

EXHIBIT No. 3174

(39)

The Meeting opened at 10:30, January 30 (Saturday) 1932, in presence of His Majesty the Emperor.

Members present: Chairman KURATOMI

Vice-Chairman HIRANUMA

Ministers: Prime Minister INUKAI (4)

Minister of Finance TAKAHASHI (5)

Minister of Navy OSUMI (6)

Minister of Railways TOKONAMI (7)

Minister of Justice SUZUKI (9)

Minister of War ARAKI (11)

Minister of Education HATCYAMA (12)

Minister of Agriculture and Forestry YAMAMOTO (13)

Minister of Commerce and Industry MAEDA (14)

Minister of Overseas Affairs HATA (15)

Minister of Foreign Affairs YOSHIKAWA (16)

Councillors : KANEKO (19), KUBOTA (20), TOMII (21), ISHIGURO (22),

KURODA (23), FURUICHI (24), EGI (25), SAKURAI (26),

ARAI (27), KAWAI (28), KAMATA (30), SUZUKI (31),

ISHII (32), MIZUMACHI (33), FUKUDA (35), ARIMA (36),

HARA (37), KUBOTA (38), KURINO (39), MOTODA (40)

Members Absent :

Imperial Family: Prince YASHITO (1), Prince YOSHIHITO (2),

Prince NORIHIRO

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Ministers: Minister of Home Affairs NAKAHASHI (8)

Minister of Communication MITSUCHI (10)

Councillors : ITO (18), ICHIHARA (29), OKADA (34)

Commissioners : President of the Legislation Bureau SHIMADA,

Councillor of the Legislation Bureau KUROSAKI,

Vice-Minister of Foreign Affairs NAGAI,

Secretary of Foreign Affairs MATSUMIYA,

Vice-Minister of Finance KURODA,

Chief of the Financing Bureau of the

Finance Ministry TOMIYA,

Chief of the Accounts Bureau of the

Finance Ministry FUJII,

Vice-Minister of War SUGIYAMA,

Intendant-colonel OUCHI,

Paymaster Vice-admiral KATO,

Paymaster-captain ARAKI,

Reporter Chairman of Investigation Committee KANEKO

Chief Secretary : Chief Secretary FUTAGAMI

Secretaries : Secretary HORIE, Secretary MUTO

Chairman (KURATAMI): The Meeting is opened. I hope you have no objection to the fact that the usual procedure was not adopted to open today's Meeting on account of a request made by the Cabinet. The following two bills are brought up en bloc for deliberation:

(1) Partial suspension of the transfer of the sinking-fund for the year 1931.

(2) Issuance of bonds to defray the expenses due to the Manchurian Incident.

We shall begin the First Reading, but omitting reading the text. The report of the Chairman of the Investigation Committee is requested. Reporter (KANEKO): I shall respectfully report on our findings. As regards the bills on the partial suspension of the transfer of the sinking-fund in the year 1931 as well as the issuance of bonds to defray the expenses due to the Manchurian Incident, referred to the Privy Council for deliberation, my colleagues and myself, having been appointed members of the Investigations Committee, have held committee meetings on the 27th and the 23th of this month; the committee heard the explanations of the ministers of state and the officials concerned and thoroughly examined the matters on hand. The gist of the bills is as follows:

(1) "Partial suspension of the transfer of the sinking-fund in the year 1931".

The general account budget, being brought to effect during the year 1931, is expected to show a deficit of ¥ 64,000,000, going into what is commonly called the "red" to that amount. The government, having studied the means of replenishing the shortage, proposes to meet it with the following funds: about ¥ 20,000,000, by raising the uncalled part of the bonds, provided for us the Earthquake Damage Bond Law, the Telephone Enterprises Bond Law and the Roads' Bond Law, and (2) ¥ 40,000,000, by stopping the transfer of part of the sinking-fund, which was to be originally transferred from the general to the special

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account for such fund under the Sinking-fund Special Account Law.

But in connection with the latter, it was necessary to make a provision especially applying to Article 2 par. 2 of the Sinking-fund Special Account Law, which stipulates that the amount to be appropriated for the sinking-fund shall be more than 1.16% of the total amount of Bonds at the beginning of the preceding year but shall not be less than ¥ 30,000,000. A bill was therefore introduced in the last session of the Diet, but on account of the dissolution of the House of Representatives, it failed to come to the vote. In consequence, the government proposes to issue, in conformity with Art. 3. par 1 of the Imperial Contribution, an Urgent Imperial Ordinance having the same effect as the above-mentioned bill. The said ordinance shall provide that the transfer of the sinking-fund for the year 1931 under Article 2 of the Sinking-fund, Special Account Law may be suspended within the limit of ¥ 44,000,000.

(2) Issuance of bonds to defray the expenses due to the Manchurian Incident.

Since the outbreak of the Manchurian Incident on September 18 last year, the necessary expenses have been met by the revival of the curtailed amount of the working budget and also by appropriations from the second reserve fund. The total sum expended by the Ministries of Foreign Affairs, War and, Navy has already amounted to ¥ 9,650,000. But in order to cope with the progress of events, the Cabinet estimated the further expenses at :

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| Ministry of Foreign Affairs | ¥ 3,030,000 |
| Ministry of War | ¥16,020,000 |
| Ministry of Navy | ¥ 1,840,000 |
| Total | ¥20,900,000 |

and decided to issue bonds as a source of revenue. The cabinet had recently presented a bill and a budget bill in this connection to the last session of the Imperial Diet but these likewise failed to be voted. However the competent authorities, considering that the appropriation of such expenses is so urgent that it can not be delayed till the convening of a new Imperial Diet following the coming general election of the members of the House of Representatives, the government wishes to promulgate this Imperial Ordinance as a ^{urgent} financial urgent measure under Article 70 par 1. of the Imperial Constitution. The gist of this ordinance is the same as the stipulations of the above-mentioned bill and budget bill, providing that the government may issue bonds or make loans up to ¥ 20,910,000 to cover the Manchurian Incident expenses; should it become necessary to cover the difference between the price of issue of the bonds, the government will be empowered to issue further bonds or make loans beyond such limitation.

In short the purport of the first of these two ordinances is to provide for a legal exception in the form of an Imperial Ordinance in accordance with 1, Art. 8, par. 1 of the constitution by suspending partially the transfer of the sinking-fund from the general, to the special account as it is necessary to reduce expenditure in order to make up the deficit of revenue in the general account of the current.

year. The second of the ordinances aims at issuing bonds to cover the Manchurian Incident expenses, as an urgent financial measure under article 70, par 1 of the Constitution. Both measures must be recognized as really urgent and inevitable. So far as the latter is concerned, it must be said that it is in strict accordance with the provisions of the constitution, for it is obviously impossible to convene the Imperial Diet immediately, owing to the dissolution of the House of Representatives. The Investigation committee has therefore unanimously approved the unconditional acceptance of both measures. We hereby have the honour of submitting our findings as above, No. 23 (KURODA): I think it is really inevitable to present these measures for consideration on account of the shortage in revenue for the year 1931. Our relations with China will become more and more complicated in future, and further expenditure, above the present ¥ 20,000,000, may be necessary. In view of such a grave financial situation. I cannot but wish that the authorities should face such exigencies with the utmost care. As to whether it is possible to call the Diet or not, although personally I do not think it impossible, considering that the competent authorities have amply studied the question, I shall trust them and for the present second their proposal.

No. 22 (ISHIGURO): For what period are these ¥ 20,910,000 required?

No. 5 (TAKAHASHI): It is the amount required for the budgetary year 1931. However, in view of the changing situation in Manchuria and Mongolia together with the outbreak of another incident in Shanghai, the necessary expenses tend to increase from day to day. Therefore it

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must not be understood that this budget is meant to cover the whole amount of expenditure for the year 1931.

No. 22 (ISHIGURO): Is the number of the expeditionary forces calculated as of the present?

No. 6 (OSUMI): The sum of ¥ 3,840,000 requested by the Navy is the amount of expenses required up to the end of March, based on the situation as of January 20. But more ships and men having been dispatched since then, I expect it will be necessary to take other measures.

No. 11 (ARAKI): The amount requested by the Army is, as in the case of the Navy, for the present fiscal year, calculated on the basis of the situation as of January 20. But, the needs that may arise with the development of the Manchurian Incident, will have to be faced in the future.

No. 16 (YOSHIZAWA) : The amount requested by the Foreign Ministry for the year 1931 is a supplementary demand based on conditions at that time and covering the period up to the end of March, in the same manner as stated by the War and Navy Ministers.

No. 32 (ISHII) : Since the Cabinet has asked for deliberation on this important matter, I thought it would explain its general policy toward this affair and also the objectives and the scope of the action undertaken, but as this is not forthcoming I should like to ask some questions necessary to the deliberation of the present proposals.

The scope of the expenditure is not made clear either in the bills or in the report of the Chairman of the Investigation committee. Are the expenses for the Shanghai incident included within the scope of

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this ordinance?

They seem to be so, if we consider the explanation given by the Navy Minister who mentioned the ordering out of warships, etc., but for caution's sake, I should like to question him on this point. Again, a sum of ¥ 30,000,000 is requested by the Foreign Ministry. This Ministry, up to now, has not taken any action, and the people have been exceedingly impatient of its inactivity: however they will certainly feel much reassured when they will learn of this appropriation. They should be further relieved to hear explanations concerning the items of expenditure.

Next, I would like to hear the policy of the new cabinet as to the object, the extent and the scope of our action in Manchuria and China. According to the declarations made by the last cabinet to the council of the League of Nations and others, the objectives of the action of the Imperial army are the protection of our country's rights and interests in Manchuria and Mongolia as well as of the lives and properties of Japanese nationals there. This objective must be carried out by all means. Our Empire once made Russia and the U. S. A. recognize these rights and interests and obtained written assurances in this connection, but these were abandoned by the Cabinet in power in 1931 in the course of negotiations with the U. S. government. Why did that then cabinet do so? I recall it was a SEIYUKAI Cabinet, and so I would like to hear the policy of the present cabinet in this matter. Has the cabinet resolved to protect our special rights and interests in Manchuria, even if it means making a scrap of paper of the joint statement of Japan and the U. S.? Please give me an explanation on this

point.

Next, the Commander of the Kwantung Army issued a statement last autumn to the effect that the aim of the action of the Imperial army was to establish in Manchuria a land of bounty for both Manchurians and foreigners. This is indeed a thing to be welcomed. But what I wish to know is whether the Empire intends to wait for the birth of an independent local government and then recognize and protect it, or whether we intend to make such plans and establish it directly ourselves? The necessary expenses will vary greatly according to the policy adopted. It might be that Japan's whole possessions would not suffice to meet the expenses. Therefore, I would like to hear the policy of the present government on the establishment of a local government.

Next. I would like to hear explanations on the scope of the action undertaken by the Imperial government. Manchuria has natural geographic boundaries on both the east and the west but none on the south and the north. In the part, there existed a special agreement between Japan and Russia as regards the non-violation of their respective interests in North Manchuria. But according to recent press news, our country has dispatched troops to HARBIN, and if this is true, North Manchuria apparently comes within the sphere of action of our government and army. Will the government include these regions in the "so-called Special Areas", regardless of the agreement with Russia?

According to the explanations given by the former Minister of Foreign Affairs at the time the outbreak of the Manchurian Incident on September 18 last year, he had no information concerning situation till September 24

That, in these days when means of communications have so greatly been developed the Foreign office should not know anything for a week, clearly proves that there was a great lack of understanding between the military and diplomatic authorities. Is there any such lack of understanding between the two, even now? Under the former cabinet it was rumoured that the Foreign Office was led by the military authorities who were in turn lead by the military abroad. I am glad to hear that the present Minister of War is capable of fully controlling these front line Military. Will it not again happen that these men, not paying any attention to the orders of the central government, would act on their own initiative? May I trouble the Minister of War to reply to this question?

No. 11 (ARAKI): I will answer your question as regards the actions of the army. In the declaration of the Commander of the Kwantung Army made at the beginning of the Manchurian Incident, there was a portion stating that Japan would turn Manchuria into a Land of Bounty. In view of the circumstances prevailing at the time, this statement was made as a means to calm the population. It would therefore be improper to conclude that it defines the objectives of the army. However, I have sent a warning for the future to the Commander of the Kwantung army. The cause of the Manchurian Incident is primarily due to Chang Hsuen-liang's inability to maintain friendly relations with the Japanese forces. Therefore, the action of the Imperial army must naturally extend to the limits to which Chang formerly exercised his influence. As to the action of the army, there are rumours that the front line forces are

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not submitting to any control and are acting at their own discretion. However, once we have resorted to measures of self-protection, we are obliged to take the initiative in order to attain our objectives and maintain the prestige of the Imperial forces. In the course of such action, there may be acts which give the impression of being excessive, but I beg you will give your most sympathetic consideration to tactical acts related to the operational command. As to relations with the diplomatic authority, these are most amicable and smooth.

No. 16 (YOSHIZAWA): I shall explain the contents of the budget requested by the Foreign Office. Although the total amount of our requests is ¥ 3,030,000, necessary expenses have been met twice, in November and in December of last year, by expenditure from the second reserve fund. The amounts requested this time include : (1) police expenses in Manchuria, including the wages etc. of the police force, (2) relief expenses to provide for food, ship transportation etc. for Japanese nationals who have taken refuge in our consulates in South China, (3) telegraphic communication expenses needed for the classification of the incident to the League of Nations and governments concerned, and (4) secret funds and miscellaneous expenses; all these expenses are required in connection with the Manchurian Incident.

My conviction is that the first objective of our action in Manchuria is the maintenance of peace and tranquillity, this being our fundamental policy toward Manchuria. Of course it is very difficult to maintain perfect order over such an extensive banditry-ridden land, where even the ordinary people often turn bandits. But, in my opinion,

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The amounts requested this time include : (1) police expenses in Manchuria, including the wages etc. of the police force, (2) relief expenses to provide for food, ship transportation etc. for Japanese nationals who have taken refuge in our consulates in South China, (3) telegraphic communication expenses needed for the classification of the incident to the League of Nations and governments concerned, and (4) secret funds and miscellaneous expenses.

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the peace of that region is an absolute necessity to our Empire. Our second objective is the protection of our rights and interests. In this connection, it is also necessary to bear in mind the history of Manchuria. The action of our government in the past has been based on this principle, and that will also hold true in future.

As to the views of the Cabinet concerning the action of a new government, this matter (originated among the Chinese themselves in Manchuria.) It is natural that it is of deep concern to Japan and therefore we are carefully considering our policy regarding in this matter.

Next, to say a few words concerning the scope and extent of Japan's action, I should like to state that in the past there was a secret Russo-Japanese agreement, establishing a boundary line to the exercise of influence of both nations, but the said agreement became void as a result of the Russian revolution. In consequence we consider that it has no binding power today. However, as you are all aware, Russia has great interests in the Far East. As to the dispatch of troops to HARBIN, this, as the Minister of war has stated, was done by the Kwantung army as a temporary measure to protect the lives and properties of the Japanese in North Manchuria, which were endangered by bandits, and I am consider that what further steps should be taken must be decided according to the future situation. In short, Japan's acts are based on the maintenance of order and the protection of our rights and interests in Manchuria. We shall send troops even to the North Manchurian area whenever Japanese lives and properties there are placed

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in pressing peril, but we are giving careful consideration to the relations with Russia.

Chairman (KURATOMI) : As no one seems to desire to speak further, I will omit the second and subsequent Readings, and place the matter to be voted on at once. Those who second the bill please stand up.

(Unanimously approved)

Chairman (KURATOMI) : The meeting is adjourned.

His majesty the Emperor left the room.

(Adjourned at 11:40 a. m.)

Chairman : (signed) Baron KURATOMI, Yuzaburo

Secretary-general : (signed) FUTAGAMI, Heiji

Secretaries : (signed) HORIE, Sueo

(signed) MUTO, Morio

Report of the Minister of the Navy on the China Incident made in the Imperial Palace, at 11:40 on January 30 (Saturday), 1932

Members present: Chairman KURATOMI

Vice-chairman HIRANUMA

Ministers : Prime Minister INUKAI

Minister of Finance TAKAHASHI

Minister of the Navy OSUMI

Minister of Railways TOKONAMI

Minister of Home Affairs SUZUKI

Minister of War ARAKI

Minister of Education HATOYAMA

Minister of Agriculture and Forestry YAMAMOTO

Minister of Commerce and Industry MAEDA

Minister of Overseas Affairs HATA

Minister of Foreign Affairs YOSHIZAWA

Councillors: KANEKO, KUBOTA, TOMII, ISHIGURO, KURODA, FURUICHI,
EGI, SAKURAI, ARAI, KAWAI, KAMATA, SUZUKI, ISHII,
MIZUMACHI, FUKUDA, ARIMA, HARA, KUBOTA, KURINO,
MOTODA.

Secretary-general : FUTAGAMI

Secretaries : HORIE, MUTO

Chairman KURATOMI : As I have already informed you, we will hear reports on the China Incident from the Ministers of Foreign Affairs and of the Navy, but as it is getting late, I would like the reports made as briefly as possible.

Councillor EGI : Before the reports are made, I would like to ask just a brief question to the ministers of Foreign Affairs and of War. It looks as if the Manchurian Army were always acting provocatively, and not in self-protection. From an operational point of view, it may be necessary to take the initiative, but commonly, it may not be so considered. When the commission of inquiry sent by the League of Nations comes to Manchuria, it is necessary that this point should be particularly explained.

Chairman KURATOMI : You stated that you were addressing your question to the Foreign Minister, but as he has been summoned by His Majesty, I shall ask you to put it off.