the present consumer-price inflation is primarily a service-price inflation manifesting the rise of human value in Japan, and constitutes no basis for apprehension as long as the wholesale price index remains stable. This view has been advanced most candidly by Dr. Osamu Shimomura, a government economist and a theoretician behind the Income-Doubling Plan. According to him the wholesale price index largely reflects physical-good prices whereas service prices are the main determinants of the consumer price index. Inflation of physical-good prices is undesirable, but the present consumer-price inflation is merely a mirror-image of the wage increase brought about by the sustained economic growth. Given Japan's dependence upon foreign trade, the continuing stability of her export prices which are closely linked with the wholesale price index is of vital importance from the standpoint of maintaining a sufficiently high rate of export expansion. In other words, the stabilization of the export price index for the external-equilibrium objective is the ultimate concern, and any other problems may safely be ignored.10

Shimomura's optimism, however, is subject to many doubts. The distinction between the physical-good prices and the service prices is a dubious one. Every marketable commodity, whether it is a good or a service, contains varying capital as well as labour contents irrespective of its physical appearance and of the particular stage of production at which its price is considered. The rise in "human value" expressed in money wages deteriorates to the extent of the consumer-price inflation as workers are, at the same time, consumers. The very objective of economic growth with which Shimomura is concerned will be hampered if the uncontrolled consumer-price inflation leads to a critical decline of the saving propensity and the breakdown of the resource-allocative role of the price mechanism. Furthermore, it is not unlikely that the pressure of wage inflation, now affecting consumer prices, will soon begin to reach the wholesale markets in view of the fact that in the second half of 1962 even the wholesale prices in Italy started to rise after some years of creeping consumer-price inflation. Finally, Shimomura fails to give proper consideration to the complexity of the nation's external-trade problem. A unilateral achievement of the export-price stability per se does not assure a sufficiently high rate of export expansion because the final result depends upon the other countries' exchange-rates and terms of trade policies vis-a-vis their internal price conditions.

Dr. Shimomura has been known for his outspokenness and rhetoric. Consequently, much of what appears to be his excessive optimism is, perhaps, his polemical way of countering the prevalent view in Japan, usually held by the leftist commentators, which tends to equate the present inflation with the alleged failure and irrationality of the government's growth policy, and advocates anti-inflationary measures that, by implication, seriously conflict with the objective of sustained growth itself. Shimomura's thesis loses much of its controversial aspect once we reinterpret it as meaning that the growth rate should be held in check so that the wholesale price index will remain stable, and that consumer price inflation should be tolerated as long as wage-income continues to rise faster than the consumer-price index.

A detailed discussion of policy alternatives and a full exploration of their feasibilities are outside the scope of this paper. We may bring
out, however, some of what seem, in our judgment, to be the most important courses of action Japan can and should take. Our underlying proposition is that no anti-inflationary measure should be adopted which will seriously decelerate Japan's economic growth, and that the making of a mature economic society comes about through sustained productivity growth in all sectors of the economy.

Agriculture, small business, and the service industry constitute the low-productivity sectors of the Japanese economy. These sectors supply the majority of consumer goods and services. Until recently their low productivity has been consistent with the consumer-price stability thanks to low wages. The labor shortage in the country has pushed wages upwards faster than productivity increase, generating an inflationary pressure in these sectors. It follows, then, that the ultimate solution is to raise, if and where possible, productivity to the fullest extent in these sectors. The backwardness and obsolescence of the Japanese marketing and distribution systems, particularly at the retail level, is striking in view of what the country has accomplished in industrial aggregates. Inadequacy of roads and other social overheads is another area which has traditionally received only insufficient attention and care. A vigorous policy toward the radical improvement of the Japanese distribution system in the broad sense of the term seems urgently needed. Closely related to this is the necessity of reorienting the managerial attitude toward the employment of labor to one that is more in accord with the dicta of an advanced economic society. The recent labor shortage we speak of is true only in the context of the presently existing scheme of labor utilization. The Nurksian disguised unemployment is still extensive in small shops, in government as well as business offices. Japanese department stores hire "escalator girls" whose jobs consist of bowing and greeting customers at the lower as well as upper ends of each escalator. There are many "office girls" whose main task is to serve tea to their superiors. Given the tradition of surplus labor which persisted for decades, the Japanese managers have a propensity to take for granted the notion of "labors as an abundant input," and are not too adept at experimenting and innovating for the objective of raising the efficiency of employees. It seems that Japan still has a fairly long way to travel before experiencing the condition of full employment in the Western sense of that term.
The tradition-bound compensation system in Japan is another factor preventing the optimal allocation of labor. Under the life-long employment and annual proportional salary-wage increase systems many Japanese employees stay within one firm for life, and their salaries increase automatically at a set rate each year. These systems have brought about certain peculiarities in the Japanese employment markets where the young tend to be undercompensated relative to their productivity and the old overcompensated. The standard explanation one hears in Japan is that these elements of paternalism in Japanese corporate life are not as irrational as they may sound because they provide a basis for social stability and the long-run security of one’s earnings. Furthermore, the seniority criterion—rather than the productivity criterion—is presumably consistent with the “facts of life” that as one marries and raises his family, one’s expenditure requirements continue to rise with age.

It seems that the stage of development already attained by the Japanese economy tends to make the above justification unwarranted. The unworkability of the life-long employment system from the standpoint of optimizing the allocation of talents and aptitudes in an advanced economy is indicated by the fact that the inter-firm mobility of employees has been steadily rising in recent years. The rationale for the seniority criterion in the wagesalary determination on the basis of the life-cycle of expenditure needs is contradicted by the fact that it is still no uncommon in Japan today that many young college graduates cannot marry for several years after graduation purely for financial reasons, and that many of those who get married early continue to be subsidized by their parents for some years.

In Table 4 we observe that many consumer goods—particularly certain food items—in Japan are more expensive than in the United States. This is a peculiar phenomenon in view of the per capita income difference between the two countries. This peculiarity, however, is in part a consequence of the Japanese government’s protectionist policy with respect to the importation of foods. For example, the rice price is rigidly controlled on the basis of the parity allowance and the mark-up principle. Under this scheme the allegedly virtuous degree of self-sufficiency in rice is assured, agricultural low productivity perpetuated,
and the rice price kept much higher than the international price. Japanese prices of dairy products and wheat are also higher than abroad due to the government's foods protectionism. Japanese agriculture has perhaps the dimmest prospect for productivity gains over the long run as compared with other sectors of the economy. This, together with the fact that more than 50 per cent of the recent consumer-price inflation has been due to the inflation of food prices, strongly points to the urgent need for political sagacity on the part of the Japanese government in taking steps toward the more liberal and uninhibited importation of foreign foods.

The price mechanism is the most efficacious of all existing devices for an optimal allocation of resources in the context of an advanced economy. Notwithstanding its alleged welfare objective, any price regulation by the government is bound to create distortions within the economy, and to be selfdefeating over the long run. The critical housing shortage and the related explosive rise in rent in Japanese cities may be interpreted as an ironic consequence of the government's past rent-control policy that seriously discouraged the private construction of residential houses. The cause of abnormal traffic congestion in urban centers with all its negative social-cost implications is traceable to the government's price regulations under which many public and quasi-public service charges are set too low.

A more effective anti-monopoly policy than the one presently in force seems desirable in order to discourage administered pricing and cartels among oligopolists as well as to prevent excessive wage demands by labor unions. From our knowledge of modern economic society, however, it seems realistic to anticipate that such a policy, even if

II, In 1957-1959 the government supported price of Japanese rice was 3900 yen per 60 kg, and it was raised to 6000 yen in 1964 while the current international price is in the neighborhood of 3000 yen. The variety of rice preferred by Japanese is produced in Korea, Taiwan, and parts of mainland China. The production functions in these areas are similar to that in Japan. However, lower wages make the rice price lower than in Japan. California also produces rices suited for Japanese taste. The production function there is radically different, and despite higher wages the California price is only about half the Japanese price although a minor part of this is due to the U.S. government's export subsidy.
implemented, will at its best succeed in preventing wholesale price inflation but not in bringing about a fall in the wholesale price index.

Even if a monopolistic price increase can be avoided at the wholesale level, in the event that productivity in the consumer goods sector fails to rise as fast as wages in the same sector, much of this cost-push pressure must eventually be absorbed at the wholesale level. If this happens, depreciation of the Japanese currency will be the imminent alternative for the objective of maintaining her external equilibrium.
### Table 1

**THE CONSUMER PRICE INDEX: BY COMMODITY GROUPS**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Overall</th>
<th>Foods</th>
<th>Manufactures</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Processed</td>
<td>Non-Processed</td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1960</td>
<td>101.0</td>
<td>101.4</td>
<td>100.7</td>
<td>101.9</td>
</tr>
<tr>
<td>1961</td>
<td>107.3</td>
<td>108.1</td>
<td>105.8</td>
<td>109.5</td>
</tr>
<tr>
<td>1962</td>
<td>114.5</td>
<td>116.6</td>
<td>111.0</td>
<td>120.2</td>
</tr>
<tr>
<td>1963</td>
<td>122.0</td>
<td>124.8</td>
<td>118.3</td>
<td>129.0</td>
</tr>
<tr>
<td>1964</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jan.</td>
<td>122.2</td>
<td>123.1</td>
<td>120.4</td>
<td>124.8</td>
</tr>
<tr>
<td>Feb.</td>
<td>122.3</td>
<td>123.7</td>
<td>120.4</td>
<td>125.9</td>
</tr>
<tr>
<td>Mar.</td>
<td>122.8</td>
<td>134.7</td>
<td>120.3</td>
<td>127.5</td>
</tr>
</tbody>
</table>


Note: (1) Based upon the Statistical Bureau of the Prime Minister's Office, *The Consumer Price Index*, (1960 = 100, all cities)

(2) Rent excludes that on public properties.
## Table 2

**THE CONSUMER-PRICE INFLATION BY COMMODITIES (%)**

<table>
<thead>
<tr>
<th></th>
<th>1960 (a)</th>
<th>1961 (b)</th>
<th>1962 (c)</th>
<th>1963 (d)</th>
<th>1964 (e)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rate of Increase</td>
<td>Contribution</td>
<td>Rate of Increase</td>
<td>Contribution</td>
<td>Rate of Increase</td>
</tr>
<tr>
<td><strong>Overall</strong></td>
<td>4.3</td>
<td>100.0</td>
<td>7.7</td>
<td>100.0</td>
<td>6.7</td>
</tr>
<tr>
<td><strong>1. Food</strong></td>
<td>6.5</td>
<td>69.3</td>
<td>8.5</td>
<td>50.9</td>
<td>8.2</td>
</tr>
<tr>
<td>Grains</td>
<td>1.1</td>
<td>3.6</td>
<td>1.6</td>
<td>2.8</td>
<td>4.4</td>
</tr>
<tr>
<td>Other Foods</td>
<td>9.0</td>
<td>65.7</td>
<td>11.3</td>
<td>48.1</td>
<td>9.7</td>
</tr>
<tr>
<td>Fish</td>
<td>19.6</td>
<td>19.3</td>
<td>8.2</td>
<td>5.2</td>
<td>12.7</td>
</tr>
<tr>
<td>Meat</td>
<td>13.5</td>
<td>10.2</td>
<td>4.4</td>
<td>2.0</td>
<td>5.1</td>
</tr>
<tr>
<td>Eggs</td>
<td>2.2</td>
<td>1.7</td>
<td>9.5</td>
<td>3.9</td>
<td>6.5</td>
</tr>
<tr>
<td>Vegetables</td>
<td>25.0</td>
<td>20.6</td>
<td>28.0</td>
<td>15.4</td>
<td>15.8</td>
</tr>
<tr>
<td><strong>2. Housing</strong></td>
<td>4.4</td>
<td>9.8</td>
<td>6.7</td>
<td>8.1</td>
<td>3.6</td>
</tr>
<tr>
<td>Rent</td>
<td>10.0</td>
<td>5.6</td>
<td>8.8</td>
<td>2.9</td>
<td>5.8</td>
</tr>
<tr>
<td>House Repair</td>
<td>8.5</td>
<td>3.4</td>
<td>16.0</td>
<td>3.7</td>
<td>6.9</td>
</tr>
<tr>
<td><strong>3. Light and Heat</strong></td>
<td>3.1</td>
<td>4.0</td>
<td>4.2</td>
<td>2.9</td>
<td>0.8</td>
</tr>
<tr>
<td>Clothing</td>
<td>0.4</td>
<td>1.2</td>
<td>5.9</td>
<td>9.7</td>
<td>5.5</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>2.4</td>
<td>15.7</td>
<td>8.1</td>
<td>28.4</td>
<td>6.6</td>
</tr>
<tr>
<td>Health</td>
<td>0.6</td>
<td>1.2</td>
<td>9.9</td>
<td>10.2</td>
<td>7.0</td>
</tr>
<tr>
<td>Education</td>
<td>7.4</td>
<td>7.3</td>
<td>9.9</td>
<td>5.5</td>
<td>11.9</td>
</tr>
<tr>
<td>Culture &amp; Entertainment</td>
<td>2.8</td>
<td>6.3</td>
<td>8.2</td>
<td>10.1</td>
<td>6.2</td>
</tr>
</tbody>
</table>

### Source

### Note
(a) March 1961/ March 1960
(b) March 1962/ March 1961
(c) Fiscal 1962 average/ fiscal 1961 average
(d) Fiscal 1963 average/ fiscal 1962 average
(e) March 1964/ March 1963

(The Japanese fiscal year runs from April to March.)
## Table 3
### THE PRICE vs. CONSUMPTION OF FOODS, 1961–1962

<table>
<thead>
<tr>
<th>(A) Those whose price and consumption increased</th>
<th>Number of items</th>
<th>Weight consumed (%)</th>
<th>Volume consumed (%)</th>
<th>Change in price (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Price increase faster than consumption increase</td>
<td>16</td>
<td>12.8</td>
<td>9.85</td>
<td>3.45</td>
</tr>
<tr>
<td>2. Price increase slower than consumption increase</td>
<td>16</td>
<td>9.9</td>
<td>5.26</td>
<td>12.98</td>
</tr>
<tr>
<td>(B) Those whose price increased and consumption decreased</td>
<td>76</td>
<td>69.9</td>
<td>-10.34</td>
<td>10.24</td>
</tr>
<tr>
<td>1. Price increase faster than consumption decrease</td>
<td>54</td>
<td>29.7</td>
<td>-8.48</td>
<td>17.97</td>
</tr>
<tr>
<td>2. Price increase slower than consumption decrease</td>
<td>22</td>
<td>40.3</td>
<td>-11.71</td>
<td>4.49</td>
</tr>
<tr>
<td>(C) Those whose price decreased and consumption increased</td>
<td>10</td>
<td>7.3</td>
<td>31.55</td>
<td>-6.09</td>
</tr>
<tr>
<td>(D) Those whose price and consumption decreased</td>
<td>3</td>
<td>0.1</td>
<td>-56.21</td>
<td>-1.10</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>121</strong></td>
<td><strong>100.0</strong></td>
<td></td>
<td><strong>8.42</strong></td>
</tr>
</tbody>
</table>

Source:  Keizai Hakusho Fiscal 1963, p. 237

Note:  (1) Based upon the Statistical Bureau of the Prime Minister’s Office. Kakei Chosa (Household Finance Survey)
(2) Weighted by the relative expenditures on individual items.
(3) The overall price elasticity of demand with respect to the bundle of 121 food items is - 0.380.
(4) Group A includes high-grade foods such as eggs, milk, butter, seasoning, bread.
(5) Group B includes traditional foods such as fresh fish, salted and dried fish vegetables, rice, wheat, fish products, soybeans.
(6) Group C includes pork, Chinese cabbage, mackerel, etc.
(7) Group D includes foreign rice, low-grade domestic rice, etc.
Table 4.

CONSUMER PRICES IN SELECTED COUNTRIES  ( Yen, 1964 )

<table>
<thead>
<tr>
<th>COMMODITY</th>
<th>Beef</th>
<th>Ham</th>
<th>Milk</th>
<th>Butter</th>
<th>Cheese</th>
<th>Eggs</th>
<th>Potato</th>
<th>Salt</th>
<th>Sugar</th>
<th>Apples</th>
<th>A.I.</th>
<th>Electricity</th>
<th>Laundry</th>
<th>Shoeshine</th>
<th>Turi</th>
</tr>
</thead>
<tbody>
<tr>
<td>UNIT</td>
<td>400g</td>
<td>400g</td>
<td>180cc</td>
<td>225g</td>
<td>225g</td>
<td>400g</td>
<td>kg</td>
<td>kg</td>
<td>400g</td>
<td>400g</td>
<td>16in.</td>
<td>KWH</td>
<td>per dress</td>
<td>One km</td>
<td></td>
</tr>
<tr>
<td>U. S. A.</td>
<td>314</td>
<td>590</td>
<td>16</td>
<td>133</td>
<td>123</td>
<td>126</td>
<td>90</td>
<td>95</td>
<td>56</td>
<td>28</td>
<td>48</td>
<td>36,600</td>
<td>79</td>
<td>90</td>
<td>14%</td>
</tr>
<tr>
<td>SWEDEN</td>
<td>158</td>
<td>315</td>
<td>12</td>
<td>126</td>
<td>156</td>
<td>96</td>
<td>49</td>
<td>61</td>
<td>30</td>
<td>73</td>
<td>84</td>
<td>46,600</td>
<td>—</td>
<td>112</td>
<td>35</td>
</tr>
<tr>
<td>W. GERMANY</td>
<td>432</td>
<td>288</td>
<td>10</td>
<td>160</td>
<td>142</td>
<td>153</td>
<td>28</td>
<td>46</td>
<td>46</td>
<td>62</td>
<td>65</td>
<td>60,000</td>
<td>10</td>
<td>98</td>
<td>45</td>
</tr>
<tr>
<td>GT. BRITAIN</td>
<td>243</td>
<td>442</td>
<td>13</td>
<td>103</td>
<td>125</td>
<td>112</td>
<td>37</td>
<td>110</td>
<td>33</td>
<td>88</td>
<td>56</td>
<td>44,000</td>
<td>6</td>
<td>176</td>
<td>75</td>
</tr>
<tr>
<td>ITALY</td>
<td>340</td>
<td>516</td>
<td>12</td>
<td>186</td>
<td>206</td>
<td>167</td>
<td>49</td>
<td>41</td>
<td>53</td>
<td>46</td>
<td>76</td>
<td>75,000</td>
<td>8</td>
<td>140</td>
<td>58</td>
</tr>
<tr>
<td>JAPAN</td>
<td>328</td>
<td>247</td>
<td>20</td>
<td>180</td>
<td>170</td>
<td>92</td>
<td>29</td>
<td>20</td>
<td>68</td>
<td>31</td>
<td>150</td>
<td>52,409</td>
<td>11</td>
<td>48</td>
<td>50</td>
</tr>
<tr>
<td>INDIA</td>
<td>121</td>
<td>484</td>
<td>14</td>
<td>84</td>
<td>675</td>
<td>168</td>
<td>93</td>
<td>91</td>
<td>39</td>
<td>168</td>
<td>—</td>
<td>—</td>
<td>14</td>
<td>113</td>
<td>75</td>
</tr>
</tbody>
</table>

Source: Adapted from Table I in Tokuzu Ikeda, "Saikin ni okeru Sekai no Shohi Bukka" (Recent Global Trends in the Consumer price), the Financial Economisi, July 12, 1965, p. 36. The spot-quotations of these consumer prices, are as of October 1964, and were gathered by the Ministry of International Trade and Industry in connection with its recent survey. These are meant to convey merely rough, cross-sectional patterns of consumer prices in different countries.
અપાનામાં કુભાગે — સંકલ્પીન અસાધિત વિકાસની ઓદ સમર્થ
શૈલે હલ, આંશી

આસિલ વિકાસ માધ્યમકાનું આવકામ તથા વેતનમાં વધારો લાગે છે. આ વધારાની સાથે સોફીના ઉપલબ્ધાળા વધારું વર્તનું વિકાસની લેખકતામાં વધારો થતો નથી. ફિલ્ડમાં ઉપલબ્ધ અને વર્તતા વસ્તુમાં આવેલા હોય છે.

એ ને કેલોમાં કૌશલતા વળી હોય તે તે કેલોમાં પાણુ ને લાગો પડે તે સમય રોજ લાગો જો નહિ ના યાં. પરંતુ આ લાવાદકા લાગે આહરફાળી અને ડ્રોગિસાં રહેલી જ્ઞાનપાક તરીકે રાજ્યી રાજ કરતા હોય છે. સરકારની વિવિધ આદિની નિત્ય સાથે જાણી વાપરે વસ્તુવાહી નિત્ય હોય છે તારે પાણુ આલામાણ ની વાર કોણ રહે શક્ય નહીં.

પશ્ચિમના હૈલમાં ગૃહપાલક અસાધિત પદધતિઓ અશક્ષ્ય સરળતાની સેલ્સપેન શિક્ષત સંપક્ષક લગાવી હતી તારામાં આવેલાં. અંક તેટલા સમયે બધી જણે પદાર્થ હોખા પ્રત્યેકના પક્ષે વેશમાં આવતાં સાથે તે પાછો તેન પ્રત્યેક સમાજી આવી ગયા છે.

પરંતુ ૧૯૫૭ થી કેટલીક વર્ષ બદલાવાએ પણ છે. વેતનમાં છે તેના ચલાવ વડીલી ચલાવી છે પરંતુ ઉદ્દેશ્ય વર્તુળી વેશથી ચલાવી છે. ના પાણીની અસાધિત 

પરંતુ ૧૯૪૭-૪૮ સરકારના વર્તુળી વેશમાં આવી છે. અંક તેટલા સમયે બધી જણે પદાર્થ હોખા પ્રત્યેકના પક્ષે વેશમાં આવતાં સાથે તે પાછો તેન પ્રત્યેક. સમાજી આવી ગયા છે.

આંશી કાળી તમકારની વસ્તુ છે કે તે ને વર્તુળી પરંતુ વિકાસની વિકાસની વિકાસની વિકાસની 

પશ્ચિમના હૈલમાં સ્વરૂપનાં વેશથી જણે લાગણી લગાવી લગાવી લગાવી લગાવી.

પશ્ચિમના હૈલમાં સ્વરૂપનાં વેશથી જણે લાગણી લગાવી લગાવી લગાવી.

પશ્ચિમના હૈલમાં સ્વરૂપનાં વેશથી જણે લાગણી લગાવી લગાવી લગાવી.

પશ્ચિમના હૈલમાં સ્વરૂપનાં વેશથી જણે લાગણી લગાવી લગાવી લગાવી.
 отличаના ફળ પોછા અને ઉત્તરના કારણને હલાકલ ગઠવું છે. તે ઉપયોગિતક શાબેનલાભ થયું છે. પરંતુ કે શાબેનલાભ આવેલ પતંગ બદલો તે જ્યાંને થાય છે. સ્વરૂપના શાબેનલાભ જાહેર કરી શકી શકાય છે?

કૃત્રિમ પ્રક્રિયા પરિશીલનના નીતિ તરીકે જેટલા શાબેનલાભ કરવું જે ધ્યાન નથી કરવું તે તૈયાર થવું જે યોગ્ય છે તે દેખી લેવું

તે ઉપયોગિતક શાબેનલાભ થયું છે. પરંતુ કે શાબેનલાભ જાહેર કરી શકી શકાય છે?

કૃત્રિમ પ્રક્રિયા પરિશીલનના નીતિ તરીકે જેટલા શાબેનલાભ કરવું જે ધ્યાન નથી કરવું તે તૈયાર થવું જે યોગ્ય છે તે દેખી લેવું

તે ઉપયોગિતક શાબેનલાભ થયું છે. પરંતુ કે શાબેનલાભ જાહેર કરી શકી શકાય છે?

કૃત્રિમ પ્રક્રિયા પરિશીલનના નીતિ તરીકે જેટલા શાબેનલાભ કરવું જે ધ્યાન નથી કરવું તે તૈયાર થવું 

તે ઉપયોગિતક શાબેનલાભ થયું છે. પરંતુ કે શાબેનલાભ જાહેર કરી શકી શકાય છે?

કૃત્રિમ પ્રક્રિયા પરિશીલનના નીતિ તરીકે જેટલા શાબેનલાભ કરવું જે ધ્યાન નથી કરવું તે તૈયાર થવું 

તે ઉપયોગિતક શાબેનલાભ થયું છે. પરંતુ કે શાબેનલાભ જાહેર કરી શકી શકાય છે?

કૃત્રિમ પ્રક્રિયા પરિશીલનના નીતિ તરીકે જેટલા શાબેનલાભ કરવું જે ધ્યાન નથી કરવું તે તૈયાર થવું 

તે ઉપયોગિતક શાબેનલાભ થયું છે. પરંતુ કે શાબેનલાભ જાહેર કરી શકી શકાય છે?

કૃત્રિમ પ્રક્રિયા પરિશીલનના નીતિ તરીકે જેટલા શાબેનલાભ કરવું જે ધ્યાન નથી કરવું 

તે ઉપયોગિતક શાબેનલાભ થયું છે. પરંતુ કે શાબેનલાભ જાહેર કરી શકી શકાય છે?

કૃત્રિમ પ્રક્રિયા પરિશીલનના નીતિ તરીકે જેટલા શાબેનલાભ કરવું જે ધ્યાન નથી 