

instruction in the United States or elsewhere of such persons as may be required to carry out the provisions of this Act; (v) contingencies, representation allowances, and expenses incident to the operation of schools for dependents of American personnel; (vi) purchase and hire of passenger motor vehicles and hire of aircraft; (vii) purchase, rental, operation, and maintenance of printing and binding machines, equipment, and devices abroad; (viii) construction, repair, and maintenance of buildings, utilities, facilities, and appurtenances.

SEC. 2. There are hereby authorized to be appropriated such sums as may be necessary to carry into effect the provisions of this Act. Any foreign currencies or credits acquired from operations of the program contemplated by this Act may be used to carry out the objectives set forth herein. Such sums, or parts thereof, as are appropriated under the authority of this Act or for the purposes contemplated by this Act may be transferred to or merged with appropriations of other departments, agencies, or independent establishments, as the President or an official designated by him may determine, for the purpose of carrying into effect the provisions of this Act. Any expenditure for the purposes of carrying into effect the provisions of this Act may be made under the specific authority contained herein, or under the authority governing activities of the department, agency, or independent establishment to which such amounts are appropriated or transferred, Provided, That when personnel of the services mentioned in the title of the Pay Readjustment Act of 1942, including personnel of the Air Force, and civilian employees of other departments, agencies, or independent establishments are employed primarily in the interest of the purposes of this Act, the pay,

mileage, and other allowances to which they may be entitled may be paid from the appropriations hereby authorized: Provided further, That expenditures from appropriations made to carry into effect the provisions of this Act may be made without regard to section 14 of the Federal Employees Pay Act of 1946 and to sections 355, 1136, 3648, 3709 and 3734, Revised Statutes, as amended, civil-service laws and the Classification Act of 1923, as amended, section 11 of the Act of March 1, 1919 (44 U.S.C. 111), and provisions of law prohibiting payment of any person not a citizen of the United States: Provided further, (i) That the amounts so appropriated for the twelve months' period following the passage of this Act for the economic rehabilitation of occupied areas in Japan, Korea and the Ryukyu Islands shall not exceed \$220,000,000 and (ii) notwithstanding the provisions of any other law, the Reconstruction Finance Corporation is authorized and directed, until such time as an appropriation shall be made for such purpose for occupied areas in Japan, Korea and the Ryukyu Islands, to make advances not to exceed in the aggregate \$40,000,000. to carry out the provisions of this Act in such manner, at such time, and in such amounts as the President shall determine, and no interest shall be charged on advances made by the Treasury to the Reconstruction Finance Corporation for this purpose. The Reconstruction Finance Corporation shall be repaid without interest from appropriations authorized under this Act for advances made by it hereunder.

SEC. 3. Retired personnel of the Army, Navy, Air Force, Marine Corps, Coast Guard, and Public Health Service may be employed to carry out the provisions of this Act without regard to the provisions of section 2 of the Act of July 31, 1894, as amended (5 U.S.C. 62), and section 212 of the

Act of June 30, 1932, as amended (5 U.S.C. 59a), and retired personnel so employed may receive the pay of such employment or their retired pay, whichever they may elect, without prejudice to the right to receive such retired pay upon termination of such employment.

SEC. 4. Funds appropriated pursuant to the authority of this Act and unexpended at the time of termination of the occupation by United States, of any areas for which funds are made available under this Act may be expended by the President for the procurement of such commodities and technical services as he shall determine to be necessary to assist in the maintenance of the political and economic stability of such area: Provided, That before any such assistance is made available under the provisions of this section, an agreement shall be entered into between the United States and the recognized government or authority with respect to such area containing such undertakings by such government or authority as the President may determine to be necessary in order to assure the efficient use of such assistance in furtherance of the purposes of this section: And Provided Further, That such agreement shall, where applicable, include requirements and undertakings corresponding to the requirements and undertakings specified in sections 5, 6, and 7 of the Foreign Aid Act of 1947 (Public Law 389, Eightieth Congress).

SEC. 5. The President may exercise his authority in occupied areas in foreign countries, including jurisdiction over civilians of United States or other nationality, and such other authority as is conferred upon him by this Act through such officer or officers of the Government as he may determine, and to this end may transfer any function and the authority therefor, or any portion thereof, and civilian personnel relating to the administration of

occupied areas to any department or agency of the Government: Provided, That nothing herein shall be construed to alter or affect existing provisions of law regarding the organization of the National Military Establishment or any part thereof and the command and discipline exercised within the armed forces of occupation; and Provided further, That the administration of funds appropriated pursuant to the authorization contained in this Act for rehabilitation shall be coordinated with the operations of the Administrator for Economic Cooperation, appointed under the Economic Cooperation Act of 1948.

Draft 15 April 1948

## A BILL

To provide for economic rehabilitation, reorientation, and reeducation in Japan, Korea, and the Ryukyu Islands, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the President is authorized, under such regulations as he may prescribe, in connection with carrying out the responsibilities, obligations, and objectives of the United States for the government, control, or occupation of Japan, Korea, and the Ryukyu Islands, to make provision for rehabilitation, reorientation, and reeducation of the indigenous populations, revitalization of the educational systems; rehabilitation and reestablishment of the economy in such areas; including payment, subject to such authorizations and limitations as he may prescribe, of personal allowances (not to exceed \$10 per day), traveling expenses (not to exceed those authorized for like United States military or civilian personnel), transportation, and fees incident to instruction in the United States or elsewhere of such persons as may be required to carry out the provisions of this Act.

SEC. 2. There is hereby authorized to be appropriated the sum of \$220,000,000 for the twelve months period following the passage of this Act, and such sums thereafter as may be necessary to carry into effect the provisions of this Act: Provided, That such amounts shall be in addition to any amounts appropriated for government and relief in occupied areas. Any expenditures for carrying out the purposes of this Act may be made under the specific authority contained herein, or under the authority governing the activities of the department, agency, or independent establishment to which such amounts are appropriated. Provided further, That notwithstanding the provisions of any other law, the Reconstruction Finance Corporation is authorized and directed, until such time as an appropriation shall be made for such purpose for occupied areas in Japan,

Korea and the Ryukyu Islands, to make advances not to exceed in the aggregate \$40,000,000. to carry out the provisions of this Act in such manner, at such time, and in such amounts as the President shall determine, and no interest shall be charged on advances made by the Treasury to the Reconstruction Finance Corporation for this purpose. The Reconstruction Finance Corporation shall be repaid without interest from appropriations authorized under this Act for advances made by it hereunder; and Provided further, That when personnel of the services mentioned in the title of the Pay Readjustment Act of 1942, including personnel of the Air Force, and civilian employees of other departments, agencies, or establishments are employed primarily in the interest of the purposes of this Act, the pay, mileage, and other allowances to which they may be entitled may be paid from the appropriations hereby authorized: Provided further, That expenditures from appropriations made to carry into effect the provisions of this Act may be made, when necessary to carry out its purposes, without regard to section 14 of the Federal Employees Pay Act of 1946 and to sections 355, 1136, 3648, 3709, and 3734, Revised Statutes, as amended, civil-service or classification laws, or provisions of law prohibiting payment of any person not a citizen of the United States.

SEC. 3. Funds appropriated pursuant to the authority of this Act and unexpended at the time of termination of the occupation by United States, of any areas for which funds are made available under this Act may be expended by the President for the procurement of such commodities and technical services as he shall determine to be necessary to assist in the maintenance of the political and economic stability of such area: Provided, That before any such assistance is made available under the provisions of this section, an agreement shall be entered into between the United States and the recognized government or authority

with respect to such area containing such undertakings by such government or authority as the President may determine to be necessary in order to assure the efficient use of such assistance in furtherance of the purposes of this section: And Provided further, That such agreement shall, where applicable, include requirements and undertakings corresponding to the requirements and undertakings specified in sections 5, 6, and 7 of the Foreign Aid Act of 1947 (Public Law 389, Eightieth Congress).

SEC. 4. The administration of funds appropriated pursuant to the authorization contained in this act for rehabilitation shall be coordinated with the operations of the Administrator for Economic Cooperation appointed under the Economic Cooperation Act of 1948. The functions of the Joint Committee on Foreign Economic Cooperation, provided for in Sec. 124 of said act shall likewise apply to any program of economic assistance promulgated under the provisions of this Act.

JEROME B. COHEN

231 EAST 76 ST. APT. 8A

Ans. 4/29/48  
DRF: jrb: av.  
NEW YORK 21, NEW YORK

Dear Jack:

25 April

I am enclosing the form you sent. I had not replied sooner because Warren had said he would let me know about the consultantship and I was waiting to hear from him. I now assume your joint ideas merged together in the letter you first sent me and I regret not having come to that conclusion earlier.

You sent only one form - the earlier ones could not be changed adequately - and therefore if two or three dozen more are required would you be kind enough to have your secretary type in the proper answers and then either forge my signature or send them on to me for signing. I'll return them promptly.

I have a boon to ask - I'm coming up for promotion at the College shortly and a letter from you or Warren indicating you would like to have me come with you as a consultant on Japanese economic affairs, would be a useful exhibit to convince the Faculty of my general worthiness. To be thoroughly useful it would have to have Japan Branch - Division of Research for Far East, below your signature. I'd appreciate this no end.

Sorry for the delay - hope this works out.

Regards to all - Warren, Bill, Stan, Martin etc.

Sincerely,  
Jerry

Administrative routing stamp with fields for 'To', 'By', 'Date', and 'Dist'. Includes handwritten initials 'JK' and 'MK'.

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In reply refer to  
DRF

My dear Mr. Cohen:

Your letter of April 25, 1948 has been received. I am happy to report that a personnel action recommending your appointment as a consultant in the Division of Research for Far East has been initiated. This recommendation for personnel action states that under the direction of the branch chief, you will act as consultant on problems of economic research dealing with Japan and Korea. You will advise the branch chief on the development of an economic research program and will assist in the organization of major studies dealing with problems such as: the role of public and private finance in Japan's economic recovery; taxation in Japan; the importance of Japan in rehabilitation and reconstruction of Far Eastern countries, etc. You will also act as an adviser to divisional personnel and the policy-making officers of the Department on problems of domestic and international finance, exchange rate and other currency problems, Japanese administrative techniques, etc.

Should this action be successfully completed, you will be promptly notified by the Division of Departmental Personnel.

Sincerely yours,

Jack W. Lydman  
Acting Chief, Japan Branch  
Division of Research for Far East

|       |                   |
|-------|-------------------|
| Asst. | <i>[initials]</i> |
| Secy. | <i>[initials]</i> |
| Col.  | <i>[initials]</i> |
| Dist. |                   |

Mr. Jerome B. Cohen,  
231 East 76th Street,  
New York 21, New York.

CR  
APR 30 1948

DRF:JWLydman:as

4/29/48

DP (Cleared by phone  
with Mr. Hallman)

CS/V

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STANDARD FORM NO. 64

## Office Memorandum • UNITED STATES GOVERNMENT

TO :

JAA

DATE: April 26, 1948

FROM :

MG *mg*

SUBJECT: OE's "Proposed Outline for State Department Briefing of Deconcentration Review Board Members."

This proposed outline has already been somewhat toned down in the light of RAF's oral comments to Mr. Owen last Friday on an earlier OE draft outline.

Nevertheless I believe that the attached outline still fails to achieve the proper balance between the need to relieve uncertainties attendant upon the deconcentration program and the need to remove excessive concentrations of economic power - this outline being overweighted in favor of the latter need. The "Introduction" sets the tone for this document by intimating that the State Department should proceed in its discussions with the DRB on the assumption that the Army has given no affirmative justification for the deconcentration program. I think that such an approach would have the unfortunate impression upon the DRB that the State Department lacked balance and objectivity. I feel that our presentation should make every attempt to approach this problem as thoroughly and objectively as possible, with particular emphasis upon the uncompleted aspects of the program.

As examples of the lack of balance in OE's outline, I submit the following:

a. Paragraph 2b states that certain groups such as working men and consumers suffered because of "great power of excessive concentrations." No mention is made of the possibility that Japanese workers and consumers might have been beneficiaries of the relatively high standard of living attributable in large degree to the remarkable efficiency of concentrated economic power.

b. Paragraph 2c states that the concentration of economic power so closely allied to Government constituted a powerful support for totalitarianism. I think the emphasis of this paragraph should be that such concentrated economic power could constitute a support for totalitarianism but not that it always has done so in fact.

c. Paragraph 4a states that divested holdings "must be sold quickly to prevent socialism". It would seem from a reading of this paragraph that socialism is a horrible fate that will assuredly befall Japan if the securities of divested

companies

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companies and properties are not sold. I think many competent observers of Japan would agree that Japan must inevitably embrace some day some degree of socialism although they would certainly not favor the retention of divested holdings by the Japanese Government. Furthermore this paragraph makes no mention of the all-important consideration - into whose hands are the divested holdings to fall? From evidence supplied the Department by US POLAD, Tokyo, there are no effective measures to regulate the ultimate disposition of shares sold through public tender, and there is every reason to suppose that the new yen or black market class - the only one at present having liquid wealth - will eventually supplant the Zaibatsu as owners of Japan's corporate wealth. These and related problems should certainly be brought to DRB's attention. As you have well observed, even if the holdings of the new yen class are restricted through operations of the new anti-trust law, there still will be a "retrogression in the type and character of Japanese industrial and commercial leadership".

d. Paragraph 4c states that the reorganization of financial institutions is absolutely essential. I do not know if this statement is consistent with current State Department thinking but I am aware from discussions in SCAP Headquarters that there are certain SCAP officials familiar with this problem who entertain fears that the reorganization of Japanese banks will create uncertainties of a sufficiently grave character as to affect Japanese economic recovery.

. . . . .

Since writing the foregoing, Mr. Owen has inquired concerning NA's reaction to the proposed outline. I told him that I had specific objections along the above lines. He has agreed to redraft the outline in order to: (a) delete paragraph 2b and include part of its thought in paragraph 2a; (b) rephrase paragraph 2c to state: ". . . so closely allied to Government as to constitute a potential support for totalitarianism"; (c) rewrite paragraph 4a in order to incorporate the suggestions we have on this subject; (d) delete the opening phrase in paragraph 4c "Reorganization of financial institutions and other"; (e) rewrite the "Introduction" in order to emphasize the dangers of carrying the deconcentration policy too far or over too long a period of time.

NA:MGGreen/pm

Proposed Outline For State Department Briefing Of  
Deconcentration Review Board Members

Introduction

In all likelihood, the briefing which the Deconcentration Review Board has received from the Army has been lacking in any affirmative justification for the deconcentration policy. One of the chief purposes of State's briefing session should be to explain the reasons for the policy's existence.

1. Nature of pre-war organization of Japanese economy.

a. Extent and magnitude of concentrations of economic power: unparalleled anywhere else in the world.

b. Means through which concentrations were established and maintained; security holdings, and prestige of the Zaibatsu, their use of holding companies and over-sized operating companies, their excessive concentration and discriminatory use of credit.

2. Effect of pre-war concentrations of economic power in Japan.

a. Productive efficiency: were uneconomic or restrictive in many cases; also prevented independent businessmen and local management from exercising initiative. [However, may have contributed, in some cases, to securing economies of large scale operations, rationalization of the economy, and efficient foreign trade operations.]

b. Distribution of goods and services: certain groups such as workingmen and consumers suffered because of great power of excessive concentrations.

c. Political; concentrated economic power in such a small group so closely allied to government as to constitute a powerful support for totalitarianism.

3. Formulation of U.S. policy with respect to excessive concentrations.

a. U.S. Government's "Initial Post-Surrender Policy Statement" sent to SCAP as directive: very general language.

b. State and Army Departments jointly sent out "mission on Japanese combines" at request of SCAP. Mission's report submitted to State and Army Departments via SCAP, with SCAP's comments.

c. FEC-230 prepared on basis of the mission's report by SWNCC, then revised by SWNCC in light of SCAP's specific suggestions for changes, then approved by SWNCC and introduced into FEC. Not approved by FEC, and so not sent to SCAP as directive. Most FEC governments favor, if anything, more vigorous Zaibatsu policy than the United States - some countries favor nationalization of divested holdings.

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d. Policy under review by U.S. Government in past few months. New policy statement will probably now be prepared and sent to SCAP.

4. Uncompleted aspects of deconcentration program in Japan.

a. Securities divested from Zaibatsu individuals and holding companies, and now held by government: must be sold quickly to prevent socialism.

b. Reorganization of listed enterprises: should be carried out quickly -where it would not interfere with recovery- [to end business uncertainties. To this same end, enterprises not to be reorganized should be removed from the designated list as quickly as possible.]

c. Reorganization of financial institutions and other measures to increase number of credit sources and terminate discriminatory credit relationships: absolutely essential, if deconcentration program is to have lasting effect. [Unnecessary disorganization of the Japanese economy at a critical period should, however, be avoided.]

5. Conclusion: Program should be accomplished as rapidly as possible to aid Japanese recovery. Increasing responsibility should be delegated to Japanese, so that the program will be carried out in a fashion likely to be accepted and maintained by the Japanese after the occupation, even if this involves divergences from the ideal pattern conceived by SCAP officials. At the same time, sufficient SCAP pressure must be maintained to bring into being new owners and entrepreneurs who will have vested interest in preserving, and who will lend an element of stability to, a more free Japanese economy than existed before the war. 24

MEMBERS OF  
DECONCENTRATION REVIEW BOARD

1. Roy Stuart Campbell, Chairman of Review Board; President and General Manager of New York Shipbuilding Corporation.
2. Joseph V. Robinson; Engineer; Owner of Joseph V. Robinson Corporation; associated with New York Connecting Company.
3. Edward J. Burger; Vice President, Director and General Manager of Ohio Public Services Company; also Chairman of a bank in Ohio.
4. Walter R. Hutchinson; with private law firm here in Washington and also formerly Special Assistant to Attorney General Tom Clark - Anti-Trust Division of Justice Department.
5. Byron D. Woodside; presently member of Securities Exchange Commission, Assistant Director of Corporation Finance Division.

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WAR DEPARTMENT  
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| 1 | NAME OR TITLE<br>Mr. P. P. Claxton, Jr.    | <input type="checkbox"/> | <input type="checkbox"/> |
|   | ORGANIZATION AND LOCATION<br>Dept of State | DATE                     | CONCURRENCE              |
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894-50/5-548

REMARKS

The attached statement is satisfactory to the Department of the Army on the condition that the Department of State fully recognizes the general relation of this statement to the broad overall U. S. Policy Paper on Japan, now under discussion between the Departments of State and Army.

The Department of the Army has no objection to the presentation of this statement by the U. S. Member of the FEC to the FEC at its 6 May meeting.

*see 894-50/4955*  
*H. O. Paxson*

CONFIDENTIAL

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|   |                         |
|---|-------------------------|
| FROM NAME OR TITLE<br>H. O. PAXSON, Colonel               | DATE<br>5 May '48       |
| ORGANIZATION AND LOCATION<br>MSB, P&O, Department of Army | TELEPHONE<br>Army x2283 |

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WAR DEPARTMENT  
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The Department of the Army has no objection to the presentation of this statement by the U. S. Member of the FEC to the FEC at its 6 May meeting.

*HOP*

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|--|--------------------------------|
| FROM NAME OR TITLE<br><b>H. O. PAXSON, Colonel</b>                   | DATE<br><b>5 May '48</b>       |
| ORGANIZATION AND LOCATION<br><b>MSB, P&amp;O, Department of Army</b> | TELEPHONE<br><b>Army x2283</b> |

MAY 19 1948  
FILED



DEPARTMENT OF THE ARMY  
OFFICE OF THE UNDER SECRETARY  
WASHINGTON, D. C.

6 May 1948

*W.H.D.*  
11 May 48

Honorable Charles E. Saltzman  
Assistant Secretary of State for Occupied Areas  
Department of State  
Washington, D. C.

Dear Charlie:

I enclose a memorandum on Japan, following our conversations this morning, which I thought might be of interest to you and which was written by a friend of mine who was in Japan earlier this year and who has had close contact with the occupation during much of the period since the end of the war.

I have just phoned him and asked whether he thought the commercial rate could be adopted immediately. He thought not, but considered that it would not need to wait full budget balance. He suggested that four steps should be taken simultaneously and as soon as possible as follows: (1) setting of a commercial exchange rate; (2) rigid control but not necessarily balancing of the budget; (3) a definite policy on deconcentration (I pointed out to him that the Deconcentration Review Board had just arrived in Japan, that 194 of the 395 companies designated under the law had now been removed from the list, and that the purpose of the Board was to define as quickly as possible the policies and methods under which actual reorganization of monopolistic controls would be implemented); and (4) definite announcement and institution of comparable price and wage policies.

The attached memorandum, I think, will be of considerable interest to you in connection with the conversations today.

Sincerely yours,

*Bill*

William H. Draper, Jr.  
Under Secretary of the Army

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ASSISTANT SECRETARY  
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MR. SALTZMAN  
DEPT. OF STATE

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# COPY

April 1, 1948

## JAPAN

Things in Japan are coming to a head. That certainly was the overriding impression I gained during my last visit there two weeks ago.

At the beginning of the occupation, General MacArthur is said to have remarked: "If the occupation lasts two years it will be a great success; if it lasts three years it still has a chance of being a success; if it lasts beyond that its success is doubtful". It has now lasted two and a half years. It has been a success to date. Whether it has a chance of continuing to be one will be decided in 1948.

There are four developments which in addition to the very broad considerations that must have prompted General MacArthur's prophesy quoted above, point to crucial decisions in 1948:

First, Japan has a new Government. It differs from its predecessor only in that a Right Wing Centrist presides over a Cabinet which includes not only the Center but even the Left Wing of the Socialists, whereas in the previous one a Socialist Premier had presided over a Cabinet made up largely of Center and moderate Socialist elements. The broader base which the new Government may claim to have is in some ways a disadvantage as the Left Wing Socialists have joined it on the express understanding that they retain freedom of action; and to that extent the new Cabinet is in a more precarious position. The previous Cabinet was ostensibly defeated over an issue of economic policy, i.e. the balancing of the budget. The same divergence of opinion still prevails and it is therefore generally assumed that the new Cabinet may not live beyond this summer or year-end. This will probably mean new elections which, in turn, might be interpreted by the country at large as evidence that a political coalition pivoted on the Center cannot succeed in Japan at this time and that the country must choose between the Right and a clear-cut combination of Left Wing forces. This issue is, of course, fundamental.

Second, overall American policy toward Japanese rehabilitation is reported to be crystalizing toward a definite and more positive concept. A high-caliber U.S. Economic Mission is now in Japan to study the problem and all interested Government agencies in Washington appear to be moving toward realistic determination as to exactly what steps are necessary to restore Japanese economic self-sufficiency by certain target date. Decisions will necessarily have to deal with the issue of "economic decentralization" which had aroused considerable public controversy in America and is probably the one concrete issue on which the Japanese themselves have openly tried to defy SCAP -

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obviously unsuccessfully. Without a clear-cut integrated decision on this issue a sustained rise in industrial production and private business enterprise in Japan is impossible.

Third, some months back SCAP ordered that the national budget be balanced at all costs, in order to stem inflation. Many economists in Japan and particularly the economic planners of the Left contended and do contend that immediate and rigid balancing of the budget would cause more and not less distress and chaos and unrest. In their view, stabilization of the sickly Japanese economy, including balancing of the budget, must be a tapering-off process and not a horse cure. So far, SCAP's order to balance the budget - regardless - still stands, but there is as yet no evidence that the new Cabinet is willing or able to implement the order right down the line. If it falls, it will most likely again be over this issue which is fundamental as it touches upon the core of economic policy.

Also included among economic policy decisions to be made in the near future is the establishment of a commercial rate of exchange. Both SCAP and the Japanese Government now appear to realize more clearly than they did before that (a) a rate of exchange is absolutely necessary in order to develop private foreign trade (b) multiple rates are probably worse than no rate at all, and therefore a uniform rate is the thing to strive for (c) without a uniform rate it is impossible to rationalize export industries and to plan specific measures for eventual self-sufficiency on international account.

Fourth, because of political developments in the rest of the world a peace treaty for Japan cannot be expected in the near future. Nor is it now likely that a civilian Allied or U.S. authority will assume responsibility for the supervision of the Japanese Government and economy as soon as had been expected. If thus the Army is to remain in complete charge for some time to come, organizational changes, some of them basic, are urgently called for.

Let me now comment briefly on some of these problems.

The present drive for a balanced budget makes, of course, a lot of sense. No Government is ever able to balance the budget, particularly after a lost war, unless there is overwhelming compulsion to apply the big squeezer in spite of all the painful readjustments, group hardships and political opposition that inevitably follow. SCAP's order to balance the budget provides just that sort of compulsion (and for the Japanese Government the necessary pretext) and in addition, was well timed as it came just about when inflation in Japan began showing signs of tapering off: the note circulation of the Bank of Japan had been going down in recent weeks; tax collections had been heavy, largely because of strong action taken by SCAP; Government disbursements showed a reduction; and above all, black market prices had lately remained fairly steady and in some cases had even declined.

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Unfortunately, these deflationary symptoms were and are not indicative of a fundamental and permanent change in the inflation spiral and I am not sure that this has been thoroughly understood. Note circulation went down because tax collections were forced up by means of certain extraordinary measures taken directly by SCAP. These sort of measures cannot be repeated and, this year at any rate, had the effect of mobilizing capital rather than current income; as a matter of fact, this almost forced collection of taxes has only created new demand for bank credit, which the banks can satisfy only by stepping up their borrowings from the Bank of Japan, which in turn will soon be reflected in another increase in note circulation. Government disbursements have been low and continue low because there has been a Government crisis and because there is general uncertainty over the budget. Black market prices have remained steady or have declined because of very satisfactory food imports from the United States, strong measures taken by SCAP to enforce improved distribution and the availability of an unusually good domestic rice crop.

I do not wish to suggest that these developments have not helped to relieve inflationary pressure, but my point is that most of them are of a temporary nature. In addition, there is a new factor in the picture which may well become the most serious threat to Japanese efforts at stabilization yet encountered. That threat comes from labor. Whereas last October I felt that labor leadership was on the whole fairly reasonable, there is no question but that conditions have since deteriorated considerably. As against a basic wage standard of 1800 yen per month adopted by the Economic Stabilization Board last year, wage demands are now starting from a level of 3,000 yen per month up and in many cases go a good deal beyond that. In other words, wages have started a trend of rising considerably faster than either official or black market prices. Provocative abuse of labor power is definitely on the increase and is encouraged, rather than counteracted, by the weak-kneed attitude of management, even when confronted with quite unreasonable and illegitimate demands. This attitude of submission to labor on the part of management is generally ascribed to fears of SCAP support of labor demands in case of a show-down, but there is absolutely nothing on the official record to lend support to these apprehensions as to SCAP's role. There again some clear policy pronouncement by SCAP is definitely called for in the near future and may be expected.

As long as the present labor situation persists there is no hope of effectively stabilizing the Japanese price structure, and in my opinion, premature to insist on the rigid and immediate achievement of a balanced budget. The time to do so is in conjunction with the crystallization of definite and concrete plans for industrial rehabilitation, including settlement of the decentralization issue, adoption of a definite labor policy and establishment of a commercial rate of exchange. As an integral part of a coordinated reconstruction program, the balancing of the budget is absolutely essential and will perhaps be the most important single factor in curing inflation once and for all. But until such a

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coordinated program is adopted, the emphasis should be on retrenchment and strictest economy in Government expenditures, without insisting on the immediate and complete balancing of the budget.

As regards economic decentralization, I can only report that the forces of fairness and reason appear to be gaining ground over prejudice and doctrine. As I have pointed out in previous reports, there is indeed room and real need for considerable decentralization in the field of Japanese industry, and it would be tragic if in a hasty and exclusively short-term-minded reversal of previous policies we were to abandon all efforts at correcting one of the crucial sources of political and economic diseases of the past. But to accomplish what is basis and to build for the future, we must not rampage like a bull with horns made of vindictiveness and eyes blinded by reform lust in a china shop for which we feel responsible; we must proceed with practical discretion, careful attention to production potentials in essential industries and fair treatment of property rights. It can be done. The sword-of-Damocles-like effect of the present program is absolutely killing initiative and planning for the future and the sooner a clear-cut decision is made as to how far the United States Government wants Japan to go in that respect, the better it will be for general recovery. Except possibly in the case of one or two institutions I still feel that extensive decentralization in the field of banking and insurance would be most unwise, particularly as former abuses and bad banking practices stand a good chance of being corrected under a new comprehensive banking law now in preparation and shortly to be submitted to the Diet.

On the subject of a rate of exchange I feel reasonably sure that no specific rate has been decided upon as yet, mainly because the final rate will obviously have to depend on the level of the general price structure at the time it is established. If a rate had to be decided upon today I should think that something like 200 yen per dollar would be a fair conversion factor for Japanese foreign trade. In that case I believe an exchange rate of 175 or 180 would be about right as I hold that a country in the condition that Japan is in would be well advised to adopt a rate somewhat below what might be considered the "market" rate.

Considerable thought is now also being given by SCAP to the problem of foreign investment. As long as there is no peace treaty the acquisition of business property by foreigners may run into difficulties under international law as the accepted rules of land warfare provide that the acquisition of property by the Occupying Power may later be claimed by the Occupied Power to have taken place under duress. Also there is a natural tendency to avoid discrimination against those who, for no fault of their own, are unable to visit Japan now or who for one reason or another have to be restricted in their business operations. I believe that so far no concrete transaction involving foreign investment has taken place in Japan except, remittances from foreign organizations, missions, individuals etc. and the occasional acquisition of

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residential property by licensed foreign business operators. The leasing of foreign equipment and machinery to Japanese industries or the entering into technical assistance contracts are possibly the best ways in which foreign interests may gain a foot-hold in Japan under prevailing circumstances. It should be remembered in that connection that for the time being there is no possibility of obtaining protection of foreign patents in Japan, but this should not be considered too serious an obstacle because as long as SCAP retains jurisdiction in Japan the risk of Japanese infringements would seem rather remote.

Generally speaking, industrial production has made practically no progress since last October, the overall percentage still being only about 44% of the accepted base period, as against slightly over 40% six months ago. The lag in production is due to lack of raw materials, to prevailing uncertainty over "economic decentralization" referred to above, transport difficulties and labor unrest. Coal production has kept up rather well and is now increasing slowly. Unfortunately the good effect that this might otherwise have had on industrial production is off-set by a very serious water shortage in certain parts of the country, which, in turn, is adversely affecting power out-put.

Industry is very badly in need of refinancing and additional working capital. All hope of stabilizing the budget is futile, now or later, if we create, or permit, a situation where Government is the only source of new investment --- that is unless we are bent on pushing Japan toward a completely socialized economy. The only other alternative is to encourage formation and flow of private investment. This means insistence on far-reaching rationalization of industry --- instead of mere structural and balance-sheet re-organization as attempted so far; it also means the reopening of Stock Exchanges; more orderly but strictly supervised procedures for disposing of Zaibatsu securities, and a reorientation of tax policies. All these things, too, are expected to come to a head in 1948.

Foreign trade is limping along. There is definite progress in some respects and increasing difficulties in others. Exports of cotton textiles - back-bone of Japanese foreign trade - have almost come to a stand-still. All cotton fabrics made out of American cotton previously financed through the Credit Commodity Corporation must be sold in dollars in order to repay outstanding dollar indebtedness and there just aren't any dollars left in the markets to which Japan has a chance of selling textiles. If the Credit Commodity Corporation could be induced to modify the clause preventing SCAP from exporting textiles against currencies other than dollars, Japan would at least be able to dispose of her textile production in the sterling area where there is still an enormous demand for such textiles. Stocks of cotton textiles at present piled up in Japan are about 250 million yards of cloth and over 100 million pounds of yarn. This situation is certainly unhealthy for everybody concerned and calls for prompt action.

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In two respects general understanding of Japan's foreign trade potential has made progress of late. First, everybody seems now finally agreed that Japan's foreign trade orientation must of necessity be toward the sterling and other soft currency areas rather than the dollar area. This will make it necessary for Japan to minimize the use of dollar credits as otherwise her foreign exchange position is bound to become untenable. Second, it is now keenly realized that real recovery in Japan is almost inconceivable without some sort of stability in China, even if temporarily confined to a truncated area. Public feeling against revived trade with Japan, previously so strongly entrenched in China and the Philippines, is gradually on the wane and this is therefore the time to make every possible effort - on all sides and without sacrificing Asia's justified claim for protection against possible future aggression by Japan - to help and promote trade within the Pacific basin.

The imminence of major policy decisions in so many fields in the months to come calls special attention to the organizational set-up of SCAP. It is my firm conviction that once these decisions have been made at the top level, responsibility for implementation should to an increasing extent be turned over to the Japanese themselves. Instead of preparing for the gradual transferency of responsibility, SCAP has so far been getting more and more deeply involved in operational details of running the Japanese economy. We have neither the qualified personnel nor the organization at home to back up that sort of an occupation indefinitely. The Japanese must be made to feel that they will have an opportunity to work for their own benefit and in their own ways. 100 to 200 qualified men of mature judgement and experience can do more to exercise effective supervision and control of Japan than 3,000 mediocre officials who get lost in details and who spend half their time arguing among themselves as to how top level policies are to be implemented. To find those 100 men would certainly be a great deal easier if the whole SCAP organization were to be trimmed down to a compact team of key supervisors. Under such a set-up each man would be carrying increased responsibility and would be able to focus his attention on a few carefully selected control targets. In that way, we will be better able to follow and, whenever necessary, direct the really important trends while at the same time letting the Japanese run their affairs as much as possible in their own ways.

The over-towering personality of General MacArthur has been a binding force of immense strength to date. The possibility that he may retire from the Japanese scene in the not too distant future, either because of political developments at home or for personal reasons, lends great urgency to this question of reorganization within SCAP.

Thus, in that respect, too, things may come to a head in Japan in 1948.

# INCOMING AIRGRAM

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

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AIRGRAM 275

FROM: American News Service  
Manila, Philippines

Date of Mailing

Rec'd:

June 1, 1948

Office of  
FAR EASTERN AFFAIRS  
JUN 2 - 1948  
DIRECTOR  
Department of State

DEPARTMENT OF PHILIPPINE AFFAIRS  
JUN 2 1948  
DEPARTMENT OF STATE

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JUN 18 1948  
DEPARTMENT OF STATE

Secretary of State  
Washington.

A-225, May 20, 1948

Appropos the release of the Army's "Johnson report" upon Japan, both the American owned and edited MANILA BULLETIN (which calls the report the "Draper" instead of the "Johnson report") and the MANILA TIMES this morning published critical editorials, the full texts of which are presented below.

Always skeptical of any United States plan to rehabilitate Japan, the BULLETIN calls attention to the fact that the Army's report offers no assurance that Japan's industrial rehabilitation would not be accomplished at the expense rather than the benefit of neighbor nations. While granting that the United States Army has valid moral and financial reasons to wish to relieve itself of occupation burdens, the BULLETIN editor feels that the Army "if it is to do the right thing" will have to produce a better over-all policy than that suggested in the "Johnson report".

To the TIMES editor there is nothing new in the suggestion to scale down Japanese reparations and thereby "coddle and nurse Japan back to a position of pre-war power." His heaviest broadside, however, is directed against the recommendation of the "Johnson report" which would have SCAP take unilateral action in settling the reparations questions since the Far Eastern Commission has been unable to reach an agreement.

Text of MANILA BULLETIN editorial: (May 20, 1948)

### THE DRAPER REPORT

That report of the mission headed by William H. Draper, Jr., undersecretary of the U. S. army, published yesterday, confirms a long-suspected attitude of occupation forces and the U. S. government as one of eagerness, anxiety almost, to get out from under the terrific financial burden of supporting a conquered nation of Japanese people.

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A-225 From Manila

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May 20, 1948

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The mission took a long look at Japan's economic condition and came up with the conclusion that not only is continued American aid necessary, but the help of other Asiatic countries with whom Japan still is technically at war is additionally required to make the country self-sustaining once more.

One wonders why a mission of investigation should have been necessary to establish the fact that Japan is relatively poor and in need of many things to sustain her people. Anyone would take even the army's word for that. If the function of the mission was intended to produce convincing and logical reasons why other Asiatic countries should pitch in and help Japan return to her pre-war position in trade, commerce and industry, it was a miserable failure.

For the report to the army did not offer any assurance at all that a rehabilitated Japan would increase the chances of maintaining peace in the Pacific or elsewhere, nor that the very process of rehabilitation would not be accomplished at the expense rather than the benefit of neighboring nations. The machinery of peace by which Japan once gained trade and industrial supremacy was just as efficient and only slightly less ruthless than the machinery of war by which they sought to clinch their monopolies. Does anyone think that in three short years the Japanese have forgotten how to do it again?

The report said Japanese industry was operating at a very low level-less than forty-five per cent of the 1930-34 average. That comparison is revealing. Why should the commission pick Japan's most prosperous and productive years for comparison? It might be inferred that when they refer to making Japan self-sufficient they mean to bring it back to the level of its greatest prosperity. Such a goal would not elicit sympathetic assistance from countries suffering worse than Japan is suffering from the aftermath of a war which Japan conceived and started, and of which they were the unwilling victims.

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C.P. McVicker:rlj

CONTINUED IN AIRGRAM NO. 226, dated May 20, 1948.

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# INCOMING AIRGRAM

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AIRGRAM

FROM: American Embassy  
276  
Manila, Philippines

Date of Mailing:

Rec'd:

Office of  
FAR EASTERN AFFAIRS  
JUN 2 - 1948  
DIRECTOR  
Department of State

June 1, 1948 10:23 am

DIVISION OF PHILIPPINE AFFAIRS  
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JUN 2 1948  
DEPARTMENT OF STATE

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Secretary of State,  
Washington.

A-226, May 20, 1948 (CONTINUED FROM AIRGRAM NO. 225, dated  
May 20, 1948.)

The United States army has many good reasons, moral as well as financial, to wish to relieve itself of the terrific burden of occupation. It is getting blamed for coddling and assisting a superficially docile enemy while friendly nations are in worse trouble than Japan, and spending \$400,000,000 a year of American taxpayers' money to do it. It is concerned over a newborn generation of Japanese who had nothing to do with starting or fighting a war. But if it is to do the right thing it will have to come up with something better than the Draper report as an over-all policy.

Text of the MANILA TIMES editorial: (May 20, 1948)

SLIGHTLY UNREASONABLE

The so-called Johnson report on Japanese reparations as submitted by the United States Army reflects pretty much the line taken recently by big business, to the effect that everything short of war must be done to coddle and nurse Japan back to a position of power.

There is the familiar suggestion that Japanese reparations be scaled down to a new low, and the warning that extensive aid must be given Japan to bring her up to what brief-bagging experts, carefully drilled in what they were to find, recommend as her "rightful place."

So far there is nothing new.

But a novel angle is introduced in the proposal that unilateral action be taken by SCAP to settle the reparations issue, since there appears to be no chance of agreement in the Far Eastern Commission of 11 nations.

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A-226 From Manila

May 20, 1948

In other words, the report, drawn up by a commission stemming directly from the War Department, and therefore reasonably to be regarded as speaking for the department, recommends arbitrary action on Japan according to its own lights, and in defiance, if necessary, of the opinions and desires and convictions of any or all of the other ten nations on the commission.

To say that such a recommendation is undemocratic is to achieve the ultimate in understatement. We cannot believe that the United States government can or will do anything but reject the thesis that it can act arbitrarily and flagrantly on any international issue, just because big business in American demands such action.

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Enclosure to Despatch No. 307 dated May 27, 1948 from the Office of the Political Adviser for Japan, Tokyo, on the subject, "Transmission of Report of Survey Trip through Northern Japan".

Report of Survey Trip Taken by David M. Bane, Second Secretary of Mission, to Points in Northern Honshu and Hokkaido, During the Period May 5 to May 12, 1948.

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- I. Purpose.
- II. Itinerary.
- III. General Comments.
- IV. Niigata Prefecture.
- V. Akita Prefecture.
- VI. Aomori Prefecture.
- VII. Hokkaido District.
- VIII. Miyagi Prefecture.

I. Purpose:

The survey trip referred to above was taken under the authority of General Headquarters, Far East Command, Order 110-12, dated April 28, 1948 in connection with this Mission's orientation and training program for recently assigned Foreign Service Officers and, in so far as time permitted, utilized as an opportunity to obtain a first-hand indication of Japan's economic potential in the areas visited and to contact wherever possible individuals primarily concerned with economic matters.

II. Itinerary:

Departed Tokyo for Niigata (via Karuizawa, Nagano, and Noetsu) at 0800, May 5, and arrived Niigata at 2300, May 5 (day coach for Occupation force personnel available but no dining facilities).

Departed Niigata for Akita (via Niitsu) at 0933, May 7, and arrived Akita at 1800, May 7 (Japanese day coach accommodations only and no dining car).

Departed Akita for Aomori at 0715, May 8, and arrived Aomori at 1215, May 8 (day coach for Occupation force personnel available on alternate days).

Departed Aomori for Sapporo at 1630, May 8 (via car ferry), and arrived Sapporo at 0800, May 9 (sleeping car accommodations available from Hakodate to Sapporo).

Departed Sapporo for Sendai at 2130, May 9, and arrived Sendai at 2120, May 10 (sleeping car accommodations available from Sapporo to Sendai, with meals served both on car ferry and train).

Departed Sendai for Tokyo at 2130, May 11, and arrived Tokyo Station Wednesday morning May 12 (sleeping car accommodations available).

III. General

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May 27, 1948.

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III. General Comments:

As is indicated by the above itinerary, time in relation to the distance traveled did not permit a thorough or a detailed investigation of any one particular subject, nor was such the purpose of the trip. Since the trip taken was primarily intended to afford a basis upon which to form opinions of Japan other than that provided by residence in Tokyo, general impressions as well as comments upon points of interest are included. Furthermore, this survey is submitted with the realization that statements made by various individuals contacted enroute represent only personal statements and opinions and have not been subjected to independent investigation.

IV. Niigata Prefecture:

Although the trip from Tokyo to Niigata takes approximately fifteen hours, it has its compensations in terms of scenic beauty. From Karuizawa to Naoetsu on the Sea of Japan, it was particularly interesting, snow-capped mountains providing the back-drop for Nagano's apple-blossoms. Arriving about midnight, I postponed the formation of my impressions of Niigata, undamaged by war, until after breakfast, at which time, enroute to Military Government Headquarters, as a Tokyoite, I was probably impressed most by the absence of street cars and the presence of numerous Japanese civilian busses and autos being operated without the benefit of smokestacks and other protrusions observed in other parts of Japan where charcoal and other solid fuels are used. The secret, as I learned, was the use of compressed Niigata Prefecture natural gas, carried in bottles installed in the trunk compartment. It is believed that such a substitute fuel for automotive vehicles, if developed commercially, might prove to be of considerable economic importance to oil-short Japan.

In conferences both with Shohei OKADA, Governor of Niigata Prefecture and Chusaku MAEDA, Director of the Economic Department of the Prefectural Government, the importance to the Prefecture and to Japan of the Prefectural natural gas fields, currently in process of development, was stressed. At the present time, an estimated 150 companies are engaged in drilling operations, including the oil companies (Niigata is second to Akita in crude oil production) which have found gas production more profitable than their oil operations. The average depth of the wells is about 420 meters, although 150 meters is considered satisfactory for household purposes. A visit was made to the Niigata Transportation Company's well, compressing and bottling plant, and service station, all located in the center of Niigata, and the servicing of the Company's busses was observed. Each bus, carrying six large cylinders in a ready compartment (good for one day's operation), would pull up to a service pump (much the same as a gasoline pump), a hose with nozzle would be attached to the cylinders, and the bottles filled in a matter of minutes. According to Company officials, the Emperor, while visiting this plant last fall, was particularly interested in this process. Autos

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on the other hand carry only three small cylinders in the trunk and can be driven all day on one charge, for which it was said, the Prefectural price for each bottle serviced was 11 yen. Driving in one of the Prefectural Government cars so operated throughout the day, I found its performance excellent. Although recognizing the commercial possibilities, as yet, the shortage of steel cylinders has handicapped the expansion of its use along this line. It was said that experiments were even being conducted to determine whether compressed natural gas could be used for locomotive fuel.

Niigata City has a natural harbor at the mouth of the Shinano River, and in view of its importance as a shipping point on the Japan Sea coast, it was thought that a survey of the harbor might prove both interesting and profitable. During the war years, Niigata became Japan's fifth largest port in terms of tonnage handled. Both Governor Okada and Mr. Maeda emphasized the importance of harbor improvements in connection with the expansion of coast-wise and foreign trade with Asiatic ports, and the necessity for increasing present measures taken to control sediment deposited by the Shinano River at the entrance to the harbor. A conference was held with the Chief of the River and Harbor Section of the Prefectural Government followed by an inspection of the harbor in the Harbormaster's launch. Constant dredging has always been necessary to maintain the channel; however, during the war years, dredging operations were neglected, and it was not until the harbor was declared mine-free in 1947 that full-scale dredging operations were re-commenced. Since that time the channel has been dredged to a depth of approximately 19 feet as compared with 22 to 24 feet pre-war. At present, three dredgers are being operated intermittently at a cost of about 5 million yen annually. Serious consideration has been given by the Prefectural authorities to diverting the Shinano River; however, the cost is estimated at about one billion yen, and in addition, the surrounding rice-rich area would be inundated, river transportation to Niigata City cut, and the city water works seriously affected. As a consequence, the present plan is to increase dredging operations and possibly, to construct sea walls so as to make the channel more narrow (at present, approximately 195 feet in width). With respect to capacity, the Harbormaster indicated that at present ships up to 5,000 tons could be tied up to the piers (two Prefectural owned and one privately owned) and ships up to 8,000 tons to the buoys. An additional pier was to have been constructed just prior to the war but was never completed. The hope was expressed that arrangements could now be made to complete it as part of the harbor development program.

Although Niigata Prefecture is primarily important from a natural resources standpoint, being a surplus rice and fish producing area, as well as an important producer of timber, minerals, crude oil, and hydro-electric power (two-thirds of which is transmitted to the Tokyo-Yokohama area), it is the principal manufacturing center on the Sea of Japan and possesses a textile and metal export industry. A visit was made to the Prefectural Government's Trade Hall in Niigata City where samples of leading export items were on display. To date, the principal export item has been cutlery, totalling approximately 500,000 yen in value, destined primarily for Southeast Asia. In this connection, a set of silver

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plate such as was presented to the Emperor while visiting Niigata last fall, was on display. Second in importance has been silk textiles, which item is Niigata's best potential export to the U. S. In addition, machinery, tools and farming implements, sewing machines, Xmas bulbs, toys, umbrellas, and lacquerware have been exported. Export contracts are negotiated in Tokyo where representatives of Niigata's export manufacturers are located. According to individuals concerned in the Economics Department, export manufacturers do not find export trade profitable; however, by participating in it they are able to obtain raw materials which they could not otherwise secure, and further, it enables them to develop foreign contacts.

A conversation was held with Lt. Col. Coxe, Commander Officer of the Niigata Military Government Team, at which time the labor situation and price control program were discussed. According to Colonel Coxe, there has been little labor trouble in Niigata Prefecture to date. However, the Prefecture's small in number but quite active, as well as vocal, communist group (estimated to be about 500 in number), centered in the labor unions (transportation and communication as well as industrial), had interfered to some extent with the rice and tax collection programs. The belief was expressed that because of these collections many of the farmers were sympathetic to the communists. This same point was made by Governor Okada at a dinner that evening attended by a number of Prefectural Government officials. With respect to price control, Colonel Coxe admitted that it was extremely difficult effectively to control black market activities, goods and money being brought principally from the Kansai area by train to exchange for such items as rice. In this connection, the opinion was expressed that the majority of the Prefecture's 3000 odd Koreans, as well as most of the Chinese merchants, were largely engaged in such activities, and this same point was made by Governor Okada. The Koreans wish to vote but do not wish to be taxed and, according to the Colonel, are a constant source of irritation.

An inquiry was made concerning the famous Sado gold mine (Mitsubishi Mining Company) located on the island of Sado, lying approximately 20 miles off the coast. This particular mine has been operated for over a thousand years and it is of interest to note that for several centuries the gold bullion produced by this mine became the property of the shogunate. At the present time the mining company does not find it profitable to continue gold mining operations on a large-scale while selling at government price levels and at government direction. Labor costs have been high and the mine has been troubled by labor disputes. Mining operations are currently directed toward the more profitable quartz production for glass manufacture. In this connection, prefectural officials expressed the opinion that the island of Sado might well become a tourist attraction. The ferry trip from Niigata to Sado's port Ebisu, currently takes about three hours, and there are three ferries engaged in a shuttle service. Present schedules permit only a one-hour stop-over in Ebisu should one wish to make the round-trip in one day; otherwise, one must spend the night on Sado Island. In speaking of Niigata tourist attractions at dinner, Governor Okada claimed that his Prefecture's women were the prettiest in Japan!

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As of current interest, while in Niigata, conversations were held with Mr. Shulley of the Forestry Division of the Natural Resources Section concerning the problem of sand dune control in the vicinity of Niigata City. The problem of coast-line erosion was illustrated vividly by viewing a concrete building which had sunk approximately twenty feet into the sand. At present, thousands of pines are being planted along the beach-line in an effort to prevent further erosion. This particular problem is one confronting many cities located along the rugged coast line of the Japan Sea. With respect to the latter point, the impressive ruggedness of the coast line, as well as its scenic beauty, is brought to one's attention best by taking the rail trip from Niigata to Akita. As one passes through countless tunnels cut through sheer rock cliffs descending to the water's edge, one understands better the transportation problem facing this part of Japan.

#### IV. Akita Prefecture:

As is Niigata Prefecture, so is Akita a surplus rice producing area and an important producer of fish and timber products. In addition, Akita is one of the most important mineral producing Prefectures in Japan, being Japan's principal oil producing area as well as a major copper producing area. A conference with Captain Todd, Economics Officer of the Akita Military Government Team, and his assistant, Mr. Kitamura, was devoted primarily to Akita's mineral wealth. This Prefecture produces about sixty per cent of Japan's crude oil, the average monthly production approximating 2,800,000 gallons of which the Yabase field (Teikoku Oil Co.) currently produces about 1,500,000 gallons. In addition to Yabase there are three other major fields, Hachimori, Toyokawa, and Asahikawa. With respect to oil exploration, the opinion was expressed that little or no progress had been made during the Occupation; however, exploratory operations on a larger scale utilizing up-to-date equipment were scheduled to begin in the near future. This Prefecture refines approximately 3,000,000 gallons monthly, and has three major refineries in operation at present, Tsuchizaki (visited by the Emperor), Funakawa, and Hirasawa. Tsuchizaki refinery, which was bombed by B-29's and subsequently restored, lost its allocation of crude for a time due to inefficient operation (estimate 40 per cent loss through refining process); however, it was restored by General Headquarters, one reason being that the closure of this refinery would affect the livelihood of approximately 25,000 people directly or indirectly. The Funakawa refinery is located at the port of Funakawa which can accommodate boats up to 4000 gross tons and for that reason, products of that refinery move from the Prefecture by water. (A portion of Japan's salt imports for this area have passed through this port and for that reason a Boeki Cho representative is located there). Captain Todd estimates that about fifteen per cent of the gasoline refined in Akita Prefecture enters the black market and is purchased principally by fishermen. As indicated above, Akita is also a major copper producing area, monthly production approximating 700 to 800 tons, the Osarizawa and Kosaka mines being the most important. The Osarizawa mine is said to be one of the oldest mines in Japan and has approximately 130 miles of underground railways. Three copper smelters are in operation being located at Kosaka, Osarizawa, and Hassei. There is also an important zinc and lead mine located at Hanaoka as well as a pyrite mine.

In view

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In view of the agricultural importance of Akita, an inquiry was made concerning the organization of the new local agricultural cooperatives. Although the transition from the Nogiyokai to the new cooperatives is about 80 per cent complete, as yet, the prefectural officials have not had the opportunity to determine how effective the new organizations will be in the rice collection program. Captain Todd indicated that the Nogiyokai were extremely effective in collecting rice and expressed doubt as to whether the newly organized cooperatives would materially change the old organizational control structure. With respect to the land reform program, in Akita Prefecture, the transfers have largely been completed. In response to an inquiry, Capt. Todd stated that there was some feeling on the part of the new tenant-owners that many things which the landlords used to do for them, such as dike repairs, must now be borne by them individually.

Following the conference with Capt. Todd, I attended a dinner given by Vice-Governor WATANABE and Kenichi TAKEOKA, Chief of the Economic Department of the Prefectural Government, at which a number of prefectural and local officials were present. The Vice-Governor made an introductory speech in which he stressed the importance of Akita's natural resources and deplored Akita's lack of export industries. He stated that he was the head of a newly formed group to promote export production; however, at the present time, Akita could only hope to export handicraft items, such as cherry bark sport shoes for ladies and lacquerware. The tourist possibilities of this Prefecture were discussed. Lake Towada being considered by those present as an important attraction in that respect.

The remainder of that evening was spent with Lt. Colonel Keane, Commanding Officer of the Akita Military Government Team, discussing the labor situation and communist activity primarily, and transportation problems secondarily. Colonel Keane was quite frank in stating that he has had considerable labor trouble in Akita Prefecture; that he considers the communist influence and direction of the union movement serious; that he feels a more firm attitude should be taken in dealing with communists and labor unions; that the present labor legislation should be revised; and to illustrate the importance of his statement, that he has asked Regional Military Government Headquarters at Sendai for two additional labor officers. Colonel Keane considers the Trade Union Law a particularly undesirable piece of legislation in practice. Collective bargaining contracts are completely one-sided in favor of the unions. Many employees of companies in Akita are engaged in full-time union activities while drawing company pay. The Akita branch of the Nippon Express Company, for example, has 16 employees so engaged and the Teikoku Oil Company has 30. The branch of the Nippon Express Company, although running in the "red", spent 470,000 yen between last November and March of 1948 on union activities. Union elections observed in Akita Prefecture by the Military Government Labor Officer utilize many of the techniques developed in the United States. Paid "goon" squads go from meeting to meeting, delaying tactics are introduced so that an entire day

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is taken in order to discourage and tire out many of the persons attending, and single-list ballots are used. Colonel Keane is of the opinion that it is high time for management instruction to be initiated and that he is attempting to do what he can along these lines. Management is constantly intimidated by labor and unfortunately feels that it is at the mercy of labor since it believes that the policy of General Headquarters is to favor labor at the expense of management. One example given of the need for management instruction, was that of the communist-dominated labor union of the Teikoku Oil Company plastering strike signs on the front of the Company's office building and the subsequent inquiry addressed to Colonel Keane by the officials as to whether they could tear the signs down.

As indicated above, Colonel Keane, is quite concerned with the communist influence in the labor union movement. He estimates that he has about 200 communists in Akita actively engaged in party activities, largely concentrated in the industrial and mining unions, transportation and communications unions, and teacher's unions. In his opinion, Rytaro MIURA, a hotel owner, is the leading communist; Yoshio SUZUKI, a teacher, is next most important; and Kiichiro KAGAE, Nippon Express Company employee, is the third. The Nippon Express Company is regarded by the Colonel as the center of communist activity having 16 active members, the Teikoku Oil Company also being an important center. Kagae was recently given a suspended three-year sentence for criminal assault during a collective bargaining meeting and it is expected that the Governor will remove Suzuki from his teaching position. It seems that Suzuki was found teaching communism instead of his prescribed course in mathematics and that he had informed the pupils that if they would come to his quarters he would instruct them further in communism. However, they were not to mention the matter to their parents. Since it is expected that Suzuki will be fired, the teacher's union has passed a resolution permitting "former" teachers to continue their membership provided they pay their dues. Of interest is the teacher's union's demand that they receive an 80 per cent increase in pay, or, that the Governor stop all black-marketing. In this connection, of the graduating class from Akita's normal school, ten registered communists were at or near the top of the class so the Governor is in the difficult position of finding grounds other than communism upon which to refuse their appointment as teachers. The Colonel also indicated that a strong youth movement was developing in Akita Prefecture and being trained in communist techniques. Communists in Akita, it was said, have also actively interfered with the tax and rice collection programs. Fishermen and farmers are particularly sympathetic since the communists pretend a great interest in the price of rice and fish and promise to fight to raise them.

Colonel Keane is of the opinion that more effective measures should be taken by Military Government against communists. At present, the policy is largely one of linking avowed communists to propaganda activities. The Governors do not have the power to remove or to refuse to appoint individuals solely on the ground that they are registered communists.

The problem

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The problem of transportation was also discussed with Colonel Keane, which is a serious one for the Japan Sea coast prefectures. The heavy winter snow falls and spring floods which wash out bridges make the movement of goods within Akita particularly difficult. During the winter months only the main rail lines afford dependable transportation.

#### V. Aomori Prefecture

In addition to the apple orchards, one sees numerous horses being used in the fields in traveling from Akita to Aomori City, capital of Aomori Prefecture. Aomori is primarily an agricultural Prefecture producing sufficient rice to meet its needs and an exportable surplus of apples. Seven and one-half million boxes were produced in 1947, and prefectural officials estimate that 8 million boxes will be produced in 1948. Fishing, lumbering, and copper mining are of some importance whereas there has been little industrial development. The City of Aomori (approximately 75 per cent of which was destroyed by the war), located on the northern tip of Honshu, is, in addition to being the Prefectural capital city, a commercial center, possesses the only important port in northern Honshu and is the center for the inter-island trade between Honshu and Hokkaido. Misawa airfield, located in this Prefecture, is also regarded as northern Honshu's key air terminal and is in process of development.

A conference was held during the afternoon with Lt. Colonel Hall, Commanding Officer of the Aomori Military Government Team, and the Economics Officer, Captain McCullough, concerning Prefectural economic problems. They indicated that the land reform program and the formation of agricultural cooperatives were going very well and that they did not regard labor union or communist activity as presenting a serious problem in Aomori Prefecture. Control of the black-market in price-controlled items, however, had not been particularly effective to date.

Prior to boarding the ferry boat that afternoon for Hakodate, an inspection was made of the port of Aomori with Captain Knoche of the Transportation Corps. There are three ferry slips with rail connections used by ferries engaged in a shuttle service between Aomori and Hakodate. Three car ferries (four track width) are devoted to Allied use in crossing the Straits of Tsugaru (carry the "Yankee Clipper" -- Allied train operating between Yokohama and Sapporo) and approximately six car ferries are devoted to Japanese use. One Allied ferry leaves Aomori about 1630 each day and one leaves Hakodate about 0630 each day. In addition to the ferry slips, there is one pier at Aomori equipped with overhead crane and machine loader, used primarily to unload coal boats from Hokkaido. Ocean-going vessels anchor off shore and unload into lighters. At present, however, the port is used primarily in the inter-island and coastwise trade.

#### VI. Hokkaido District

Crossing the Straits to Hakodate takes about five hours and is an interesting trip since one is in sight of snow-capped mountains the entire time. Passengers leave their cars and go above

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to the boat deck for the crossing. Hakodate is Hokkaido's largest port and is used primarily by the inter-island and coastwise trade. There are two ferry slips and one pier, and as is the case at Aomori, ocean-going vessels anchor off-shore and unload into lighters. Hakodate has been the port of entry for Red Sea area salt imports for Hokkaido.

Since one makes the trip from Hakodate to Sapporo at night, one does not have an opportunity to see the countryside until several hours out of Sapporo the following morning. As a consequence, one passes through Shiraoi at night, the location of the Ainu village publicized by Life Magazine. Approaching Sapporo by daylight, a typical Wisconsin farm group of houses, gambrel-roofed barn and silo will probably be seen first. In Sapporo one sees many glimpses of New England--wide tree-lined streets dotted with houses from New England's Victorian "ginger-bread" era. Hipped roofs, chimney pots, and dormer windows can be seen, and the harness bells of the two-wheeled horse-drawn carts heard. An American was responsible for Sapporo's streets being laid out on a grid plan and it is said that weather conditions motivated the introduction of architectural designs used in Wisconsin and the New England states. Although Sapporo and the vicinity has a heavier snowfall than New England, American personnel stationed there do not find it to be as cold as Massachusetts or Maine. By reason of the weather, few Japanese wish to migrate from southern Japan to Hokkaido although greater opportunities may exist.

Arriving in Sapporo on a Sunday (and the day of the eclipse of the sun - May 10) it was not possible to see all of the individuals desired; however, a conversation was had with Major Quante of the Hokkaido Military Government District concerning matters of primarily an economic nature. Unfortunately, much of Hokkaido's formerly valuable export of crab meat has been lost as a result of the Russian occupation of Karafuto and the limitation of the Japanese crab fishermen to a 3 mile area along Hokkaido's northern coast. According to Major Quante, at present, crab fishing is carried on off Nemuro and the northern tip of Hokkaido, canneries being located in both of these areas. It was stated that no difficulty has been encountered thus far with Japanese fishermen exceeding the three-mile limit. The type of crab presently being caught is only about three-fourths the size of the Karafuto crab. Arrangements have been made to sell some of the crab meat through the Post Exchanges in Hokkaido. In addition to crab, Hokkaido fishermen also catch giant shrimp of commercial value. Being a cold water fishing area, Hokkaido's seafood is of excellent flavor and quality.

At present Hokkaido produces about 25 per cent of Japan's coal (it is poor grade soft coal) and it is anticipated that 40 per cent will be reached by the end of 1948. The Hokkaido coal fields (three major fields are presently being mined) have large reserves being relatively new fields as compared with the older fields of Kyushu. The coal mined in Hokkaido is shipped primarily to the industrial areas of southern Japan. Much of it is loaded at the port of Otaru (near one of the main fields) which has a machine loader, also at Muroran, which too, has a machine loader. Labor difficulties have been encountered in the coal fields, one opinion being expressed that since the coal miners are the highest

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paid laborers in Japan, they can best afford to strike. It was said that the heavily subsidized coal fields do not make enough to cover labor costs alone.

Hokkaido is the center of Japan's beet sugar industry and is the primary source of locally-produced sugar in Japan. Since sugar is also being brought into Hokkaido as a substitute for the rice ration, there is no sugar shortage for civilians there. Hokkaido is Japan's source of seed potatoes and has a large apple crop (the buds are individually wrapped in paper for protection). Hokkaido is also Japan's major producing area of dairy products (about 80 per cent), a large percentage of which are shipped to Honshu. It is interesting to note that sea salt has been used in the preparation of butter and cheese (cheddar and smokey). Although several sea-salt recovery plants were operated, they have been closed as uneconomical with the introduction of salt from the Red Sea area. At present Hokkaido has about 69,000 milk cows. The estimate was made by the Military Government Veterinary that approximately 40,000 cows have been eaten during the past year due to lack of feed for them. Dairy farmers complain that grain collections of such items as soybeans, oats, and hay, have forced them to either buy feed in the black market or kill the cows for meat. The Veterinary estimates that about 30 per cent of the dairy farmers buy feed in the black market. There is a difference of opinion with regard to the dairy industry as to whether grazing land could be more profitably used for the production of food crops which Hokkaido needs. In addition, Hokkaido has at present 269,000 horses, 20,000 of which, it is estimated will be shipped out to Honshu this spring. However, shipping difficulties usually entail losses up to 20 per cent it was said.

Like northern Honshu, Hokkaido as yet has a relatively low degree of industrialization. There is a strong feeling current in Hokkaido that a part of its natural wealth should be put back into Hokkaido and not exported to the older industrial areas of Japan. Rather than ship coal south to steel mills for the production of mining machinery for example, it is felt that Hokkaido steel and machine production should be increased and such machinery for the development of its mines made locally.

The land reform program presents a slightly different problem in Hokkaido to that in other areas of Japan. Formerly, land reclamation companies cleared tracts of land which they sold to large landowners who in turn permitted tenant farmers to work the land free of charge. The tenant is now offered the same land which he formerly worked free of charge for a price. Hokkaido has also at present a homestead system for public lands; a prospective homesteader may settle on such lands, and although limited as to area, may secure title without price or time requirement. Few Japanese in the southern islands, however, have any desire to migrate to Hokkaido because of the severe winters. Following the war, it was decided that Hokkaido should be opened up to approximately 100,000 settlers from southern Japan. Many undesirables were moved to Hokkaido in accordance with this plan, and as a consequence, the District Government is now strongly opposed to the settlement of Hokkaido being utilized as a means of ridding other areas of undesirables.

#### Transportation

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Transportation, as in northern Honshu, presents a major problem. Weather, shortage of rail equipment, and the ferry haul across the Straits are all factors of delay. As a matter of interest, lumber (Hokkaido is an important lumbering area) can be shipped by rail to Kyushu for less than the cost of shipping by water. The official rail freight rates established by the Japanese Government are low (too low in terms of a self-supporting rail system) whereas shipping companies in effect operate on a cost plus basis within a general rate framework. This same point was made in other parts of northern Honshu. (It is understood that this matter is now under study by the Japanese Government).

The statement was made in Hokkaido, as at other points, that the relatively small Korean population, many of whom worked in the mines at one time, and are now largely engaged in black market activities, caused difficulties far out of proportion to their numbers. Price control here, as at other places visited, was said to be ineffective. The labor movement was said to be particularly strong in the coal fields and in transportation and communication agencies. As in other areas, registered communists are numerically small, but quite active and extremely vocal.

As yet no marked interest has developed in Hokkaido concerning foreign trade and there is no active Chamber of Commerce in Sapporo. The Board of Trade (Boeki Cho) and the Foreign Trade Kodan have representatives located there. Of course, firms having major interest in Hokkaido generally have their head offices in southern Japan and only maintain branch offices in Sapporo, the governmental seat (Japanese governmental ministries represented), commercial center and the location of Hokkaido's University (which possesses a beautiful New England style campus). Hokkaido does possess, it is believed, the essentials for development of a tourist trade, e.g., wooded lakes for summer and excellent ski runs for winter sports. Good skiing can be found within a short distance of Sapporo (ski lift), which was to have been the location of the 1940 winter Olympics and for which the Grand Hotel in Sapporo was constructed. Even the Ainu are interested in the tourist trade, not only for publicity's sake but as a market for Ainu products such as the hand-carved wooden bears (the better ones are not stained but are rubbed by hand until stained by natural oils from the hand). As indicated above, one Ainu village is located at Shiraoi and another at Saigawa; however, Ainu are scattered throughout Hokkaido. Local reports indicate that they are losing their identity through intermarriage.

#### VII. Miyagi Prefecture

Departing Sapporo at 2130 by pullman for Hakodate, one makes connection with the 0630 ferry in Hakodate for Aomori the following morning. If one has a clear day, the view of the snow-capped mountains which rim the swirling waters of the Straits is magnificent, and one enjoys the position of being able to look on the Pacific Ocean and the Sea of Japan at the same time. The trip down the east coast of Japan is not as interesting as that along the west coast since most of it is inland and not along the water's edge. However, Matsushima, popular Japanese resort, near Sendai's port of

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Shiogama, is not to be underestimated. The tiny tree-studded islands dotting the bay, which one views from a hillside road winding between Shiogama and Matsushima, are a scenic beauty. The islands present a navigation problem for boats entering Shiogama port which is used mainly by coastwise vessels and fishing boats. Shiogama is said to be one of the ten largest fishing villages in Japan.

Miyagi Prefecture, in which Sendai is located (IX Corps headquarters), is primarily concerned with agricultural production, lumbering, fishing and mining; and has only a small degree of industrial development. Mineral and food surpluses move to other Prefectures. Hosokura mine in this Prefecture produces 30 per cent of the zinc and 25 per cent of the lead mined in Japan. In turn, the ore is shipped outside of the Prefecture for smelting, as is the pyrite mined. There are three silk reeling mills in the Prefecture as well as a bicycle parts manufacturing company, both of which items have entered foreign trade. Certain rubber products are also manufactured locally, as well as steel blades for industrial use. There is a small ship yard at Shiogama capable of constructing boats of less than 100 tons; however, it is primarily engaged in repair work at present.

In a conference with Tokuro AKIYAMA, Chief of the Commerce and Industry Section of the Miyagi Prefectural Government and Tsuye OIKAWA from the Miyagi Military Government Team's Economic Office, Miyagi's chief foreign export item, seed oysters, was discussed. This Prefecture is the source of seed oysters exported principally to the northwest coast of the United States. 50,000 cases were exported in 1947, and 1948 exports are estimated at 31,000 cases. Seed oysters are shipped from Oginohama (south of Sendai) where they are loaded on ocean-going freighters by lighters. As has been indicated above, Shiogama cannot accommodate large ships, the harbor presents a navigation problem, and Oginohama is nearer to Yokohama so that freighters picking up outgoing cargo do not have to deviate too great a distance to pick up a seed oyster load on the return trip. Further, in regard to foreign trade, it was stated that a Foreign Trade Development Association had recently been organized but as yet had done very little. The head of this Association is also the head of the Sendai Chamber of Commerce which is not, it was said, a very active organization. Since Sendai is the seat of the regional office of the Japanese governmental ministries for the Tohoku District, Boeki Cho representatives are located with the regional office of the Ministry of Commerce and Industry.

A conference was held with Captain Boswell, Labor Officer and acting Economics Officer for the Miyagi Military Government Team, at which time labor problems were principally discussed. Captain Boswell stressed the need for labor education for management, and stated that he was initiating such a program. The opinion was expressed that management was unable to deal with labor unions effectively because of its misconception, in part, of the SCAP's sympathetic labor policy. The labor union movement is strongest in the transportation and communications unions and the statement was made that they are largely dominated by a small, but well-organized communist

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group. The leading communist, Zenso SUZUKI, is a member of the railway union. Of interest is the action taken by the teachers' union to remove communists from the union, and the action of the Prefectural Governor in finding the unsuitable individuals recommended by the labor unions for appointment to the Prefectural Labor Relations Committee, although communists, and his refusal to appoint them to the Committee. Last year's Committee according to Captain Boswell, was largely communist.

Since Sendai is the location of Regional Military Government Headquarters for the Tohoku and Hokkaido Districts, a conference was held with Major Oliver Hobson, Regional Economics Officer. His region is the bread-basket of Japan--rice, fish, potatoes, sweet potatoes-- and the source of much of the lumber, coal, oil and other minerals which are shipped to other parts of Japan and Major Hobson is particularly concerned with the development of Japan's natural resources and considers that such development is of primary importance to Japan's economy. He is of the opinion that food production has been over-emphasized whereas Japan's hydro-electric power resources, to name but one, have hardly been tapped. Substantial progress has been made in the organization of the agricultural cooperative associations and the disbandment of the Nogyokai; however, Major Hobson is of the opinion that no basic change will have been effected. Land reform and food collections have gone well throughout the region, as have tax collections, although the reason for the latter, he believes, is that the taxes have been set too low by the Japanese Government.

With respect to the labor union movement and communist influence therein, the opinion was expressed that it did not present too serious a problem in the region. Major Hobson admitted that high labor standards in Japan at this time are a luxury and that Japan would have to become Asia's Ruhr to support the present standards evolved. Of interest was the statement that management was not doing as much as it could do. In the Hokkaido mines for example, he feels that management is not properly pushing production because he thinks that they prefer to wait for higher prices and the end of the Occupation. In this connection, the general observation was made by Major Hobson that if the Occupation of Japan does not continue for at least another 25 or 30 years, all will have been for naught!

The biggest problem in the region was said to be transportation. Although rail connections are excellent, the highway network is poor. More trucks and rail equipment are needed to help move raw materials from this area to the industrial areas of Japan. Again the point was made that coastwise shipping is more expensive than rail and that the skippers of the coastwise vessels carry on much as they please. Major Hobson indicated, however, that an investigation of this situation is pending.

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