

VOLUME XXI

NUMBER 2

Kyoto University Economic Review

MEMOIRS OF THE FACULTY OF ECONOMICS

IN

THE KYOTO UNIVERSITY

OCTOBER 1951

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and Steel Industry

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PUBLISHED BY
THE FACULTY OF ECONOMICS
THE KYOTO UNIVERSITY
KYOTO, JAPAN

KYOTO UNIVERSITY

ECONOMIC REVIEW

MEMORIES OF THE FACULTY OF ECONOMICS
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A STUDY OF IRON AND STEEL SUBSIDY

By *Shiro Hirota*

I. FOREWORD IRON AND STEEL CONTROL

As is well known, the Japanese iron and steel industry had a military character from the very beginning.

As Japan was late in adopting capitalism, it had to carry out a capitalistic reform perforce in a short time following the Meiji Restoration without completely getting rid of the semi-feudalistic relation of production.

Needless to say, the State played an important role in expediting the capitalistic transformation. And the State's assistance in the transformation had much to do with its military design to make Japan strong enough to hold its own against older capitalistic countries. Or rather, the military design was the very motive behind the State action.

It was natural, meanwhile, that iron and steel, which are a basic material for capitalistic production as well as a commodity indispensable to the manufacture of arms, had a nuclear position in the development of capitalism in Japan.

The development of capitalistic economy in Japan was characterized by the narrowness of the domestic market and the absolute shortage of natural resources in the country. These conditions were especially conspicuous in the iron and steel industry.

These were the circumstances which enabled the State to interfere with the iron and steel industry.

After several wars the iron and steel industry became the most typical of the industries subjected to State control, as was quite natural in view of the fact that it was very difficult both technically and economically to entrust the industry, which is not only a means to increase the national strength but also requires a huge capital of highly organic composition, to private management based on naturally accumulated capital.

In submitting a budget for the establishment of the Yawata Iron Works to the ninth session of the Imperial Diet the Government issued an explanation saying in part :

“ In order to make the national defence perfect it is necessary to promote the iron and steel industry which forms its basis ”

This was the basic idea characterizing not only the establishment of the Yawata Iron Works but also the subsequent development of the iron and steel industry as a whole.

The industry expanded on the strength of protective interference by the State, always maintaining a strong military tincture though the State control assumed different character and significance according to changes in the circumstances at different times.

Among the measures taken in connection with the State control were the legislation of the Iron Industry Encouragement Law in 1917, its revisions on several occasions, tariff increase for the protection of the domestic iron and steel industry, establishment of the Japan Iron Manufacturing Co. in 1934, strengthening of the pig iron-to-steel through operation system around that time, legislation of the Iron Industry Law in 1937 and the subsequent strengthening of wartime control.

There is no denying that the State control with a military background served as a very comfortable arm-chair for the iron and steel industry which was inevitably handicapped by the narrowness of market and the shortage of raw material resources.

It is, however, an entirely different question whether the development of the iron and steel manufacturing into a major industry in the manner it did was sound or not.

It is worthy of note that :

1. The industry could not take a normal course of development and there was an unbalance between the output of pig iron and steel, reflecting uneven demands for the two kinds of products. (1) As a result, makers engaged in through operation from pig iron to steel secured a powerful foothold. These and a few other manufacturers, commonly known as the

"Big 5" ("Big. 6" at present), established an unshaken monopoly system.

2. The industry was inseparably related to the munitions production which was of consumptive character, deviating from the process of reproduction.

The State subsidy, which had a great influence on national economy during and after the Pacific War as a Government expenditure and which was subject to heated arguments pro and con, was, needless to say, issued as a means of State control. The State subsidy generally meant a price differential or a price adjustment fund for key materials.

The pig iron bounty issued in the Taisho Era was the forerunner of the subsidy. The grant of full-fledged subsidies began in 1941 and became more extensive after the war.

There is, of course, a difference between subsidies issued during and after the war in their significance and character. Those issued during the war were designed to increase the productive capacity and readjust the low-price policy. Those issued after the war were designed to help the restoration of productive capacity, thereby contributing to the industrial rehabilitation and economic stabilization of the country in the midst of severe inflation.

In their forms, however, they were identical in that they appeared simultaneous with the establishment of a price structure and served as a supplementary means of price control, offsetting the inconsistency of encouraging production and keeping the price of the manufactured goods at a low level. In this sense, the subsidy system had much to do with the price policy.

In this connection attention must also be given to the fact that the payment of subsidies assured the profitability of iron and steel enterprises, that the subsidies maintained and intensified the monopolistic rule born in the iron and steel industry as a result of the wartime economy, that they were covered with Government expenditures which increased the financial burden of the people through tax increase and aggravated inflation, and that the subsidy system was in fact a manifestation of the State power.

(1) "*Present Conditions and Socialization Problem of the Japanese Iron and Steel Industry*" by Yasutaka Sakai appearing in "*Cross-Sections of Japanese Economy*" compiled by the Economic Research Institute of the Osaka University of Commerce. *Transition of Japanese Iron and Steel Industry after the War* by the Tekko Kenkyukai (Iron and Steel Research Institute) appearing in No. 5, Vol. 6. of the Keizai Hyoron (Economic Review).

II. WARTIME SUBSIDY POLICY

1. Wartime Control

The outbreak of the Manchurian Emergency called for an expansion of productive capacity from a military point of view. As a result the proportion of military expenditures in the State budget steadily increased.

The iron and steel industry, which came to meet enormous military demands directly or indirectly, got rid of depression but was placed under Government control which was gradually intensified with the passage of time.

The industry was called upon to attain various objectives such as a rapid increase in productive capacity, self-sufficiency in raw materials for iron and steel and the establishment of the pig iron-to-steel through operation system ... a big problem for the industry.

During the China Emergency and the Pacific War the industry placed preponderant emphasis on the production and supply of munitions, being subjected to extensive State control covering production, supply, demand and consumption.

State control was intensified along with the development of the war situation and the industry received Government protection by means of wartime subsidy, of which mention will be made later, and the placing of enormous munitions orders in disregard of the actual production plan. Thus the iron and steel industry was enabled to show a remarkable development, being assured of profits at the expense of other industries.

Table 1: Military and civilian demands for steel in the Commodity Mobilization Plan

Year	Production goal	Military demand	Civilian demand	Proportion of military demand
	(tons)	(tons)	(tons)	(%)
1939	6,247	3,437	1,266	55.0
1940	5,473	3,006	862	54.9
1941	4,755	3,568	530	75.0
1942	5,054	3,964	550	78.5
1943	5,137	4,075	347	79.3
1944	4,990	4,191	180	84.0

Source: *"Crisis of Iron and Steel Industry and Industrial Structure in Japan"* by Ryoza Yamada in Nos. 2 and 3, Vol. 5 of the Kokumin Keizai (National Economy).

2. Wartime Iron And Steel Subsidy

In August 1941 the Price Policy Deliberative Council established the following policy :

"It is necessary to give special consideration to the pig iron price in view of the financial conditions of the pig iron manufacturing enterprises. As, however, an increase of iron and steel prices will considerably affect the commodity prices in general, the Government will take various measures to make the pig iron production pay while maintaining the iron and steel prices around the present level"

In line with this policy the wartime subsidy system for the iron and steel industry was established.

Prior to this the Government effected a compensation for increases in the prices of imported raw materials according to the Ordinance for Distribution Control on Imported Materials for Iron Production promulgated in July 1940.

Beginning December 1941 the Government paid a pig iron subsidy in order to adjust the discrepancy between the iron and steel prices pegged according to the general price system set up in September 1940 and the theoretical advance in steel price resulting from productive capacity expansion and increased demand.

The subsidy was so designed as to peg the pig iron price at a fixed point, assure a seven per cent stock dividend to enterprises and thereby expedite a production increase.

(As regards electric furnace pig iron, however, a different measure was taken so that it entailed no Government outlay).

Table 2: Pig iron and steel prices before and during the war
(manufacturers' selling prices)

Item	Qualitative standard	1935	During war
		(yen)	(yen)
Pig iron	For steel production No. 2	47.75	81.00
Steel bar	Base 19 m/m	89.82	189.00
Steel angle	Plate base 12 m/m	88.50	192.00
Steel plate	Ordinary 5.5 m/m	108.00	248.00
Wire rod	0.314 m/m	93.27	194.00
Tin plate	13 sheets	347.00	455.00
Steel sheet		166.20	254.00
Heavy rail		132.92	206.00
Light rail		107.67	208.00
Gas pipe	2 inches	261.00	610.00
Can pipe		453.00	720.00

Source: The Reconversion Finance Bank's data.

Inasmuch as, however, the pig iron subsidy alone could not prevent the steel price from advancing, the Government began paying price

adjustment subsidies for ordinary steel materials and semi-finished steel in April 1943 in order to maintain the steel price at the general price level of September 1, 1940.

The system of individual compensation was applied to both pig iron and steel subsidies.

In the case of pig iron the State treasury covered the difference between the costs of the respective makers and the official price. In the case of steel, costs of different kinds of products were calculated for respective manufacturers and the Government paid the differences between those costs and the official prices.

Besides these major subsidies, the Government also paid subsidies for the manufacture of products specially demanded by the armed forces including a bounty for increased production of specific products, bounty for production of iron for steel production, special price bounty and bounty for the reduction of original unit.

These Government disbursements not only covered the deficits of iron and steel enterprises but also enabled them to net a profit of 11 per cent and to declare a dividend of seven per cent despite the fact that it was wartime.

As seen in Table 3 the pig iron subsidy accounted for 86 per cent of the subsidies of over ¥ 1,100-million issued during the war. It is said that 72 per cent of the pig iron subsidy went to the Japan Iron Manufacturing Co.. The pig iron subsidy and the steel subsidy, which occupied 11.6 per cent of the total, served to cover the losses of monopolistic iron and steel enterprises. When combined, the two kinds of subsidies accounted for 97.6 per cent of the grand total.

Table 3: Wartime subsidies for iron and steel industry

(Unit, ¥ 1,000)

Item	Second half, fiscal 1941	Fiscal 1942	Fiscal 1943	Fiscal 1944	First half, fiscal 1945	Total
Pig Iron subsidy	16,464	102,077	156,546	346,471	331,500	953,058
Steel subsidy	—	—	25,962	59,762	44,999	130,723
Special price bounty	—	—	5,568	9,003	—	14,571
Bounty for reduc- tion of original unit	—	—	—	10,307	—	10,307
Bounty for incre- ased production of specific products	—	—	15,050	2,788	—	17,838
Total	16,464	102,077	203,126	428,331	376,499	1,126,497

Source: "Outlook of Iron and Steel Industry in Crisis" by Hirokatsu Ichikawa.

III. SUBSIDY POLICY AFTER WAR

1. Devastation of Iron and Steel Industry During War and Control After War

The expansion of the iron and steel industry during the war was indeed remarkable. However, the development of the Pacific War and the aggravation of the war situation caused the devastation of wartime economy, forcing the iron and steel industry to enter a process of diminishing reproduction after the peak years of 1942 and 1943 as did other industries manufacturing producer goods. (The production of consumer goods entered a process of diminishing reproduction in 1939 or 1940).

Due to various adverse conditions including the shipping shortage, difficulty in obtaining raw materials from overseas, excessive use of productive facilities, increase of unskilled workers and destruction of facilities, iron and steel production dwindled despite technical improvement and the productive capacity expansion carried out from 1937-38.

When the war came to an end under such circumstances the iron and steel industry was temporarily stifled like other industries. It was natural that the iron and steel industry, which formed the basis of Japanese capitalism and which therefore contained its structural weakness most concretely, manifested unmistakable signs of its crisis.

The iron and steel industry had grown larger as a munitions industry which produces goods for genuine consumption, deviating from the reproduction process of national economy. Its development had been attained at the expense of the production of consumer goods. Thus, when the wartime economy took a turn for the worse and eventually reached its catastrophic end, the industry tumbled into a dark valley.

How serious the crisis was, caused by the stoppage of raw materials import, shortage of motive power, superannuation of productive facilities,

Table 4: Pig Iron Production

(Unit, 1,000 tons)

Year	Blast furnace pig iron	All kinds of pig iron
1936	1,972	2,007
1937	2,252	2,308
1938	2,467	2,563
1939	3,068	3,178
1940	2,869	3,511
1941	3,561	4,172
1942	3,711	4,256
1943	3,876	4,032
1944	3,034	3,156
1945	911	976

Source: "*Achilles' Heel of Japanese Iron and Steel Industry*" by the editorial department, Tekko Shimbun (Iron and Steel Newspaper) in No. 10, Vol. 2 of "Tekko."

demand and inactive production, can be partly seen in Table 5.

Especially remarkable was the decrease in the production of ordinary pig iron and ordinary steel.

(It is interesting to compare this phenomenon with the fact that the Government assistance to the iron and steel industry after the war was centered on those branches of the industry which produce ordinary pig iron and ordinary steel).

**Table 5: Iron and steel industry's rate of operation
immediately after war (1946)**

	Pig iron		Steel ingot		Steel materials			
	Blast furnace	Electric furnace	Open hearth	Electric furnace	Ordinary steel	Special steel	Cast steel	Wrought steel
Productive capacity (in 1,000 tons)	5,614	226	7,145	2,179	8,957	738	316	206
Actual output (in 1,000 tons)	140	60	167	404	296	79	73	18
Rate of operation (%)	2.5	26.5	2.3	18.5	3.3	10.7	23.1	8.7

Source: *Above-mentioned article by Ryoze Yamada.*

The extreme sluggishness of production reflected the paralytic conditions bordering on the stoppage of production in postwar Japan, which were especially conspicuous in enterprises possessing a huge capital.

It cannot be denied or overlooked that the iron and steel industry plays an important role in the process of the peaceful reconstruction of Japanese capitalism because it is the material basis of productive activities, being the supplier of basic materials for the restoration of productive capacity.

State control had to be carried out on a clean slate after the war. At the end of the war the various control regulations were virtually abolished and the wartime control system was scrapped, marking the end of the wartime control.

(Principal among the steps taken along this line was the abolition of the Iron and Steel Selling Co., Ltd. and the Japan Cast Ironware Co., Ltd. on July 21, 1947 and the Iron and Steel Control Association on August 6 the same year).

To institute an autonomous control replacing the State control hitherto in existence, the Japan Iron and Steel Council, a makers' organization, was established in December 1945.

The autonomous control, however, proved not effective enough to cope with the devastation and confusion of postwar economy and ever-

mounting inflation. With the promulgation of Emergency Financial Measures in February 1946 and the subsequent announcement of a new price policy as a turning point, the iron and steel industry was again placed under State control.

These measures were of course applied not only to the iron and steel industry but other industries as well, but there was no doubt that emphasis was placed on the coal mining and iron and steel manufacturing as witness the priority production plan adopted in 1947.

Priority treatment was given the industries manufacturing producer goods which supply basic materials for the rehabilitation of postwar economy. Powerful State protection was given the coal, iron and steel, and chemical fertilizer industries with a view to making the rehabilitation gradually spread to those branches of industry producing consumer goods.

This plan was designed to maintain the industrial mechanism characteristic of wartime economy and therefore helped the re-establishment of monopolistic capital.

In view of the devastation resulting from the forceful execution of wartime economic policy, it was necessary for the State treasury to give powerful assistance directly to industries. How great a position the iron and steel industry occupied in this State assistance program is clearly seen in the subsidy policy of which mention will be made in the following section.

2. Development of Subsidy Policy After War

The abolition of subsidies studied at an extraordinary Cabinet meeting on November 5, 1946 came to be given urgent attention with the issuance of "*GHQ memorandum for the confiscation of wartime profits*" on November 24 the same year. The memorandum was a directive for the abolition of the war profit tax plan and the Government loan and subsidy system.

The Government therefore made up its mind to "take drastic retrenchment measures including the abolition of the price differential subsidy system as a rule."

According to the five-year public finance plan beginning fiscal 1946, the subsidies were to be gradually decreased until they would go out of existence entirely as from fiscal 1949.

As it was, the actual developments were such that the enforcement of the five-year plan proved well nigh impossible.

When the national economy was said to be heading for collapse at a terrific speed amid the fast mounting inflation, soaring commodity prices, and the confusion of circulation mechanism, resulting from unrestrained

Government spending immediately after the war, enterprises chose such easy-going practices as seeking inflation-born profits in the circulation process and engaging in speculative transactions, taking advantage of the emergence, as a comparatively large factor in the generally lethargic postwar economy, of the demand for consumer goods which had been latent during the war, and the inability of the producer goods manufacturing industry to get rid of the process of diminishing reproduction due to war havoc.

It was under such circumstances that the Government took recourse to the above-mentioned public finance retrenchment policy. It was, however, soon obliged, on the contrary, to issue subsidies for the production of so-called "stabilization zone" commodities as a means to overcome the inflation and production crisis.

Needless to say, it was not an orthodox way of money-making for enterprises to seek inflationary profits in the circulation process. Nor is it a proper reconstruction policy for major iron and steel manufacturing companies to try to absorb the purchasing power by producing consumer goods such as pots and frying-pans.

Although enterprises ought to produce a surplus value in the production process, the postwar conditions made it difficult to do so.

The subsidy system was instituted in order to offset these adverse conditions...including an inflationary price advance, decrease in the purchasing power, and extreme lethargy of production...as well as to bring the producer goods manufacturing industry into a normal channel of reproduction by assuring the materialization of the value produced on one hand and to put the rehabilitation process of national economy gradually on a smooth track by maintaining the commodity price structure on the other.

There was no denying, meanwhile, that the subsidy system led to the re-establishment of the system of monopolistic economy judging by the parties to which the subsidies were given.

The subsidy system was revived after the war when the first postwar price structure was established in March 1946 and became a full-fledged fixture when the second price structure was set in July 1947. It kept on assuming considerable dimensions in the national economy until the Dodge Line was introduced in fiscal 1949.

Note: The postwar price structure was established in March 1946 and revised or readjusted in July 1947 and in June-July the following year. In the first price structure the official prices were set at 10 times those of the basic period (1934-36). The subsidies were minimized, being issued only for coal and food production. In the second price structure a stabilization price zone was set with 65 times the basic period's prices as a maximum. A double price system was adopted with subsidies given for the stabilization zone materials

(coal for specific productive use, iron and steel, non-ferrous metals, fertilizer and soda ash). In the third price structure the preceding year's policy was continued with the exception that the stabilization zone was set with 110 times the basic period's prices as the maximum.

Table 6 : Price adjustment expenditures after war
(Unit, ¥ 1-million)

	Fiscal 1946	Fiscal 1947	Fiscal 1948	Fiscal 1949
Price adjustment expenditures	10,318	23,225	62,500	202,200
For stabilization zone commodities		16,313	50,761	115,200
For import commodities				83,300
Others		6,912	11,739	3,700
Clerical expenditures for commodity and Price adjustment		2,440	7,922	6,009
Subsidy to Shipping Operation Association	1,569	3,310	6,500	6,267
Transfer to National Railway Special Account		9,690	30,280	
Transfer to Communications Special Account		4,833	6,926	
Transfer to Foreign Trade Fund		950		
Total (A)	11,887	44,448	114,128	214,476
Total budgeted expenditures (B)	119,087	214,256	473,146	704,667
(A) / (B)	10.0%	20.7%	24.1%	30.4%

Besides these subsidies a huge amount of "invisible subsidies" was paid for exports and imports. These subsidies totaled ¥ 83,300-million in fiscal 1949 when the "cloak" was taken off for the first time.

This subsidy policy was backed on one hand by direct assistance with Government funds in the form of loans from the Reconversion Finance Bank and on the other by the adoption of a priority production program and the accompanying commodity control.

Meanwhile, the cleavage became wider and wider between the price stabilization policy and the economic reconstruction plan preponderantly favoring major industries at the expense of enormous State funds. Protection of large capitalists at the sacrifice of the people in general invited severe public criticism and the Government was obliged to effect a major change in its policy with the enforcement of the Dodge principle in its fiscal 1949.

The Dodge principle demanded the transition from an inflationary to a stabilization policy keyed by a sound public finance aimed at

materializing the country's economic independence and the stabilization of domestic economy.

By virtue of the Dodge policy, of which no detailed explanation can be given in the present article, State subsidies, the "legs" of the "stilted economy," were reduced or abolished, new Reconversion Finance Bank loans were banned, export subsidies were abolished and import subsidies came to be covered by the Government Account, resulting in a general recession of State control including the subsidy policy, and the encouragement of enterprises' independence from State assistance.

How the State subsidies were reduced or abolished along with the dissolution or contraction of public corporations and the readjustment of goods subject to control are shown in Tables 7 and 8.

Note: The increased appropriations in fiscal 1949 as compared with fiscal 1948, which seem strange at first sight, are due to a change in the budget compilation policy. Unlike in the preceding years, when additional sums were appropriated by means of supplementary budgets, the budget for fiscal 1949 did not presuppose such additional appropriations, while the import subsidies, which had so far been hidden, were brought to light. In addition, there were increased requirements for subsidies due to more production subsidy appropriations in the fiscal 1949 budget. It was the Government's policy to economize in the subsidy disbursements through gradual reduction or abolition of subsidized commodities and the amounts of remaining subsidies.

Table 7: Economizing of price adjustment expenditures in fiscal 1949

(Unit, ¥100-million)

Item	Fiscal 1949 budget	Actual spending			Balance
		Fiscal 1948	Fiscal 1949	Total	
(A) Stabilization zone commodities:					
Coal	365	0	176.53	176.53	188.47
Iron and steel	416	15.12	419.43	434.55	△ 18.55
Copper	28	0	14.00	14.00	14.00
Fertilizer	174	7.80	221.57	229.37	△ 55.37
Soda	19	0.24	18.80	19.04	△ 0.04
Total	1,002	23.16	850.33	873.49	128.51
(B) Stabilization zone commodities in preceding fiscal year	150	150.00	0	150.00	0
(C) Imported materials	833	0	731.51	731.51	101.49
(D) Salt	37	0	37.00	37.00	0
Total	2,022	173.16	1,618.84	1,792.00	230.00

Source: "Japan's State Subsidies and Public Finance" by the Investigation and Legislative Research Bureau of the National Diet Library. △ shows increase.

Table 8: Increase or decrease of price adjustment budgets by commodities

(Unit, ¥1-million)

Item	Fiscal 1950 budget	Fiscal 1949 budget			Difference between revised fiscal 1949 budget and fiscal 1950 budget
		Original budget	Increase or decrease by budget revision	Total	
Iron and steel	25,900	73,987	△ 16,290	57,697	31,797
Fertilizer	17,650	34,008	4,317	38,325	20,675
Soda	800	3,148	△ 771	22,377	1,577
Copper	0	2,800	△ 1,400	1,400	1,400
Coal for specific products and imported coal	0	13,758	9,341	4,417	4,417
Salt	0	3,700	0	3,700	3,700
Food and feedstuff	45,650	40,604	7,194	47,798	2,148
Industrial materials	0	15,191	△ 9,025	6,170	6,170
Stabilization zone commodities in preceding fiscal year	0	15,000	2,316	17,316	17,316
Total	90,000	202,200	△ 23,000	179,200	89,200

Note : 1. Coal for specific products and imported coal do not include coal for iron and steel, fertilizer and soda.

2. △ shows decrease.

3. Source : " State Budget " for fiscal 1950 compiled by the Finance Ministry.

The position held by the iron and steel industry in the enforcement of the postwar subsidy policy became gradually larger, taking the place of coal mining as time passed. In the process of reduction and abolition of subsidies, too, the iron and steel industry remained comparatively unaffected. The magnitude of financial assistance by the State to the iron and steel industry has often attracted attention and become a subject of discussion.

The following chapter will deal with details of the iron and steel subsidies and their controversial points.

IV. ANALYSIS OF POSTWAR IRON AND STEEL SUBSIDIES

1. Classification

In the classification of subsidies, only those subsidies which concerned such goods as directly contributed to the formation of prices will be taken up for study.

According to this criterion, the iron and steel subsidies can be roughly

classified into iron and steel subsidy included among the stabilization zone commodities subsidies (Domestic Subsidies), subsidy for coal for specific industries and the import subsidy.

Domestic subsidies were issued for pig iron and semi-finished and finished steel for sale. As for steel materials, the subsidy was limited to ordinary steel. No subsidy was given for steel for export.

These were iron and steel subsidies in the original sense of the term.

The subsidy for coal for specific industries was issued in the form of a compensation by the national treasury to the Solid Fuel Distribution Public Corporation for the balance between the general consumer's price of coal and the special price at which coal was sold to those key industries in whose cost of production the coal expenditure occupies a considerable percentage (specific industries).

This subsidy was set up in view of the great effect of coal as a source of motive power upon key industries. It is said also that the subsidy was designed to readjust the wide difference between the prices of coal and electric power as heat sources. (The coal price was 300 times that of the basic period, whereas the electric power charge was only 30 times).

The import subsidy was listed as such in the national budget for the first time in fiscal 1949. Before the exchange rate was set at ¥360 in April 1949 what was actually a subsidy was paid by the Government through a clandestine manipulation of the Foreign Trade Fund.

In those days imported materials and commodities were sold through the Special Account for Foreign Trade Fund. The proceeds thus obtained were used for subsidizing imported and exported materials and commodities. As a result, the Special Account for Foreign Trade Fund, which ought to leave a favorable balance due to the excess of imports over exports, showed a deficit on the contrary.

This unsavory operation was brought to an end with the adoption of the Dodge Line. Beginning fiscal 1949 the U.S. Aid Counter Fund Special Account and the Special Account for Foreign Trade were established, while the Special Account for Foreign Trade Fund was abolished. At the same time the export subsidy was abolished and the import subsidy was taken into the General Account.

The import subsidies related to iron and steel are those for pig iron, iron ore, and coal import. (Up to fiscal 1948 subsidies were paid also for the import of manganese, cryolite, and other secondary raw materials).

2. How Iron and Steel Subsidies Were Issued After the War

During the war the iron and steel prices were fixed at ¥81 per ton pig iron and ¥189 for steel bar and the balance between the pegged

prices and the costs of production were covered by the Government with the payment of price adjustment subsidies.

The prices were revised, however, simultaneous with the abolition of subsidies in the second half of fiscal 1945. The new prices were based on the assumption that the annual production of pig iron would total 600,000 tons and that of steel materials, 500,000 tons. In fixing the new prices no consideration was given the maintenance cost for unoperated facilities. It was decided to issue subsidies in the latter half of fiscal 1945 when conditions were unfavorable to production.

The official prices had to be revised, however, in March 1946 simultaneous with the establishment of the commodity price structure because the iron and steel production did not pay, being affected by the progress of inflation and the over-estimate of the volume of production.

On the assumption that the production of pig iron would total 580,000 tons and that of ordinary steel, 5,000,000 tons, the new official prices were set at 27 times that of the basic period for pig iron and 29 times for steel bar, both of which were considerably higher than the official prices of other commodities.

Table 9 : Iron and steel prices up to revision in March 1946

Item	Base	July 1941	December 1945	March 1946
Bar	19 m/m	¥ 189	¥ 1,680	¥ 2,600
Plate	12 m/m	223	1,960	3,030
Sheet	1.6 m/m	269	2,430	3,760
Ordinary wire rod	5.5 m/m	194	2,000	3,100
Tin plate	0.314 m/m	443	3,570	5,520
Gas pipe	3½ inches	338	2,890	4,470
Hoop	2.7 m/m	259	2,280	3,530
Heavy rail	50 kg	206	1,680	2,600
Light rail	10 kg	208	1,850	2,850
Pig iron for steel Production	No. 2	81	830	1,300

Source : Steel Materials Club's data.

Nevertheless, iron and steel manufacturers suffered enormous deficits due to inactive production and high cost, bringing the subsidy problem to the fore again.

As a result of negotiations between the Federation of Iron and Steel Industries and the Government offices concerned it was decided to cover the deficits with a price equalization fund to be created with the added value of special properties formerly in the possession of the military

authorities resulting from the price revisions in November 1945 and March 1946.

An ordinance was issued, moreover, to exempt iron and steel manufacturers from paying price differentials on ordinary steel in fiscal 1947 so as to enable them to cover their deficits. (There was no price revision for special steel). The subsidies issued between August 1946 and March 1947 are said to have totaled ¥ 450-million and between April and June 1947 ¥ 323-million.

Meanwhile, the gap between the cost of production and prices grew wider and wider, reflecting an ever-aggravating inflation. As a result the Government effected a wholesale revision of official prices in July 1948.

On the occasion of this price revision the Government set a double price system, one for the producer and the other for the consumer, for iron and steel as well as other "stabilization zone" commodities. The balance between the two prices was paid as subsidies from the General Account, thus marking the establishment of a full-fledged iron and steel subsidy system.

From the standpoint of the iron and steel industry itself, the establishment of the subsidy system spelt the transfer of its emphasis from the acquisition of inflationary profits to money-making through production.

The iron and steel prices revised in July 1947 were again marked up in June 1948 due to the power shortage caused by the drought of the

Table 10: Iron and steel prices in the second and third price structures

Item	Base	Revised prices of July 1947			Revised prices of June 1948		
		Producer price, CIF	Consumer Price, CIF	Subsidy	Producer price, CIF	Consumer price, CIF	Subsidy
Bar	19 m/m	¥ 10,510	¥ 5,990	¥ 4,520	¥ 21,300	¥ 10,120	¥ 11,180
Plate	12 m/m	12,670	7,250	5,420	24,070	12,250	11,820
Sheet	1.6 m/m	15,270	8,690	6,580	30,160	14,690	15,470
Ordinary wire rod	5.5 m/m	12,340	7,010	5,330	24,810	11,850	12,960
Tin plate	0.314m/m	23,060	13,120	9,940	63,740	38,200	25,540
Gas pipe	3½ inches	17,660	10,060	7,600	38,090	17,000	21,090
Hoop	2.7 m/m	13,520	7,730	5,790	27,940	13,060	14,880
Heavy rail	55 kg	12,680	7,250	5,430	26,840	12,250	14,590
Light rail	10 kg	11,510	6,590	4,920	24,620	11,130	13,490
Pig iron for steel production	No. 2	6,750	3,050	3,700	15,080	3,600	11,480

Source: Steel Materials Club's data.

1947-48 winter, struggle for wage increases and general price upswing. In this case there was no change in the pricing system.

The first step taken after the establishment of the Dodge-initiated balanced public finance was the reduction of subsidy for semi-finished steel effected in April 1949 and the accompanying price revision by which the producer prices were reduced by 12 per cent on the average.

It was, however, in September 1949 when the coal subsidy was abolished that the reduction of iron and steel subsidies began in real earnest.

On the assumption that a 10 per cent reduction could be effected through rationalization of enterprises, the producer prices of pig iron and steel materials were increased 22 and 18 per cent respectively, while the consumer prices were raised 105 and 36 per cent respectively.

In January 1950 the subsidies for imported coal and iron and steel were reduced as a third-stage measure of the Dodge policy and at the same time the producer prices of pig iron and steel materials were increased by 8 per cent and 11 per cent respectively and the consumer prices by 31 per cent each.

As a fourth-stage measure the steel materials subsidy was abolished and the pig iron subsidy was reduced by 50 per cent on the average in July 1950.

Further reduction of the pig iron subsidy was carried out in October the same year as a fifth-stage measure. The subsidy was entirely abolished in April 1951.

The most outstanding characteristic of the public finance after the war was that expenses for the termination of war and subsidies occupied a great proportion comparable to that of military expenditures in the past. Although the expenses for the termination of war decreased as time passed, the subsidies swelled on the contrary. The iron and steel subsidy, in particular, increased by leaps and bounds until fiscal 1949.

As seen in Table 13, the iron and steel subsidy held a dominant position among subsidies for various commodities, and remained as such even after the enforcement of the policy of abolishing or reducing subsidies.

As mentioned before, the Government issued a subsidy for coal for specific products as a kind of raw material subsidies in addition to the price differential subsidies for iron and steel products. This subsidy served to mitigate the *high cost of production in key industries.

(* Note: For instance, the expense for coal occupies 50 per cent of the pig iron price in Japan, whereas it accounts for only 10 per cent to 15 per cent in the United States and some 30 per cent in India. Before the war the percentage was not so high, being 30.4 in 1934, but it was as high as 53.7 per cent in 1950).

Table 11: Changes in iron and steel official

Item	Base	Revised prices of April 1949			Producer price, CIF
		Producer price, CIF	Consumer price, CIF	subsidy	
Bar	19 m/m	¥ 18,720	¥ 10,120	¥ 8,600	¥ 23,000
Plate	12 m/m	21,080	12,250	8,780	25,700
Sheet	1.6 m/m	26,450	14,690	11,760	32,790
Ordinary wire rod	5.5 m/m	21,790	11,850	9,940	26,990
Tin plate	0.314 m/m	61,320	38,200	23,120	74,190
Gas pipe	3½ inches	34,320	17,000	17,320	41,330
Hoop	2.7 m/m	24,620	13,030	11,560	29,470
Heavy rail	55 kg	23,620	12,250	11,370	28,810
Light rail	10 kg	21,820	11,140	10,680	27,120
Pig Iron for steel production	No. 2	13,300	3,600	9,700	17,000

Source: Steel Materials Club's data.

Table 12: Details of price adjustment expenditures (Unit, ¥ 1-million)

	Fiscal 1947		Fiscal 1948		Fiscal 1949 main budget		Fiscal 1949 Supplementary budget		Fiscal 1950	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Stabilization zone commodities :	(1)(299)				(5,291)		(5,291)			
Coal(for specific products)	9,658	41.6	16,062	25.7	36,500	20.7	17,653	12.8		
Iron and steel	3,873	16.7	20,893	33.4	41,600	23.3	43,455	27.3	18,769	20.9
Non-ferrous metals	808	3.5	2,576	4.1	2,800	1.6	1,400	1.0		
Fertilizer	1,815	7.8	10,201	16.3	17,400	10.2	22,937	14.6	13,702	15.2
Soda	159	0.7	1,030	1.6	1,900	1.3	1,904	1.5	800	0.9
Total	16,313	70.2	50,762	81.2	100,200	57.0	87,349	57.1	33,271	37.0
Import commodities					83,300	41.2	73,151	40.8	56,729	63.0
Others	6,912	29.8	11,737	18.8	3,700	1.8	3,700	2.1		
Total	23,225	100.0	62,500	100.0	202,200	100.0	179,200	100.0	90,000	100.0
Proportion to total State expenditures	10.8		13.2		28.7		24.1		13.6	

Note: 1. Figures in parentheses indicate the sums brought forward from the preceding fiscal year except (1).

2. Source: The above-mentioned book of the National Diet Library and "State Budget" for fiscal 1950 compiled by the Finance Ministry.

prices in the process of reduction of subsidies

Revised prices of September 1949		Revised prices of January 1950			Revised prices of July 1950		
Consumer price, CIF	Subsidy	Producer price, CIF	Consumer price, CIF	Subsidy	Producer price, CIF	Consumer price, CIF	Subsidy
¥ 13,760	¥ 9,240	¥ 25,540	¥ 18,000	¥ 7,540			
16,250	9,450	27,810	21,010	6,800			
20,260	12,530	33,540	25,940	7,600			
16,320	10,610	27,260	21,400	5,860			
48,760	25,430	74,990	63,400	11,590	Abolished	Abolished	Abolished
22,910	18,420	45,210	30,100	15,110			
17,230	12,240	30,780	21,880	8,900			
16,750	12,030	28,760	22,000	6,760			
15,780	11,340	27,920	20,700	7,220			
7,400	9,600	18,360	9,750	8,610	{ 15,850 18,100	11,880	3,980 8,820

Table 13: Proportional comparison of subsidies for stabilization zone commodities

	Fiscal 1947	Fiscal 1948	Fiscal 1949 main budget	Fiscal 1949 supplementary budget	Fiscal 1950
Coal	59.2 %	31.6 %	36.3 %	22.4 %	—
Iron and steel	23.7	41.2	40.8	47.8	56.4 %
Non-ferrous metals	5.0	5.1	2.8	1.7	—
Fertilizer	11.1	20.1	17.8	25.5	41.2
Soda	1.0	2.0	2.3	2.6	2.4
Total	100.0	100.0	100.0	100.0	100.0

Table 14: Coal prices

(Unit, yen per ton)

	Price for general consumers	Price for specific consumers
July 1947	1,208.58	600
June 1948	3,345	1,000

The subsidy for coal for specific products was issued to cover the difference between the coal prices for general and specific consumers. Table 14 and 15 show how wide the difference was between the two prices.

Table 15: Reduced prices of coal for the production of iron and steel

(Unit, yen per ton)

	General price	Price for iron and steel	Government subsidy
Imported coal	4,885	1,985	2,900
Special use coal No. 1	4,621	1,407	3,214
Special use coal No. 2	4,513	1,382	3,131
Producer coal	5,091	2,023	3,069
General coal	4,972	1,997	2,973

Source: "Tekko" (Iron and steel) Vol. 1, No. 5

Table 16 shows the subsidy for coal for iron and steel production in the general budget for fiscal 1949.

Table 16: Subsidies for coal for specific industries

(Iron and steel)

	Quantity (in 1,000 tons)	Subsidy per ton (in yen)	Total amount of subsidy (in ¥ 1-million)
Domestic coal	4,500	2,680	12,060
(Total)	(12,690)	(2,680)	(30,200)
Imported coal	1,600	3,258	5,213
(Total)	(1,920)	(3,258)	(6,000)
Total	6,100		17,273
(Grand total)	(14,160)		(36,500)

The subsidy for coal for iron and steel production was abolished as of August 1949.

This subsidy was given for coal for pig iron and ordinary steel production but not for special steel production.

As mentioned before, the import subsidy for iron and steel was included in the general account budget beginning fiscal 1949. The items subject to the subsidy were pig iron, coal and iron ore.

Although there are no data showing the exact amounts of subsidies for the import of raw materials for iron and steel issued before fiscal 1949, the Budget Bureau of the Finance Ministry estimates the amounts of subsidies per ton as follows: Table 17.

How the import subsidies for iron and steel were issued in fiscal 1949 is shown in Table 18.

Due to the increase of iron and steel prices simultaneous with the

reduction of subsidies in several stages as well as the improvement of production technique, it became unnecessary to keep the prices of imported raw materials at low levels. It is said that almost no import subsidies for raw materials for iron and steel were paid during fiscal 1950 although appropriations for such subsidies were in the fiscal 1950 budget.

The three kinds of subsidies concerning the iron and steel industry appropriated in the fiscal 1949 budget were as follows: Table 19.

Table 17
Import subsidies per ton
(July 1948)

Coal	¥ 3,815
Iron ore	3,914
Pig iron	16,200
Manganese ore	7,952
Cryolite	10,300
Magnesia clinker	10,000

Table 18: Import subsidies for iron and steel in fiscal 1949

	Iron ore	Coal	Pig iron	Total
Quantity (in 1,000 tons)	1,675	1,600	120	
Board of Trade price (in yen)	6,640	7,949	29,050	
Board of Trade release price (in yen)	2,260	4,835	3,960	
Subsidy per ton (in yen)	4,390	3,114	26,090	
Total amount of subsidy (in ¥ 1-million)	7,328	4,982	2,505	14,839

Source: "Tekko" (Iron & Steel) Vol. 1, No. 5

Table 19: Price adjustment funds concerning iron and steel
in the fiscal 1949 budget

	Price adjustment funds	Proportion to the total sum of price adjustment funds	Percentage
	(in ¥ 1-million)	(%)	(%)
Pig iron and steel subsidies	41,600	20.5	56.5
Coal subsidy	17,273	8.9	23.4
Subsidies for imported raw materials	14,839	7.3	20.1
Total	73,712	36.7	100.0

Source: "Tekko" (Iron & Steel) Vol. 1, No. 5

As seen in Table 19 the direct and indirect subsidies for iron and steel accounted for as much as 36.7 per cent of the total amount of price adjustment funds. How the iron and steel subsidies were reduced in the readjusted budget for fiscal 1949 and the budget for fiscal 1950 is shown in Table 20.

Table 20: Details of price adjustment funds

(Unit, ¥ 1-million)

	Fiscal 1950 budget	Fiscal 1949 budget			Difference between readjusted fiscal 1949 budget and fiscal 1950 budget
		Original budget	Increase or decrease as a result of readjust- ment	Total	
Iron and steel :					
Domestic subsidies :					
Pig iron	13,987	17,500	2,346	15,136	1,149
Semi-finished steel	0	1,100	311	1,411	1,411
Steel materials	4,624	22,300	1,056	23,356	18,732
Cast iron tube	158	700	175	525	367
Subsidy for coal for specific products	0	12,194	6,258	5,936	5,936
Import subsidies .					
Coking coal	1,955	10,336	6,000	4,366	2,381
Pig iron	512	2,505	900	1,515	1,003
Iron ore	4,644	7,352	1,870	5,482	818
Total	25,900	73,987	16,290	57,697	31,797
Fertilizer	17,650	34,008	4,317	38,325	20,675
Soda	800	3,148	771	2,377	1,557
Copper	0	2,800	1,400	1,400	1,400
Coal for specific products and imported coal	0	13,758	9,341	4,417	4,417
Others	45,650	59,495	1,831	57,668	12,018
Subsidies for stabilization zone commodities in preceding fiscal year	0	15,000	2,316	17,316	17,316
Grand total	90,000	202,200	23,000	179,200	89,200

- Note: 1. Subsidies for coal for specific products and imported coal do not include those for coal for iron and steel, fertilizer and soda production.
 2. Others include salt, foodstuff, feedstuff and industrial materials.
 3. The table was compiled on the basis of the "State Budget" for fiscal 1950 by the Finance Ministry.

Aside from the comparative increase of subsidies for imported foodstuff and feedstuff, the iron and steel subsidies kept on holding an important position. (The figures given in the above table were, however,

budgeted sums which were different from the actually paid amounts due to the abolition or reduction of subsidies).

The subsidies for the iron and steel industry, which held a predominant position in the subsidy policy are indicative of where the emphasis was laid in the rehabilitation of postwar economy.

The iron and steel industry became the largest recipient of State subsidies in view of its importance as the kernel of industries producing means of production and the supplier of key materials to all industries.

The economic reconstruction centering around heavy industry thus was placed on the right track of reproduction with the low-priced iron and steel as its prime mover.

Viewed from another angle, however, it can be said that a high cost of production ... an artificially lowered price in other words ... which hampered a thorough functioning of the law of value found its way into an opaque receptacle called public finance.

3. Subsidies Seen From The Standpoint Of Price Formation

What part did the iron and steel subsidies, which held a very important position in public finance, play in price formation? An analysis will be made in this respect in the following paragraphs.

The producer price was set on the basis of data submitted by iron and steel manufacturers,* while the consumer price was fixed as an item of the stabilization zone commodities in the commodity price system.

*(Note: The suppliers of data were mostly the Big Five makers and in particular the three through operation manufacturers, while the Nichia Steel Manufacturing Co. and the Toyo Kohan were chosen as the suppliers of data for steel hoops and tin plates respectively).

The balance between the producer and consumer prices was set officially as the amount of subsidy.

The relations among the producer and consumer prices and the subsidy can be shown by the following equations:

$$\begin{aligned}\text{Unit subsidy} &= \text{Producer price, CIF} - \text{Consumer price, CIF} \\ &= \text{Producer price, FOB} - \text{Consumer price, FOB}\end{aligned}$$

$$\text{CIF price} - \text{FOB price} = \text{Freight pool charge} + \text{Public corporation commission}$$

In fixing the unit subsidy and consequently the producer price the annual production estimate, operation degree, proportion of raw materials mixing and other factors were presented.

Needless to say, these factors are subject to change according to the conditions of national economy and the iron and steel industry itself.

Following is a general review of the changes in the factors contributing to the fixing of the unit subsidy:

March 1946 :

1. Production estimate: Pig iron 580,000 tons a year, steel materials 500,000 tons a year.
2. Labor wage: ¥ 11.27 a day, ¥ 390 a month.
3. Authorized profit: 13 per cent of the cost of production.

July 1947 :

1. Production estimate: (July 1947 to March 1948) pig iron 350,000 tons (470,000 tons a year), steel materials 500,000 tons (670,000 tons a year).
2. Coal price: ¥ 600 after subtraction of the subsidy.
3. Labor wage: ¥ 2,350 on the average.
4. Profit: Not taken into account.

June 1948 :

1. Annual production estimate: Pig iron 670,000 tons, steel materials 840,000 tons.
2. Labor wage: ¥ 5,012 (¥ 5,388 including overtime allowances).
3. Coal price: ¥ 1,000 for use for specific products.

April 1949 :

1. Production estimate: Pig iron, 1,900,000 tons, steel materials 1,920,000 tons (for price calculation 93.6 per cent of the former and 67.7 per cent of the latter were taken as bases).
2. Labor wage: ¥ 8,944.

Needless to say, it is not these factors alone that were taken into account in fixing the price. In all probability political designs at the respective times also influenced the price fixing one way or the other.

Putting aside the various circumstances underlying the decision of

Table 21: Proportion of unit subsidy against producer's CIF price

Items	Base	July 1947	June 1948	April 1949	Sept. 1949	Jan. 1950
Steel bar	19 m/m	43	52	47.7	40.2	29.5
Steel plate	12 m/m	43	49	43.5	36.8	31.6
Steel sheet	1.6 m/m	43	51	46.0	38.2	22.7
Ordinary iron rod	5.5 m/m	43	52	52.0	39.5	21.5
Tin plate	0.314 m/m	43	40	40.0	34.3	15.4
Gas pipe	3½ inches	43	55	52.0	44.6	33.4
Steel hoop	2.7 m/m	43	53	48.4	41.5	26.9
Heavy rail	50 kg	—	—	49.6	41.9	23.5
Light rail	10 m/m	43	55	50.4	41.8	25.9
Pig iron for steel production	No. 3	55	76	52.7	47.3	46.9
Pig iron for cast iron	m/m	55	66	60.0	40.2	46.9

Source: Steel Materials Club's data

prices, a comparison is made in Table 21 between the producer's CIF price and the unit subsidy in the form of the latter's percentage against the former: (cf. preceding price table)

The above table shows to some extent the great weight the iron and steel subsidy carried, but it does not present the whole picture, for it concerns only the subsidies for pig iron and steel materials.

As mentioned before, iron and steel products were subsidized doubly or trebly, but the subsidies relative to raw materials are not shown in the above table, though actually they did play a great supplementary role as hidden subsidies.

In the revised price structure of April 1949 the subsidies for raw materials accounted for 51.5 per cent of the actual producer price of pig iron consisting of subsidies, according to an analysis by the Ministry

Table 22: Analysis of producer prices of pig iron and steel materials

	Pig iron		Round bar	
	Amount	%	Amount	%
Subsidies concerning raw materials:				
Import subsidies:				
Iron ore	¥ 3,403	13.3	¥ 2,647	7.35
Coal	3,755	13.8	2,635	7.25
Total	7,158	27.1	5,282	14.6
Price rebate for coal for specific products	6,622	24.4	5,285	14.6
Pig iron subsidy			6,809	18.9
Total amount of subsidies	13,780	51.5	17,349	48.0
Producer price, CIF	13,300	48.5	18,720	52.0
Grand total	27,080	100.0	36,069	100.0

Source: "Review of Iron and Steel Industry in Japan" ed. by Bureau of Iron and Steel, Ministry of International Trade and Industry.

of International Trade and Industry. This proportion was larger than that of the producer's CIF price, which was 48.5 per cent.

For this pig iron more subsidies were paid whether it was used by its producers themselves or sold to other parties at the rate of ¥ 9,700 per ton. Thus the steel bar price contained a subsidy of ¥ 6,809 per ton. As a result, whereas the producer's CIF prices for pig iron and steel bar were ¥ 13,300 and ¥ 18,720 respectively, sums about equal to them were paid by the Government as subsidies. Their combined totals, ¥ 27,080 and ¥ 36,069 respectively, were actual producer prices.

The relations between the actual producer prices and the official prices are shown in Table 23.

Table 23: Producer prices and consumer prices ;

	Unit	Pig iron	Round bar
A. Actual producer price	yen	27,080	36,039
B. Producer price, CIF	"	13,300	18,720
C. Domestic price differential subsidy	"	9,700	8,600
D. Consumer price, CIF	"	3,600	10,120
D/B	%	27	54
D/A	"	13.3	28

As seen in the above table the consumer prices of pig iron and steel bar were set as low as 27 and 54 per cent respectively of the producer's CIF prices and 13.3 and 28 per cent respectively of the actual producer prices.

To cite another example, it is said that the combined total of raw materials subsidy and price differential subsidy for pig iron in fiscal 1948 was a little less than 1.7 times the producer price.

With the consumer prices of iron and steel set at such a low level, the rehabilitation of the related industries was carried out on the basis of these low iron and steel prices.

The huge subsidy was also a basis on which the iron and steel industry was reconstructed after the war.

Whereas the actual producer price was a natural market price automatically decided in the midst of postwar inflation and devastation of industries, the consumer price set with the support of Government subsidies amounting to 50 to 80 per cent of the actual producer price were extremely perverted artificial prices.

4. Structure of Payment.

The payment of subsidy to manufactured iron and steel, as mentioned before, was carried out by the Price Adjustment Public Corporation. There were three categories of business done by the Price Adjustment Public Corporation ... price leveling, freight leveling, and adjustment of price differentials.

Note : Price leveling is a means to maintain uniform consumer prices by pooling different prices in such cases wherein the producer prices vary markedly due to natural factors, production methods or other unavoidable inducements or wherein the prices of imported goods differ conspicuously from the prices of domestic goods. Freight leveling purports to adjust consumer prices by so arranging that the producers will be paid the actual freight incurred while the consumers will be made to pay a pooled freight ... a freight in which different factors, such as

the distance of transportation, are leveled to an average ... in the case of commodities wherein freight occupies a comparatively large proportion in their prices. Adjustment of price differentials seeks to maintain reasonable consumer prices by means of a subsidy payment which facilitates adjustment of price differentials. (Finance Ministry: "*National Budget ... Fiscal 1950-51.*")

In the case of iron and steel, both adjustment of price differentials and freight leveling were employed for pig iron, ordinary steel material and semi-finished products, and cast iron pipes. Actually, it could be said, the differential between producer prices and consumer prices determined by the Price Agency on the basis of cost accounting in each enterprise was indemnified while freight leveling was also carried out. However, this was done in a complicated manner and, at the same time, the method varied as time went by.

At first, an overall purchase-and-sellback system, in which the public corporation bought up all products immediately after they were produced, was adopted. In other words, iron and steel goods were first purchased by the corporation at FOB prices and then at the time of delivery were sold back to the makers at CIF prices with the balance kept by the corporation as a commission and freight pool which were used for the leveling of commission and freight and, at the same time, for indemnification of the differential from consumer prices.

The Public Corporation Act provided that the funds for this kind of purchases were to be made available in the form of loans from the

Table 24: Purchases and Resales in 1948 By Categories

	Purchase		Resale	
	Amount (1,000 tons)	Value (¥ 1,000)	Amount (1,000 tons)	Value (¥ 1,000)
Iron and steel	3,020,347	21,439,585	2,900,225	24,076,264
Pig iron	982,356	3,195,046	967,380	4,059,615
Steel material	10,575,697	16,570,463	1,450,899	18,390,957
Galvanized iron plate	30,058	935,053	25,460	893,182
Cast iron pipe	31,974	330,493	26,224	318,995
Iron ore	400,262	408,530	430,262	413,515
Non-ferrous products	1,373,521	7,611,177	1,414,677	7,132,789
Inorganic chemical products	2,831,425	11,750,060	2,809,939	11,885,486
Organic chemical products	192,403	10,088,068	192,728	11,843,561
Stone & sand	12,482,011	2,233,519	12,482,011	3,593,010
Total	19,988,707	53,122,409	19,799,580	58,531,110

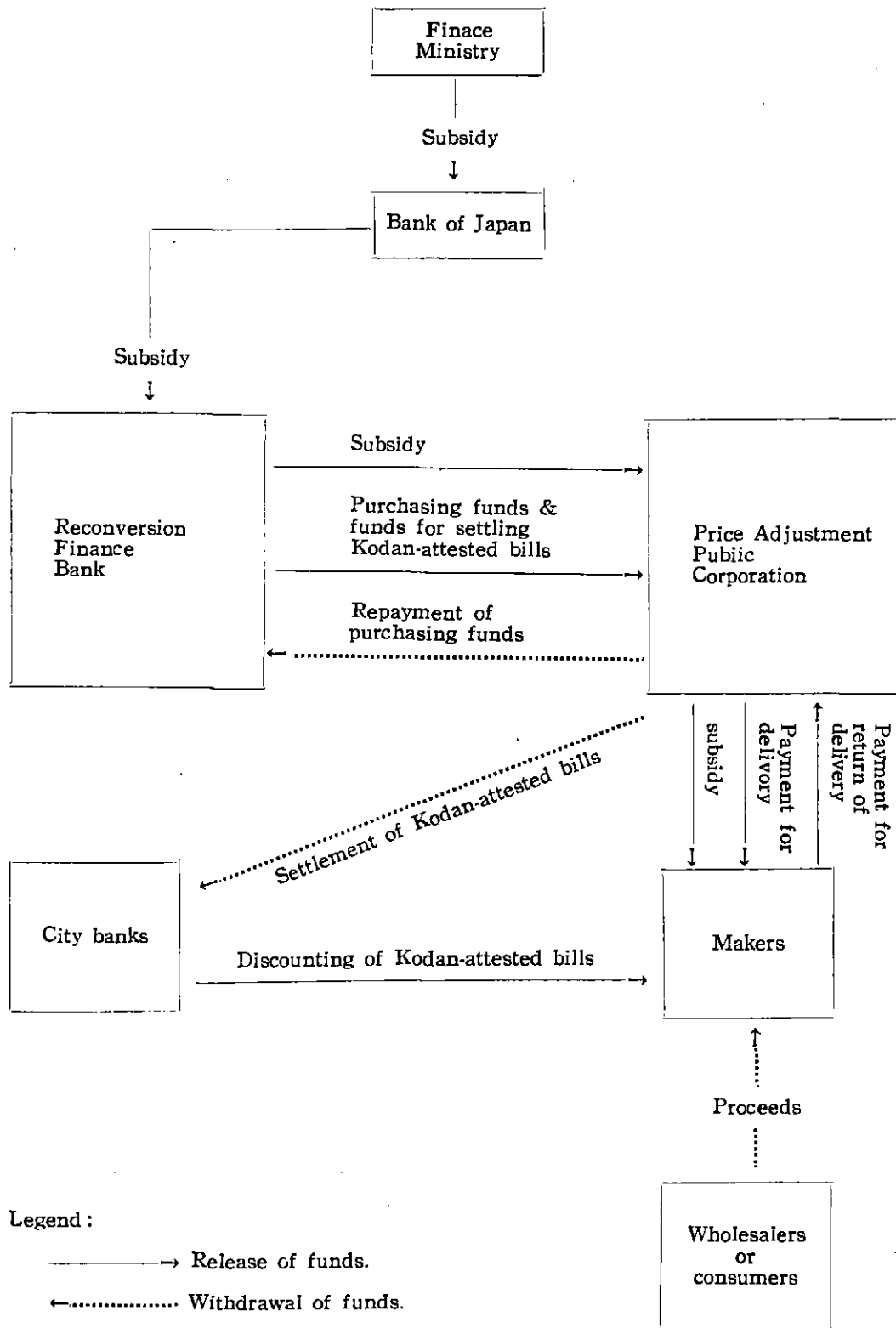
Source: Diet Library: Ditto

Reconversion Finance Bank. The working funds for the purchasing operation supplied by the Reconversion Finance Bank amounted to ¥ 3,446-million as of March 1948. But, with the initiation of the Kodan-attested bill system in June 1948, the dependence on the Reconversion Finance Bank began to decrease gradually and the saving of funds became possible.

Note: The Kodan-attested bill system is explained as follows in the Finance Ministry's "*National Budget* (Fiscal 1949-50)":

"The Kodan, after taking delivery of products and materials from the makers, issues certificates of delivery, one original and one duplicate, to the makers who, on their part, draw promissory notes (usance: 60 days or less) to the amount they are to be paid for the delivery. They submit the promissory notes to the Kodan for attestation, attaching to them an application for attestation, the bank's loan certificate and the Kodan's delivery certificate. The Kodan, after scrutiny, stamps attestation on the promissory notes thus submitted. In short, the attestation in this case is to certify that the transaction has duly been made and to assure the makers that the bills will be paid on time. The Kodan, simultaneous with the attestation, pays to the makers the interest due for the period from the time of drawing to the maturity of the bills. Then the makers, attaching the Kodan's delivery certificate and demand of payment to the attested bills, submit them to their bank to receive a loan. The bank which makes a loan fills as requested the demand of payment formula and returns it to the Kodan which then asks a bank designated by the loan bank pay in to the latter bank. Thus the Kodan remits through the bank asked to pay in and completes payment for the delivery. When the bills are paid before maturity, the loan bank returns to the drawer the interest for the period from next of the day the payment was made until the maturity of the bills and the drawer on his part must pay back such returned interest to the Kodan

This overall purchase-and-sellback method by means of purchase after production is worthy of attention in that it fulfilled a sort of financial function as is mentioned later. That is to say, the commodities which were purchased by the Kodan immediately after they were produced remained actually in the hands of the makers and they could utilize the gap of time between delivery and sellback so the money paid for the the delivery might play the role of working funds for them. There was no material difference whether they were paid for the delivery directly by the Kodan or whether they had their Kodan-attested bills discounted by city banks. It was undeniably true that this financial function played a considerably important role at a time when the supply of funds was short. But it requires no elaboration that this sort of thing was a defection from what the price operation ought to have been and, due to many criticisms, had to be replaced gradually by other methods. Namely, the system of purchasing immediately after production was replaced by the system of purchasing at the time of delivery, thereby reducing the gap of time between purchase and sellback, till at last the system of settling the differential only, instead of the complicated overall purchase-and-sellback system, was adopted in July 1949. This new system carried



out freight leveling and adjustment of price differential at the same time. Actually, this was a method in which only the difference between the price differential subsidy plus payment for delivery, on the one hand, and the price for selling back the delivered goods, on the other, was handled and the function of the Kodan as a financing organ was brought to an end. Furthermore, freight leveling itself was abolished as of December 1949. Thus the business of subsidy payment for iron and steel products was extremely simplified. From this time on, the Kodan could only pay the amount of subsidy minus its commission after the products were delivered.

In other words, the system of purchasing immediately after production could hardly be said a necessary method for adjustment of the price differential. As a matter of fact, the adjustment of price differential could be done by way of purchasing at the time of delivery. It could therefore be said that the method of purchasing immediately after production was designed to afford financial relief beyond the limit of price operation by specifically complicating the freight leveling business. And in this very point of subsidy payment in a complicated manner lay at least one aspect of the *raison d'être* of the Kodan.

Note: The flow of funds in the purchase-and-sellback method mentioned above can be roughly illustrated as follows:

The function of the Kodan-attested bill system is also shown in the above illustration. Subsidy payment after the deactivation of the Reconversion Finance Bank was made directly by the state. In the case of settling the differential only, the differential between payment for delivery and payment for the return of delivery was settled without affecting the subsidy itself.

(1) Investigation Department, Reconversion Finance Bank: *"Transition of Iron and Steel Prices and the Reconversion Finance Bank Loans to Iron and Steel Industry"*

(2) Ditto.

(3) Juhei Sugaya: *"Basic Character of the Japanese Iron and Steel Industry"*

V. SIGNIFICANCE AND MOOT POINTS OF SUBSIDY PAYMENT TO IRON AND STEEL INDUSTRY AFTER THE WAR.

What then, did the subsidy payment to the iron and steel industry signify to national economy during the process of rehabilitation and to the industry itself on the way to recovery? How did it influence national economy and the industry? In this question are involved many difficult issues and some of them are pointed out in the following:

1. Contradiction and Limit of Subsidization Policy

Subsidy payment which was initiated as collateral to the price policy was originally purported, as mentioned in the foregoing, to rehabilitate

the reproductivity of national economy in the field, first of all, of basic production goods. But, while still in the making, it had to meet incessant, severe criticism which even gave rise to what was known as the subsidy controversy. Indeed, it had a great significance.

In the first place, it was controvertible in its relation to the establishment of a price structure. More precisely, the low wage policy starting with the low iron and steel price as in a formula of iron and steel price $\rightarrow$ coal price $\rightarrow$ wage was used; namely, the pressure on the people's capacity of consumption in daily livelihood was exercised, it was contended, in the form of a vicious circle between price and wage. And there ensued active pros and cons over this contention.

This wage policy, at the same time, sharply contrasted with the subsidization policy. That is to say, these two kept the two extremes in the structure of economy ... production of basic producer goods and consumption capacity of the masses ... in juxtaposition during the process of rehabilitating the reproductivity of national economy and, through national finance, maintained and expanded such enterprises, on the one hand, while causing a huge tax burden, on the other. The expansion of financial outlays necessitated deficit finance and invited inflation, thus forcing the subsidization policy only to destroy the price structure which it originally had to maintain. Aggravation of inflation naturally necessitated a sharp rise of commodity prices, next the deflection from and then the raise of official prices and, as far as this was concerned, the subsidization policy was destined to fall into self-contradiction. This situation was inclined to further worsen due, above all else, to the fact that the subsidy payment would increase as the recovery of production progressed and the volume of production improved.

This process which was, as it were, a vicious circle between price spiral and inflated finance, at least resulted in the revision of prices in actual figures and year-after-year increases in the amount of subsidy. The influence of this subsidization policy cannot of course be underestimated, though it must be admitted that there was naturally a limit to the subsidization policy as long as it worked through the mechanism of prices. That the iron and steel industry, despite the intrinsic danger of going into overproduction because of vast equipment, was able to manage with the Government's financial aid in the form of subsidy payment is said to be, at the same time, indicative of the fact that for the sake of obtaining subsidy the enterprise rushed production increase even in disregard of a paying business and rationalization. This can also be taken to mean that the way was being paved, without due

consideration, so that the vast equipment of the iron and steel industry, which had unreasonably expanded during the wartime, could gradually be put into operation.

It is not to be wondered that the subsidization policy ... so long as it was to assure an ultimate result not related to a productive process like the realization of value and in case it appeared during the transition from reproduction on a regressive scale to reproduction on a progressive scale—was powerless to solve such a question as the structural reorganization of the iron and steel industry into what it ought to have been in accordance with the changes in the conditions after the war's end or such questions as were connected with business management and production technique. That the increase in the production of iron and steel did not at all mean that the crisis was overcome attests to the limit inherent in the subsidization policy. And, at the same time, the fact that the reorientation of the iron and steel industry is now becoming a question after the controls on iron and steel have been lifted can be said to be an exemplification of that limit of the subsidization policy.

2. Subsidy and Enterprise

Despite contradictions and limitations, the subsidization policy as "one leg of the stilted economy" exercised an influence which can never be ignored. It is true that the iron and steel industry which was suffering an extreme slump immediately after the end of war was able to recover conspicuously by dint of subsidy payment. It can therefore be considered that, despite many troubles which arose out of a gradual retreat of state controls, the postwar reorientation of capital in the iron and steel industry could be achieved to some extent.

Table 25 : Production of Iron
and Steel in Japan
(In M/T)

	Pig Iron	Common Steel Material
1946	16,919	36,995
1947	28,951	55,417
1948	67,335	104,070
1949	129,057	176,450

Source : Investigation Section, General
Business Department, Yawata
Iron Mfg. Co. :
"Iron & Steel Statistics, Vol. 1,
No. 3"

However, it was doubtful whether the recovery of the iron and steel industry was keeping in line with the democratization of economy which was the guiding principle in the reconstruction of postwar Japanese economy and, furthermore, the structure of the industry indicated that it was undergoing an unbalanced recovery.

It is a well-known fact that the iron and steel industry, which increased its productive power

Table 26 : Unbalance in Iron and Steel Production
(Indices)

	Pig Iron		Steel Ingot		Steel Material			
	Blast furnace	Special	Plain furnace	Electric furnace	Common	Special	Forged	Cast
1937 :								
1st quarter	100	100	100	100	100	100	100	100
2nd "	115	94	145	96	125	103	104	88
3rd "	124	74	175	73	115	91	96	83
4th "	149	45	203	73	152	103	105	86
1948 :								
1st "	229	126	239	110	189	113	177	124
2nd "	324	123	304	110	244	118	202	132
3rd "	398	108	440	108	287	119	281	146
4th "	461	99	510	106	325	115	265	141
1949 :								
1st "	530	144	569	112	387	128	272	132
2nd "	578	134	651	101	424	88	248	112

Source : Ryoza Yamada : Ditto

during the war, made a particularly big progress in the field of special steel due to the need of arms production. It was quite natural that such an unbalanced development prompted by war production had to suffer a change after the war's end. This change was noted in the decline of special steel production and also in the shift of emphasis from plate production to sheet and tin-plate production. That the indemnification by the state during the reconversion from war production to peace production was limited to pig iron and common steel material was questionable, even allowing for the fact that other items were in a state of overproduction.

It requires no specific elaboration that the decline of productive power immediately after the end of war affected more than anything else the monopolistic capital which had been operating with vast productive facilities but, at the same time, such huge monopolistic capital was able to make a relatively marked recovery as was proven by the remarkable increase in the production of blast furnace pig iron, plain furnace steel ingot and common steel material. This indicates that the recovery of the iron and steel industry after the war was synonymous with the conspicuous recovery in the production of common steel material by dint of subsidy payment. This, in turn, means that the state indemnification provided a comparatively advantageous support to the monopolistic

enterprises with vast production facilities. All ins and outs which led up to such a situation can be clarified by seeing how the so-called Big Five makers were being subsidized. Subsidization after the war, in which case the unit amount of subsidy paid according to items but not by individual cases as in the wartime was kept uniform, was naturally large for such enterprises where the turnover was large. The Yawata Iron Manufacturing Co., Fuji Iron Manufacturing Co. and Japan Steel Pipe Manufacturing Co., all of which operate with the pig-iron-to-steel through process, were being paid a vast amount of subsidy for both of pig iron and steel material they produced. A similar trend could also be expected from the fact that the computation of subsidy, as already mentioned, was made on the basis of big enterprises.

**Table 27: Iron and Steel Price Differential Subsidy Payment
According to Companies**

(September 1947 - September 1948)

	Pig Iron		Rolled Steel		Total	
	Amount (¥ 1,000)	Percentage	Amount (¥ 1,000)	Percentage	Amount (¥ 1,000)	Percentage
Japan Iron Manufacturing	2,458,829	69.4	1,864,444	27.1	4,323,273	41.5
Steel pipe Manufacturing	441,913	12.5	1,046,297	15.2	1,488,210	14.3
Fuso Metal	—	—	837,514	12.0	837,514	8.0
Kobe Steel Works	—	—	565,543	8.2	565,543	5.4
Kawasaki Heavy Industry	—	—	504,895	7.4	504,895	4.9
Others	638,574	18.0	2,045,949	29.8	2,684,523	25.8
Total	3,539,316	100.0	6,864,634	100.0	10,403,958	100.0

Source: The Iron and Steel Research Institute: "*The Iron Manufacturing Industry in Japan.*"

As far as the result was concerned, the subsidization policy certainly aided the recovery of enterprises, but what was the effect of subsidy upon the enterprises prior to such a final result? Was it to adjust the prices from first to last or was it to assure the enterprises of a paying basis, including profit? The unit amount of subsidy was uniformly determined after the war but it has been stressed since 1947 that subsidy should be paid on prices not including profit.

Note: To cite an example in the case of iron and steel prices according to the price structure as of July 1947, the price factors for non-standardized bar as follows:

Expense for materials	¥ 7,242.65
Expense for operation	1,733.46
Personal expense	277.18
Other expense	1,164.32
(Of which, depreciation expense)	5.93
Income from by-products	64.49
Cost of manufacturing.....	9,093.62
Total cost	9,242.75
Proceeds for the maker	9,460.09

It is said that, under such a price structure based so strictly on cost prices that even profit was not recognized and with the subsidy payment based on such a price structure, the enterprises, so far from earning profit, had to run into the red due to inflation or the decline of production.

Note: For example, the deficit of the iron and steel enterprises resulting from the fixing of the price structure in March 1946 amounted to ¥ 320-million at the end of that fiscal year, and that resulting from the revision of the price structure in July 1947 amounted to ¥ 1,260-million at the end of that fiscal year. It was not until fiscal 1948, when the import of coal, iron ore and heavy oil became so smooth that the production exceeded the original plan and the inflation slackened, that the production became profitable by virtue of the subsidy.

Was this, however, the state of affairs that really prevailed?

If the subsidization policy was originally so designed as to aid the recovery of capital goods production on the basis of low prices and, therefore, help rehabilitate the iron and steel industry, the prime requisite must have been, needless to mention, to realize capital accumulation. Assuming, then, that capital accumulation is originally such that it can be realized by a produce-and-sell formula, namely, solely by creating the value in what is produced, what significance can be found if the subsidization policy which, by guaranteeing such creation of value, places the enterprises on a normal channel of reproduction that does not recognize profit? Apparently such seems to be a contradiction. Then, how can it be explained if by such a contradictory policy the iron and steel industry has been restored to what it is today? Is it not that "no recognition of profit" is after all a mere phraseology that actually means the reverse? If so, in what shape does such profit remain as a component of cost price? Though it is of course erroneous to depend upon a subsidy alone to meet the financial needs in managing an enterprise, it cannot be denied that whether an enterprise can be assured of profit by being subsidized is one of the questions whose solution will show what the subsidization policy really means to the recovery of enterprises. But there is a difficulty accompanying this question, namely, that there is no way to probe into the question with at least the publicly announced data for the computation of cost price. Here are a few points that

challenge this riddling, mystery-veiled postwar reconstruction of enterprises.

The Japan Iron Manufacturing Co. appropriated ¥ 284-million initial expenses in its balance sheet up until the first half of 1948, of which the borrowing from the Reconversion Finance Bank for equipment funds amounted to only ¥27-million. Thus it is said that the company had a considerable amount of funds on hand.¹⁾ Granted that the formation of such funds on hand is considered possible through the marketing of what is produced (capital increase must of course be considered and, even in the case the products are marketed, the result will differ depending upon whether they are marketed through the legitimate distribution route or on the blackmarket), the question that arises is whether or not (in the case of the Japan Iron Manufacturing Co.) there could be room for profit. Though it is impossible to make a direct answer to this question, not a few suggestions in this connection can be obtained from "*Fundamental Conditions of the Japanese Iron and Steel Industry*" (Author: Saburo Sako).

Let us take, for example, the basic unit, one of the essential conditions for the computation of cost price. A comparison of what actually prevails with what is computed by the Price Agency shows that, except in the proportion of heavy oil in the case of the Japan Steel Pipe Co.'s Kawasaki plant, the former stands below the latter.

Table 28: Basic Unit

	Computed by Price Agency	Actual level
Japan Iron Mfg. Co., Yawata plant (As of January 1949)		
Proportion of coal	1.801	1.521
Proportion of coking coal	1.120	1.109
Proportion of ore	1.720	1.635
Japan Steel Pipe Co., Kawasaki plant		
Proportion of coking coal	1.120	0.840
Proportion of heavy oil	0.163	0.188

What Mr. Sako points out is, in a word, the laxity in appraising the cost price on which a subsidy was computed.

To cite an example, when prices were revised in April 1949, the production on which to base the new price of pig iron and steel material was estimated at slightly less than 1,780,000 tons and 1,300,000 tons, respectively, or 93.6 per cent and 67.7 per cent of the scheduled production of 1,900,000 tons and 1,920,000 tons for the year. Furthermore, the gap between the calculated prices and the actual prices is considered destined

(1) The Japan Statistics Institutes: "*The Role of State Funds in Postwar Capital Accumulation*."

to increase since the former is fixed while the latter is inclined to go down provided efforts are made to rationalize the method of management and to increase the production capacity. That, at the time of the revision of commodity prices in June 1948 when the subsidization policy is said to have been in full swing, the proportion of the basis of subsidy was larger than in fiscal 1947 despite the improvement in the rate of industrial operation is nothing but an indication of laxity in the appraisal of cost prices in fiscal 1948. Hence, "it can be inferred that a huge amount of secret reserve could have been obtained in fiscal 1948 by utilizing the price structure for iron and steel and non-ferrous metals, for the proportion of subsidy increased instead of decreasing though the cost itself is believed to have been reduced."²⁾ It is also said that, in the case of plants which produced both the subsidized items ... pig iron and ordinary steel ... and non-subsidized special steel (there was a considerable number of such plants), the expenses common to both categories ... for example, the fixed cost in full ... were written into the cost price of the items to be subsidized and the cost price data thus prepared were submitted to the Price Agency, the resultant lax accounting of cost price having been only too natural.

These are a few examples of the laxity in the cost price accounting in connection with the appraisal of subsidy, which may shed light on the doubts as to whether there was room for profit or not. When the producer prices based on these loosely computed cost prices, namely, the highly politically devised artificial prices, are contrasted with the natural market prices, a new and different question arises. For instance, the gap between the official price and the free market price as of the end of fiscal 1948 is such that the relatively small demand for iron and steel products at that time is proven. When this situation is compared with the situation immediately after the end of the war when consumption goods were heavily demanded, it can be understood that the subsidization policy served to a very great extent the purpose of assuring the demand, so to speak.

Another question is that, if the natural market price at that time could keep the enterprise in a paying position, the subsidy payment must have assured the enterprise of an extra income. That is to say, the change of quotations for steel material after the subsidy was rescinded in July 1950 shows that many of these quotations were below the producer prices as of January 1950 when the price control was still in force.

(2) The Japan Statistics Institutes: "*The Role of State Funds in Postwar Capital Accumulation*."

Table 29 : Prices of Stabilization Zone Materials

(Given in yen per ton)

	Net consumer price	Subsidy per unit	Consumer price	Blackmarket price
Pig iron for steel production	13,190	9,590	3,600	7,600
Steel material (average)	29,195	15,000	15,400	25,000
Coal for specific production	3,345	2,680	1,000	7,000
Sulphate of ammonium	20,565	9,439	11,126	135,000
Soda ash	19,515	8,410	11,105	36,500

Source : Japan Statistics Institute : "The Role of State Funds in Postwar Capital Accumulation"

Table 30 : New Steel Quotations Against Previous Official Prices

(Producer Price)

	Base	Aug.	Sept.	Oct.	Nov.
Bar	19 — 28mm	94.0%	94.0%	97.8%	101.0%
Plate	12 — 25mm	96.3	100.0	100.0	105.6
Sheet	1.6 × 3 × 6mm	95.4	98.4	98.4	107.3
Wire rod	5.5mm	91.7	95.4	99.0	106.4
Tin plate	0.228 × 20 × 28mm	93.2	96.7	99.0	107.5
Gas pipe	3½ inches	103.4	105.8	111.6	115.5
Hoop	2.7mm	94.2	99.1	103.0	106.2
Heavy rail	For railway	104.3	104.3	104.3	104.3
Light rail	10. 12. 15 kg.	93.1	93.1	100.3	103.9

Source : Steel Materials Club's Reports, No. 74

In the case of quotations for August, only nine items out of the total 31 ... itemized according to bases for 11 categories ... were above the producer price. In the case of quotations for October, that is, not long after the Korean War broke out, those above the old prices constituted only 13 items. These facts can be considered, it seems, to enable us to arrive at a judgement that, even if the rise in the rate of operation and the rationalization of enterprise were taken into consideration, there was still room for the old official prices ... and, therefore, the subsidization policy ... to keep a considerable profit hidden in the cost price.

The foregoing statement is not of course a conclusion reached on the basis of an accurate computation of cost price and much must depend upon a further and more detailed study. Will not the foregoing statement, however, shed at least some light and provide some data for

speculation in regard to the question of funds on hand in the iron and steel industry and the riddle of its rehabilitation which has already caused controversies on more than one occasion in the past ?

3. Question of Funds.

That the payment of subsidy was made not necessarily to compensate, in the strict sense, for the price differentials has already been referred to in the argument on Structure of Payment. But if there was something more than the compensation of price differentials involved in the subsidy payment, what was that something? It was, needless to say, the function of relief financing. It had, as mentioned before, a relation to the overall purchase-and-sellback business carried out by the Price Adjustment Public Corporation. Evidently the moot point lay in the purchase-and-sellback procedure in spite of the fact that, actually, the finished products went to the consumers through wholesalers. It can be said that the public corporation which, with its payments for the purchases, played the role of relief financing for the makers during the period from production, through sales, to the collection of bills, came to assume to a very high degree the role of a financing organ and virtually undertook the work of temporarily easing the mounting shortage of running funds among the makers as a result of the aggravation of the postwar inflation (the demand for funds ... to a comparatively large extent short-term running funds ... can be considered to have been felt in the iron and steel industry which had a large idle capacity due to the conversion from expansion of capacity during the war to reproduction on a regressive scale after the war), thereby helping the makers keep their business in operation. There was no material difference in this function, no matter whether the public corporation purchased the products directly with its funds loaned from the Reconversion Finance Bank or through the attested-bill system in which the makers got the corporation-attested bills discounted by city banks. A survey of the income situation of a certain

Table 31 : Change in Income Situation

	August 1948	March 1949	May 1949
Proceeds	573 (22.3 %)	758 (21.4 %)	936 (17.3 %)
Sales to public corporation	659 (25.6)	1,000 (38.2)	1,218 (22.5)
Subsidy	600 (23.5)	1,050 (29.7)	2,200 (40.6)
Other	132 (5.1)	231 (6.5)	271 (5.0)
Borrowings	600 (23.5)	500 (14.1)	790 (14.6)
Total	2,564 (100.0)	3,539 (100.0)	5,415 (100.0)

Source : Bureau of Iron and Steel, Ministry of International Trade and Industry : Ditto.

representative maker by the Ministry of International Trade and Industry attests to the importance of the subsidy paid by the public corporation.

It seems justified to consider that this function of a financing organ was in itself the major objective of the subsidy payment in view of the fact that such a function was fulfilled nominally to compensate for price differentials. For, if the compensation of price differentials was the sole objective, there should have been no need of specifically adopting the complicated overall purchase-and-sellback system.

The abovementioned function of relief financing involved in the business conducted by the public corporation, however, would prove more effective when considered from a wider perspective. This is, in other words, to consider the entire question of funds ... not running funds alone but including funds for facilities ... in the relation between state funds and city bank funds. Needless to say, the Reconversion Finance Bank, Public Corporation and city banks were closely interrelated in their relation to the makers ... the RFB's loan to the public corporation, the relation with city banks through the attested-bill system which made its debut with the exit of the RFB, loans extended by city banks on the security of subsidy to be paid, direct loans extended by the RFB and city banks to the iron and steel industry, etc.

The payment of subsidy in postwar days, when considered in comparison with the Reconversion Finance Bank loans, was to help indirectly, namely, through the price mechanism, the reconstruction of capital and the increase of production. But direct loans also had to be made to cope with the crisis which could not be prevented by mere adjustment of the circulation structure while leaving the postwar degradation of productivity as it was. Hence, the debut of the Reconversion Finance Bank loans which, therefore, were originally to reinforce and implement the subsidy payment. However, the direct loans extended by the Reconversion Finance Bank, when compared with loans extended by city banks, were found to have been such in nature as to bear on behalf of private financing organs the risk in connection with capital investment. The Reconversion Finance Bank loans to the iron and steel industry occupied 73.4 per cent of the total in the case of funds for facilities while the corresponding ratio in the case of running funds was as small as 8.4 per cent. It can be inferred therefrom that the Reconversion Finance Bank, by taking the place of city banks which were reluctant to afford long-term funds because of the risk due to the aggravating postwar inflation and the resultant instability and confusion, enabled city banks to turn to the short-term loan operation which was more fluid and had a larger margin of profit.

Note: There is no room to give full details of the Reconversion Finance Bank loans to the iron and steel industry but those to some of the representative makers are epitomized in the following:

	Fund for facilities loans (Up to March 1949) (In ¥1,000)	Balance of loans (As of January 1950)
Japan Iron Mfg. Co.	712,000	752,000
Japan Steel Pipe Co.	510,726	869,428
Fuso Metal Co.	196,490	262,302

That short-term fund loans occupy an overwhelming majority of city bank loans is shown in the following figures:

	Long-term funds (In ¥1,000)	Short-term funds
Japan Steel Pipe Co. (As of the end of March 1950)	472,235	1,371,100
Fuso Metal Co. (As of Oct. 16, 1950)	146,038	1,098,920

An example showing the ratio of funds for facilities loans and running fund loans is given below:

	Funds for facilities (In ¥1,000)	Running funds
Fuji Iron Mfg. Co. (As of June 30, 1950)	257,800	2,008,000

There were also guaranty loans designed to compensate the loss suffered by private financing organs in their loan operation, which continued even after the Reconversion Finance Bank's loan operation was suspended in March 1949.

The reinforcing operation by the Reconversion Finance Bank in favor of the subsidy structure was made, in a direct sense, in the extension of loans to the public corporation as is detailed in Table 32. This dependence of the public corporation on the Reconversion Finance Bank in securing the necessary funds, however, was gradually transferred to dependence on city banks after the initiation of the attested-bill system and the decline and eventual termination of the function of the Reconversion Finance Bank.

Thus the subsidization policy, which earlier depended greatly upon the Reconversion Finance Bank, came to be closely related to city banks which, in addition to discounting the corporation-attested bills, also extended direct loans to the iron and steel industry mostly on the security of the subsidy to be paid ... an indication of the relationship between the subsidization policy and city banks.

It cannot be denied that this correlation between state funds and private funds resulted from the changes in the economic situation and general policy, such as the termination of the Reconversion Finance Bank's function and start of industrial investments from the U.S. Aid Counterpart Fund, as well as the decrease in the purchasing power of

**Table 32 : Business Funds Returns of Price Adjustment
Public Corporation**
(In ¥ 1-million)

	June 1947 to Mar. 1948	Apr. 1948 to Sept. 1948	Oct. 1948 to Mar. 1949	Apr. 1949 to July 1949	Total
RFB loans (A) :					
Borrowed	12,517	14,887	13,684	5,598	46,686
Paid	9,071	15,424	13,794	5,598	43,887
Balance at end of term	3,446	2,909	2,799	2,799	
Attested bills (B) :					
Amount attested	0	8,878	28,941	20,040	57,859
Amount cleared	0	3,541	25,310	20,455	49,306
Balance at end of term	0	5,337	8,968	8,553	
(A) plus (B) :					
Amount of funds raised	12,517	23,765	42,625	25,638	104,545
Amount repaid	9,071	18,965	39,104	26,053	93,193
Balance at end of term	3,446	8,246	11,767	11,352	
Monthly average in each term :					
Amount of funds raised	1,251	3,960	7,104	6,409	—
Amount repaid	907	3,160	6,517	6,513	—

Source : National Diet Library : Ditto

the public, general monetary stringency and the increased importance of private financing organs as a result of the national austerity finance which began in fiscal 1949-50. Despite these changes, the strong aid rendered by close combination of state funds, including subsidy, and private funds toward the rehabilitation of postwar national economy can never be denied. It will be reasonable to say that such a combination of state and private funds had begun to develop centering around the postwar subsidy system based on the extensive control of materials and prices. It will be safe to assume that, centering around the subsidy system purported to realize simultaneously the recovery of production and the restoration of orderly distribution by keeping the price level low ... no matter whether such an objective could really be realized or not ... and assisted by an auxiliary measure of strong financial help to cope with the deterrents preventing normalization of economy as a result of the aggravation of postwar inflation and the deterioration of economic order, a structure to facilitate reconstruction of capital in the iron and steel industry was formulated and, furthermore, with private funds also mobilized, the rehabilitation of national economy under the price control was being pushed forward.

As is evident in the foregoing statement, one big driving force in the postwar economic rehabilitation was the subsidization policy. And the fact that the iron and steel industry depended so much upon this subsidization policy shows where the primary emphasis in the postwar economic rehabilitation was laid. It can also be known from this fact that the control over iron and steel and, therefore, the subsidy for iron and steel remained effective longer than in the case of other commodities during the period that the subsidy and control systems were being discontinued.

Note: For example, the 41 important mining and industrial products except coal and fertilizer, which were handled by the Price Adjustment Public Corporation, were reduced to eight items including pig iron, ordinary steel material and caustic soda as of April 1950.

While there was no denying the importance of the iron and steel industry as a source of key production, it cannot be doubted that the reconstruction of capital in the iron and steel industry either by combination with such postwar bureaucratic organizations as the public corporation and the Reconversion Finance Bank or by means of aid of state funds made available by such combination was no other than the reconstruction and maintenance of the control structure that was attained during wartime. And at the same time, what had necessitated the subsidization policy and its historic character can be found in the very fact that such a protective control had to go, beyond the legal measures over external factors, into a mechanism for implementation of capital value.

VI. Abolition of Subsidy ... Subsidence of State Control.

A summary retrospection over the period from the debut of the subsidization policy until its termination shows that the enterprises, which after the war had resorted to what was called the inflation policy to obtain inflationary gains by disposing of the materials in stock, came to depend upon the subsidization policy after July 1947. This in itself was a break from the sheer inflation policy and an approach toward a policy to improve production and stabilize economy but at the same time marked a period in which the state power interfered with the national economy most overtly after the war. As mentioned in the foregoing, the postwar subsidization differed from wartime subsidization in that it saved capital out of a crisis which could not be overcome by legal measures alone. It has also been explained already that this postwar subsidization policy proved effective to a considerable extent; its effectiveness proven by the improving rate of operation, increase in the amount of production, etc. was particularly conspicuous in fiscal 1948 when the inflation began to mark time. Then, starting in April

1949, the subsidization policy showed a sign of being decreased and eventually abolished. In other words, the so-called Dodge Line appeared. Needless to say, this change of policy was closely related to the metamorphosis which took place in the political, as well as economic, situation at home and abroad. So it is very important that the entire question is considered from the international angle but, even apart from this point, the appearance of the Dodge Line meant the stabilization of Japanese economy and, furthermore, its participation in international economy. More precisely, it signified the enterprises getting rid of direct protection by the state and beginning to find their way into world economy with their own power.

Thus the subsidization policy was the strongest protective measure extended by the state toward the enterprises to help their recovery during the period of postwar economic confusion up until the time Japan could join in international economy. It was none other than a subsidization policy that enabled the enterprises to recover to such an extent.

The process of postwar reconstruction wherein the iron and steel industry was prompted to recover under protection by state capital, chiefly the payment of subsidy, terminated with the abolition in March 1951 of the subsidy payment for the iron and steel industry after a series of reductions in the amount of subsidy since fiscal 1949.

Supposing that the economic activities of private enterprises are aimed at the realization of value and therein are given an embodiment of their consummation, the function of the subsidy as an agent to bring about such an embodiment meant a direct and extremely big protection available while chaos prevailed in postwar economy. However, did the power of production thus recovered really signify that the crisis of the iron and steel industry was overcome? Can it not, on the contrary, be more properly said that the aid to the enterprises by means of this subsidization policy served only to conceal the intrinsic contradiction?

The contradiction which had arisen out of the change in the essential conditions for the iron and steel industry had to be brought to the fore as the state control, which was keeping such contradiction below the surface, came to play a less and less active role. The contradiction came to be seen in the first place in the rising prices of raw materials and production cost. On the other hand, the withdrawal of funds in circulation and the monetary stringency consequent to the enforcement of the economic stabilization policy resulted in the decline of effective demand and brought about an abnormal situation... a situation

which stood in striking contrast to a sharp upturn of production in and after the latter half of fiscal 1948 ... wherein the commodities made from materials of high prices had to be marketed at low prices, causing mounting unsalable stockpiles and increased sales on credit, and indicating that the domestic market was being narrowed down.

Table 33: Balance of Stockpiles and Sales Credit

	Stockpile of Rolled Steel Material (In ton)	Sales Credit of Ordinary Steel Material (In ¥ 1,000)
Sept. 1949	179,815	4,455,032
Nov. "	231,841	4,478,843
Jan. 1950	230,961	4,959,145
Feb. "	255,817	5,509,536
Mar. "	263,787	5,660,619
Apr. "	286,510	6,584,632
May "	294,975	7,257,143
Jun. "	256,631	8,488,437

Source: The Yawata Iron Mfg. Co.: Ditto

In the export market also, the Japanese iron and steel industry had to suffer from a decline of its competitive power because the handicap of its higher-than-the-international-level prices worsened as a result of the worldwide excess of supply over demand from the autumn of 1949, the conspicuous increase in the export of iron and steel products by Western countries, the devaluation of the pound sterling followed by similar steps in the sterling area, and so forth. To cite an example, the pig iron price was quoted \$ 51 in Japan against \$ 49 in the United States and slightly less than \$ 23 in India. As for the ratio of cost of coal and cost of ore against the pig iron price set at 100, it was 31.5 per cent each in the United States and 36.5 per cent and 13.2 per cent in India, while in Japan it stood at 51 per cent and 19.4 per cent. In order to overcome such a situation, the industry had, naturally enough, to be rationalized by decreasing the subsidy. Surplus manpower was struck off the payroll, the wage system was revamped, intensified use of labor was carried out, the basic unit was improved, heat control was strengthened, and sales expenses were cut and saved. But these rationalization efforts almost reached the limit in 1950 and the industry, it is said, was in no position to expect further rationalization unless it was enabled to modernize and highly mechanize the equipment and facilities with a vast amount of funds.

The iron and steel industry then had to depend more and more upon city banking organizations for the supply of funds after the termination of the Reconversion Finance Bank's loan operation and the change of business of the public corporation, namely, the shift from the overall purchase-and-sellback system to the new system of paying only the differential between the purchasing-and-sellback prices, etc. The industry also had to turn from the Reconversion Finance Bank's loans to loans from the newly-established Counterpart Fund in order to obtain long-term funds for facilities. It seems that great significance can be attached to this point as the sole measure available, in place of the Reconversion Finance Bank loans, for low-interest loans for long-term funds for facilities.

Table 34: Loans from Counterpart Fund to Iron and Steel Industry
(In ¥ 1,000)

	Total funds for facilities	Loans extended from Counterpart Fund
Fiscal 1949	3,966,311	1,417,305
		Japan Steel Pipe 360,364
		Japan Iron Mfg. 1,056,941
Fiscal 1950	※ 16,149,139	790,988
		Kobe Steel works 40,732
		Japan Steel Pipe 244,256
		Fuji Iron Mfg. 326,000
		Yawata Iron Mfg. 180,000
Fiscal 1951	※ 40,254,984	※ 24,417,000

Note: 1. Marked ※ is plan (estimated requirements).

2. Enji Moriguchi: "*Problems of Capital Accumulation in Iron and Steel Industry*" Analysis of Market No. 12.

Thus the position into which the iron and steel industry was forced as a result of the decrease and the eventual abolition of the subsidy was none other than a proof of the various contradictions which came to the fore as the support by the authority of the state was removed and the process of endeavors toward rationalization to survive such contradictions. Particularly the abolition of the subsidy in July 1950 caused an anxiety that it might throw the industry into a grave crisis but this anticipated crisis was averted by the almost synchronous outbreak of the Korean War which invited a worldwide trend toward rearmament and served to assure a sufficient demand for iron and steel. This not only saved the iron and steel industry from the crisis which otherwise must have hit it but, furthermore, has helped the rising prices of iron and steel

(though this was partly due to the rise in the price of raw materials), resulting in what is called the Korean War boom. But even in this boom lies a crisis, for an unbalance in the availability of pig iron for steel has come to pose a serious question in connection with the shortage of raw materials, particularly scrap. For instance, the confrontation between the through-process makers and the open-hearth makers on the pros and cons of the decontrol of pig iron can, after all, be attributed to the fact that the former has a supply of domestic pig iron under their control and evidently shows that the real question lies in the very structure of enterprise characterized by the unbalanced availability of pig iron for steel. Despite the efforts for modernization in the iron and steel industry after the outbreak of the Korean war, the contradictions replete with the danger of bursting into a crisis due to the position of raw materials or of the market or the structure of the industry itself remain unliquidated unless the efforts for modernization mean the reorientation from the very beginning, or at least as long as there is room to consider that the present boom is not a normal state of things but is a result of abnormal factors. It can rather be said that these contradictions are destined to show up in their real identity sooner or later.

Table 35: Prices of Iron and Steel after the abolition of control

Item	Base	Aug. 1950	Nov. 1950	Jan. 1951	Feb. 1951	Mar. 1951
Bar	19—28 mm	24,000	26,000	29,000	30,000	32,500
Plate	12—25 mm	26,000	28,500	30,500	32,500	35,000
Sheet	1.6×3×6mm	32,000	36,000	38,000	44,000	48,000
Ordinary Wire rod	5.5 mm	25,000	29,000	31,000	33,000	36,000
Tin Plate	0.228×20 ×28 mm	88,800	102,430	112,110	119,970	129,630
Gas pipe	3½ inches (per foot)	173.30	193.50	208.00	233.90	
Hoop	2.7×3.5 ×51~150	29,000	32,700	38,000	41,000	
Heavy Rail	For Rail way	30,000	30,000	32,500	34,500	36,500
Light Rail	10. 12. 15kg	26,000	29,000	31,500	33,500	35,500

Note 1. Prices by Yawata Iron Mfg. Co. except Hoop (by Fuji Iron Mfg. Co.) and Gas pipe (by Japan Steel Pipe Mfg. Co.).

2. Source: Steel Materials Club's Reports