DECLASSIFIED E.O. 11652 SEC. 3(E) AND 5(D) OR (E) NNDG # 775015

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ITEM 23 Take Resolute Steps to Curtail Expenditures - Yomiuri - 4 Mar 4.

223

Full Translation:

Following a conference with Financial Consultant DODGE, Finance Minister IKEDA held an emergency ministry meeting on Wednesday to reconsider the budget draft. As a result, it was decided to retrench the budget estimates and cut price adjustment subsidies to less than 70,000,000,000 yen. It is also reported that the curtailment of public works expenses was discussed.

Needless to say, there are two big restraints upon the compilation of the 1949 budget. One is that the nine-point economic Stabilization Program calls for an over-all balanced budget, including special accounts and local finance that is, the ending of currency expansion resulting from financial causes. Another is that the national capacity to pay taxes has already reached the limit. Accordingly, the conclusion is that disbursements should be drastically curtailed.

However, the big expense items, except Occupation expenses, are public utility expenses, price adjustment subsidies, and government loans. A study into these items reveals that public utility expenses are necessary for the rehabilitation of war damages and for unemployment relief measures; that price adjustment subsidies must be permitted to some extent to maintain the current price level in preparation for the establishment of a single exchange rate, and that government loans are necessary to finance farming, the people's livelihood, home-building, and RFB loans for the reconstruction of key industries. Thus, the necessity of each expense item seems to allow no dispute, and there appears to be no room for curtailment.

Accordingly, the Government must take drastic steps to enforce the fiscal curtailment. However, there must be a just cause for such decisive measures. Where to find this cause underlines the compilation of the new budget estimates.

We urge the Government to consider the budget compilation from a broader viewpoint. In the light of recent US economic conditions, it is evident that an overseas outlet for private capital is being sought.

In its report to the US Congress, President TRUMAN's Council of Economic Advisers emphatically stated the need of overseas investment of private capital for the maintenance of US prosperity. To secure the investment of private capital, the national economy must be stabilized. This is one of the reasons the nine-point program strongly calls for the stabilization of Japanese economy.

However, various economic difficulties will occur if the Government hastily tries to stabilize national economy under the current conditions. In some cases, the postponement of national rehabilitation may become necessary, and in another, the people's life will become considerably straitened.

However, JAPAN must experience these hardships if she wants to become self-supporting as soon as possible on the strength of the US government aid and private capital investment. Under such conditions, the Government should be prepared to overcome such hardships by urging the co-operation of enterpreneurs, workers, farmers, and merchants. Makeshift policies cannot solve the situation.

Whether the Government and the Democratic Liberal Party can co-operate in compiling the budget depends on how well they realize the current national situation. Of course, there may be many difficulties, but, if we cannot overcome these difficulties, the basic rehabilitation of JAPAN's economy will become impossible. Moreover, with the setting of an exchange rate drawing near, JAPAN's economy is going to return to normalcy. Enterprises, heretofore supported by government subsidies, must soon stand on their own feet.

Private adjustment subsidies have been recklessly distributed among enterprenours since the war. However, the price policy should now be completely overhauled.

Our discussion does not concern the amount of price adjustment subsidies, but lies deeper. The thinking which has dominated the Government since the war should now be discarded. If the Government realizes the present status of JAPAN's economy and its future course, it can find ways and means to retrench expenditures. To solve the various budgetary problems, there is no alternative but to take decisive measures from this viewpoint.

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ITEM 1 Ikeda Talks with Dodge; Will Offer Budget 10 March - Mainichi - 2 Mar 49.

223

Summary:

The compilation of the 1949 budget is still going through a thorny phase, with the Government trying to keep the budget down to the 580,000,000,000-yen level, the Economic Stabilization Board demanding a larger appropriation than that of the Government for price readjustment expenses, and the Democratic Liberal Party making a similar demand for public welfare funds and local government funds.

Finance Minister IKEDA, accompanied by Finance Ministry Chief Secretary WATANABE, called on Joseph M DODGE, economic adviser to SCAP, and other members of the Dodge mission yesterday morning and conferred with them for two and a half hours. The Finance Minister called on the mission again in the afternoon and exchanged views with members of the group. Following the conference, he disclosed that he and the mission had reached an agreement of views on important points. The Finance Minister told the press: "I will not reveal the outcome of the conference either to the Cabinet or to the DLP. I interpret that SCAP wants us to present the budget to the Diet on 10 March. It is my intention to hurry up the completion of the budget. For the present I see no necessity for seeing Premier YOSHIDA. An agreement of views was reached with the mission on important items" (probably the Finance Minister meant the Recovery Finance Bank bonds, construction bonds, local government bonds, appropriations for price readjustment, and Government borrowings for special accounts).

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ITEM 1 (Continued)

At the conference not only the 1949 budget but also such basic questions as the realization of the present economic conditions in JAPAN and the way her economic reconstruction should be accomplished are said to have been discussed. It was learned that Finance Minister IKEDA explained to the mission the policy of the Japanese Government on the following moot points in the compilation of the 1949 budget:

(1) How should the establishment of the independency and the self-supporting system of the special accounts and the flotation of construction bonds be handled.

(2) From the viewpoint of increasing production how should the problem of investment in the Reconstruction Finance Bank and the flotation of the bank's debentures be treated?

(3) What should be done in connection with the flotation of local government bonds for the purpose of strengthening local government finance?

(4) What should be done with the price readjustment funds?

(5) How should the price and wage problems, which are closely related to the above-mentioned problems, be settled and how should the incongruities that are bound to crop up in the fields of public finance, loans, and production, entangled with the price and wage problems, be solved?

Members of the mission reportedly expressed their views on the outline of the economic policy of the UNITED STATES towards JAPAN. It is said that the conference has served to deepen the conferees' understanding of the real economic conditions of JAPAN. After the conference the Finance Minister seems to have decided to stand fast by the budget policy approved at a recent cabinet meeting.

Present indications are that the Diet deliberation of the 1949 budget will not be completed during March and that the Government will be compelled to introduce a provisional budget for April. Finance Minister IKEDA is trying to reach a final conclusion on the budget in the course of the current week, but the opinion is gaining ground that if the present situation gets more entangled, it will be necessary for Premier YOSHIDA to take the matter in his own hands and settle the differences politically.

At present the Government has not changed its original policy to present the budget to the Diet on 10 March and to have the Premier deliver an administrative speech the same day, but present indications are that the policy is difficult to be realized. In that eventuality the presentation of the budget will be delayed and the Premier will no doubt address the Diet quite apart from the introduction of the budget.

In view of the fact that the budget has been worked out in conformity with the nine-point Economic Stabilization Program, the budget has many points which do not agree with the public promises made by the Democratic Liberal Party. It is obvious that the opposition parties are planning to concentrate their attack on the failure of the Government to keep its public pledges, on the question of the abolition of the transactions tax, and on the nature of the administrative reform. Considering the fact that the government party commands an absolute majority in the Diet, it is a foregone conclusion that the opposition parties will attack the Government on unguarded points by studying closely the Government policy, observers said.

ITEM 5 Governors Ask Approval of Local Budget Draft Plan - Nihon Keizai - 2 Mar 49.

123

Full Translation:

(YOKOHAMA) - Representing all prefectural governors, Governor UCHIYAMA of KANAGAWA Ken yesterday conferred in the Diet with Lower House Vice-speaker IMAMOTO, Chairman NAKAJIMA of the Local Government Standing Committee, Chairman SATO of the Democratic Liberal Party's Political Research Committee, and Local Finance Commission members. The group discussed local tax problems, the governor requesting that the 86,000,000,000-yen draft plan formulated by the Local Finance Committee be approved by all means. After returning from the Diet he said:

"I cannot accept the Finance Ministry's reduction of the local budget to 72,000,000,000 yen, since this will ruin local finance. If the situation becomes aggravated, I intend to call upon all the governors and launch an opposition campaign."

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ITEM 1 (Continued)

Vice Premier HAYASHI, accompanied by Chief Cabinet Secretary MASUDA, called on Premier YOSHIDA at OISO to report to him on the budgetary situation and on the proposed administrative reform. Chief Cabinet Secretary MASUDA told the press regarding the Premier's ill-health: "The Premier was doing well. He will be well next week and I am sure he will be able to return to TOKYO by the time the Diet reopens."

Economic Ministers Visit Gen MacARTHUR

Finance Minister IKEDA, ESB Director-general AOKI, Labor Minister SUZUKI, Commerce-Industry Minister INAGAKI, and Agriculture-Forestry Minister MORI called on Gen MacARTHUR and Economic and Scientific Section Chief MARQUAT yesterday morning and conferred with them concerning payment of subsidies for seamen, silk-reeling workers, and electric power and metal mine workers.

ITEM 5 Governors Ask Approval of Local Budget Draft Plan - Nihon Keizai - 2 Mar 49.

223

Full Translation:

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ITEM 17 Co-operate for Realization of Balanced Budget - Tokyo Shimbun - 3 Mar 49.

#23

Summary:

The 1949-50 general budget draft, which was temporarily approved at the Cabinet meeting of 23 February, has run into many difficulties arising from its relationship with the special accounts and local finance.

The Democratic Liberal Party has its public pledges to keep; the people's capacity to bear the tax burden is limited; and the issuance of deficit bonds is restricted by the Finance Law. Moreover, the nine-point Economic Stabilization Program is imposed as a supreme order.

Formulation of next year's budget is evidently difficult. It appears, however, that only the Finance Ministry authorities are endeavoring to realize a balanced budget, while the Democratic Liberal Party and the authorities of other ministries are too preoccupied with their promises and prestige to offer co-operation.

Even the Finance Ministry authorities do not seem to understand the true purport of the nine-point Economic Stabilization Program. The first paragraph of the program states that a true balance in the consolidated budget should be achieved at the earliest possible date, by stringent curtailment of expenditures and maximum expansion in total government revenue, including such new revenue as may be necessary and appropriate.

In the light of this intent, the problem of revenue, as well as that of expenditure, must be fully re-examined. If the revenue phase is examined, it will be doubtful whether the wholesale abolition of the transactions tax can be realized, even though the producer, bill, gasoline, transportation, and insurance taxes are created.

It was a serious mistake for the Local Finance Committee, under these general conditions, to have informally set the total amount of the local budget for the coming fiscal year at 430,000,000,000 yen and to have estimated a deficit of 26,000,000,000 yen, even after estimating deficit-bond issues at 42,000,000,000 yen and revenues from new and increased taxes at 36,000,000,000 yen.

A balanced consolidated budget cannot be achieved by the Finance Ministry alone. Neither the reduction of expenditures nor an increase in revenue can be attained without co-operation from other ministries, local bodies, and the people in general.

In order to use the limited amount of money effectively, no general policy can be permitted.

In the trials and tribulations of budget formulation, we clearly see the contradictions of Japanese economy and the expedient nature of the policies so far adopted. We can understand the difficulty of stabilizing such an economy and, consequently, the difficulty of achieving the nine-point program in its entirety. Therefore, we see the necessity of co-operation on the part of the entire nation if a balanced budget, in the true sense of the word, is to be attained.

ITEM 1 Budget Delay May Cause Lengthening of Diet Recess - Jiji Shimpo - 4 Mar 49.

#223

Full Translation:

Indications are that the Diet recess will be lengthened for several days. The Government, with Finance Minister IKEDA taking the initiative, is pushing preparations pursuant to the policy of submitting the 1949-50 budget bill to the Diet on 10 March immediately following its reopening.

However, some delay in the submission was expected as a result of negotiations with related quarters. This led to reviewing the date of Diet reopening and related matters after hearing the Finance Minister's report on the progress of the negotiations at today's cabinet meeting.

As matters now stand, the Government has not changed its policy of avoiding the formulation of a provisional budget. Further, it intends to pursue the orthodox procedure of presenting the national budget immediately after the delivery of the Premier's administrative address. Therefore, it is understood that the Government wants to lengthen the current recess for several days, carrying over the opening ceremony and the resumption of business to a date after the 10th. A decision will be made at today's cabinet session, and the Diet will be notified.

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ITEM 1 Govt Must Substantially Revise Budget Estimates - Yomiuri - 3 Mar 49.

223

Summary:

As a result of the Dodge-Ikeda conference held on Tuesday the Government is now driven to the necessity of slashing the 578,200,000,000-yen 1949 draft budget approved at a recent cabinet session, it was learned. The conference seems to have led the Government to realize that it is well-nigh impermissible to obtain revenue by floating bonds or by government borrowings in view of the necessity of executing the nine-point Economic Stabilization Program. Present indications are that the Government will be compelled to hike transportation and postal rates and also to curtail further various subsidies.

Finance Minister IKEDA called on Economic and Scientific Section Chief MARQUAT yesterday morning and conferred with him concerning redrafting of the 1949 budget. Following the conference Finance Minister IKEDA called a Finance Ministry session and discussed the following three points:

(1) To cut down further the total amount of the budget, the 70,000,000,000-yen appropriation for price adjustment expenses shall be trimmed. The original appropriation for public welfare work shall also be further retrenched, for it smacks too much of partisan politics.

(2) As it has become impossible to obtain funds by floating government bonds for making investment in the Reconstruction Finance Bank, it will be necessary to finance investments in the Housing Reconstruction Corporation, the Agriculture-Forestry Finance Bank, and the Peoples Finance Bank within the limit of the 40,000,000,000 yen to be invested by the Government.

(3) In view of the policy of placing the special accounts on an independent and self-sustaining basis and in view of the fact that it has become impossible to float loans for construction purposes, raises in transportation and postal charges have now become unavoidable.

No conclusion was reached in terms of figures at yesterday's ministry session, but it has now become certain that the budget will be pared by a wide margin along the aforesaid lines. It has now become clear that the Government will not be able to present the 1949 budget to the Diet on 10 March as scheduled.

However, there has been no change in the policy of the Government to avoid a provisional budget for the month of April. Present indications are that the Government will present the annual budget even if it has to shorten the period of deliberation.

ITEM 4 Local Finance Comm Protests Tax Grant Reduction - Jiji Shimpo - 3 Mar 49.

223

Full Translation:

The Local Finance Commission decided at its meeting yesterday morning to carry on negotiations with the Government relative to the local budget for the next fiscal year, along the lines of its original policy.

The Commission members had been racking their brains on ways and means of coping with the strong Government insistence on slashing the local tax grants of approximately 85 billion yen, as well as in refusing to authorize the issuance of local loans estimated at 42.7 billion yen.

The Committee decided the following two points, in compliance with its original policy on the local budget:

1. The assertion by the Finance Ministry of cutting the local tax grants from the 85 billion proposed by the Commission to 72 billion yen runs counter to provisions of the Local Tax Grants Law, and as the Democratic Liberal Party agrees with the Local Finance Commission in this respect, the Commission shall leave the whole matter in the hands of the party.

2. The Committee shall continue negotiation with the Government on the issuance of local loans, since the influential opinion, which maintains that the issuance of local loans should not be authorized in the light of the nine-point Economic Stabilization Program, has not yet become a decided policy. Even under the worst possible situation, it would be possible to issue local loans if an estimated sum of between 20 to 30 billion yen is appropriated out of the profits of proceeds arising from the monopolized Government tobacco sales in the treasury. Under such circumstances, the Commission will abolish the measure originally considered, calling for the introduction of a new local tax in the form of a tobacco consumer tax, estimated to yield a revenue of 10 billion yen.

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ITEM 8 Tochigi Assembly Reviews Budget Compilation - Asahi (Tochigi Ed) - 1 Mar 49.

2p3

Full Translation:

The Tochigi Prefectural Assembly, now deliberating on the 3,640,000,000-yen prefectural budget for the 1949 fiscal year, has asked the Prefectural Office for the drafts originally submitted by each section when the budget was being compiled. This request was made in order that they might better understand and criticize the contents of the budget. Therefore, at a Standing Committee meeting prior to the opening of the Prefectural Assembly session, the drafts drawn up by each of its sections was presented by each department.

This was the first instance of its kind regarding the compilation of prefectural budgets, and two opposing points of view appeared.

One approved of it as a step forward toward democratization and a brighter prefectural administration; while the other opposed it as interference in the Governor's right of budget compilation and as a possible introduction of bossism in prefectural governments.

The former view, supported by most of the prefectural assemblymen, maintains that the presentation of these drafts is made to enable the assembly to study the budget completely in order to better exercise its right to approve the measure, and that it is not meant to curb the Governor.

The latter view, supported by Governor KODAIRA, maintains that even though the prefectural assemblymen's demand for the presentation of these drafts is only for the sake of reference, it does infringe upon the Governor's right of compiling the budget. They argue that this will set a precedent and give a strong hold over budgets, especially in such operational fields as civil engineering, economy and farmland. This, they claim, will invite greater interference from special lobbies and interests and lead to strong boss influence in prefectural administration.

ITEM 14 Principal Objective in the Budget Compilation - Yukan Chugai - 6 Mar 49.

923

Summary:

Curtailment of the 1949-50 fiscal year budget, originally estimated at 578 billion yen, has become necessary because of strong demands for the reduction of public enterprise expenses, and price adjustment funds, and the restriction on issuance of reconstruction bonds. The government, consequently, is hurrying its preparation of a revised budget bill which it intends to present to the Diet no later than 25 March.

In compiling the budget, the Government is required to exert efforts to create a truly balanced consolidated budget as called for by the nine-point Economic Stabilization Program by drastically curtailing expenditures. As for revenues, the Government is anticipating an increase of some 100 billion yen in taxes during the coming fiscal year. However, under circumstances whereby the people's tax bearing capacity has already reached its limit and immediate disposal of government properties is not feasible, an increase in revenues cannot be expected.

It is only proper that issuance of reconstruction bonds be authorized only when establishing a new enterprise, and the existing enterprises be required to appropriate their profits for their reconstruction. The reduction of public enterprise expenses is not impossible if the waste in these works is eliminated. Moreover, curtailment of price adjustment funds is the prime requisite for the establishment of a self-supporting economy, and in order to avoid the inflation, which will possibly ensue, the rationalization of enterprises should be immediately considered as the next step.

If any part of the reconstruction bonds, public enterprise expenses, or price adjustment funds is absolutely necessary, the budget must be curtailed in some other field. The recently announced administrative readjustment program is not considered satisfactory as far as the personnel cut in Government offices is concerned. In order for the stabilization of national economy to be accomplished in conformity with the nine-point Economic Stabilization Program, the drive for increased production may come to be considered as a problem of secondary importance.

In compiling the budget, however, the Government must give careful consideration to the point that production increases would not necessarily be hopeless, if the government's controlling structure were adjusted and rationalized.

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ITEM 7 Okayama Undertakes Rebuilding of Civic Institutions - Provincial Paper: Yukan Okayama (Okayama) - 3 Mar 47. Translator: T. Ukai.

Summary:

A survey of next year's budget for the city of OKAYAMA was finished by Acting Mayor TANAKA. The Finance Section completed calculation on 2 March. The total sum of the budget is some 70,000,000 yen, with an essential general budget of some 35,000,000 yen. The city assembly will meet around the middle of the month for budget discussion.

Original undertakings will be financed as much as possible by issuing loans for which approval will be sought from the prefectural and central governments. The restoration of the city hall, the city office and the city hospital will also be financed by loans.

At present, the city office is located in the Uchiyamashita school. Rent is being paid for the use of the school. The new office will be built on the former site of the Okayama first girls' school. The work will cost some 14,000,000 yen and is a two-year program.

The new site of the city hospital will be at AMASE, the old site of the hospital. The present one is in the Ishii primary school which is also rented. The work will cost 10,000,000 yen and is a two-year program.

The city hall will be repaired and a new building of the People's Hall (KOMIN KAN) will be built. Both works together will cost 10,000,000 yen and is a two-year program.

ITEM 1 Supplementary Budget Bill Passed in Yamagata Prefectural Assembly - Asahi (Yamagata Edition) - 10 Jul 47. Translator: M. Ota. (TK)

Full Translation:

At the Yamagata Prefectural Assembly on 9 July, Governor MURAYAMA reported on the Emperor's tour of inspection in the TOHOKU District.

After a report on the execution of the budget by HANAWA, chairman of the Budget Committee, the assembly passed unanimously the supplementary budget bill amounting to 227,266,625 yen without amending the revised bill drawn up by the Budget Committee. Following the approval of the bill, an urgent motion proposed by KOJIMA (Prefectural Administration Research Society) to expedite the fresh supply of marine products to this prefecture was adopted. Then the assembly members passed a resolution asking for relief and the establishment of welfare facilities for 200,000 needy people in this prefecture, including war sufferers, demobilized soldiers, repatriates, the wounded, and bereaved families.

Proposals concerning the reconstruction of the Yamagata First Girls Higher School, the construction works on the MOGAMI River, and 14 others were placed on the agenda and they were to be presented to the parties concerned. The amount of tax revenue and the fishing charges were increased by 4,086,440 yen. This will reduce the amount of revenue alloted to the prefectural government and it will be kept for future emergency expenditures. The ten-day session of the first prefectural assembly was adjourned at 1230 hours.

ITEM 4 Government Undecided on Budget - Yomiuri - 16 Jul 47. Translator: K. Sasaki. (TK)

Full Translation:

The Cabinet met yesterday afternoon to deliberate on the supplementary budget for the current year, but it did not arrive at a final decision. The budget is 3,000,000,000 yen short of balancing the 70,000,000,000 yen expenditure. It was agreed that there would be no alternative but to resort to income from new taxes for financing this shortage. The Finance Ministry is to make further investigations concerning new taxes, and the Cabinet is to hold a special budget meeting tomorrow to continue the deliberations.

In allotting this 3,000,000,000 yen, pricrity will be given to social works planned by the Ministries of Agriculture and Forestry, Commerce and Industry, and Labor. The 6-3 education system is budgeted at 1,500,000,000 yen as a result of the second revision, but Minister MORITO is strongly insisting on a larger grant.

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BUDGET

223 The Cabinet yesterday abandoned hopes of independently compiling a balanced budget and turned to SCAP for advice. Finance Minister IKEDA will call on financial adviser DODGE and other GHQ economic specialists today to sound their views on the key problems related to the 1949-50 budget. Government efforts to give detailed shape to the tentatively-approved budget outline have snarled on three main issues--price differential subsidy, construction bonds for the special accounts, and public works appropriations. (a)

1 MAR

223 The Ikeda-Dodge conference is not expected to lift the present ban on the issuance of construction bonds to cover losses in the rail and communications special accounts. With this possibility gone, government planners would have to make time-consuming changes in the rail and communications rates. This, combined with other complications stemming from the loan program, might prevent the submission of the budget bill to the Diet on 10 March as planned. (b)

1 MAR.

223 The Tokyo press continued to stress the budget. Top headlines in most leading papers today were keyed on cabinet differences over vital details of the 1949 - 50 budget and on Finance Minister IKEDA's scheduled talk with SCAP officials. Cotton export was the only other major focus of local news.

1 MAR.

223 BUDGET

Finance Minister IKEDA reported yesterday that the Government had reached an "agreement of views" with SCAP economic experts on key points of the 1949-50 budget. But he declined to elaborate further on his two meetings with financial adviser Joseph M DODGE and members of his mission. While IKEDA reiterated his desire to meet the 10 March deadline for presenting the final budget plan to the Diet, the consensus was that the general budget cannot be completed during March and that the Government will have to compile a stop-gap provisional budget for April. (a)

2 MAR

223 Dearth of other local news again pushed to budget to the top of the front page. All major Tokyo papers except MAINICHI pegged their main story today on the Dodge-Ikeda budget conference. MAINICHI led with the new 42,000,000-ton production target.

2 MAR.

223 To counter the growing resistance to tax payments, National Rural Police Headquarters yesterday ordered its local offices to crack down on persons agitating against taxes. Police were also asked to watch out for unauthorized tax agents. (b

2 MAR.

BUDGET

223 Drastic slashes in appropriations appeared unavoidable as Finance Ministry officials conferred yesterday to seek revenue sources to balance the 1949-50 budget. With construction bonds and debentures apparently banned by Tuesday's Dodge-Ikeda conference, it seemed clear that the Government will have to redraft the tentatively-approved 578,200,000,000-yen budget plan. Present indications are that the Government will cut the proposed funds for subsidy and public works and will boost transportation and postal charges. (a)

Transportation Minister OYA emphasized the importance of avoiding passenger fare increases at a Democratic Liberal meeting yesterday. But he admitted that he knew of no other way to cover the irreducible 15,000,000,000-yen deficit in the railway special accounts. (a)

3 MAR.

Finance

223 TOKYO SHIMBUN pointed out that only the Finance Ministry authorities are intent on balancing the budget while the Democratic Liberals and other officials are bent on maintaining their prestige. Admitting that establishment of sound finance is far from a simple problem, the daily foresaw no possibility of a balanced budget without the wholehearted co-operation of the entire nation. It specially singled out the Local Finance Committee for making the grave blunder of fixing the local finance budget too high.

Recounting the numerous legitimate reasons why the people would object to paying taxes, YOMIURI nevertheless felt that the taxpayers would be only too willing to pay their taxes if they could be assured that the Government has done its best to pare expenses to the minimum and to divide the tax burden equitably. By such action the Government can readily prevent the "vicious" antitax movements, thereby eliminating the need for strict control, the journal declared.

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BUDGET

223 Extension of the Diet recess loomed yesterday as the Government bogged deeper into the budget morass. Indications were that the Government could not solve the outstanding problems in time to present the 1949-50 budget bill to the Diet on 10 March as planned. Cabinet ministers will decide today whether to postpone the reopening of the Diet so that the budget can be introduced in conjunction with Premier YOSHIDA's curtain-raising administrative speech. (a)

Finance Ministry authorities have virtually reconciled themselves to slashing estimated expenditures for the next fiscal year. With almost no possibility of increasing national revenue by more than 10,000,000,000 yen, it was believed almost certain that the Finance Ministry would have to abridge its original 578,000,000,000-yen budget draft. (b)

Personnel retrenchment--one of the main economy moves projected by the Government--drew criticism from the Communists yesterday. SHIGA Yoshio, who called on Chief Cabinet Secretary MASUDA with five other Communist delegates, pointed out what the party considered shortcomings in the administrative adjustment program. He stressed that it would weaken the labor unions and that its unemployment provisions were inadequate. (c)

4. MAR.

BUDGET

223 Budget delays forced cabinet ministers yesterday to seek a nine-day extension of the Diet recess. Convinced that the 1949-50 budget bill will not be ready for presentation until about 25 March, they asked the Diet to postpone its reopening from 10 to 19 March. To cover the expected lag between the start of the new fiscal year on 1 April and the enactment of the general budget, the ministers decided to prepare a 6,000,000,000-yen provisional budget for the first 10 days of April. Premier YOSHIDA's administrative speech was set for 22 March. (a)

Finance Minister IKEDA predicted yesterday that the budget bill will be submitted to the Diet on 23 or 24 March. He told a press conference that "negotiations with the quarters concerned are progressing without a hitch" and that a conclusion will probably be reached within 10 days. (b)

6 MAR.

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223 Tokyo editors continued to give top emphasis to the new budget. Nearly all major papers today carried the budget-prompted extension of the Diet recess in their lead spot and filled in the bulk of the remaining above-fold space with other developments linked to the budget.

5 MAR.

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223 Observing that the huge 1949 local budget will inflict an unreasonably heavy tax burden on the people, JIJI SHIMPO saw the need for a drastic cut in local finance, even more so than in the national budget. Though it may be hard for the Government to pare expenditures under present abnormal conditions, the paper stated, expenses should be curtailed temporarily. It also pointed out that even greater difficulties will follow should national finance be allowed to impinge on local finance.

BUDGET

223 The Finance Ministry will draw up a revised budget estimate by 14 March without departing sharply from its original draft. Reports of the Saturday night conference between Premier YOSHIDA and Finance Minister IKEDA indicated that the budget outline approved by the Cabinet on 23 February will set the pattern for the 1949-50 budget bill. IKEDA was understood to have found a way to salvage the original draft despite the coolness of SCAP officials toward its inflation-needling aspects. The new plan will go to SCAP economic adviser DODGE for review on 21 or 22 March. (a)

To give the Government more time for budget study, the Lower House Steering Committee agreed Saturday to postpone the Diet reopening until 19 March. Chief Cabinet Secretary MASUDA said the Government intends to submit the budget to the Diet on 22 March. He added that if the debate on the general budget is carried over into the next fiscal year, the Government will appropriate stop-gap funds on a day-to-day basis and not on a monthly basis as before. (b)

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ITEM 5 - Finance Ministry Considers Budget Changes Unavoidable - Nihon Keizai - 3 Mar 49.

223

Full Translation:

The Government, at the IKEDA-Dodge conference on Monday, affirmed the policy that it would compile just one budget instead of supplementary budgets. It is now in the midst of negotiations with the parties concerned. However, at present there is no prospect for solving such problems as price adjustment expenses, curtailment of public works expenses, an increase in the amount of government investments, and postponement of flotation of public construction loans in the Special Account, local government loans, and the Reconstruction Finance Bank loans. It is believed inevitable that a decision on the budget plan will be delayed because of the need of adhering to an independent, profit-making system and maintaining sound finance in the accounts, both general and special, and in local governments.

To cope with the situation, the Finance Ministry held a conference yesterday. Finding it difficult, because of revenue sources, to increase expenditures over the total estimate of 578,000,000,000 yen, informally decided at a Cabinet meeting, it is considering the curtailment of expenditures. Therefore, it is believed unavoidable that the budget plan will be amended to any considerable extent.

In other words, the majority opinion is that, although the Economic Stabilization Board is demanding an increase in expenses for price adjustment, the 70,000,000,000 yen demanded in the government's original plan must be cut further.

There is also an opinion that the public works expenses of 75,000,000,000 yen must be reduced to about 50,000,000,000 yen. On the other hand, the government faces problems which are inconsistent with the Democratic Liberal Party's policies. Although it is undesirable, from the viewpoint of national finance, to increase the amount of government investment a major obstacle to the furnishing of funds by the Reconstruction Finance Bank will be provided if the flotation of the bank's loans is discontinued.

Also, it is necessary to drastically increase freight and passenger rates if the flotation of public construction loans in the Special Accounts is prohibited, and if an independent profit-making system is to be adhered to. The Government wants to cut public works expenses avoid any drastic increase in transportation charges (passenger fares in particular) inasmuch as this was one of its public pledges. For these reasons, it is still adhering to the idea of floating construction bonds.

It is believed that another week will be required before the budget plan is drafted, because decisions on important items are still pending because the revision of the budget draft outline will take some time, and because party policies still have to be adjusted.

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ITEM 2 Ikeda: Diet Will Receive General Budget on 23, 24 March - Mainichi - 5 Mar 49.

Full Translation:

The budget for the fiscal year 1949 will be submitted to the Diet on 23 or 24 March, Finance Minister IKEDA told a news conference yesterday.

IKEDA stated: "Judging from present circumstances, the budget for the fiscal year 1949 will be introduced to the Diet on 23 or 24 March. Therefore, it has been decided to reopen the Diet on the 19th.

"If the passage of the budget is delayed until April, some difficulties will rise in the payment of national bonds interests and jail expenses. Some expedients will be contrived for these special items. A special act deferring disbursement for these items or a provisional budget for them may be possible. However, an overall provisional budget for April will not be compiled.

"It is the Government's desire to finish budget debates within a week. If things progress smoothly, the general account budget will pass the Diet by the end of March and will be put into operation in April.

"The Democratic Liberal Party is opposed to the curtailment of public works appropriations because of its public pledge. Nevertheless, I believe that the party should consider the matter from a standpoint beyond its partisan interests. At present, budgetary negotiations with quarters concerned are progressing without a hitch. Therefore, I believe that they will reach a conclusion within 10 days.

"The abolition of the Public Liquor Distribution Corporation was decided at yesterday's Government-Democratic Liberal Party liaison conference. However, whether liquor rationing itself shall be discontinued remains undecided. In this connection, I wish to stop special liquor rations for industrial workers. When the public corporation is abolished, pooling of proceeds will not be possible. Consequently, liquor prices will show regional differences."

ITEM 1 Gov't Plans New Budget Draft in Line with Original Plan - Yomiuri - 7 Mar 49.

223

Full Translation:

Finance Minister IKEDA conferred with Premier YOSHIDA for 30 minutes Saturday evening, at the latter's villa in OISO, regarding the budgetary problem. As a result of this conference, IKEDA now reportedly believes that the opinion for revision can be satisfied by compiling a new budget in line with the original draft.

The Government decided on the budget draft for the fiscal year 1949 at the cabinet meeting on 23 February. The budget draft appropriates 70,000,000,000 yen for price adjustment subsidies and 75,000,000,000 yen for public works. It also includes the issuance of national bonds to meet the construction accounts of the special accounts and disbursements for local governments. This fact has become the problem. Finance Minister IKEDA was told by Mr DODGE, financial adviser for SCAP, in their conference on 1 March, that the nine-point Economic Stabilization Program should be strictly interpreted in compiling the 1949 budget, and that emphasis should be placed on economic stabilization, rather than on production, to roll back inflation. As a result of this, the Government found it imperative to stop meeting expenditures by issuing national bonds and by borrowing.

However, the independence of the railway and communications special accounts, and the execution of the long-term production plan through the funds of the Reconstruction Finance Bank, are indispensable in view of present circumstances in JAPAN. Therefore, how to adjust the Government budget draft to GHQ's wishes became a serious problem.

Finance Minister IKEDA, at his conference with Premier YOSHIDA Saturday, reportedly found a way to adjust the new budget in line with the original budget draft.

The Government will complete the new budget draft by 14 March and present it to Mr DODGE for approval on the 21st or 22nd. After checking figures and performing other procedural steps, both the general and special budget bills will be introduced to the Diet, on the 25th.

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ITEM 8 The National Budget - Shin Tokyo - 1 Mar 49.

223

Summary:

The draft budget was provisionally estimated at 582 billion yen. After close deliberation, however, the Government found it necessary to increase the budget estimates to 600 billion yen. The reasons for the increase are as follows:

1. The necessity to slightly increase appropriations for war-termination expenses which was originally estimated at 115 billion yen.

2. The necessity of increasing price adjustment funds, which originally was estimated at 70 billion yen by the Finance Ministry, to between 85 and 90 billion yen, as required by the Economic Stabilization Board.

3. The addition of 7 billion yen in subsidies to the iron and steel industries for the current fiscal year.

It will be difficult, under such circumstances, for the Government to abolish the sales tax, although it was originally hoped for by creating various new taxes. There is also a possibility that the Government may be forced to drastically reduce public enterprises expenses which was to be the budget for unemployment relief.

Direct appropriations for unemployment relief in the draft budget were very small and little importance has been attached to plans for the relief of medium and small enterprises now on the verge of bankruptcy. It is inevitable, therefore, that while the basic industries subsidized by the Government will surmount their difficulties the others, foresaken by it, will find it difficult to maintain their business and will ultimately be bankrupt. It is also feared that with the enforcement of industrial rationalization and administrative readjustment, the number of unemployed will increase markedly, and social unrest will be intensified. Under these circumstances, there is even danger that the important task of stabilizing the nation's economy may possibly end in failure. It is imperative, therefore, that the Government prevent this impending crisis and stabilize the nation's economy as early as possible so that the medium and small entrepreneurs and laborers may devote themselves to the reconstruction of the nation.

If the increase in the budget is due to the granting of subsidies to the big entrepreneurs and capitalists at the expense of the medium and small entrepreneurs and laborers with heavy taxes, the nation's future will never become bright.

In the 1948-49 national budget, the people's income was estimated at 2,390 billion yen, and of this sum, over 700 billion yen was not taxable. This indicates that JAPAN's economy depends on blackmarket and that shady transactions are being made on a large scale. Profits derived through blackmarket deals are not taxed. While the laboring masses are writhing under the heavy tax burden, countless blackmarketeers are successfully dodging taxes.

In order to properly implement the Nine-point Economic Stabilization Program, it is necessary to destroy the blackmarket, impose heavy taxes upon blackmarketeers, reduce subsidies to big capitalists, establish public enterprises, and stabilize the standard of living.

Present indications are that the budget may possibly be increased to 600 billion yen. We demand that the Government make the most of this enormous sum of money to protect the people's livelihood and reconstruct the nation.

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ITEM 2 Price Adjustment Expense Key to Budget Compilation (Part I) - Nihon Keizai - 2 Mar 49.

223

Full Translation:

The Government is running into considerable difficulty in compiling the budget for the 1949-50 fiscal year because of the imperative task of incorporating the nine-point economic program, which embodies the inherently conflicting elements of stabilization and recovery. One of the chief reasons for this dilemma lies in the government's indecision on the price adjustment question. At variance with the Finance Ministry's 70 billion-yen plan, the ESB is backing its 85 billion-yen plan. Thus the agony of Japan's economy, which was ravished by a lost war, is being reflected in this price wrangle.

The price co-ordination subsidy is the backbone of the low price policy aiming at easing the pressure of inflation by holding prices down. This system was first adopted in 1940 in the form of subsidies for the purchase of coal. Temporarily suspended, the system was resumed in July 1947 when the price structure based on stabilization goods was established. A policy was adopted to grant government subsidies to cover the differences between market prices of key mining and industrial materials and the standard prices set at 65 times the 1934-36 level. Stabilization items included coal, pig iron, ordinary steel, electrolytic copper, ammonium sulphate and caustic soda. Price adjustment expenses in 1948 amounted to 26.3 billion yen or 21 percent of the entire budget including the supplementary budget.

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ECONOMIC

ITEM 2 (Continued) .....

When price revision was later effected to meet soaring wages, this policy was maintained with prices for stabilization goods fixed at 110 times the 1934-36 level. Subsidies on these items, which now included aluminum and ammonium nitrate, were fixed at 62.5 billion yen or about 20 percent of the entire budget. The particulars are as follows (figures show prices per metric ton):

	Original consumer prices	Consumer prices with subsidies	Subsidies
Pig iron for steel	15,080	3,600	11,480
Pig iron for casting	15,080	5,210	9,930
Unfinished goods plus freightage, etc.	9,070	6,537	2,533
Steel	31,699	15,400	16,299
Electrolytic copper	181,060	102,014	79,046
Lead	80,810	59,103	21,707
Electrolytic zinc	58,030	46,237	11,793
Distilled zinc	55,030	42,884	12,146
Aluminum	150,470	116,195	34,275
Ammonium sulphate	20,960	11,126	9,834
Nitro-lime	20,990	8,900	12,090
Superphosphate of lime	8,536	3,784	4,752
Soda ash	22,789	11,105	11,684
Ammonium nitrate	(the present price is 9,750)		average 1,962
Caustic soda (liquid)	29,719	18,702	11,017
Caustic soda (crystalline)	29,363	20,856	8,507
Iron, steel, gas, coke, fertilizer, etc, for special industrial use	3,675	1,000	2,657

In addition to the above items, subsidies were granted to cover transportation of certain perishable foods to markets.

Price adjustment funds are paid directly to public corporations which purchase stabilization goods at higher prices for distribution at lower prices. Each public corporation submits a monthly report, at the beginning of the month, on the estimated previous month's output to the Price Board. The Price Board pays for ten to 90 percent of the reported amount and pays any balance two months later when the amount of output is ascertained. It is difficult to determine the amount of appropriations for price co-ordination expenses in the next year's budget because it will depend greatly

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ECONOMIC

ITEM 2 (Continued)

upon increased production under current circumstances in which deficit financing and price revision are forbidden and RFB loans are restricted.

The Finance Ministry believes that if the coal price is raised 400 yen per ton along with proportionate increases in prices of power, pig iron and railway fares and enterprises are rationalized on the basis of wages estimated at 1.15 times the present 3,700 yen level, the 70 billion yen price adjustment fund will be sufficient to support the price structure since the price increase of essential goods could be covered by secondary and tertiary products.

Details of the expenses are 20 billion yen for coal, 26 billion yen for iron and steel, 20 billion yen for fertilizer, one billion yen for nonferrous metals and two billion yen for soda and coke.

Finance Minister IKEDA, in support of his Ministry's plan, stated that subsidies should be reduced to accelerate enterprise rationalization.

The ESB, on the other hand, maintains the following views: (1) business operation, in 1949, will be eased by increased production; (2) prices of items classified as stabilization goods must be reduced; (3) price adjustment expenses must be increased paralleling increased production although production costs may decrease. The board, therefore, demands that about 90 billion yen be allocated as price adjustment expenses, a minimum of 75.7 billion yen for 1949, 6.1 billion yen for items to be carried over from the fourth quarter of 1948 and another 6.1 billion yen for the Civil Maritime Commission subsidy.

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ITEM 11 Can the Government Balance the Consolidated Budget? - Seiji - 1 Mar 49.

823

Summary:

The compilation of the 1949-50 budget, which was regarded as the first obstacle to be faced by third Yoshida Cabinet, has been completed, and the Cabinet, at its regular session, approved the general account budget which amounted to 580 billion yen, and was drafted by the Finance Ministry. It must be expected, however, that there will be controversies over the price adjustment subsidies and various ministries will request restoration of slashed appropriations.

The Democratic Liberal Party, in connection with the budget, has already presented a 13-point proposal which includes the reopening of restaurants, establishment of funds for housing construction, promotion of small and medium enterprises, agricultural development, an increased educational budget, and enforcement of the new school system, and the transfer of tobacco monopoly and other state enterprises to civilian control. In addition to adjusting these demands, the Government must compile the special account budgets and local government budgets, and seek the approval of the sources concerned.

"Balance in the consolidated budget" which is called for in the nine-point economic stabilization program can be attained only when all central and local government budgets are really balanced. It is doubtful, under these circumstances, whether the Government will be able to present the budget bills to the Diet by 10 March as it had promised. The budget for the 1948-49 fiscal year was balanced in form, but it is very doubtful whether the general and special accounts budgets and the local government budgets were really balanced. In fact, the deficits in the special account budgets and local government budgets were covered by the general account budget, and the deficit in the general account budget was shifted to the banking institutions, enterprises, and the public.

The nine-point economic program levels severe criticism of this fictional "balanced" budget. The question is, does the newly compiled

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EDITORIAL

ITEM 11 (Continued)

budget meet the demands of the nine economic principle? It is necessary, in order to compile a balanced budget for the 1949-50 fiscal year, to solve many difficult problems, such as the establishment of independent special account budgets, keeping the price level down, curtailment of price adjustment subsidies, and restriction of the Reconstruction Finance Bank loans and other similar loans within the limit of government revenue. These problems present demands which conflict with each another, and the Government must face these difficulties when compiling a balanced budget.

In order to cope with these difficulties, the Government must decide to; (1) drastically reduce price adjustment subsidies which amount to 120 billion yen; (2) lower the prices of basic materials by 20-50 per cent; and (3) maintain the existing price level by absorbing the impact of increased prices of basic commodities through by-products. These policies indicate that the Government has yielded to actual conditions. The Government, in drawing up this budget began with revenue as the working basis for the compilation of the budget. It slashed expenditures to equal previously calculated revenues. This is a remarkable change in the method of compiling the budget, because heretofore, the compilation of budgets began with the calculation of expenses, and the incomes were fixed to meet the decided expenditures. There is as yet no convincing proof, however, that the estimated incomes in the 1949-50 budget are positive. In this regard, we must analyze the relationship between national income and state finance.

Net expenditures of the general and special account budgets for the 1948-49 fiscal year amounted to 1,060,000,000,000 yen. The local government budgets for the same year totalled 263,000,000,000 yen. If half of the local government budgets is to be regarded as a double account, net expenditures of the central and local governments amounted to approximately 1,190,000,000,000 yen, or about 50 per cent of the nation's income during the 1948-49 fiscal year, which was estimated at 2,400,000,000,000 yen. According to the local Finance Committee's draft plan, the general account budget for the 1949-50 fiscal year, amounts to 580,000,000,000 yen, and the local government budgets, 430,000,000,000 yen. Although the local government budgets are expected to be curtailed and it is difficult to calculate the nation's financial burdens under present confused economic conditions, it can be surmised that the expenditures of the central and local government in the 1949-50 fiscal year will be about 50 per cent of the nation's income, which is estimated at 2,800,000,000,000 yen. The nation's financial burden, therefore, will remain as it was last year.

There is no doubt that national expenditures are too heavy to be met by the nation's present income, as was indicated by the recent forcible collection of taxes by the Government. To mitigate the financial burden, reduction of personnel is, of course, necessary. At the same time, however, it must be noted that the personnel expenses in the general and special account budgets for the 1948-49 fiscal year were 125,300,000,000 yen, or only 12 per cent of the total expenditures. It is necessary, therefore, to scrutinize all the expenditures, in order to attain a balance in the consolidated budget." It also remains doubtful whether the impact of increased prices of basic materials can by absorbed through by-products.

The conflicting elements involved in the budget may still necessitate the compilation of a supplementary budget. It can be said, therefore, that numerous difficulties will be encountered in the compilation of a balanced consolidated budget.

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ITEM 1 General Budget Delay May Require Interim April Budget - Yomiuri - 5 Mar 49.

223

Summary:

With the budget formulation at a standstill, the Government at yesterday's Cabinet Meeting decided to postpone convocation of the fifth Diet session, originally scheduled for 10 March, until 19 March so that it may finalize the budget proper for Diet presentation around 25 March, and, at the same time formulate an interim budget of about 6,000,000,000 yen to cover the first 10 days of April in case Diet deliberation on the budget bill extends into April. The Cabinet also decided to set the date for the Premier's administrative speech in the Diet at 22 March.

The Government decision came after Finance Minister IKEDA made a progress report on the new budget formulation and the concomitant negotiations with the related quarters. As a result, Chief Cabinet Secretary MASUDA asked executive officers of the Democratic Liberal Party to cut short the coming Diet deliberation on the budget bill and obtained their understanding in this connection.

As explained by Finance Minister IKEDA at yesterday's Cabinet meeting, the Government's budget formulation schedule is such that the Government will tentatively decide on a revised national budget outline by 9 March and then conduct final negotiations with related quarters until 19 or 20 March, when the outline is to be submitted to SCAP financial adviser DODGE for his inspection and thereafter codified for presentation to the Diet around 24 or 25 March, following Premier YOSHIDA's administrative speech scheduled for 22 March. The revised national budget outline can be analyzed as follows:

(1) In order to slash public utility appropriations to 50,000,000,000 yen from the original 75,000,000,000 yen, the projected new education system enforcement, housing and city plans will be reduced.

(2) The Government will not be authorized to issue such long-term bonds as construction, Reconstruction Finance Bank and local bonds. As a result, efforts will be made to meet the existing deficits in the special accounts on construction, with flotation of short-term bonds redeemable within the fiscal year.

(3) No currency expansion will be authorized for the purpose of underwriting the funds accomodation program for the first quarter of the 1949 fiscal year. At the same time, the flotation of government short-term bonds will be kept down to a total of 60,000,000,000 yen. Steps will be taken to fill the resultant revenue gap.

(4) Occupation costs will be increased to about 140,000,000,000 yen by transferring local accounts connected with bond flotation into the general account.

(5) The price balance subsidy limit of 70,000,000,000 yen will be scaled down to the amount proportionate with the total budget.

(6) Further study will be made of miscellaneous appropriations by various ministries in consultation with the Finance Ministry.

Meanwhile, the interim budget for the first ten days of April which is now under consideration by the Government, will cover such payments due on 1 April as government bonds interests, prison, police and tax collection costs.

The Government, in the meantime, notified the Diet yesterday of its decision to postpone the Diet convocation until 19 March and to let the Premier make his administrative speech on 22 March as called for by the Democratic Liberal Party. Under the circumstances, the House of Councillors and the House of Representatives are expected to decide on their respective attitude in this connection by holding meetings of their steering committees on 5 and 7 March respectively. It is generally observed that both Houses will approve the government action. The Premier's administrative speech will be accompanied by an economic report by Director General AOKI of the Economic Stabilization Board.

At any rate, it seems that the Government, convinced that it is almost impossible to complete the budget bill within this month, is formulating the budget in the hope of completing it around 8 April. Therefore, it feels that some legal steps must be taken in regard to the payment of government bond interests due on 1 April.

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ITEM 4 Gov't Adherence to Three Principles Precludes Subsidies - Tokyo Shimbun - 1 Mar 49.

223

Full Translation:

The Government has decided to adhere strictly to the three industrial principles in its effort to prepare a balanced budget. Drastic changes in the Government's wage and labor policies are considered a likely result.

Parallel with Cabinet meetings to discuss the 1945-50 fiscal year budget, the Government held an economic ministers' conference to discuss the issue of subsidies to solve disputes involving the Japan Electric Power Workers Union, the All Japan Seamen's Union and the Japan Federation of Private Railway Workers Unions.

Because it became clear that a raise in electric charges demanded by the electric power companies was impossible in view of the general situation, the Government decided to refuse, in line with the enforcement of the three industrial principles, to grant to the companies subsidies necessitated by the JEPWU wage raise demand.

In explaining the Government's stand in this connection, Labor Minister SUZUKI said: "Having looked over budgets and negotiated with quarters concerned, I discovered that it has become impossible for the JEPWU and the JSU to expect government subsidies in the future. Regarding strikes for a wage hike, the methods for working out a wage scale must be drastically changed, I believe.

" I believe that it is impossible to prepare a wage scale satisfactory to both labor and management and wage controversies will have to be settled in another way. I cannot now reveal the other form of settlement. But I don't think wages will be placed under control. Anyhow, both labor and capital will find themselves in a difficult position."

ITEM 1 The Budget Compilation - Nippon Kaiji Shimbun - 24 Feb 49.

223

Summary:

The Government, at a cabinet meeting, has decided upon an outline for the compilation of the 1949-50 budget. It is reported that by enforcing a drastic administrative readjustment, the Government is planning to defray the unemployment expenditure. The unemployment expenditure is to be discriminated from the public works appropriations.

It is also reported to be the Government's intention to stop the transfer of funds from the general budget to the railway and communication enterprises, since they are to become independent. To cover the consequent deficit in these enterprises, the Government intends to boost transportation and communication rates.

The government subsidies for price differentials will be cut down to the minimum. The sales tax will be abolished, and income tax will be reduced as much as the financial circumstances permit.

If the budget is compiled on the basis of such an outline, price of commodities will inevitably rise. Since the raise of transportation and communication rates will cause a serious rise in prices, which cannot be compensated by the abolition of the sales tax and reduction of income tax, some people maintain that expenditure for the railway and communication enterprises should be defrayed from the general account.

In this connection, it must be pointed out that before the government tries to establish independent accounts for the railway and communication enterprises, it should try to curtail their expenditures by rationalization. The government cannot evade the criticism that it is incoherent and negligent, if it does not try to improve the efficiency of these enterprises. This is all the more so since the Government advocates budget reductions and personnel readjustment. The principal reason budget compilation is confronted with various difficulties is to be found in the misconception of the Government in this respect.

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ECONOMY

23 Demands for compilation of a sound budget for the coming fiscal year were widespread in the prefectural press, but most writers were pessimistic over the Cabinet's ability to draft such a financial program in view of the many difficulties confronting the Government. Three editorialists in Utsunomiya (c 1), Gifu (d 1), and Muroran (e 1) agreed that formulation of the budget would be accompanied by various problems because complicated issues were involved. The method applied by the Government this time in drawing up the fiscal program was to cut down expenditures to meet the expected revenue resources, whereas formerly revenue was sought on the basis of expenditures, stated the commentator. However, it was not known whether the estimate of revenue was proper and positive, since there was said to be no available data to insure the existence of the much-needed funds.

Another Gifu writer (f 1) noted that the Administration was faced with hardships in drafting the budget for two reasons. One was said to be the inconsistency between the plan for making Japan self-supporting with the Economic Stabilization Program as its nucleus and the policies of the Democratic-Liberal Party, while the other was the difficulty of fulfilling public pledges made by the Party during the general election campaign, which included abolition of the transactions tax. In this connection, an Okayama editorialist (g 1) questioned whether the Government, "being inclined toward capitalism," would be able to secure the revenue from those tax measures which it proposed in place of the sales levy.

Other problems posed by budget compilation were described by two writers in Shizuoka (h 1) and Nagasaki (i 1), with the first-mentioned commentator contending that "conflicting conceptions" among authorities assigned to draft the budget were responsible for delaying its completion. Two main schools of thought were said to be at variance regarding budget formulation. One was that economic stabilization could be achieved only through a sharp cut in expenses, while the other favored rehabilitating the economy "even under continuing inflation." Unless the Government made a choice, said the writer, the deadlock in budget compilation could not be broken. The Nagasaki editorialist thought that the chief difficulty lay in coordinating the budget and revision of prices with "all other factors of national economy." Maintaining that the budget, price, and loan policies could not be drawn up separately, the writer insisted that unless the financial program were formed on the basis of the entire national economic structure, supplementary budgets and loans to cover up deficits would be inevitable.

23 Tokyo editors gave top emphasis today to the GHQ budget advice. Most lead stories were pitched on "observations" as to the content of the advice, and the headlines above them, particularly in the morning papers, stressed the probable budget ceiling. Guesses ranged from YOMIURI's 720,000,000,000 yen to NICHI NICHI's "over 600,000,000,000 yen." Most papers, however, liked the 700,000,000,000-yen figure mentioned by Associated Press, though only TOKYO SHIMBUN used the AP report itself. The Ikeda interview generally dominated the remaining domestic news, while the leading foreign story was the formation of the Ho Cabinet. The government decision to decontrol bean paste and several other food items led the backpage coverage.

23 MAR.

BUDGET

23 Cabinet ministers met in special session last night to discuss the budget instructions received from GHQ. While no specific information on the GHQ stand was publicly disclosed, the feeling prevailed among government officials that the instructions given to Finance Minister IKEDA yesterday virtually wrote off such Democratic Liberal pledges as repeal of the sales tax and expansion of public works. Some are suggesting that either IKEDA or the entire Cabinet resign since no chance seems to be left for negotiating a compromise between GHQ and government views. (a) Democratic Liberal executives are expected to ask Premier YOSHIDA to take direct command of the Government's side of the budget negotiations. They feel that personal action by the Premier may salvage a few of the rapidly evaporating party pledges. (b)

A government spokesman said yesterday that the Premier considers the attainment of a self-sufficient economy the "biggest promise the Democratic Liberal Party made in its political platform to the public." (c)

23 MAR

23 SHIGA Yoshio in the first installment of a comment in AKAHATA traced the pattern of wartime industrial control and how it has spilled over to the present. Calling for a greatly slashed budget which is what the people want, he doubted the reliability of the Government's figures used in defending its huge budget and labeled them "pure fabrication".

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ITEM 12 Scrapping Public Promises Permissible - Tokyo Times - 16 Mar 49.

223

Summary:

Entangled in the problem of compiling the budget, the Yoshida Cabinet now finds that it must shelve some of the public promises made by the Democratic Liberal Party. We believe it is permissible for the Government and governmental parties to shelve their public promises should it become evident that they cannot be executed immediately, since their mission is to adopt and execute policies most suited to the current situation.

Generally speaking, many of the policies advocated by political parties have been too idealistic to realize. Consequently, once the party seizes the reins of government, it encounters many obstacles, and is forced to go back on its word. This has always been the malpractice of every Japanese political party and is not confined to the Democratic Liberal Party alone. Each political party must reflect upon this point.

Why do public pledges become impossible to administer? It must be pointed out that the political affairs research committee of every party is organized on an unscientific basis and is irresponsible and perfunctory in gathering and studying research on which the party's policy is based. By neglecting scientific studies and advocating attractive policies during elections, no political party can expect to enhance its prestige.

Although a political party can select and decide its own policies, such freedom should be backed by the responsibility to carry them out. If a party finds it impossible to carry out its public promises as quickly as was expected, it must explain the circumstances publicly and make a public apology.

Since politics is a living thing, it cannot be managed by formulism alone. Due to sudden changes in the situation, yesterday's policy may become undesirable today. In such a case, it would be advisable for a political party to boldly change its platform, clarify the state of affairs and win public approval.

The result of the recent general election reveals that the Democratic Liberal platform won the support of the majority of the people. If, however, the Government cannot realize its promises, it must reflect upon its lack of foresight and apologize to the people. For example, if it must revise its policy on the budget compilation in conformity with Mr DODGE's studies and judgment, the Democratic Liberal Cabinet must explain and shelve some of its public promises.

The important factor is for politics to be managed strongly, justly and fairly. The people must not be deceived nor should a situation be temporarily patched. It is, therefore, hoped that the Government and its party will rationalize their policies in accordance with changes in the situation, and the Opposition parties, understanding the nation's position in international society, will criticize and conduct discussions with the former an a fair basis.

ITEM 10 DEM OPPOSITION GROUP REVEALS VIEWS ON BUDGET

223

(Full Translation)

TOKYO SHIMBUN, 27 Mar -- The opposition group of the Democratic Party, on 26 March, expressed the following views on the 1949-50 budget:

1) The Government's attempt to evade the responsibility by suggesting that the objective circumstances have prevented the Government from carrying out the public promises it made undermines the Japanese people's sincere efforts to recover international trust since the war.

2) Such measures as paying import subsidies out of state revenue in the general account and earmarking profits in the trade fund special account for other uses can be considered epoch-making.

3) However, special consideration should be given to two points: (a) Compared with other items, not enough consideration is given to lightening the burden of the price adjustment expenses and the personnel administration expenses which tend to aggravate inflation. (b) The special account should be such that it will cut the above two expenses, promote the rationalization of enterprises, and transfer some portion of the funds to the public enterprise fund.

DECLASSIFIED E.O. 11652 SEC. 3(E) AND 5(D) OR (E) NNDG # 775015

BUDGET

223 Cabinet officials and Democratic Liberal executives still nursed a slim hope that some of their economic pledges could be squeezed into the GHQ-suggested plan. Talks with GHQ yesterday gave them no encouragement but they continued their effort to incorporate tax relief promises into the 1949-50 budget bill. With the added delay the prospects were that the general budget bill would not be ready for the Diet until 4 or 5 April. This would necessitate a provisional budget to close the fund gap between the start of the new fiscal year on 1 April and the expected enactment of the over-all budget in mid-April. (a)

26 MAR

Budget

223 Though the overwhelming majority of the people are clamoring for a better living even at the expense of economic stabilization if necessary, YOMIURI asserted, the Democratic Liberal Government must cast aside its campaign platform and convince the people of the logic of the nine principles. This persuasion was considered indispensable in combating Communist propaganda expected to be intensified with the rejection of DLP promises.

TOKYO SHIMBUN called upon the Democratic Liberals to "courageously cancel their campaign promises" and vigorously promote the nine principles. The daily believed, however, the DLP must not be excused for its impractical vote-getting tactics. And for that matter, it stressed all parties should guard against "pledges on crutches"--those promises hinging on the aid of others. The rash DLP utterances were held intolerable by TOKYO TIMES which told the Democratic Liberals to assume responsibility and seek the people's pardon for their lack of wisdom. The DLP must also realize that controlled economy cannot be avoided for a considerable period, it stated.

The economic stabilization program implies that JAPAN is responsible for its actual economic condition and that recovery must be pushed according to the plan outlined by GHQ regardless of what the DLP vowed prior to the January election, SHIN YUKAN emphasized. It is incumbent on the Government, the journal pointed out, to impress upon the people the need for their wholehearted co-operating in rebuilding the nation.

JIJI SHIMPO thought the GHQ budget recommendations especially significant because price adjustment funds will have to be shouldered by the taxpayers and outside help will be channeled into rehabilitation ventures. This is clear proof that taxes cannot be reduced, the daily declared.

223 Highly praising the GHQ-recommended budget, yesterday's TOKYO SHIMBUN prodded the Government to cease worrying over reneging on its campaign pledges and to busy itself with convincing the people of the feasibility of the SCAP suggestions, giving special consideration to the income tax problem. NIHON KEIZAI agreed yesterday that the Government must stop its dilly-dallying and take a more serious attitude toward the budget. Its energies should be devoted, the journal felt, to minimizing the effect the budget will have on the people as well as striving to overcome any popular anticipation which may arise.

24 MAR

The writer of YOMIURI's signed comment yesterday projected his thinking to the stabilization panic which he predicted would bring adverse aspects to national economy. While "stabilization at one stroke" may be necessary, he asserted, it should be premised on a firmer foundation than perpetuating the current price-wage structure.

223 A subeditorial in YOMIURI today pointed out that by substituting different Japanese characters with identical sounds in place of those meaning the "nine principles", the results become the "painful lesson." This was interpreted to signify that "a defeated country should act like a defeated country." Its officials must live austerely along with its people, the journal emphasized.

25 MAR

223 The budget returned to the headlines again today. Lead stories in most Tokyo journals were pegged on the complete acquiescence of the Cabinet to the GHQ budget draft. Early-deadline papers hinted that the Government would shelve its campaign pledges; later papers confirmed it. Only two scanned dailies subordinated the budget. MAINICHI led with a foreign-dateline special, while YOMIURI, after top-playing the budget for five editions, switched in its sixth edition to an exclusive on the impending revision of Imperial Ordinance 101. Other papers gave extensive coverage to the government drive against the Communists but did not mention the YOMIURI angle. Foreign news generally remained below the fold, though the Foreign Ministers conference and the Wallace "obsession with superiority" warning received prominent emphasis in some evening editions.

29 MAR.

BUDGET

223 Government negotiators have abandoned their protracted effort to wedge the campaign pledges of the Democratic Liberal Party into the 1949-50 budget. They decided yesterday to compile the new budget almost entirely on the basis of the GHQ-suggested draft and to present it to the Diet by 4 April. As a stopgap measure the Cabinet will draw up a 7,000,000,000-yen provisional budget today to cover essential expenses between the start of the new fiscal year on 1 April and the enactment of the general budget. (a)

29 MAR.

DECLASSIFIED E.O. 11652 SEC. 3(E) AND 5(D) OR (E) NNDG # 775015

ITEM 6 Govt Ready to Act on GHQ Budget Instructions - Nihon Keizai - 19 Mar 49.

123

Full Translation:

The Government is prepared to formulate the next budget by holding a special cabinet meeting as soon as instructions on the outline of the budget are made available. However, no positive moves were made yesterday, since the study of the budget issue by the quarters concerned was still under way.

It seems that the Government intends to hold a special cabinet meeting immediately if GHQ instructions are presented during the day, and to decide its future policy after Chief Cabinet Secretary MASUDA contacts Premier YOSHIDA and Democratic Liberal leaders. If negotiations progress smoothly, the Government will meet in conference tomorrow and Monday.

Some Government quarters believe, however, that negotiations with concerned quarters and the substantial formulation of the budget will probably be later than Tuesday and will result in the delivery of the Premier's administrative speech and the presentation of the budget bill after next Friday. It is also certain that the adjustment of bills related to the budget will be delayed.

It seems likely that Premier YOSHIDA will rest at OISO till Tuesday, without attending to day's opening ceremony of the Diet. Chief Cabinet Secretary MASUDA will call on the Premier today or tomorrow to report on the situation.

It is believed that GHQ instructions on the budget will include strong demands along the lines of the nine-point Economic Stabilization Program. It is held quite possible that not only the DLP-pledged abolition of the sales tax, but the reduction of earned income taxes as well, will become impracticable issues.

For appearance sake, in regard to public pledges, the Government, Finance Minister IKEDA told the press, would continue netotiations if GHQ instructions differed greatly from the Government's policy. It will, therefore, take more time before a final decision is reached on the budget bill.

It is believed in some Government quarters that the necessity of formulating a provisional budget will remain even after GHQ instructions are made known. Chief Cabinet Secretary MASUDA said yesterday after afternoon:

"Our schedule has been delayed. The Government has not decided on any measure because the content and direction of the instructions are still unknown. But the Government does no think that the presentation of a formal budget bill will be greatly delayed."

Provisional Budget Unavoidable

Finance Minister IKEDA, in a press interview yesterday, expressed his opinion regarding the budget and other problems as follows:

1. Regardless of whether the GHQ budget instructions are delayed or are presented within a day or two, the Government will have to engage in further negotiations in case the instructions differ greatly from the Government's plan. In that case, the Government will not necessarily avoid formulating a provisional budget. It will exert every possible effort to realize the DLP's public pledges.

2. Abolition of the sale tax is not a problem of good or bad from the standpoint of taxation theories. The above tax must be abolished at all costs because I am convinced that if the tax, which has incurred public disfavor and ended in failure, should be continued, it would alienate the people's interest in politics and present an obstacle to JAPAN's economic reconstruction, without rendering any contribution to it.

3. The disbandment of the Liquor Distribution Public Corporation has been decided. I intend to use this opportunity to stop the household distribution of sake as soon as a tax reform bill is passed and to adopt the free-sale system. The price under the new system will be lower than the present price of special grade sake. But sake for distribution to workers will be reduced in amount so as to leave a margin for the operation of the new system.

4. There is an opinion favoring the introduction of foreign capital into JAPAN's tobacco enterprise, but no foreigner is of taking over JAPAN's outmoded tobacco manufacturing factories. I think it most advisable to lease the tobacco factories and to have foreign cigars produced by foreign manufacturers, thereby increasing tobacco monopoly profits by Government purchase of the products.

DECLASSIFIED E.O. 11652 SEC. 3(E) AND 5(D) OR (E) NNDG # 775015

ITEM 1 Cabinet Delays Budget Study Pending GHQ Instructions - Yomiuri - 16 Mar 49.

223

Full Translation:

The Cabinet could not discuss the budget at its meeting yesterday since no instructions on the subject had come from Allied authorities. Because of this, the presentation of the 1949 budget to the Diet will be delayed, though originally it was slated for 25 March.

The Government was scheduled, at yesterday's Cabinet session, to revise the budget draft for the fiscal year 1949 in accordance with the wishes of the quarters concerned. However, no instructions concerning the readjustment of basic budgetary policies had come either from the Dodge Mission or from the Economic and Scientific Section, GHQ, as of yesterday morning. On account of this, the Cabinet meeting could not begin budgetary deliberations, as per schedule.

The Government believes that Minister DODGE and ESS Chief MARQUAT offer some suggestions on the matter to Finance Minister IKEDA at their conference, to be held at 0900 hours this morning. It had originally scheduled to conduct negotiations with the sources concerned from 14 to 18 March, to finalize the revised budget draft on the 21st, and to adjust figures and print the budget from the 22nd to the 24th. However, it is already behind this schedule by about three days. In view of this, the introduction of the budget to the Diet, slated for 25 March, will be delayed. If Allied authorities suggest major revisions in the budget draft, a short-term budget will be compiled to patch up the matter.

The delay has been caused by overoptimism concerning Allied intentions, on the part of Finance Minister IKEDA. The latter was too optimistic over the attitude of Allied sources concerning the budget, whereas Minister DODGE made a rigid interpretation of the nine-point economic stabilization program and clarified his intention to enforce disinflationary policies.

Since drastic cuts are expected in occupation expenses, public works appropriations, and government loans, the present budget draft of 578,200,000,000 yen will be further slashed. In this connection, the Yoshida Cabinet will be obliged to sacrifice most of the Democratic Liberal Party's public pledges, including abolition of the transactions tax, the issuance of construction bonds, and revision of the corporation tax.

Following is the Government's interpretation of Allied sources' intentions relative to the budgetary issue:

1. SCAP's directive ordering the fixing of the consumer price of coal to replace the present price system, in which subsidies increase in proportion to production, by a system which reduces the price through increased efficiency. This step is expected to curtail price differential subsidies by about 3,000,000,000 yen.

2. The purpose of the policy for balanced finance is to check inflation from the financial side. Expenditures in excess of revenues in one special account will be permitted if they are counterbalanced by revenue surpluses in another account to an extent sufficient to ensure balanced finance as a whole.

3. Revision of the corporation tax and abolition of the transactions tax are held to be difficult of realization.

(CNA-TOKYO) -- GHQ notified the Japanese Government Monday evening that it had not completed final deliberation on the budget draft. The Japanese Government replied that it would await GHQ instructions for another 48 hours. Finance Minister IKEDA will visit ESS chief MARQUAT this morning to receive the instructions.

DECLASSIFIED E.O. 11652 SEC. 3(E) AND 5(D) OR (E) NNDG # 775015

ITEM 2 Gov't Expects GHQ View on Budget Proper Today - Asahi - 15 Mar 49.

d23

Full Translation:

The Government expects that it will be able to sound out the unofficial view of GHQ authorities, with whom negotiations have been in progress, on the budget proper today. In this event, Finance Minister IKEDA, Chief Cabinet Secretary MASUDA, and Democratic Liberal Party Chief Secretary HIROKAWA, will call on GHQ tomorrow to carry on final negotiations.

On the other hand, State Minister HONDA referred an administrative readjustment plan to a meeting of DLP executives yesterday when the Political Research Committee's plan was also included in the original draft. HONDA stated that he would like to have a final plan worked out at Friday's cabinet session by hastening conclusive negotiations with the various ministers.

Including the preparations for various bills, the Governments Diet policy is now in high gear.

ITEM 8 Budget Forces Yoshida to Alter Promises - Yomiuri - 11 Mar 49.

d23

Full Translation:

With the opening of the fifth national Diet session close at hand, it is now watched with keen interest how the 3rd Yoshida Cabinet will harmonize its public pledges with the 9-point economic recovery program and the recent Dodge statement. In compliance with the new situation, Premier YOSHIDA seems to have decided to shelve some of his promised policies in order to carry out the policy of balanced finance, from the viewpoint of first consideration to stable economy rather than production.

On 10 March, when Chief Cabinet Secretary MASUDA and State Minister HONDA visited the Premier at OISO, he told them of his plan, and, at the same time, he indicated to them what he wanted regarding cut in government personnel and the compilation of budget. Undoubtedly, this suggests a radical change in the heretofore policies of the Democratic-Liberal Party and the adoption of some new policies.

The 1949 fiscal year budget bill, which comprises the basis of all the Government's policies, is now being drawn up through the Ikeda-Dodge talks. For the present, it seems that the budget will be trimmed so greatly that the Democratic-Liberal Party will be unable to execute all its pledges. Especially, a cut in public works expenditures, curtailment of construction bonds and local bonds issue, and suspension of Reconstruction Finance Bank bonds issue will have a serious effect on the party. Enforcement of the above will make impossible the 19 urgent measures pledged by the DLP Cabinet because:

(1) A cut in public works expenditures will make difficult the enforcement of such measures as the development of electric resources, rehabilitation of devastated districts and expansion of the 6-3 school system program.

(2) Curtailment of construction bonds issue under the Special Accounts will make inevitable big hikes in rail transportation and other rates.

(3) Curtailment of local bonds issue will make difficult establishment of sound local finance.

(4) Suspension of RFB bonds issue will paralyze production of important industries.

YOSHIDA has therefore decided to temporarily shelve the lesser public pledges in order to surmount the present crisis and effect economic stabilization, although he will not break such important promise as the abolition of transactions tax. As if to support this, Chief Cabinet Secretary MASUDA on 10 March told the press, "The biggest public pledge of the Democratic-Liberal Party is a balanced budget" and "the Democratic-Liberal Party does not necessarily have to carry out all its promises just in the coming Diet session."

Premier YOSHIDA also thinks that in order to fully carry out the 9-point economic principles, he has only to fulfill only a little more than a half of his words to the public and that if the Government cannot find any more source of revenue, there is nothing else to do but to cut down the scale of the Government's administrative structure and undertakings. From this point of view, YOSHIDA urged a drastic slash in government personnel and ordered unnecessary and surplus government property placed on sale to the public.

Thus, with the compilation of the budget for 1949, the Yoshida Cabinet is now forced to make a radical change in its policy.

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223 Turning to the budget proper. NIHON KEIZAI urged the Government to abolish the "vicious" transactions tax of budget could be pared by a sum equivalent to the funds lost by abolition or if a suitable tax to replace it could be found. But the proposed note tax, the editorial pointed out, would be no better than the transactions tax since it would inflict a heavy burden on enterprises--an event running counter to the principles of slashing industrial costs and interest obligations.

Budget

223 JIJI SHIMPO urged the Premier yesterday to proceed with determination to balance the budget. He was commended for his outspoken resolution to push administrative retrenchment and transfer white elephant government enterprises to private channels--both of which were deemed essential to recovery.

Reinvestigation of local finance was desired by ASAHI today, which told the people to watch the operation of autonomous bodies carefully and strive to decrease their financial burden by denouncing careless use of funds.

223 The retrenchment program demanded by austerity budget will take final shape this week, Deputy Cabinet Secretary KORI told a press conference yesterday. (c) Some details of the proposed administrative adjustment were disclosed by State Minister HONDA, who said the economy move would hit 10 percent of the school teachers as well as higher percentages of other local government employees. He added that the Government was trying to cushion the layoff shock by doubling severance pay. (a) The Labor Ministry announced, meanwhile, that dismissals will be spread over a six-month period--from April to September--to prevent social unrest and glutting of the labor market. (d)

15-MAR.

ECONOMY

223 The necessity for compiling a sound budget was emphasized by numerous journals, since the financial program for the coming fiscal year was said to form the basis for the Economic Stabilization Program. Although speed was considered vital in drafting the budget, papers insisted that all items be closely reexamined to remove all deficiencies. A Kyoto journal (i) feared that inability of the Cabinet to arrive at an agreement on the budget might possibly necessitate a provisional budget for April, the first month of the new fiscal year. But since this would only retard implementation of the economic policies, speedy compilation was deemed imperative despite all attendant difficulties, particularly in view of the proposed administrative readjustment program and establishment of a single exchange rate. The paper questioned the advisability of replacing the transactions tax with other taxes, such as the gasoline, transportation, and insurance taxes, and feared that the effects of these new levies would produce an evil result on industrial activities, and that in the end they might give rise to demands for their abolition, much in the same manner that the sales tax had provoked widespread public disapproval. The journal insisted that reduction of expenditures by loosely carrying out administrative reform and imposition of new taxes which lack stability of collection would never produce a true balanced budget nor one that would measure up to the principles of economic rehabilitation.

15-MAR.

223 The need for curtailing expenditures was underscored by at least two journals -- one in Hakodate (j) and the other in Fukuoka (k). The first-named paper demanded that sto-gap measures be abolished and that sound financial policies be formulated to meet the existing stringent situation. The compilation of budgets in the past placed utmost emphasis on expenditures, and national revenue was sought on the basis of expenses, declared the journal, but because the present situation no longer allowed such a policy, the Government must not fail to take this fact into careful consideration. Since the tax-bearing capacity of the people had reached its limit, there was said to be no alternative than to pare down expenditures. The abolition of the sales tax was opposed by the paper, which claimed that while certain technical problems remained to be solved in its enforcement, the system was favored by many circles because it exposed illegal earnings and transactions, and yielded a substantial revenue as well. The Fukuoka paper conceded that a large number of problems would be encountered in compiling the budget, but stressed that the primary attention should be focussed on curtailing expenditures.

15-MAR.

Miscellaneous

223 YOMIURI stated that the budget bill will be the main issue to be debated in the Fifth Special Diet reopening today and expected heated discussions to take place with intensified opposition between right and left. The Government was warned not to suppress debates through sheer numerical superiority, especially in its high-pressure stand that questions and answers are unnecessary in regard to its weakness of shelving public promises. It told the opposition to offer constructive criticism and advised the Communist Party to refrain from using the Diet as a "battlefied for class struggle."

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FINANCE

223 Budget discussions came to a standstill yesterday while the Cabinet awaited instructions from Allied authorities. Cabinet officials will resume their efforts to draw up a balanced budget for the 1949 fiscal year after the conference between Finance Minister IKEDA and ESS Chief MARQUAT this morning. If the original draft has to be revised drastically, IKEDA will compile a short-term budget to keep the Government functioning until the full budget can be formulated and pushed through the Diet. With deliberations already three days behind schedule, the Government has shelved its plan to send the general budget bill to the Diet on 25 March. (a)

Though forced to scale down its subsidies for the next fiscal year, the Government drew on funds in the current budget to help finance a 16,700,000,000-yen subsidy grant to key industries. The bill approved at yesterday's cabinet session would siphon 2,600,000,000 yen from the current budget and would raise the rest of the money through national bonds, to clear the deficits of coal, electric, and mining companies. (b)

16-MAR

FINANCE

283 Cabinet ministers made no progress yesterday in their effort to draw up a balanced budget for the 1949 fiscal year. At the emergency cabinet session following the Ikeda-Marquat conference, the consensus was that Premier YOSHIDA himself will have to step into the budget negotiations before the deadlock can be broken. Most government leaders were convinced that the Democratic Liberal Party had no chance of integrating its campaign promises into the general budget bill. (a) Expected to be shelved were the DLP pledges to expand public works, to abolish the sales tax, and to reduce the income tax. (b)

The Government drafted a retrenchment plan for the Foreign Ministry which would lop off 800 employees and two of its seven sections. (c)

Bank of Japan President ICHIMADA promised loans to retrenched companies yesterday. Speaking before the Japan Industrial Association, he said funds will be advanced to a private firm "if it comes and consults us after it has carried out a personnel cut." He added, however, that available equipment funds will not exceed 120,000,000,000 yen. (c)

17 MAR.

223 BUDGET

Government leaders agreed yesterday to continue pressing for the inclusion of major Democratic Liberal pledges in the 1949-50 general budget bill. Premier YOSHIDA will confer with high GHQ authorities next Tuesday in an effort to gain approval for abolition of the sales tax, expansion of public works, and several budget measures to which the Democratic Liberal Party is committed. But the tone of previous talks between Finance Minister IKEDA and GHQ officials offered little hope for the success of YOSHIDA's negotiations. Meanwhile, the delay in compiling the budget has forced the Premier to postpone his administrative speech from 22 March--two days after the Diet reopening--to 25 or 26 March. (a)

The Government yesterday combined the administrative reform proposals submitted by State Minister HONDA and the various ministries into a basic working plan. But little progress was reported on the accompanying plan to trim government personnel. (a)

18-MAR

BUDGET

223 Finance Minister IKEDA reiterated yesterday that the Government would "exert every possible effort" to include the Democratic Liberal Party's election pledges in the 1949-50 budget. In a press conference he emphasized the importance of making good the DLP promise to abolish the sales tax. Pointing out that the tax "has incurred public disfavor and ended in failure," he said that its continuance would "alienate the people's interest in politics" and impede national recovery. IKEDA, who is awaiting GHQ instructions before compiling the final budget bill, indicated that the Government would continue negotiating with GHQ should its recommendations conflict sharply with the budget outline approved by cabinet officials last month. (d)

19 MAR.

BUDGET

223 Economic Stabilization Board officials are certain that GHQ will disclose its instructions on the 1949-50 budget today. They believe that GHQ authorities will advise the Government to limit price revisions to a 60 percent hike in passenger fare and a 13 percent boost in foods, to disburse import subsidies from the general account, to soften the proposed personnel retrenchment program, and to move up slightly the 70,000,000,000-yen ceiling on price subsidies. (a)

21 MAR.

223 Editorial comment on compilation of the budget, the Yoshida Cabinet's anti-Communist policies, and revision of labor laws was for the most part repetitive. Commentators felt that complex fiscal and policy problems would make it almost impossible for the Cabinet to draft a balanced budget. The Government was urged not to resort to extreme or makeshift measures to combat the Communists, since such tactics would only backfire against the Administration. Since the projected revision of labor laws would affect millions of workers, journals hoped that the opinions expressed at public hearings would be duly respected in drafting amendments to labor legislation.

22 MAR.

DECLASSIFIED E.O. 11652 SEC. 3(E) AND 5(D) OR (E) NNDG # 775015

ECONOMY

223 The importance of compiling a balanced budget for the coming fiscal year was underlined by numerous writers, especially since a sound financial program was essential to the implementation of the Economic Stabilization Program. It was suggested that items in the budget draft be re-examined carefully, with a view toward reducing the tax burden of the masses. An Osaka editorialist (v), for example, declared that since the formulation of the budget posed a "grave test" for the Yoshida Administration, it behooved the Cabinet to establish sound finance by settling such fundamental issues as price and wage standards, administrative readjustment, unemployment, and tax revision. Unless these problems were resolved, the Cabinet would create confusion in the political situation and "betray public confidence in the Diet." Citing the difficulty of securing 50 billion yen in the event the Administration abolishes the sales tax as it had pledged, the writer said that the Cabinet would most likely be forced to break its public promise.

8 MAR.

Government budget compilers will meet today to bring their estimates for 223 the 1949 fiscal year into line with SCAP wishes. Their chief problem will be to adjust Democratic Liberal campaign promises with such economic imperatives as slashes in price subsidy and public works expenditures. While some estimates will be revised, the indications are that the final budget bill, which the Government hopes to present to the Diet on 24 or 25 March, will not depart too sharply from the budget outline approved on 23 February. (c)

9 MAR.

BUDGET

223 Finance Minister IKEDA said yesterday that the tentatively approved 530,000,000,000-yen ceiling on total expenditures will probably remain unchanged in the final budget bill that the Cabinet hopes to send to the Diet on 25 March. In his press conference following a two-hour talk with SCAP Financial Adviser DODGE, IKEDA also announced that GHQ and the Government had agreed on the basic policy for compiling the 1949-50 budget. (a)

Prospects of reduced appropriations have intensified government efforts to carry out cost-slashing reforms in the police system, State Minister HITAI disclosed yesterday. He said the proposed reform centered on combining the autonomous police units in towns of less than 5,000 persons and in strengthening liaison between the local autonomous police and the National Rural Police. Detailed reorganization plans are expected to be completed by early next week. (b) Anticipating more rigid controls on spending, the Economic Stabilization Board has drastically pared its funds allocation plan for the next fiscal year. (c)

10 MAR.

BUDGET

223 Premier YOSHIDA has proposed the sale of surplus government property to raise money for the 1949-50 budget. His proposal, made to Chief Cabinet Secretary MASUDA and two other Democratic Liberals at OISO yesterday, was to be discussed at today's cabinet session with other budget instructions. The Premier was reported to have asked his Cabinet to adhere rigidly to the nine economic principles, to retrench sharply, and to turn down all ministry requests for increased appropriations. (a)

Director-general AOKI of the Economic Stabilization Board underlined the importance of subsidizing key industries in a conference with ESS Chief MARQUAT yesterday. Reduction of price subsidies to the 70,000,000,000 yen proposed by the Finance Ministry would shackle the export industry and impede recovery, AOKI said. (a)

11 MAR

223 Premier YOSHIDA's proposal to balance the budget by selling government property was splashed prominently on nearly all front pages today. MAINICHI and ASAHI gave it top play, while YOMIURI, the third member of the Big Three, ran it in the number two spot--behind a reprint of a London Economist article entitled "The Dilemma of the Japanese." NIHON KEIZAI departed slightly from the general pattern by leading with a story on the impending ordinance on the return of Allied stock.

11 MAR.

BUDGET

223 Finance Minister IKEDA disclosed yesterday that part of the trade fund profit will be invested in industrial equipment. In a trainboard interview while en route to OSAKA, IKEDA said that the Government will set up a new special account to facilitate the proposed long-term investments. Turning to specific budget problems, he warned that the sale of government property, while necessary as a fund-raising measure, should not be carried out too hastily. He pointed out that the plan required further study since few private organizations would have either the money or desire to buy state property. (a) All ministries were asked yesterday to give Chief Cabinet Secretary MASUDA an inventory of their property within 10 days. (a)

12 MAR.

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1

223

ITEM 1 Ikeda, Dodge Agree on Basic Budget Compilation Policy - Nihon Keizai - 10 Mar 49.

Summary:

The Government expects to be able to present the 1949 budget to the Diet on 25 March as scheduled, Finance Minister IKEDA told the press yesterday. He further stated that he did not think any change would be made in the total amount of the budget amounting to 580,000,000,000 yen informally decided upon at a cabinet session on 23 February. He added that Minister Joseph M DODGE and he had agreed on the basic policy of compiling the budget. The statement was made following his two-hour conference with Mr DODGE yesterday afternoon.

The Finance Minister also stated that, even if the Government is not permitted to float construction bonds, he would not transfer funds from the General Account to the railway and the communications accounts. He, however, expressed the hope that issuance of local government bonds would be allowed in view of conditions peculiar to local public finance.

There will be no hope of having Japanese prices match international prices as long as prices here are fixed by the present cost accounting method and parity system, as these only serve to let evils of a hothouse economy survive, the Finance Minister said. He, however, admitted that the present method of fixing prices cannot be abolished forthwith, but expressed the opinion that it should be replaced step by step.

No Cut in Price Adjustment Estimate Seen

Chief Cabinet Secretary MASUDA opined that the original appropriation for price adjustment expenses amounting to 75,000,000,000 yen would be passed. He stated:

"I saw Finance Minister IKEDA after he conferred with Mr DODGE. I am inclined to think that the original government appropriation of 75,000,000,000 yen for price adjustment expenses will be passed. I do not think the appropriation for public welfare works will be cut down to 50,000,000,000 yen as rumored. Neither do I think there is no hope of abolishing the sales tax. We are trying our best to keep our public promises as much as possible.

"We are also trying to complete the budget by 15 March. If we are unable to present the budget to the Diet on 22 March, we will present a skeleton budget first, in which case an itemized budget will be introduced on 25 March at the latest."

Transitional Measures Believed Necessary

Commerce-Industry Minister INAGAKI expressed yesterday his agreement with Minister DODGE's basic policy for the stabilization of JAPAN's economy. He stated:

"I agree with Mr DODGE's orthodox way of thinking. In view of the prevailing economic conditions in JAPAN I think it will be necessary for some transition measures to be recognized if his ideas are to be put into effect. A comparison of prices of basic materials with prices of consumers' goods show that the present price line is very hard on basic materials. Therefore, unless the difference is ironed out, JAPAN's industry will not be placed on a normal basis. If this is not done, deflation in stead of disinflation will set in.

"Rationalization of enterprises is, of course, necessary, but, concerning dismissal allowances, we should take into consideration the fact that JAPAN's facilities for social welfare are sadly lacking.

"The goal of the five-year reconstruction program is to place JAPAN on her own feet again in five years, but if Mr DODGE's basic policy is applied the goal will be blurred. Accordingly, it would be only reasonable to correct it, but in this instance I think we will have to effect the correction by observing strictly Mr DODGE's basic policy."

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Full Translation:

The Yoshida Cabinet is actively broadcasting that it will compile the budget bill by March 25, present it to the House of Representatives immediately, and avoid setting up a tentative budget for fiscal year of 1949.

The former Tojo Cabinet in the 84th Diet session once cut down the period for budget deliberations to eight days in the Lower House and 10 days in the Upper House. As an example of the complete trampling afoot by fascist military dictatorship of the basic function of the Diet and its right to deliberate upon the budget bill, this memory is one that cannot be forgotten by any Japanese with democratic ideals.

However, the Yoshida Cabinet, under the new Constitution, has started to say that if the deliberations in both Houses on the budget are completed by 7 April, the Government will not have to compile a provisional budget even for the month of April and is trying to find a loophole in the law in order to force through the deliberations on the budget for the new fiscal year in as short a period as possible. If we were to accept this foolish argument, we will find that the budget deliberation period will only be two weeks (including Sundays).

Today, JAPAN's national finance is about to enter into an important stage, shouldered as it is with the new task of executing the nine-point Economic Stabilization Program. If the Yoshida Cabinet continues its policy of compiling predatory and inflationary budgets based on low wages and heavy taxes, JAPAN's economy will be driven one step beyond its present condition of being on the verge of crumbling from its very base. Thus, the Yoshida Cabinet is actively disseminating the propaganda that it intends to maintain the present price level and to compile a balanced budget. In this way it is trying to divert the attention of a nation suffering from the depradations of inflation from basic issues.

In addition, the new budget is based upon the computation of the national income at 2,847,000,000,000 yen, according to the price index of November 1948. The Economic Stabilization Board and Finance Ministry bureaucrats have calculated the national income for the previous fiscal year according to the same index at 2,391,300,000,000 yen. However, how can national income be increased when enterprises are to be crushed and large-scale dismissals are to be carried out? This computation of the national income is no more than a fabrication designed for the purpose of justifying the imposition of even greater taxes than those for the current fiscal year.

In addition, behind the sanctimonious avowal that the Government intends to maintain present commodity price levels, the Government seeks to raise the prices of coal and steel which are produced by monopolistic capital and to have these price increases absorbed by secondary and tertiary manufactured goods. This simply signifies the creation of price differences for monopolistic capital and small and medium capitalists and, by making the latter bear the burden of this price increase, allowing the former to make big profits.

These points suffice to indicate to what extent the budget for the next year is ridden with contradictions. If the Yoshida Cabinet is accused of adopting more fascistic methods than the Tojo Cabinet by seeking to have both Houses approve the budget bill in a shorter time than that needed by the Tojo administration, it will have no grounds to make any explanations.

According to reports, the Yoshida Cabinet is planning to divide the budget into two. It will not include the dismissal policy in the first part, but will present a supplementary budget around April or May. This method is one of deception involving the compilation of miserly budget as retirement allowances--a deception planned for execution after all preparations have been completed for the evil revision of labor legislations and labor contracts and the suppression of the movement for appropriate taxes.

The Yoshida Cabinet, trusting in its majority Diet strength, is planning to push through the budget bill in a more highhanded manner than that of the militarists. We should join forces with the general masses and co-operate in the Diet with the Socialist and the Worker Farmer parties in order to obstruct such highhanded methods. We must study the details of this budget by taking a suitable period of time and convert his enormous budget which will lead us to war into a budget for democratic peace and racial independence.

Furthermore, labor unions and other popular organs should immediately attack the Government to smash the bureaucratic self-righteousness of the Government in keeping the contents of the budget shrouded in strict secrecy until it is completed.

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ITEM 8 GOV'T DECIDES BUDGET FORMULATION .LONG GHQ PLAN

223

(Full Translation)

MAINICHI, 29 Mar -- The Government has decided to suspend negotiations relative to its public pledges with the Ikeda-Dodge conference held yesterday. Moreover, it will decide the budget bill at a cabinet meeting as soon as figures are co-ordinated on the basis of GHQ instructions, and it will present it to the Diet on 4 April. During the conference with Minister DODGE yesterday, Finance Minister IKEDA exerted final efforts to reduce earned income taxes by raising the exemption point, while leaving the tax rate as it is.

However, IKEDA told the press after the conference that chances for the reduction of earned income taxes, as well as for abolition of the sales tax, have disappeared entirely. As a result, formulation of a provisional budget has become unavoidable.

The Government, at today's regular cabinet meeting, will decide on a provisional budget, totaling about 6,000,000,000 yen to cover the first half of April. It will be presented to the diet on 30 March in an effort to obtain its passage the following day.

The fundamental policy of directing every move of the Government and government parties relative to the budget bill, along the lines of GHQ suggestions, has been decided. With the presentation of the budget bill and the delivery of an administrative speech by the Premier as the momentum, the Diet will become the arena for a full-scale Government-Opposition struggle.

The Government must expect a concentrated attack by the opposition parties in connection with discrepancies between the Democratic Liberals' public pledges and the budget bill. After Premier YOSHIDA delivers his administrative speech, Finance Minister IKEDA will deliver a financial address to clarify the Government's opinion regarding the relation between the budget bill and the public promises of the Democratic Liberal Part, from the standpoint of the present situation in JAPAN.

GOVERNMENT REVISES PROVISIONAL BUDGET IN DIET

After his conference with Minister DODGE yesterday, Finance Minister IKEDA held a press conference at the Finance Ministry Building and said: "I have negotiated several times with regard to the tax exemption point and tax rate issues, but no concrete conclusion has been reached. The Government, therefore, has decided to suspend negotiations. With regard to the abolition of the sales tax, which has to do with taxation techniques, I conferred with Mr. MOSS, Chief of the Internal Revenue Division, ESS, at noon. I intend to meet Minister DODGE again because I want to consult with him on the question of price differential subsidies and other problems

"I shall present a provisional budget to a cabinet meeting tomorrow on my own responsibility. It will cover only necessary expenses and will be compiled on the basis of an approximate 15-day period to appropriate wages, occupation expenses, and interest payment on national bonds. I think that a full budget can be presented to the Diet around 4 April.

"The contents of the public works' appropriations are related to the party's public pledges. I intend to consult with other cabinet members at tomorrow's cabinet meeting. It seems that there is strong opposition to the revaluation of assets, but the Government has not decided what it will do about the problem in the present Diet."

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ITEM 38 EMPLOYMENT OF LONG-TERM FUNDS AND CITY BANKS

I-13

(Full Translation)

NIHON KEIZAI, 29 Mar -- The GHQ-recommended budget apparently has many dark sides. In other words, it is feared that some industries will become bankrupt because of the reduction of the price adjustment funds, and that production will be decreased by the decline of some smaller enterprises resulting from the concentrated production system, which would be favorable to essential industries and major factories.

On the other hand, the expenditures in the new budget total 703,000,000,000 yen. The revenue from the income tax is 310,000,000,000 yen, an increase of 126,600,000,000 yen as compared with that for the current fiscal year, and an increase of 81,400,000,000 yen over the figure in the government-drafted budget. Therefore, the people's tax burden in the next fiscal year will be heavier than that of the current fiscal year. The people will have to endure a more severe austerity for one year to come.

Of course, the people's austerity is necessary for the establishment of a self-sustaining economy. But, the people will not voluntarily endure austerity unless the new budget has constructive sides.

From this viewpoint, the GHQ-recommended budget has two constructive sides. One is that the reduction of expenditures is made possible within the maximum framework of 703,000,000,000 yen, and the other is that the surplus in the foreign trade funds special account can be utilized as long-term construction funds. Especially, much importance should be attached to the latter, because it will affect the very fate of our industry.

The difficulty of making both ends meet, to be caused by the reduction of the price adjustment expenses, will be eased to a certain degree by the rationalization of enterprises. However, if enterprises lack equipment funds, production decrease will be inevitable. Therefore, industrialists hope for the supply of long-term funds.

In the current fiscal year, the Government's investment of 18,000,000,000 yen in the Reconstruction Finance Bank and more than 87,000,000,000 yen of RFB debentures underwritten by the Bank of Japan have been used as long-term funds. However, the RFB has been forbidden to issue new debentures in the next fiscal year. If things go on as they are, the RFB will be unable to meet the demand for long-term funds.

According to the GHQ-recommended budget, the appropriation of the surplus of foreign trade funds for import and export subsidies is not permitted in the next fiscal year, and import subsidies must be defrayed from the general accounts. Moreover, the surplus of foreign trade funds is said to be appropriated for the redemption of national bonds, the underwriting of construction bonds, and the investments in construction works.

The US aid to JAPAN for the next fiscal year is still undecided. If JAPAN makes efforts to place its economy on a self-sustaining basis, the US will probably increase its aid to JAPAN. Under such circumstances, long-term funds will become ample, and production will increase. Moreover, smaller enterprises also will be able to continue operations, and the problem of unemployment will not become too grave.

It is a future problem how to use the surplus of foreign trade funds. If it is utilized for the redemption of public bonds, and investments in construction works, commercial banks will be relieved of a money shortage. Therefore, they must hereafter take charge of the supply of long-term funds, in place of the Bank of Japan and the RFB. In this case, stricter control will be maintained over the supply of these precious funds.

Moreover, since commerical banks naturally do not want to invest in risky enterprises, it is feared that they will not supply industries with sufficient funds. In view of the reckless credit extension by the RFB, it is desirable that commercial banks regain their independence, and that they conduct sound investments. However, construction funds are so important that they will affect the destiny of industry.

Commercial banks should supply industries with funds not only from their own standpoint but also from the viewpoint of industrial rehabilitation. For this purpose, a banking committee including industrial representatives should be established.

At any rate, the supply of long-term construction funds is the most important element in the GHQ-recommended budget. Scrupulous measures must be taken in this matter in full consideration of the financial and industrial situation.

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ITEM 12 GOVERNORS HEAR IKEDA, OTHERS, ON LOCAL FINANCE

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(Full Translation)

YUKAN CHUGAI, 29 Mar — The emergency governors' conference deliberated on local finance and administrative retrenchment yesterday, after listening to explanations on these topics by government and Diet leaders. The conference, opening in the Prefectural Building, KUDAN, at 1100 hours, was called by the National Federation of Local Government Councils.

Among the government leaders attending were Deputy Premier HAYASHI, Finance Minister IKEDA, and Chief Cabinet Secretary MASUDA. The chairmen of the Local Finance Committees of both Houses and chairman SATO of the Democratic Liberal Party Political Research Committee represented the Diet.

NICHI NICHI, 29 Mar — Addressing the gathering, Finance Minister IKEDA said, "The GHQ-suggested draft cannot be changed as far as the over-all budget is concerned. We hope to settle the 6-3 school system issue within the framework of the 50,000,-000,000-yen public works' appropriation.

"No unemployment policy provisions are written into the budget, but I believe there is sufficient flexibility in expenditures to cover this matter. We hope to make American aid-to-Japan funds, amounting to 175,000,000,000 yen, which will go to railway construction and public land development, one phase of the unemployment program.

"We plan to submit to the Diet a bill revising the rates for taxes allocated to local governments. The reopening of restaurants is progressing according to plan."

TOKYO SHIMBUN, 29 Mar — The Finance Minister also told the convening governors, "Mr DODGE recognizes that Japanese taxes are too high. He talks as if excessively high taxes will be completely revamped, and some lowered, in May. I personally would like to adopt a tax-cut policy during the coming fiscal year."

The Government anticipates that Dr SHARP will make a study of the national tax structure during his visit in May. It also appears that the Government will clearly set forth, either in the administrative policy address or in the Finance Minister's address, a tax policy for the coming year which is in accord with the DLP's campaign pledges.

ITEM 39 THE CASTOR OIL BUDGET (SUBEDITORIAL)

223

(Full Translation)

ASAHI, 29 Mar — When Finance Minister IKEDA comes out of General Headquarters after a talk with Minister DODGE and groans, "The results were none too happy", it seems both tragic and comic. It proves beyond the slightest doubt that JAPAN is not an independent country.

Mr DODGE reportedly told Mr IKEDA, "I understand your desires to make the budget more palatable. But in my position I must think not only of the Japanese people but of the American taxpayer. This budget is castor oil. It must be taken for economic recovery."

In effect, this means that the Japanese economy must down the castor oil budget and purge its system, now bloated with American aid. This will get the economy off its stilts. The patient has no choice in the matter—he must drink his medicine. It is doctor's orders. That is the situation of JAPAN today.

It is true that some people want to see how far they can go on stilts, that the feeling of dependence on "mental stilts" lingers on. Gen MacARTHUR has pointed out that a country cannot have true political independence as long as its economy is dependent on the largess of another country, but we have reached the stage where we must have the courage to mix our own castor oil.

Before we talk about freedom of budget compilation, the Government, the Diet, and the people must think seriously about reviving JAPAN as a self-supporting, independent nation.

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ITEM 17 THERE ARE ALL KINDS OF CAMPAIGN PROMISES

223

(Summary)

YUKAN CHUGAI, 24 Mar -- The GHQ advice on the budget has given rise to strong criticism over the scrapping of campaign promises made by the Democratic Liberal Party. The issue has placed the Government in a dilemma, and the Government parties are being called to account by the nation.

However hard they may try to persuade the people that such a deadlock is the result of the changed situation, caused by the nine-point Economic Stabilization Program, the nation cannot be persuaded easily.

In the recent election, we warned the people against being misled by the honeyed words of political parties. But, as is the case in all countries, the platforms of the political parties were not subjected to severe criticism, probably because of mass psychology, and the Democratic Liberals gained a signal victory despite their overzealous promises.

In our political world, the term "campaign oratory" has long been popular. Candidates make many promises to voters, regardless of the consequences, simply to be elected. Thus they issue dishonored bills and sometimes shed false tears, deceiving the voters through trickery. Once elected, these candidates usually have paid no attention to their constituencies.

We cannot attack the political parties alone for such a state of affairs. We want the nation to pause and reflect. The reason is that, no matter what irresponsible signboards political parties may put up, their trickery will not succeed if the political consciousness of the masses is high enough to detect pure campaign oratory. In his work on Bolshevism, Bertrand RUSSELL stated that Britons have been politically trained and become wise enough not to give credence to eloquent speakers.

It is hard to judge what is right or wrong in some platforms. RUSSELL brought up that question. He warned against carelessly supporting the Communist promise of a classless revolution created by revolution.

Although the issue of scrapping most of the DLP's campaign commitments will probably be settled by the courage of the party President or, at worst, by the resignation of the Finance Minister, it is a different matter if a promise is fulfilled only after a revolution calling for the sacrifice of countless human lives and great distress for the people.

We must subject party promises to sharper scrutiny.

ITEM 6 REDUCTION IN PREFECTURAL BUDGET DEMANDED IN IBARAKI

223

(Full Translation)

ASAHI (Ibaraki Ed), 23 Mar -- The Ibaraki Prefectural Assembly started interpellations on the budget on 19 March, the first day of the reopened session. Each of the four assemblymen, KANEKO, YAMAMOTO, KUBO and NEMOTO, representing the four parties and factions, questioned the administration for more than one hour.

All representatives demanded reduction of the budget. KANEKO (Democrat) and KUBO (Socialist) plied the Governor with a volley of critical questions regarding the 20 percent increase in the prefectural residents' tax and the projected Ibaraki Peace Exhibition.

The Governor, on the other hand, presented a strong front. He rejected a demand for 10 percent horizontal reduction in the general budget and maintained that the budget did not violate the spirit of the nine-point Economic Stabilization Program. He explained that a 20 percent increase in the prefectural residents' tax is unavoidable because of the elimination of the distribution tax and the limitation on the amount of bonds that prefectures can issue. He maintained, however, that these taxes would be beneficial to the prefecture in the long run.

Assemblyman YAMAMOTO (DLP), who made his first appearence in the assembly, after his selection in a by-election, demanded the public housing funds be made available for housing projects in fishing villages. He represents a fishermen's constituency. He also questioned the Governor on other matters, but was finally satisfied with the explanations.

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ITEM 8 YOSHIDA SEES ROOM FOR BUDGET SHIFTS; PARTIES LAY PLANS

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(Full Translation)

TOKYO SHIMBUN, 28 Mar — Premier YOSHIDA will return to TOKYO today to resume negotiations on the GHQ-suggested budget and the pressing problem of makeshift day-to-day budgets for the early part of the fiscal year.

Although the Premier spent the week end in OISO, he still believes there is room for parleying on the GHQ budget instructions. He intends to make last-minute efforts, until the middle of this week. Behind his efforts is not only a gesture to put down dissatisfaction within the Democratic Liberal Party but also a belief that some hope remains for success.

While the party seems to have bowed meekly in the face of the general situation, the Government, in turn, has taken a rather bullish attitude. It is observed, however, that the situation cannot easily be changed and that changes in the GHQ-suggested budget draft are almost impossible since the draft closely follows the nine-point Economic Stabilization Program and the Dodge statement.

Despite this, the Premier has not given up. Another problem which the Premier will tackle on his return is the day-to-day budget policy. Progress on this has been unexpectedly slow, forcing the Government into a tight spot.

DLP Faces Three-fold Trouble

The DLP itself is beset by three perplexing problems, now that the GHQ-suggested budget draft has precluded fulfilment of its campaign promises. The first is how to vindicate itself to the electorate; the second, how to quell party dissatisfaction with such leaders as President YOSHIDA, Finance Minister IKEDA, and Chief Secretary HIROKAWA, who had assured fulfilment of the pledges at executive meetings and caucuses; and the third, how to ward off opposition attacks on this failure to live up to campaign promises.

Except for a small, strongly dissatisfied group, the tension within the DLP has been considerably relieved. This easing is based on the consideration that not all campaign pledges need be executed immediately by the post-election Cabinet, and that hope should be held out for future efforts. To this end, the party's Political Research Committee is to be strengthened. The party also feels that the GHQ budget suggestions are final. It has, at the same time, been mollified by Minister DODGE's insistence that this budget draft is absolutely essential to JAPAN's economic recovery and by his request for active DLP co-operation.

There is some possibility that the Socialist Party and the opposition faction of the Democratic Party will base their demands for budget amendment on the original draft prepared by the Government. The DLP would find itself hard put to oppose these amendments. It is drawing up plans for counterattacking such an opposition offensive through the co-operation of its steering and budget committeemen.

Convention to Set Socialist Strategy

The Socialist Party, the leading opposition group, expressed its attitude in a Central Executive Committee statement on 25 March. The statement asserted that the DLP must accept heavy responsibility for failure to effectnate its campaign promises in the budget draft.

The Socialists feel that one of the reasons for their spectacular defeat in the last election was the failure of the Katayama and Ashida coalition cabinets to live up to their promises. The failure of the DLP will thus for one of the Socialists' strong appeals to public opinion in the anti-DLP offensive.

The Socialists have been forced to a firm disbelief in unreasonable

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ITEM 8 (Continued)

pledges. As Chairman KATAYAMA has often stated, they will approach the ideal of socialism by gradual stages, or even by a roundabout route. Their experience in coalition cabinets has taught them that a frontal attack on the DLP's nonfulfillment of its promises may not always be possible. They will approach the issue from the angle that the DLP's election platform was completely irresponsible.

With the reopening of the Fifth Diet, Secretary-general ASANUMA, Diet Policy Chairman YONEKUBO, and other experienced Diet leaders hope to whip Socialist representatives into vigorous action. However, behind this optimistic facade, Socialist rightists, leftists, and neutrals, busily plotting convention strategy, have failed to agree on Diet policy. No hard and fast anti-Government, anti-DLP line of attack can be drawn up until after the convention.

Democrat Oppositionists Attack Speech Delay

The Democratic Party opposition faction, calling itself an "opposition party for the people", will judge each government measure on its merits. However, it opposes the DLP attitude on its campaign promises and the Premier's administrative speech.

The faction argues that the DLP's election platform represented an inflationary policy, while the GHQ-suggested budget calls for a deflationary one. It is bitterly critical of the DLP's unwillingness to avow the complete collapse of its platform and its verbal shifts to evade responsibility.

Above all, the Democrat oppositionists contrast Premier YOSHIDA's postponement of his administrative address with the precedent set by Premier ASHIDA, who delivered such an address prior to the completion of a draft budget. They say that since the general outline was made clear in the GHQ draft, the Government should lay its basic policy before the people immediately.

Further, they intend to compare the stabilization-first principles of the present budget program with the Ashida Cabinet's easy-stage stabilization policy, while keeping a close watch on concrete policy progress. Should the occasion arise, they will be ready to pounce on failures in the deflationary program.

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ITEM 27 MAKE PEOPLE ACCEPT BUDGET SUGGESTIONS

123

(Full Translation)

TOKYO SHIMBUN, 27 Mar -- It is reported that, since the budget suggestions made by GHQ are in effect a directive, the Government will have to follow them unconditionally.

The GHQ suggestions are regarded as the best balanced budget in conformity with the Economic Stabilizstion Program, and fundamentally differ from the Government's original draft. The suggestions leave some leeway for government expenditures. In execution of the budget, though, they aim at minimized government expenditures and maximum collection of tax revenue. Therefore, a considerable surplus is anticipated by the end of the fiscal year, though the balance of the 1949 budget is in the black by 400,000,000 yen only.

The composition of the GHQ-suggested budget is worthy of a high appraisal. As for import and export subsidies which were set up in the special trade funds account, the latter will be cancelled completely and the former will be transferred to the general account of government expenditure. Profits from imports financed out of EROA and GARIOA funds will also be transferred to the special account for economic stabilization. This scheme and the general approach to a balanced budget are nowhere seen in the Government's original bill.

However, what draws our vital attention is that all import subsidies become expenses in that general account of state finance and that in order to raise the funds an increase of revenue from the income tax is suggested.

Whether the burden of income taxes is heavy or light is not merely an arithmetical matter. The fact that the ratio of income taxes to national income in JAPAN is lower than in the UNITED STATES and GREAT BRITAIN does not necessarily mean that the Japanese people are able to bear an additional tax burden. In the Government's original bill the amount of income tax revenue is estimated at 228,600,000,000 yen. Even if no reduction measures are taken, this figure will not exceed 260,000,000,000 yen. On the other hand, according to the GHQ-suggested budget, income-tax revenue will total 310,000,000,000 yen.

Under inflationary circumstances an increase in national income, can, though nominal, be expected. However, if a really balanced budget is established and carried out at all, far from showing a nominal increase, national income will decrease due to the increase of the unemployed caused by readjustment of enterprises. Accordingly, the fact that an increase is anticipated in state revenue from the income tax means that more strict supervisions should be made over tax-evasion.

If the tax rates and exemptions which were fixed in accordance with the 3,700-yen wage standard should be applied to the 6,300-yen wage base which was established due to the rise of commodity prices, it will certainly double the tax burden upon the people. The Government's plan to lighten the burden was in consideration of this point. If the increase of food prices, railway fares, and postal charges is definite, the greater strain of living costs and relatively heavier income tax will inevitably double our burden.

In that we are a defeated nation aided by tax payers in other countries, our burden to this extent may be only natural. However, does the Government think that the present taxation in this country is light? If the Government's original bill takes as a promise the fact that the people's tax-bearing capacity has already reached its limit, the Government should give special consideration to the problem of the income tax established in the GHQ-suggested budget.

If the budget suggestions must be accepted, it behooves the Government to take proper measures, quite apart from superficial talk about campaign promises, to make the people thoroughly accept the suggestions.

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ITEM 28 MAIN ISSUE OF 1949 BUDGET COMPILATION

923

(Full Translation)

YOMIURI, 27 Mar -- (By SUZUKI Takeo, critic) The compilation of the budget for the coming fiscal year has been fraught with difficulties in its relationship with the nine economic principles since the Cabinet meeting on 23 February informally decided upon its major principles. Recently, it has become clear that the original plan of the Government will have to be scrapped as a result of suggestions made by the GHQ authorities. Thus, it seems that the political field has been wavering concerning the public promise issue; that is, the Government and its party have been worried about how to save "face," while the opposition parties have been attacking the Government's responsibility.

However, we consider that this is not a problem to be discussed anew. That the matter would turn to this situation was already predictable when the nine principles were disclosed at the end of last year. This became even more obvious when Minister DODGE clarified, in his statement on 7 March, that the objective of the so-called Dodge line was to bring about "economic stabilization at one stroke," with stress placed primarily upon "true balance of an over-all budget," as stipulated in the first of the nine principles.

The Government and its party may be able, by their efforts in the future, to readjust the budget bill to a certain extent in relation to their public promise. However, it is held almost certain that the budget will be recompiled without much reform of the framework of the instructed plan. The problem then is, assuming the execution of the budget compiled along the lines of the aforementioned principle: In what form will the stabilization panic, which is expected to follow the "stabilization at one stroke", appear?

The contents of the plan suggested by GHQ are not yet known. However, judging from press reports, they are believed to be on this line:

Since the surplus in the foreign trade fund to be created by the establishment of a single exchange rate cannot be counted as collateral fund in the yen account for foreign aid, a new special account will be established for the predicted surplus of 175,000,000,000 yen, which will be used, under the strict supervision of GHQ, for the redemption of bonds to be issued for the construction of railway and communications facilities, and amortization of bonds already issued, as well as for economic rehabilitation purposes. Although the definite exchange rate has not yet been indicated, it is likely that it will be set at 270 yen to one dollar for the imports of relief commodities (which is the same with the current military rate), and at 330 yen to one dollar in other cases.

Assuming that the surplus in the foreign trade account is used for the afore-mentioned purposes, the prices of the imported commodities will naturally rise. To avoid this, subsidies will be paid out of the general account for the importation of food and other commodities, thereby maintaining the price standard at the present level. To this end, about 85,000,000,000 yen will be added to the expenditure in the general account, and yet about a 13 percent rise will be inevitable in the prices of food.

Moreover, if the present price standard is to be maintained, the price differential subsidies for domestic commodities will have to be increased, instead of being abolished or curtailed. For this purpose, the subsidies of 70,000,000,000 yen, as appropriated in the Government's original plan, have been increased to 115,000,000,000 yen. To compensate for this, the public enterprise fund, appropriated at 75,000,000,000 yen in the original plan, has been curtailed to 50,000,000,000 yen, and the local grants from 72,000,000,000 yen to

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57,700,000,000 yen. Despite this drastic curtailment, the total expenditure in the general account has expanded from 578,000,000,000 yen to 703,000,000,000 yen.

Hence, to secure a balanced finance, it becomes necessary to increase revenue by suspending the reduction of income tax rates as well as the abolition of the transactions tax, as was scheduled in the original plan. This will yield about a 100,000,000,000-yen increase in the revenue.

If the present Income Tax Law remains unrevised, it is certain that the burden on the working masses will further increase, since this means that the basic deductions, family deductions, and the graduated tax rate remain unchanged as during the time of the 3,700-yen wage standard. Moreover, to maintain the present price structure, a 60 percent raise in the passenger charges (instead of a raise in freight charges as originally planned), as well as an upward revision of postal charges wi l become inevitable.

Viewed from the afore-mentioned angle, because of the principle of maintaining the present price standard, the tax burden will increase and the prices of some types of commodities will be raised. The result will be an increase in the livelihood expenses, thereby more and more crippling the "stilts", as called by Mr DODGE.

Thus, it is likely that the livelihood expense will have to shrink. If a raise in wages is not allowed to maintain the price standard, even if inflation subsides, we wonder if it means merely that the past indirect "compulsory austerity" effected by inflation is to be replaced by a direct "compulsory austerity".

In the case of an ordinary stabilization panic, the manufacture of production materials and those enterprises producing luxury consumers' goods are directly affected. However, the settlement of inflation will release the people from "compulsory austerity", and, as a result, the domestic market for consumers' goods demanded by the masses will be expanded, and the flourishing market will eventually revive the manufacture of producers' goods. This may be called a industrial reconstruction "from below" based on the expansion of domestic market.

However, it is likely that the stabilization panic predicted in the present case will present reversed aspects. That is, the domestic market will remain in a depressed situation while the basic industries such as production of coal and steel, will be maintained "from above" by the payment of dubsidies.

Moreover, we must not forget that the curtailment of public enterprise fund and decreased issue of construction bonds will signify a decrease in the demand of the State, which has heretofore furnished these basic industries with a large market. It is possible then that the future structure of JAPAN's industry will not differ much from that in the militaristic regime, in its abnormal and fragile character. Such a result should be attributed to the fact that the present method of stabilizing economy has started with its guiding principle set for the maintenance of the present price and wage structure.

To be sure, "stabilization at one stroke" may be necessary. However, we consider that a more fundamental reinvestigation should be made concerning its starting point.

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ITEM 29 EARNEST ENFORCEMENT OF BUDGET

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(Full Translation)

NIHON KEIZAI, 27 Mar -- The significance of the GHQ-suggested budget plan for next year lies in that it represents a major change in the postwar policy on compilation of the budget. More than that it provides important suggestions for the management of enterprises and the livelihood of individuals as it is designed to bring about self-sufficiency in JAPAN's economy.

Since the end of war it has been the supreme order to check inflation, but unbalanced finance, which is the fundamental cause for inflation, still remains uncorrected. This indicates not only the seriousness of JAPAN's economic plight but that, in tiding over this plight the people have failed to tackle the difficult realities before them.

Recently Minister DODGE well defined JAPAN's economy as a stilt economy. It can be said that such definition is, from a certain viewpoint, a piercing reproach to the Japanese Government and the people.

The recently suggested budget plan is larger in scale than that originally drafted by the Government. But we can discern the seriousness of the character of the suggested plan in that the price adjustment expenses are estimated on a sufficient margin basis, that the import subsidy fund is transferred to the general account in order to eliminate the past temporizing measure, and that a strict ceiling on loans by the Reconstruction Finance Bank is set. Such consideration as witnessed in the recent budget-making will naturally be taken in executing it, too. All these facts are nothing but the manifestation of GHQ's firm intention to bring about economic stability and then full-scale recovery through the true balancing and efficient execution of the budget.

However, it is anticipated that a budget of such severe character will, on the other hand, cause considerable friction. It will have a major bearing upon prices and production depending upon the relation of tax revenue to the people's capacity to pay, the effect to be produced upon industrial funds and loans, and the policy to be taken for adjusting prices. To bear up under such friction and effects, there is no alternative for both enterprisers and individuals but to adhere to severe self-restraint, that is the so-called austerity in line with the national policy embodied in the budget.

JAPAN's past condition was such that deficits in the national finance continued without any rosy prospect for eliminating them, enterprisers covered their deficits through national finance, and individuals depended on the State or enterprisers for covering deficits in their household economy. Such a three-point vicious circle has accelerated inflation.

However, JAPAN has now entered a stage in which national finance must be thoroughly rationalized and reformed. Along with this, similar rationalization and reform are strongly demanded for the management of enterprises and the livelihood of individuals.

Needless to say, the Government, in executing the recently suggested budget plan, should exert all passible efforts to eliminate the unfavorable effects arising therefrom. Presumably even this alone is not an easy task for the Government. The people and the opposition parties may have good reasons for blaming the Government which has broken a majority of the public pledges made by the Democratic Liberals.

Apart from this, the Government should take a more serious attitude toward the execution of the recent budget plan. It should realize that whether enterprisers and individuals will co-operate in the national policy embodied in the recent budget depends entirely on the policies to be taken by itself in the future.

A goal, though temporary, has already been set for changing the national finance policy. What is next important is to minimize unreasonable steps and frictions which may arise from the execution of the budget and to give definite shape to the constructive significance of the budget. What the Government must do at present is to take up this problem seriously and establish a definite outlook as soon as possible.

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ITEM 30 DLP PROMISED CURTAILMENT OF BUDGET

223

(Full Translation)

AKAHATA, 27 Mar -- The election promises which the Democratic Liberal Party pledged to carry out at all costs have completely vanished into thin air. This proves beyond doubt to the nation, which expected that YOSHIDA would do something somehow and which gave the Democratic Liberal Party over half its votes, that the absolute majority party Cabinet is both incompetent and incapable.

The nine-point Economic Stabilization Program was announced before the Democratic Liberal Party made public its election promises. Its nine economic principles were announced during the election. For occupied Japan, in which a general crisis of capitalism is developing, it is a well-known fact that these finanical economic principles cannot be coped with merely by the "things will work out somehow, they always have" attitude. The Democratic Liberal Party, the Cabinet, and DLP President YOSHIDA, who were unable to see through this obvious fact, must be regarded as lacking in foresight.

This is not all. Because the Democratic Liberal Party did not possess a concrete plan for the reconstruction of JAPAN's economy, it became engrossed in balancing the figures of the budget and merely aggravated insoluble contradictions. The Democratic Liberal Party is seeking to make out as if the delay in the budget compilation is not its own responsibility. But, this very indolence will be the prime cause of leading the nation to a tremendous inflation budget.

In the first place, the Far Eastern Commission, on the basis of the Potsdam Declaration, has set out the basic policy of JAPAN's economic reconstruction as the "unlimited expansion of peacetime industries" and "the elimination of the latent potentials of the munitions industries." No one could appose this basic policy. This is not because the policy is forced bodily upon the Japanese people. It is because this policy outlines the one and only rational path for the reconstruction of JAPAN. For this reason, it should be carried out. Indeed the realization of this basic policy is the important task placed upon the shoulders of all democratic Japanese.

What is demanded today of the state finances is a balanced budget. But a balanced budget does not justify a huge budget or financial inflation just because the expenditures and revenue balance each other. For example, during the period after the war, the Ishibashi budget compiled by the first Yoshida Cabinet in March 1947 was heralded and approved by the bourgeois newspapers as a balanced budget. And ever since, there have been no budgets that have not been balanced. In fact, revenue was increased by the blood-sucking methods of lowering real wages, increasing the tax burden, and setting up state monopolistic commodity prices.

Advocates of taxes on the basis of national income contend, "People say that JAPAN's taxes are too high, but, taxes in GREAT BRITAIN are 35 percent and in the UNITED STATES 25 percent of the national income, while in JAPAN it is only 20 percent; so there is still much room for increased taxes. However, no agrument makes such a fool of the people as this calculation of JAPAN's tax "on the basis of national income."

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EDITORIALS

ITEM 30 (Continued)

Recently the Economic Stabilization Board announced JAPAN's national income as 1,200,000,000,000 yen for the 1948 (fiscal year) and 2,200,000,000,000 yen for the 1949 (fiscal year). But, when it came time to compile the budget the 1948 fiscal year national income figurejumped to 2,300,000,000,000 yen and the 1949 income to 2,800,000,000,000 yen on the basis of commodity price for November of last year. It may be thus seen that the computation of the national income is but a manipulation that seeks to justify the compilation of the stupendous budget by increasing the national income overnight by 500,000,000,000 yen through financial inflation. A budget cooked up in this way is, indeed, an unhealthy budget.

Formation of a truly balanced budget and the overcoming of huge finance are absolutely impossible unless based upon the Potsdam Declaration and upon the basic policy of the Far Eastern Commission. The unlimited expansion of peacetime industries is only possible through the stabilization and improvement of national livelihood and by the curtailment of state finances. On the other hand, the expansion of the latent potentials of war industries held in the hands of monopolistic capital can only be possible through the pauperization of the nation and the magnification of state finances. From this basic point of view, we criticize the Democratic Liberal Cabinet's budget compilation. The fine-sounding words "equalization of the tax burden" are without significance unless they are carried out from this point of view.

The question of how to give body to the budget is the task awaiting the Japanese Government. The Democratic Liberal Party promised the curtailment of the national budget and the lightening of the people's tax burden. But, what is it now trying to carry out? It is trying to expand the budget and make the burden of the people heavier.

However, we state this fact clearly. The masses of JAPAN can no longer withstand seeing monopolistic capital aided still further, having the payment of wages delayed, having mass dismissals effected, having their own food taken away, and being shoved into a "taxation hell." No matter how much the syrup of democrcy is poured over the feudalistic Tokugawa politics which holds that the more they are squeezed the more the farmers produce, the situation cannot be glossed over.

The fight against the budget is no longer a fight restricted to the Diet alone. It is a national mass struggle. The struggle of the worker suffering dismissals and lowered wages, the struggle of the housewife demanding lower prices, and the struggle of all for lower taxes will be developed fully only when co-ordinated with the offensive against the 1949 fiscal year budget.

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223 BUDGET

Government leaders resolved yesterday to wedge as many election pledges as possible into the budget framework set up by GHQ advisers. Though agreeing to comply with GHQ's 703,000,000,000-yen plan, both cabinet officials and Democratic Liberal executives sought to confer separately with GHQ sources today in a renewed effort to incorporate their economic program into the 1949-50 budget bill. Premier YOSHIDA was reported eager to resurrect the budget promises killed by the GHQ draft. Government negotiators will concentrate on trying to make good their pledges to abolish the transactions tax, to expand public works, to slash the income tax, and to peg passenger fares at their present level. But most observers felt that negotiations would not change GHQ policy. They regarded the government move as a gesture intended primarily to check unrest in the Democratic Liberal Party. (a)

Concurrent negotiations will be conducted with GHQ on the "propriety" of a provisional budget for April, Chief Cabinet Secretary MASUDA disclosed yesterday. He said that since the general budget bill probably will not be enacted before 4 April, the Government will have to compile a stopgap budget to cover expenses during the first part of the new fiscal year. He added that the Premier's administrative speech, once deferred to 26 March, may be postponed again. (b)

24 MAR

223 Lower taxes were demanded by a Democratic policy-maker yesterday. Chairman KOSAKA of the coalition faction's Political Research Committee asked the Government to lighten the tax burden, pointing out that the people's ability to pay has reached its limit. He hoped that budget needs could be met by improved taxing and collecting methods. (a)

24 MAR

223 The anticoalition Democrats, meanwhile, supported the Socialist-led move to harass the Government over the delayed budget. But they refused to act jointly with the opposition parties in presenting a resolution to the Lower House tommorow demanding immediate delivery of the administrative speech. To avoid concerted action with the Communists, the anticoalitionists voted to present a similar resolution independently. (a)

24 MAR

223 The 1949-50 budget continued to ride high on all front pages. The five leading morning papers pegged their top story on the GHQ budget instruction, but the angle emphasized differed. MAINICHI, YOMIURI, and JIJI stressed the Democratic Liberal Party's effort to nail back some of the planks ripped from its budget platform by the GHQ recommendations. NIHON KEIZAI led with the recommendations themselves, while ASAHI played up a ministry-by-ministry reaction survey. Budget-linked stories pushed most of the other news off the top half of page one. Foreign coverage was spotty, with no single event rating standout emphasis.

24 MAR

Budget

223 If preliminary reports of the GHQ budget suggestions are true, YOMIURI asserted, creation of a collateral yen fund account should be based on an independent Japanese economy except for long-term loans. The daily also told the Government to remember the people can stand only so much taxation, and deemed the boost in subsidy grants irrational. The reported passenger fare hike will be unfair, too, the editorial believed and asked the Government to take rational and orthodox measures in line with the nation's actual economic condition.

223 TOKYO TIMES saw no other course for the Democratic Liberal Cabinet except to retract its unreasonable public promises and apologize to the people for its lack of wisdom since its budget draft was premised on a policy incompatible with the nine-point program. The Cabinet must concentrate on promoting economic recovery, the paper emphasized. Fully aware of the difficult position in which Premier YOSHIDA is placed on the budget question, TOKYO SHIMBUN thought that all the people as well as the Government should realize the perseverance demanded of them in implementing the GHQ budgetary recommendations. Popular criticism over the scrapping of DLP campaign promises prompted YUKAN CHUGAI to assert that if the people raised their political consciousness, they would not be duped by pure campaign oratory. The paper warned that to guard against communism care must be used in judging some platforms since a promise realized only after a revolution will cause the nation to suffer. It advised critical examination of party promises.

223 The MAINICHI editorial, based on what it thought the new budget would be, wondered how the people would be able to pay taxes to balance a budget exceeding 500,000,000,000 yen, especially when signs of a stabilization panic are already evident. Observing that compilation of the new budget is based on a deflation policy, ASAHI felt that the people must co-operate to economize on consumption and to accumulate capital if they expect to avoid a stabilization panic. To liquidate present inflation as soon as possible, sacrifices are necessary, the journal declared, but whether the budget will bring about stabilization or further confusion depends entirely upon the efforts of the nation and the Government.

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2?3 In the second part of his commentary published by AKAHATA on the budget, SHIGA Yoshio advised the Communist to unflinchingly oppose the DLP Cabinet and its undemocratic budget policy. They must remember, SHIGA declared, that popular democracy will never materialize if the military and police structure is allowed to exist and a huge budget is permitted. A strong police which eats up a large portion of government funds is the forerunner of a fascist state, he pointed out.

BUDGET

223 Government negotiators sounded out occupation sources yesterday on the possibility of fitting Democratic Liberal election pledges into the GHQ-suggested budget. Despite an unfavorable reaction Democratic Liberal Diet members voted to keep negotiations alive for "two or three days," while preparing the 1949-50 budget bill for presentation to the Diet on 3 or 4 April. (a) Premier YOSHIDA has apparently decided to compile the budget as quickly as possible, accepting in total the GHQ instructions. But he may revive the sales tax repeal issue and other tax reduction pledges when Columbia professor SHARP arrives here to re-examine taxation methods. (b)

21 MAR.

Budget

273 JIJI SHIMPO criticized the Cabinet for its defying the economic stabilization program prior to the election. Constitutionally speaking, the daily said, the Cabinet should resign if it cannot fulfill its public commitments. This is the only way to ensure continued popular confidence in parliamentarism, it asserted, hoping that a satisfactory solution to the Cabinet's dilemma can be found. The Government's breach of pre-election promises stems from its dependence on outside help, its narrow outlook, and its political insensibility, according to YUKAN CHUGAI. The Cabinet should have pursued a vigorous budget-balancing policy from its inception, the editorial stressed, calling on the people to co-operate willingly with the stringent budget.

Ruling out cabinet insistence on incorporating its promises in the budget despite GHQ advice or cabinet resignation because its pledges cannot be carried out, NICHI NICHI told Premier YOSHIDA to apologize to the people for his party's making such irresponsible pre-election utterances and to push the stabilization program. SEKAI KEIZAI also believed an apology from the Cabinet in order, but it suggested that probably no party would have been able to live up to its campaign platform. Now the Cabinet must do its best to lead the nation toward recovery though it will mean unprecedented hardships for the people, the paper declared.

ASAHI felt the revenue estimates in the budget draft entirely too high. It is quite impractical, the journal maintained, for such a wide gap to exist between revenue and expenditures, especially since chances are slim for collecting the estimated 703,400,000,000 yen. A more reasonable budget should be framed which would spur stabilization and self-sufficiency, the editorial concluded. To achieve this self-sufficiency, NIHON KEIZAI held, tax sources should not be allowed "to dry up". Remarking that there is room for higher taxation, the paper considred seizure or auction of property for nonpayment quite proper but pointed out that if the goods cannot be sold, effecting seizures when the state cannot pay expenses with the goods will only cause national finance further difficulties. Nurturing the sources of taxation should be the chief revenue policy, the journal stated.

Objecting to the drastic cut in the education budget which will hamper execution of the new education system, MAINICHI stressed that education estimates should be restored, not by the political ability of the Education Ministry alone, but by the Government, the Diet, and the people assuming responsibility. Should revival of state financing prove fruitless, the paper believed, it is necessary to adopt an adequate system and devise measures to raise the nation's educational standard.

In the concluding installment of his budget commentary carried in AKAHATA, SHIGA Yoshio accused the Government of trying to start a war in the name of democracy. In compiling the budget, top priority must be given to peacetime industry, abandoning the policy of starvation wages and exports, he asserted, and the budget must be stripped of all tendencies aiding the monopolistic capitalists to become more firmly entrenched.

EDITORIALS

223 SCAP suggestions on budget compilations continued to create a flurry of editorial comment in the metropolitan dailies. Other topics dealt with the Communist revolution, sanitation, and CHINA.

EDITORIALS

223 Budget comments were slanted on the Democratic Liberals' breaking their campaign promises. Other editorials were devoted to such diverse topics as the Socialist Party, universities, and US immigration policy.

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ITEM 13 ADVICE ON THE BUDGET

(Full Translation)

MAINICHI, 24 Mar -- The stand of GHQ with regard to the budget for the next fiscal year was suggested to the Government on 22 March. The concrete details are as yet unknown, but, according to Finance Minister IKEDA--who conferred with Minister DODGE and Maj Gen MARQUAT--, Maj Gen MARQUAT is reported to be of the belief that the GHQ draft budget is most appropriate for the execution of the nine-point Economic Stabilization Program.

It is reported that if our country enforces this budget, JAPAN will receive roughly 500,000,000 dollars in aid from the UNITED STATES during the next fiscal year. This, when computed at the rate of 350 yen to the dollar, would be in the neighborhood of 175,000,000,000 yen.

In addition, it was stated that a country receiving American aid should maintain its present taxation system, and that all expenditures actually necessary should be clearly set forth in the budget. It goes without saying that the suggested budget draft differs extremely from the draft budget tentatively decided upon by the Cabinet.

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EDITORIALS

ITEM 13 (Continued)

If we are to take up the most characteristic points of the GHQ draft from the extremely broad hints given as to the exact nature of the suggestions, we find, first, the fact that the principle of a balanced budget is laid down strictly. Recently Minister DODGE, in his statement, declared that all measures contributing to the curbing of inflation should be used no matter what their nature. The GHQ suggestions follow clearly along this line, and every item spurring inflation from the point of view of finances has been mercilessly slashed. The system of independent balancing of the special accounts is one of these points, while the flotation of construction bonds, loans, and provincial debentures has been curtailed to a minimum and bond flotations and government borrowing are to be permitted only within the limits of available reserves.

In addition, the fact that financing under the Reconstruction Finance Bank and government investments has been greatly curtailed must be viewed as the concrete manifestation of one of the points of the Dodge statement, which pointed out that government investments have been unproductive as compared with private financing. It may be thus be regarded as a method to stop up a budget to prevent the upsetting of a balanced budget--arising as a result of Reconstruction Finance Bank loans.

The second characteristic is the drastic revision of the trade funds special account. An important item in this special accounts is the domestic clearing house organ for American aid to JAPAN. In spite of the fact that JAPAN has received several hundreds of million dollars of aid every year, it was only able to show a small asset balance. This was because funds from American aid were diverted to subsidizing the export trade.

It was through the manipulation of this special account that the domestic price structure and the boosting of export trade were possible. Within this limit, this function of the special account cannot be lightly ignored. On the other hand, the way in which American aid was utilized has not been clearly outlined. Now, the assets arising from American aid to JAPAN, totaling some 120,000,000,000 yen, will not be used to subsidize exports, but will be sued to amortize government and Reconstruction Finance Bank bonds and to float construction funds to be used as a source of finances for the restoration of production.

According to the foreign aid law of 1948, countries being given assistance on the basis of the Marshall Plan must set up an account as "counterpart funds" in their own currency proportionate to the aid given them, and only upon permission from the ECA can these funds be used for the stabilization of the country's financial standing and currency, for the boosting of production, and for exploring and developing new resources. When we take into consideration the fact that emphasis next year will be shifted from GARIOA to ERCA funds, it is quite natural that such a demand should also be made of JAPAN.

The third characteristic is the expected increase in the expenditures for the Commodity Price Stabilization Fund in the general accounts from the original government plan of 70,000,000,000 yen to from 170,000,000,000 yen to 180,000,000,000 yen as a result of the discontinued use of profits from the trade funds special account for import subsidies. As a result, the expenditure in the original draft budget, tentatively approved by the Cabinet, of 579,000,000,000 yen will increase to 703,000,000,000 yen.

This increased expenditure is reflected in the revenue column, and the originally estimated income tax, including the reported income

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ITEM 13 (Continued)

tax of 228,000,000,000 yen will have to be increased in the case of income tax on revenue at the source to 120,000,000,000 yen and in the case of reported income tax to 180,000,000,000 yen, or a total of 300,000,000,000 yen. In addition, the abolition of the transactions tax totaling 45,100,000,000 yen becomes impossible, and, of the new taxes planned to replace the transactions tax, the gasoline tax will be enforced. As a result, taxation revenue, including that from revenue stamps, will come to 510,000,000,000 yen or 80,000,000,000 yen more than that originally planned by the Government.

We had long expected that if a truly balanced budget on the basis of the Economic Stabilization Program should be compiled, it would be an extremely austere budget. In actuality, the budget is a sober and strict budget. If we were to substract one of the stilts propping JAPAN's economy, the actual financial situation of JAPAN is just about that exemplified in the budget.

Although we cannot enter into a detailed discussion of the budget, ignorant as we are of its details, if we were faced with the selection of either inflation or disinflation, and if we were to chose the latter, we would be handed just such a bill. Furthermore, we must remember that this bill is one that we would have had to pay sometime or the other.

But, what we worry about is that when the symptoms of a stabilization panic are already evident, can taxes in excess of 500,000,000,000 yen be collected? The income tax levied at the source of revenue is twice that of this fiscal year, while the reported income tax reveals a 50 percent increase. At the same time as worrying over the basis of these taxes, we doubt whether the revenue collectors with their present abilities and organization can possibly collect taxes in an impartial and rational way during the next fiscal year. In addition, we feel that instead of disbursing a large sum of money from the general accounts as subsidies for the importation of foods, it would be more rational to raise the basic exemption level of earned income tax in proportion to raising the prices of foods.

Since it is a fact that financial organs will clearly benefit through the amortization of government and Reconstruction Finance Bank bonds from the assets of the special accounts, the necessity of adequate attention being paid to the full and effective use of these funds need not be stressed.

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ITEM 16 SIGNIFICANT POINTS IN GHQ BUDGET INSTRUCTIONS

D23

(Summary)

TOKYO SHIMBUN, 24 Mar -- The compilation of the budget for the next fiscal year, in line with the nine-point economic principles, constitutes a topic of vital importance to the entire nation. The Government asked the advice of concerned quarters regarding the draft budget, totaling 578,000,000,000 yen, which it had informally adopted at a Cabinet conference. In reply, GHQ authorities presented a tentative plan to the Government which, according to informal sources, fixes the total at 700,000,000,000 yen and differs greatly from the Government's original draft.

A number of ideas contemplated by the Government, including abolition of the transactions tax, lowering of income tax rates, etc, have been eliminated in this plan, thus making it almost impossible for the Democratic Liberals to live up to their public promises. The Government will continue political negotiations with concerned quarters on this subject. But it is unlikely that the GHQ tentative plan will be materially revised.

Pointing out the characteristics of the GHQ tentative plan, Finance Minister IKEDA remarked that, if it is executed faithfully, it will enable the Japanese nation to receive foreign aid amounting to 170,000,000,000 yen in the next fiscal year, and that such aid would contribute greatly to the economic recovery of JAPAN.

Inasmuch as American aid to JAPAN is based on taxes paid by American citizens, it is only natural that the latter should want JAPAN to stand on her own feet and that the Japanese should endeavor to comply with this demand. There can be no room for doubt on this point. The difference between the Government's draft and the GHQ tentative plan concerns specific points in the compilation of the next budget.

According to the tentative plan, state expenditures for the next fiscal year will be covered, for the most part, by tax revenue. This means that the nation should be prepared to live an austere life owing to the tight money situation.

Although GHQ authorities are wary of imposing too heavy a tax burden on the people, their tentative plan is predicated on the firm principle that state finance should be shouldered by the Japanese people themselves.

There is no doubt about this fundamental principle. A number of problems, however, still remain to be solved regarding specific points, such as the distribution of the tax burden, maintenance of present prices, prevention of a decrease in production, etc. Meanwhile, unemployment resulting from administrative retrenchment, enterprise rationalization, and other causes will inevitably present another serious problem.

The Democratic Liberal Party and its leaders now find themselves in an extremely trying situation, since the GHQ suggestions have made it practically impossible for them to live up to the public promises. Premier YOSHIDA reportedly remarked that in view of the present situation he would discard his public promises.

At any rate, the people, as well as the Government, should be fully aware of the perseverance demanded of them in executing the principles implied in GHQ's budget suggestions.

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ITEM 2 GHQ BUDGET PLAN SETS EXPENDITURES AT 700 BILLION YEN

223

(Full Translation)

YOMIURI, 24 Mar -- Finance Minister IKEDA explained the GHQ-suggested budget plan for fiscal 1949 at the Cabinet meeting yesterday. The details of the plan follow:

1. The total expenditures are 700,000,000,000 yen and the total revenues 732,000,000,000 yen, for a surplus of 32,000,000,000 yen. However, whether the surplus shall be transferred into the redemption fund is not clear.

2. The stabilization funds to be created for GARIOA and EROA funds (the special counterpart accounts in yen) total 175,000,000,000 yen. Of this, 25,000,000,000 yen is appropriated for liquidation of bonds and loans of the construction account under the special accounts, 50,000,000,000 yen for redemption of national bonds, and 100,000,000,000 yen for economic reconstruction outlays including public works expenses. But the details of these appropriations except those for the construction account are not clarified. No suggestion is available as to at what yen-dollar rate of exchange the counterpart funds shall be established.

3. Under current practice, Occupation expenses and price differential subsidies for March are carried over to the next fiscal year. To amend this, the suggested plan covers 13 months from March 1949 to March 1950.

4. The abolition of the transactions tax, one of the Democratic Liberal Party's campaign pledges, is impossible, but an expedient of contracting the scope of taxation will be permitted. It will reduce the expected tax revenue of 50,000,000,000 yen to 45,100,000,000 yen.

5. As for the income tax, 30 percent of the expected taxable income has been reported and 60 percent of the returns reassessed so far. However, the rate of reassessment shall be heightened to collect the tax more thoroughly. There will be no reduction of the tax rate and consequently a natural increase in tax collection is expected.

6. Tobacco prices shall not be boosted, but its production shall be stepped up to 65,000,000,000 cigarettes.

Comparison between the Government's original plan and the GHQ plan is as follows:

	GHQ Plan (billion yen)	Govt Plan (billion yen)
I. Revenue:		
Income tax	210.0	208.0
Liquor tax	65.0	59.0
Sugar tax	0.5	10.0
Transactions Tax	45.1	0
Gasoline tax	4.3	4.3
Other taxes	189.1	129.0
Total tax revenue	514.0	410.3
Tobacco profit	100.0	115.0
Sundry incomes (including sales profit of unearthed concealed goods, profits of lotteries, price differential profits, and rebates from Bank of Japan)	80.0	0
Other incomes	77.6	48.0
Grand total	703.2	578.0
II. Expenditure:		
Occupation expenses (13 months)	125.0	110.0
Subsidies to local governments	57.0	72.0
Public works expenses	50.0	75.0
Unemployment relief	6.0	15.0
Price differential subsidies	0	70.0
Subsidies for domestic industries	115.0	0
Import subsidies (13 months)	85.0	0
Government loans	0	40.0
Others	265.0	196.0
Grand total	703.0	578.0

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ITEM 18 BASIC CRITERIA FOR DISCUSSING BUDGET (PART II)

223

(Full Translation)

AKAHATA, 24 Mar -- The Democratic Liberal Party also insists upon a decreased burden on the people and a slash in national finance. However, the party insists upon these points not for the people's benefit and the expansion of peaceful industries but for monopolistic capital connected with state power. The Democratic Liberals pay attention only to the proportion of the national income the disbursements of national finance occupy. This is bourgeois economics which serves monopolistic capital.

Our point of view is that of the proletariat and represents the interest of the masses who desire peace and democracy. From our point of view, the amount of national finance represents the quality relations of national economy. Quality relations are class

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ITEM 18 (Continued)

relations, that is class struggle. Therefore, national finance must be discussed from the viewpoint of determining the opposition between peaceful and nonpeaceful industries and between daily necessities industries and luxuries industries.

The Democratic Liberal Party, which protects the interests of monopolistic capital, cannot in the least carry out a curtailment in the true sense of the word in the budget. The party has not zeal to execute a fundamental policy for the reconstruction of Japanese economy, that is the unlimited expansion of peaceful industries. The party only attempts at expanding monopolistic capital and war industries, at the cost of smaller capital and peaceful industries.

The party insists upon administrative readjustments. On the other hand, it attempts to strengthen the two major bureaucratic structures, oppression and tax collection. Further, the party is going to impose dismissals and wage reductions upon the workers in fields which are related to the people's economic life even if they belong to the same department as communications and railways, thus increasingthe gravity in fields which are not related to the people's economic life. Similar policies have already been adopted by private enterprises and will be increased in scale in the future.

What has brought on the present swollen administrative structure? The Democratic Liberal Party is deliberately blind to the fundamental cause. In order to transfer the existing administrative structure to a genuinely peaceful one, the NPSL, which disregard human rights and violates the Constitution, must be abandoned and the livelihood of low-rank officials stabilized; the concentration of power in the national rural police must be eliminated and the local autonomous police replaced by a civil police system; the tax structure must be simplified; the penitentiary system must be reduced; the unreasonable control system must be eliminated; and the war-termination cost must be decreased.

The unemployment which is caused by the abolition of bureaucratic structures, that is the structure of oppression, must be absorbed by peaceful industries. Until the absorption by peaceful industries is realized, sufficient unemployment allowances to permit the jobless to lead a life of a human being must be paid.

Turning to the problem of subsidies to monopolistic capital, "which must be accomplished first, stabilization or production?" is a question which serves the interest of monopolistic capital. The DLP Government is showing gestures to reduce the budget at the cost of the capitalists by decreasing price-differential subsidies to a certain degree so that it will have a pretext for dismissals and wage reductions. It must be remembered, in this connection, that the dependence of enterprises upon state subsidies is the result of the lack of connection on the part of these industries with the peaceful demand of the people, as is clear from wartime subsidies to munitions industries. The case is the same even in these postwar days.

The coal industry is a good example. Subsidies to this industry are necessitated by the fact that coal is sold at high prices only to private consummers and at low prices to special users. Until essential industries are completely diverted to peaceful demand, the subsidy problem will never be solved.

There are many people who hold the ill-intended argument that the Communists are committing a contradiction by opposing heavy taxes and big national finance while opposing wage reductions and dismissals. These people include Democrats and Socialists, not to

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ITEM 18 (Continued)

mention Democratic Liberals.

To our surprise, even some Communist economists are of the strong belief that dismissals and wage decreases are results of a curtailed budget and a big budget itself is not responsible for it, that it is unjustifiable to maintain a big budget by mass taxation but it is more desirable than excusable to maintain a big budget by taxes collected from monopolistic and big blackmarket capital, and that the State's leadership in the task of reviving production is a prerequisite for the stabilization and improvement of the people's livelihood. This opinion must be criticized from many points of view.

In the first place, it represents a formal logic which puts steeply graduated taxation and big finance in opposing relationship. A big budget is our concern not because of its mere volume but because of its quality, that is exploitation of workers and farmers. A big budget is form of manifestation of class relationship or class struggle in national finance. Even if a steeply graduated taxation system succeeds in disgorging the earnings through tax evasion of big blackmarket capital, the Government will certainly exploit the masses by setting the prices of monopolistic products higner than those of labor, agricultural products, and products of smaller enterprises. Our contention is that military and police expenditures in the budget must be curtailed as much as possible to establish a "cheap government" and that this government must be supported by steeply graduated taxation.

In the second place, the point that a big budget need not be feared must be criticized. The contention that, if big capital and big blackmarket profits are accurately taxed by a strengthened tax-collection machinery and production greatly increases. The supply of materials will increase beyond the increase in currency issue and the inflation will gradually level out, sounds very socialistic. However, this contention, in results, serves to defend a fascistic policy.

In other words, the contention represents a socio-fascist attitude. Standing upon the state theory of Marx-Leninism which has attained revolutions in modern world history, a capitalist state, whether it is a monarchy or a free democracy, represents a concentrated state power accompanied by organs invested with concentrated power, such as a standing army, the police, the clergy, and the judiciary (MARX: "The Rebellion in FRANCE"). In order to maintain this public power which rests above society, taxes and national bonds are necessary (LENIN: "The State and Revolution"). Hereupon, STALIN pointed out that a capitalist state is an organ with a defense organization and an "order" maintenance organization or an organ for tax collection (Problems of Leninism).

At this time when monopolistic capitalism is changing its whole character as national monopolistic capitalist under conditions of a general crisis, this organ of state is abnormally strengthened and expanded on an unprecedented scale. As a result, heavier taxes are levied and more bonds issued to be given to monopolistic capital which controls the organ of state in the form of excessive profits or direct gifts. Moreover, in order to secure tax revenues, the military and police structures carry out seizures and tax sales.

Unless this organ of state or this militaristic bureaucratic state structure is destroyed, the budget will not be reduced nor will the burden of the people--high prices, low wages, and heavy taxes--be lessened. Thus, the prerequisites to stabilize and improve the people's livelihood will not be met.

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ITEM 18 (Continued)

In these days of national monopolistic capital (which develops conditions for the general crisis more than ever), monopolistic capital joint with the organ of state and controls the entire economy through that agency, instead of earning excess profits by activities as individual units of monopoly. The state acts upon the people as an organ of oppression, tax-collection, and exploitation. The exploitation is what is called controlled economy.

Scholars and critics who adopted the "theory of productivity" during the wartime, abstract this class character of controlled economy and contend that big budget, if supported by blackmarket profits and concealed materials, will develop as a people's democratic economy, although they consider themselves Marxists at present. This contention must be criticized as a complete deviation from Marx-Leninism.

People's democracy cannot be realized unless the military and police structure of state power is destroyed. A reduction in the national finance and an unlimited expansion of peaceful industries also cannot be realized without that destruction. If this point is not fully realized, we shall have supported the theory of productivity, which is a theory of social democracy, and worked as a tool to make JAPAN a fascist state, in spite of our beliefs as Communists. (By SHIGA, Yoshio)

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ITEM 15 THE BUDGET AND PUBLIC PLEDGES

(Summary)

923

TOKYO TIMES, 24 Mar -- The public promises of the Democratic Liberal Party have proved unrealizable. At present, most party men lack knowledge of financial and economic problems because of idleness during the war. Therefore, it is natural that there is a great difference between the 1949 fiscal year budget and the Democratic Liberal Party's public pledges.

The Democratic Liberal Party made various promises to the people in the last general election. They promised the abolition of the transactions tax, a raise in the exemption rates in the earned income tax, the creation of damage rehabilitation funds and public works funds, the reopening of restaurants, and the abolition of economic controls. However, we believe that investigations on whether or not these measures were workable in consideration of the state finance and the execution of the nine-point Economic Stabilization Program, were not made.

Since Minister DODGE's visit to JAPAN, GHQ's attitude toward the nine-point economic program has become definite. Moreover, the Dodge statement clarified that the core of the problem lies in putting state finance on a sound basis.

It seems that the substance of the budget recently suggested by GHQ denies almost all DLP public promises. The total amount of the budget is expected to exceed 600,000,000,000 yen as originally estimated and reach 700,000,000,000 yen. Accordingly, the Government made a mess of compiling the budget.

The cause of this regrettable result is that public promises of the party to the people were unreasonalbe. It behooves the party to withdraw its public promises without hesitiation and apologize to the people for its lack of sagacity. In short, it should give vital consideration to the welfare of the entire nation and concentrate on the economic reconstruction of this country.

The suggested budget bill seems to find various sources of revenue in the profits in the special account of foreign trade. This takes AMERICA's benevolent aid as a premise. From this viewpoint, we ought to establish a self-supporting economy in this country as quickly as possible. The Yoshida Cabinet and the Democratic Liberal Party should deeply reconsider their policies.

ITEM 3 GOVT TO NEGOTIATE WITH GHQ ON PROVISIONAL BUDGET

923

(Full Translation)

ASAHI, 24 Mar -- The GHQ suggestion on the budget was made later than the Government had expected. Moreover, since most of the Democratic Liberal Party's election promises will have to be scrapped, it has become necessary to conduct further political negotiations. From this standpoint, presentation of the budget plan to the Diet will be delayed.

The Government, at yesterday's cabinet meeting, decided to compile a monthly provisional budget. At the same time, it was decided that Finance Minister IKEDA today would seek the opinion of GHQ on this matter.

In connection with the provisional budget and the Diet policy formulated by the Government, Chief Cabinet Secretary MASUDA stated last evening:

"To incorporate a part of the Democratic Liberal Party's election promises into GHQ's suggested budget, the Government and the party will conduct separate negotiations with GHQ, beginning today. It seems that Premier YOSHIDA, acting in a private capacity, is negotiating by letter.

"For this reason, the Premier's administrative policy speech may not be made on 26 March. It is impossible to complete Diet discussion of the budget by 4 or 5 April. Accordingly, it is necessary to compile a provisional budget for the month of April.

"In deference to the strong opinion that formulation of a provisional budget should be avoided, the Government had intended to cling to the one-budget idea. It has been decided that negotiations would be conducted with GHQ over the propriety of compiling a provisional budget."

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ITEM 8 CABINET TO HEAR EXPLANATION OF BUDGET PROBLEMS

223

(Full Translation)

MAINICHI, 23 Mar — The Government will hold a special cabinet conference at 1100 hours today to investigate the budget bill centering around GHQ's instructions. Prior to this meeting the government party will hold a supreme executive conference to deliberate on the budget policy, asking explanations of Finance Minister IKEDA and Chief Cabinet Secretary MASUDA.

Cabinet Decides Four Bills

The regular cabinet conference was held at 1015 hours yesterday at the Premier's official residence. The following bills were agreed upon:

(1) A bill concerning authorization of public and private universities.

(2) A bill concerning partial revision of the Authorized Account Law (licensed accountants are to be selected by an examination system; accountants under the previous system were allowed to carry on business for a limit of ten years).

(3) A bill concerning the provisional measures for the budget and settlement of accounts of public corporations (similar to the general account, the budget and settlement of accounts will be made subject to Diet approval).

(4) A bill concerning the publication rights for textbooks published by the Education Ministry.

ITEM 3 DLP HOPES YOSHIDA WILL REPLACE IKEDA IN BUDGET TALKS

223

(Full Translation)

TOKYO SHIMBUN, 23 Mar -- Premier YOSHIDA remained in his private residence in OISO for about a month on account of illness, but, having recovered his health, returned to TOKYO at 1130 hours yesterday and moved into the Foreign Minister's official residence.

Some members of the Democratic Liberal Party insist that Premier YOSHIDA should negotiate the budget in place of Finance Minister IKEDA. The demand has also been raised among the cabinet members. There is particular clamor for him to cope with the situation personally now that the party's commitments have gradually been canceled because of various circumstances. Director-general HIROKAWA is expected to inform the Premier of the over-all picture together with the party's hope that he, himself, will tide over the situation.

In spite of State Minister HONDA's firm attitude, administrative readjustment has made slow progress. Moreover, the situation appears to be developing contrary to the Premier's wish, during his recuperation, for thorough enforcement of administrative readjustment action by the Premier is also required on this point. He is, therefore, expected to deal with these questions as soon as he has become familiar with cabinet and party conditions.

ITEM 6 OPPOSITION DEMANDS THAT GOVT PRESENT BUDGET QUICKLY

223

(Full Translation)

ASAHI, 24 Mar -- All the opposition parties, with the exception of the anticoalition Democrats, yesterday reached an agreement for the first time relative to the demand for the Premier's administrative policy speech.

The Socialist Party proposed to the opposition parties yesterday to meet in a conference in order to deliberate on the demand for the Premier's administrative speech. This proposal was unanimously approved.

Representing these parties, Socialists MIYAKE, INOMATA, and TANAKA, Anticoalition Democrat SHIIKUMA, Communist HAYASHI, Peoples Co-operatives TAKEYAMA and NAITO, Labor-Farmer MATSUTANI, Social Renovationist SATAKE, and New Farmerite KITA met at 1330 hours in the Diet. With the exception of the Democratic anticoalition faction's representative, they agreed on this joint resolution:

"The Government should speedily introduce the budget, and deliver an administrative speech immediately."

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ITEM 2 Gov't Readies Emergency Session for Budget Instructions - Tokyo Shimbun- 21 Mar 49.

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Full Translation:

It is believed that GHQ instructions on the budget will be transmitted to the Japanese Government today. Moreover, these instructions are expected to be basically different from what the Government has been anticipating. Minister DODGE's views on the foreign exchange rate, on prices, and on industrial production will be definitely revealed. In this respect, the Government has attached great importance to these instructions. The Government is prepared to hold a special Cabinet meeting as soon as the instructions are received.

Judging from the development of negotiations between GHQ and the Japanese Government, the outline of the instructions is as follows:

1. The exchange rate will be fixed at a level slightly higher than the original plan of 330 yen, on condition that no subsidies are to be granted exports.

2. As a matter of principle, there will be no revision of prices. In consequence, the prices of basic materials will be held at the present level, and the proposed increase in freightage will not be effected. Passenger rates will be increased instead.

3. The yen surplus in the foreign trade accounts, the result of relief goods, will be appropriated as equipment funds for key industries--this is expected to run into a considerable amount, not only because export subsidies will not be granted but because there will be a reduction in import subsidies.

4. Alleviation of the tax burden will not be attempted, and the income tax will remain as it is. Moreover, the projected abolition of the transactions tax will not be carried out. Surplus funds originating from this source will be utilized for the reduction of debts in the general accounts, to effect a balance with construction bonds, to be issued in the special accounts.

5. Expenditures will be curtailed as much as possible. However, since surplus funds in the foreign trade accounts will be transferred to the general accounts, and since there will be a considerable increase in reserves for reduction of debts, the total of the budget plan will be approximately 600,000,000,000 yen, exceeding the 570,000,000,000-yen level of the original government plan.

ITEM 5 OPPOSITION PARTIES PLOT STRATEGY IN HANDLING BUDGET

223

(Full Translation)

YOMIURI, 24 Mar -- Compilation of next year's budget entered a new stage on 22 March with the suggestion on its formulation. On 23 March Diet members, both councillors and representatives, became more active. Reacting to the confused activities of the government parties, the opposition parties suddenly took a firm attitude and decided on the Socialist's motion to make joint preparations for blaming the Government for the delay in the Premier's administrative policy speech. The idea is to baffle the government parties at the outset of the reopened Diet session. On the afternoon of the same day, representatives of the opposition, excluding the anticoalition group of the Democratic Party, met in the Diet.

At the meeting they agreed to present a joint resolution to the plenary session of the Lower House tomorrow, demanding the Premier's speech on administrative policies.

The anticoalition group of the Democratic Party, which refused to act in concert with the Communists, decided on the same day to present a similar resolution, separately. However, it is anticipated that the government parties will defeat the presentation of the aforementioned resolution to the plenary session by a majority vote. In that case, the opposition intends to resort to such tactics as urgent interpellations and motions for expediting the proceedings.

Thus, with the regrouping of strength in the Diet playing a prominent part, antagonism between the Government and the opposition parties has become intensified.

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ITEM 7 SELF SUPPORT BIGGEST PROMISE MADE SAYS MASUDA

223

(Full Translation)

JIJI SHIMPO, 23 Mar -- Premier YOSHIDA stressed that the nation's economy should ultimately be placed on a self-supporting footing and not on stilts and that the realization of such a self-supporting economy is the biggest promise the Democratic Liberal Party made in its platform to the public, Chief Cabinet Secretary MASUDA told reporters yesterday evening. MASUDA revealed the opinion of Premier YOSHIDA on the 1949 budget problem and other impending issues at a press conference held last evening. He conferred with the Premier yesterday morning on various important matters and made the following statements to the reporters:

"Premier YOSHIDA has a strong opinion on the budget program for the next fiscal year. He said in this connection that the ultimate goal of the nation's economy is the attainment of a self-supporting economy and not one on stilts, and that the realization of such a self-supporting economy is the biggest promise the Democratic Liberal Party made in its political platform to the public.

"Premier YOSHIDA urged again that concrete measures be worked out promptly for lessening the tax burden on the general public. Regarding the administrative reform, he expressed the strong belief that the plans now being drawn up under the supervision of State Minister HONDA are too mild and that they should be further reinvestigated. He also suggested in this respect that simplification of the administrative structure should be contrived according to the nature of specific clerical businesses in order to carry out a thorough administrative reform. Further in this respect the Premier also stressed that the complete execution of the administrative reform is in compliance with the Dodge statement as well as with the nine-point economic stabilization program."

ITEM 6 DLP MAY CONDUCT BUDGET NEGOTIATIONS AS PARTY

223

(Full Translation)

YOMIURI, 23 Mar -- The Democratic Liberal Party, which has been in a dilemma over the formulation of the over-all budget since it has become likely that the Party's election promises will be shelved, held an emergenc meeting of its top leaders at 1430 hours yesterday. Finance Minister IKEDA and Chief Cabinet Secretary MASUDA at the meeting stated that since there is little chance for abolition of the transportations tax and revival of the appropriations for public works expenses, negotiations must be conducted through Premier YOSHIDA's political power. However, opinion that the Democratic Liberal Party should conduct negotiations about the issue before the Premier, himself, does was gaining strength, since the Premier's direct negotiations would mean that the situation has entered the final stage; as a result, the party would be placed in a difficult position. It was finally decided to discuss a concrete plan in this connection at today's meeting of the party's top leaders.

Furthermore, the Democratic Liberal Party yesterday held meetings of the party officials and the party's Diet policy committee. As a result, it was decided that the Premier's administrative policy speech would be made on 26 or 27 March, regardless of the delay in the budget compilation, and that interpellations on the speech would be posed by SUDO, YAGI, KANDA, and KURAISHI representing the party. At the same time, it was agreed that the Lower House Steering Committee would be asked to complete its discussions of the bills due to expire at the end of March by that time, without holding plenary sessions of the Lower House for the purpose of their deliberations.

ITEM 9 APRIL PROVISIONAL BUDGET TO TOTAL 20-30 BILLION YEN

223

(Full Translation)

JIJI SHIMPO, 23 Mar -- Finance Minister IKEDA on Monday evening stated that a provisional budget is inevitable for the month of April. Thereupon, the Finance Ministry immediately began compiling it. Items estimated for appropriation are national bonds, price differential subsidies, public works, wages and jail expenses, which will total 20,000,000,000 to 30,000,000,000 yen.

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ITEM 1 GHQ BUDGET SUGGESTIONS PRESENTED TO JAPANESE GOVT

223

(Full Translation)

YOMIURI, 23 Mar -- Finance Minister IKEDA called at 1505 hours yesterday on Minister DODGE and Chief MARQUAT of ESS at GHQ and was formally presented the budget plan that has been adjusted by the Dodge Commission and ESS. The Minister returned to the Premier's official residence at 1550 hours and discussed the plan at a special Cabinet meeting. With the decision reached at the meeting Deputy Premier HAYASHI, Finance Minister IKEDA, Chief Cabinet Secretary MASUDA, and Chief Secretary HIROKAWA of the Democratic Liberal Party called on Premier YOSHIDA at the Foreign Minister's official residence to confer on this important issue.

It is surmised that the draft budget plan has been revised to 702,500,000,000 yen, and that what has been informed to the Japanese Government by the GHQ authorities has the character of a directive to effectuate American aid by the rigorous execution of the nine-point economic recovery program. It seems that the Government's promises to abolish the transactions tax, to increase public works expenses, and to keep passenger rates as they are have been totally negated. While attaching final hopes to the political negotiation between the Premier and Minister DODGE, the prevailing opinion in the Government

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ITEM 1 (Continued)

and the supporting party is that there will be no room for alleviating the plar by negotiation.

Premier Resolved to Push GHQ Plan

The budget suggestions presented to the Government by GHQ seems to be widely different from what the Government originally planned, and the Democratic Liberals' public promises are likely to have almost all been struck off from the budget plan. Hence, the Government and the supporting party seem to have received a great shock.

Prior to the presenting of the budget suggestions, strong demands were vented at the regular Cabinet meeting yesterday as to (1) the abolition of the transactions tax, (2) the maintaining of current passenger rates, (3) the alleviation of the income tax, and (4) the revival of public works expenses. In regard to public works expenses in particular, as they are directly related to the projected administrative adjustment, it was agreed to request GHQ to increase them to 70,000,000,000 yen.

Some members of the supporting party go so far as to suggest either the cabinet resignation en bloc or the resignation of the Finance Minister on the grounds that no margin for negotiation is left about the budget plan presented by GHQ. It is reported that Premier YOSHIDA, under this tight situation, maintains a serene attitude with the belief that the budget plan presented by GHQ is the supreme order to execute the nine-point economic recovery program and that the balancing of fiscal administration is the biggest of the public promises. At 0940 hours yesterday he returned to the Foreign Minister's official residence in TOKYO from OISO after one month's absence, and from 1100 hours had a conference with Vice-Premier HAYASHI, Finance Minister IKEDA, Chief Cabinet Secretary MASUDA, and Chief Secretary HEROKAWA of the Democratic Liberal Party.

The hope of the Government and the supporting party is pinned upon the political negotiations to be carried out between the Premier and the GHQ authorities. However, as very little can be hoped from the negotiation, some people harbor the pessimistic view that it depends only upon the Premier's political power to suppress party members' dissatisfaction and public complaints in order to carry out the budget plan presented by GHQ.

It is reported that the Premier instructed the Finance Minister that the budget plan to be presented by GHQ should be deliberated on between him and the Finance Minister prior to a Cabinet conference, and this is interpreted that the Premier was determined, while carrying out the plan as it was, to take the whole responsibility for pacifying party members' complaints and for the negotiation with the GHQ authorities. At any rate, the Premier is apparently resolved to see Minister DODGE, and even Gen MacARTHUR if necessary, and public attention is focused upon the result of this projected meeting.

Yen Fund Account to Be Established

The GHQ suggestions on the revision of the budget plan are surmised as follows:

1. Prices should not be revised on any account. Price subsidies should be fixed at 185,000,000,000 yen, of which 100,000,000,000 yen (the Finance Ministry's original estimate was 70,000,000,000 yen) will be appropriated for subsidizing capital materials and the remaining 85,000,000,000 yen for subsidizing foods. The latter has so far been defrayed from the foreign trade special account as subsidies for imports, but it will be transferred to the general accounts.
2. As a counterpart fund for the 450,000,000 dollars of the

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ITEM 1 (Continued)

GARIOA and EROA funds, a yen fund account will be established to the amount of 120,000,000,000 yen (excluding invisible trade), of which 100,000,000,000 yen will be appropriated for reduction of debts and industrial equipment funds. The old practice of providing export and import subsidies without definite aim will be stopped, and the remaining 20,000,000,000 yen will be given to various special banks as investment.

3. In order to stop inflation for fiscal reasons, borrowing should be confined within the bounds of the results of 1948. The issuance of local bonds and construction bonds should be held down below the surplus of such revenues as welfare pension, debt reduction funds accruing from the previous year's surplus of the post office insurance, and the surplus of the transactions tax special account.

4. Public works expenses should be reduced to 45,000,000,000 yen from 70,000,000,000 yen.

5. The 40,000,000,000 yen of government investment in the Reconstruction Finance Bank and others should be slashed to about 20,000,000,000 yen.

6. Although 30 percent personnel reduction was scheduled, the curtailment of revenue officers, prison officials, marine security personnel, and school teachers cannot be executed above 10 percent. Hence, the average personnel expense reduction in the general accounts will be about 20 percent.

7. In order to maintain the present level of prices, the projected increase of freightage will be withheld, and passenger rates will be raised instead by 60 percent.

8. In order to obtain funds for export and import subsidies and for collateral to American aid funds, an exchange rate of about 330 yen will be expected.

9. In order to increase tax revenue income from the original 220,000,000,000 yen to 300,000,000,000 yen, the projected alleviation of the income tax will not be effected.

10. The transactions tax will not be abolished, and such new taxes as the gasoline consumption tax will be established.

It is expected that the budget plan will be introduced to the Diet next month. Accordingly, agreement was made at the regular Cabinet meeting yesterday on a day-to-day tentative budget for April, and the Finance Ministry has begun preparations for it. However, it is generally believed that the tentative budget plan will be worked out on a monthly basis instead of daily because of technical difficulties.

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ITEM 26 BASIC CRITERIA FOR DISCUSSING BUDGET (PART I)

(Full translation)

223

AKAHATA, 23 Mar — (By SHIGA Yoshio) The fundamental principles on the basis of which the Allied Powers hold themselves responsible for the administration of JAPAN are set forth in the Potsdam Declaration. The Far Eastern Commission is the highest organ which determines Allied policies for the administration of JAPAN. Neither the Allied Powers nor the Japanese Government are permitted to enforce any policy incompatible with the Potsdam Declaration. It must be remembered that the Far Eastern Commission has decided upon two principles for the economic recovery of JAPAN. One of them is the "unlimited expansion of peacetime industries", other is the "curtailment of the potential productivity of war industries". The Commission has, in addition, formulated more specific policies concerning our national budget, currency, banking, and foreign trade to be enforced in line with the aforementioned principles.

The principles we should act upon in eliminating aggressive militarism from JAPAN, that she may again stand on her own feet, should, therefore, be curtailment of the potential productivity of war industries and unlimited expansion of peacetime industries. The materialization of these principles, will be impossible, though, without a drastic change in the nation's administrative and industrial organization.

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ITEM 26 (Continued)

In the first place it must be noted that our existing administrative organization is, in many respects, not yet free from the vestiges of the wartime regime. By this is meant all forms of bureaucratic control, which were designed to exert undue pressure upon the people to the advantage of the monopoly capitalists. These restrictions must, therefore, be removed immediately. During the war, the Japanese Government enforced a series of quite unjustifiable measures to reorient peace industries and smaller enterprises for the production of war materials and to mobilize workers willy-nilly to military production. The abnormal swelling of our government organization during the war was, perforce, intended for replacement of peace industries by war industries. Moreover, the end of the war was followed by a tremendous increase in government expenditures appropriated as "war-termination expenses", thus making it even more difficult for the nation to store up capital by peaceful means. For this reason the first prerequisite is to reshuffle the administrative organization--swollen to an enormous size during the war and after--in such a way that it may contribute to the stabilization of the people's livelihood through peaceful means.

Unlimited Expansion of Peace Industries

Expansion of peace industries implies enhanced production of living necessities and other non-military materials for raising the living standard of the people. This requires, first of all, appropriation of the national income for improvement of the people's living conditions and encouragement of peace industries. To this end we must rid ourselves completely of the aggressive tendency which has characterized the capitalism of JAPAN from the very beginning. "Unlimited expansion of peace industries" means, as far as the national finance of a capitalistic country is concerned, that the national budget should be reduced in size as much as possible in the interest of the people.

Huge inflation finance is absolutely incompatible with the expansion of peace industries. So long as capitalistic economy continued its healthy, upward development, the capitalists, like other people, wanted to have a "cheap government". But the moment it entered the imperialistic stage and various other factors concurred to give birth to a general crisis, the monopoly capitalists began to feel that they could not get surplus profits except by depending upon war industries and, further, that they must have recourse to a huge finance policy at the expense of peace industries.

National Income Theory is Fanciful

Opposition to huge-scale finance naturally constitutes one of the basic demands of the people, including the working class, who live under the reign of national monopoly capital. This should not be treated from the aspect of quantity alone or one would become easy prey for bourgeois chicanery and unable to defend adequately the interests of the people. The national income theory was originally devised in connection with the development of our "planned" economy as a preparation for the war. Gradually, however, it became transformed into a theory of abstract numerical relations which have very little to do with actual economic conditions. The so-called "national economy calculation" (or "national income calculation") to which the Economic Stabilization Board and the Finance Ministry refer in order to show the propriety of the national budget is, accordingly, nothing more than a set of unreliable equations.

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ITEM 26 (Continued)

The key point of the national economy calculation claimed by the Economic Stabilization Board consists, of course, in a representation of the relative weight of the financial funds, industrial funds, and national consumption funds. Since in JAPAN today production statistics are so inadequate that nobody can know exactly the total amount of the national production or its actual distribution, these figures must be regarded as a pure fabrication which has been devised in accordance with a certain preconceived scheme. Assuming that at the very outset the authorities decide the state should spend a certain amount of money in the next fiscal year, they have only to show that it will not weigh too heavily upon the life of the people. Suppose, for instance, they plan to show that taxes account for only 20 percent of the national income and that state finance funds, including the taxes, amount to only 30 percent of the total. In this case all they have to do is invent a plausible enough system that the amount originally intended as state finance funds--in our actual budget this happens to be 850,000,000,000 yen--will equal 30 percent of the national income. The authorities may insist that their calculations are based on the price indices, rationing indices, and population changes of the previous year. Still we must remember that these statistical figures for the previous year are themselves entirely dubious sources.

Above all, the so-called industrial funds are figures which cannot, strictly speaking, be counted as a phase of the "redistribution of the national income". Normally, the industrial funds as a phase of this should be appropriated for production purposes in an ever-increasing "cycle of re-production". Nowadays, however, our bureaucrats are appropriating these funds to make up for deficits resulting from rising costs. Under such a system this phase of the "re-distribution of the national income" will be utterly meaningless.

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ITEM 23 OVERESTIMATION OF BUDGET REVENUE

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(Full Translation)

ASAHI, 25 Mar -- The 1949-50 budget draft, which is about to be finally adopted, is said to be an epochmaking surplus budget. Since the establishment of balanced national finance is a prerequisite for liquidating the inflation and a determining factor of whether or not a self-sufficient Japanese economy can be attained, we must pay the greatest respect to the effort exerted to formulate the surplus draft budget. At this time when the draft budget will soon be submitted for debate by the Diet, we would like to point out the issues in question with the hope that a more reasonable budget than the draft will be formulated.

The most problematical matter concerning the draft budget is that it includes an estimated revenue of 703,400,000,000 yen. Although the estimation of 45,100,000,000 yen from the transactions tax is unavoidable under existing conditions the Democratic Liberals need not worry too much about losing face in this respect -- the 310,000,000,000 yen from income taxes and the 27,000,000,000 yen from corporation taxes will meet with strong substantial opposition.

The income tax, which was about 180,000,000,000 yen in the 1948-49 fiscal year, has been increased to 310,000,000,000 yen in spite of the original plan to set it at 228,000,000,000 yen. The increase in prices must be taken into consideration; but we wonder how the proposed 70 percent increase is justified.

Since no large additional purchasing power will be created hereafter, the part of the national income which depends upon inflationary conditions will greatly decrease. Further, since it cannot necessarily be expected that healthy production activities will suddenly and greatly increase with the expected touching off of a deflationary trend, there will be no remarkable increase in the other parts of the national income. Of course, the people must endure austerity; however, the 70 percent increase is likely to impose a very heavy burden upon the people. The most undesirable thing in this connection is the mechanical indiscrimate increase in assessment as was seen in the past.

The corporation tax was 18,000,000,000 yen in the 1948-49 fiscal year. But, if the present book values are to be rationally increased, it is evident that the securement of the proposed tax cannot be expected. Little objection will be raised to the need of decreasing the corporation tax, whether it be effected by the revaluation of assets or a mere revision of the corporation tax law. In spite of this, the corporation tax has been increased to 27,000,000,000 yen according to the draft. Serious consideration must be paid to the problem of whether or not the proposed tax will cause the eating-up of capital and prevent the induction of foreign capital.

The increased estimation of revenues is the result of the conditions upon which the draft was formulated: (1) the existing price structure will be maintained in principle and price differential subsidies will be paid; (2) surplus in the foreign trade account will be used for clearly-defined constructive purposes; and (3) import subsidies will be incorporated in the general budget. We have already insisted in these columns that surplus in the trade account should be diverted for constructive purposes instead of being wholly used as import subsidies.

We also must admit that this will make an increase in the prices of imported food unavoidable because of the principle of reducing subsidies to the greatest possible extent. However, we wonder how far the policy of maintaining the prices of essential commodities at their present levels and of dealing with the possible result by increasing price differentials to 115,000,000,000 yen from the originally planned 70,000,000,000 yen will be carried out.

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EDITORIALS

ITEM 23 (Continued)

Since the subsidy policy is one leg of "the stilts economy", it may well be argued that keeping down subsidies to the minimum as a fundamental policy, and revising official prices to a necessary degree to deal with a certain part of the already realized increase in actual prices while absorbing the other part of the increase by enterprise rationalization and increased production, will fit the purport of the nine-point Economic Stabilization Program. More important is it that, if the prices of food are increased while maintaining wages at their present level and effecting no decrease in income tax, the price policy which is now in the process of establishment will collapse in this phase. More exhaustive discussions are desired concerning the relationship among subsidies, price differentials, and official prices.

It is a sign of progress that the draft includes a plan to use surplus in the foreign trade account as equipment funds, which, together with subsidies, have constituted two major problems. In this connection, the 25,000,000,000 yen of national bonds and the 50,000,000,000 yen of economic rehabilitation costs are reasonable. However, it must be asked how local bonds will be dealt with.

It is another matter of our attention how much funds city banks will supply to industries when national bonds are redeemed. City banks will hereafter be almost free from the compulsory absorption of national bonds and will have more money at disposal than ever. However, if city banks are permitted to grant loans on their own responsibility, will not the revival of essential industries with poor profit prospects be hampered? This problem must be further studied.

The draft budget is an axis for executing the nine-point program. Is the revenue overestimated? If revenue is overestimated, what is the way to reduce expenditures? No effort must be spared to make the draft budget more reasonable from the point of view of the supreme order for stabilization and self-sufficiency.

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ITEM 19 GHQ BUDGET PLAN'S MESSAGE

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(Summary)

YUKAN CHUGAI, 25 Mar -- About a month ago the Government drafted a budget plan for the 1949-50 fiscal year amounting to 578,000,000,000 yen. The 19 emergency policies formulated on the basis of the Democratic Liberals' election promises, however, have been excluded from the adjusted budget plan presented by GHQ on Tuesday despite the desperate efforts of the Government and the party. This is a fatal blow to the Democratic Liberal Party.

This forced breach of public promises originates from the dependence on outside help, the narrowness of outlook, and the political insensibility from which the Government and the Democratic Liberal Party could not awaken despite the serious warning given as early as 18 December of last year in the form of the nine-point Economic Stabilization Program. Of course, the blame must be placed also at the doors of other political parties and of the people in general for their inadequate recognition of the current situation. However, the biggest blame is upon the Government which should have known better and formulated adequate policies as the first single-party Cabinet after the war, based on an absolute majority in the Lower House.

It is already four years since the end of the war, and JAPAN has been granted GARIOA and EROA funds in addition to the previous aid from the UNITED STATES amounting to 1,250,000,000 dollars. Since she is receiving the benefit of what may be called the Marshall Plan for the FAR EAST, she ought to have stood up long ago to attain economic self-sufficiency. Far from it, with irresolute attitude the Government set to work to perform the gigantic task of establishing a truly balanced budget. The Government should have been well aware that the national economy was under too critical a situation to be saved by such superficially sound or balanced fiscal policies as were taken by ISHIBASHI and KURUSU.

The budget plan presented by GHQ is designed for the survival of national economy. It aims not to bring about a deflationary situation at a single bound, but to push the national economy toward self-sufficiency gradually through the process of "disinflation". We also detect in the plan a kind consideration to gradually lead the national economy from a bogus stability to a truly stabilized stage.

The adjusted budget plan, however, calls upon the people to endure greater hardships. According to the plan, tax burden upon the public will be increased by about 200,000,000,000 yen, passenger rates will be raised by 60 percent, and, although prices will be kept as they are, living expenses will surely rise 20 percent. The new educational system, moreover, will be driven to a deadlock. The people must recognize well that they are face to face with the most critical situation since the end of the war.

However, we may expect a bright dawn beyond the severity of trial, if the people minimize their consumption, work harder, persevere, and unite their efforts to promote exports. The people are now called upon to pay particular heed to the government budget.

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VIEWS: DLP, OTHER PARTIES RE-EXAMINE POLITICAL PROMISES

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(Full Translation)

ASAHI, 25 Mar — Next year's budget bill will total approximately 703,000,000,000 yen on the basis of the GHQ suggestion. The attitudes of the political parties in this regard are as follows:

Democratic Liberal Party

Since the budget suggestion has prevented the party from realizing most of its public pledges, the party is deliberating on the measures to cope with the situation. Some of the Political Research Committee members acknowledged that the party was hard hit while compiling the budget bill, which is the first test of its political ability. Final hopes have been pinned on political negotiations within the framework of the suggestion. Under these circumstances, some circles regard it necessary to reconsider sincerely the following points:

(1) Chairman SATO of the Political Research Committee declared that overoptimistic public pledges must be amended. The party should reflect on public promises made merely for the sake of the election. From the viewpoint of objective circumstances, public promises must be re-examined by the Political Research Committee.

(2) Income taxes have been increased 40 percent and will total

Democratic Coalition Faction

Chairman KOSAKA of the Political Affairs Committee declared as follows:

"This is the unavoidable budget bill to enforce the nine-point Economic Stabilization Program. However, taxes must be alleviated in consideration of the solvency of taxpayers. Especially, the exemption point of the earned income tax must be raised at all costs. By rectifying the taxation and tax-collecting system, revenues will be increased automatically. The transactions tax should be amended. The dispute conciliation machinery shoul be established in the field of tax-collection.

"This event shows the limitation of public pledges made while on the opposition. In this sense, it will contribute to the management of politics in the future."

Democratic Anticoalition Faction

Secretary-general KITAMURA Tokutaro declared:

"The Government is now in troubl arising from the budget formulation issue. However, the Government should cast aside at this moment its party-politics-first attitude in trying to smooth over the apparent contradictions between the public commitments it made as its election campaign strategy and the actual situation of finance.

"It is deeply regrettable that the current situation has been brought about despite the fact that the nine-point Economic Stabilization Program is embodied in the ten economic principles made public last September.

"I firmly believe that the Yoshida Administration must bear the responsibility for promptly making public its conviction at this moment regarding the financial policy as well as the price policy. It must announce a budget that is not aimed at deceiving us."

Socialist Party

Reliable sources in the Political Research Committee of the Socialist Party are taking the following views:

1. Although the Government holds that appropriations for the 6-3 educational system expenditures could not be raised because of a slash in the public works appropriations, it bears political responsibility for carrying out the 6-3 educational system program since the program was decided by the first Yoshida Cabinet.

2. The income taxes totaling 300,000,000,000 yen may result in strengthened taxation on the general public due to the difficulty of uncovering big tax evasions.

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ITEM 4 (Continued)

310,000,000,000 yen. The commodity price adjustment fund and import subsidies will total 200,000,000,000 yen, and funds for recovering industrial production have been curtailed. These two points must be discussed from the viewpoint of having the Japanese economy stand on its own feet.

(3) Social unrest due to the collection of taxes will result in the advance of the Communists. Therefore, measures will be inevitably adopted to curtail the income taxes.

(4) The curtailment of the public works expenses will put a brake on the proposed administrative adjustment.

(5) Administrative authorities of the Finance Ministry and the Economic Stabilization Board took the initiative in the recent negotiations with GHQ. It should be reconsidered that they did not assume a sincere attitude toward the Democratic Liberals' public promises such as the abolition of the transactions tax. Therefore, the party should create the opportunity and establish an organization for such negotiations in the future.

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ITEM 4 (Continued)

3. The raises in the railway passenger fares will create an unbalance between the proceeds arising from freight charges and those from passenger fares. It would be better if the revenues arising from this source were secured through the improvement of the government railways management and also through slight raises in the rates of freight charges.

4. The Socialist Party considers it better to abolish the current transactions tax since its existence adds more to the tax burden of the general public. The party is keeping a watchful eye on the problem of how the Democratic Liberal Party will take the responsibility for its failure to fulfill its public commitment of abolishing the transactions tax, since it has been the main plank of the Democratic Liberal platform.

5. The reduction in the damage rehabilitation appropriations will make it difficult to carry out long-range essential rehabilitation in damage-stricken areas; Since it constitutes a vital problem to the nation, it is not just a cabinet-problem.

6. The Government should study how to make best use of any surplus in the foreign trade special account to meet the situation after a single exchange rate is established.

Worker Farmer Party

In its paper on "the attitude of the Worker Farmer Party on the budget formulation" announced yesterday, the party declares that the policy of conquering inflation at one stroke, which was expressed among other things in the SCAP budget suggestion, conforms with the party's public commitments. However, the Yoshida Cabinet, which is unprepared for such a policy, should take the responsibility for the burden and sacrifice on the part of the general public arising from the implementation of the policy.

In order to let the Japanese people share such sacrifices equally, it is declared vitally necessary to establish a truly democratic Administration and carry out a currency reform. It is also deemed necessary that the portion that wages occupies in the national income be fixed at 60 percent, if the nation's working classes are to maintain their current standards of living. The party also maintains that industrial investment should be curbed and all banking institutions should be placed under state control.

Communist Party

SHIGA Yoshio says:

"The contents of the instruction are not clear but on the whole expenditures apparently have not registered an increase in percentage. Expenses for public works and unemployment countermeasures are drastically cut. Cultural and productive expenses are also reduced.

"Despite the present situation in which workers don't even have enough for car fare under the existing wage base, railway fares and postages are scheduled to be raised. In addition, the earned income tax will substantially be drastically increased. As a result, livelihood of the masses will become increasingly unsettled. All in all, the tax burden will grow extremely heavy, delivery will further be strengthened, wages will virtually be cut down, and the jobless will increase.

"The majority of the public promises of the Democratic Liberal Party, such as the abolition of the transactions tax and the reduction of the income tax, have not been realized. This is quite disgraceful to them.

"Although the Cabinet once reshuffled its line-up, it is likely

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to fall because of internal collapse resulting from the enforcement of the nine-point Economic Stabilization Program."

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ITEM 1 DIET PRESENTATION OF BUDGET ABOUT 4 APR AT EARLIEST

(Full Translation)

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MAINICHI, 25 Mar -- Finance Minister IKEDA and five Democratic Liberal leaders, including Chief Director HOSHIJIMA, called on Minister DODGE at 0830 and 1000 hours, respectively, yesterday to request that GHQ authorities restudy their budget suggestions along the lines of the decisions made at the DLP leaders and executive officers' meeting held on Wednesday. In the course of the conferences in which the DLP leaders conveyed the party's intentions to Minister DODGE, it was reconfirmed that the SCAP economic adviser had a strong demand for the strict enforcement of the fundamental points of his budget instructions. As a result, there is almost no hope that the Dodge-suggested budget draft will be changed by future negotiations.

The DLP held an executive officers' meeting and a secret general DLP members' meeting yesterday afternoon and discussed the budget, but in view of the circumstances demanding the total acceptance of GHQ suggestions by the Government and the DLP, it was resolved at the meetings to suspend negotiations in two or three days, prepare the budget bill for presentation to the Diet around 3 or 4 April, and to have an administrative speech, originally scheduled for 26 March, delivered by Premier YOSHIDA almost simultaneously with the presentation of the budget bill. Chief Cabinet Secretary MASUDA will convey the decision to the Diet today. It was further agreed at the meeting that

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NEWS

ITEM 1 (Continued)

the preparation of the Premier's administrative speech would begin yesterday and that the Government would quickly complete its Diet policy.

..... Dodge-Ikeda Conference Held

At yesterday's conference between Finance Minister IKEDA and Minister DODGE, IKEDA conveyed the attitude of the Government and the DLP toward the budget instructions. The conference lasted for about an hour and a half and centered around IKEDA's three point appeal to Minister DODGE which includes:

(1) The Government wants to present a single budget bill to the Diet as soon as possible, as desired by the GHQ authorities; considering the days needed for printing, however, submission of the bill will be around 3 or 4 April at the earliest. If it takes a fortnight for deliberation, the bill will be passed in the middle of April. I hope that an exception will be made so as to formulate a provisional budget to pay the interest on national bonds on 1 April and wages to government workers on 10 April.

(2) I hope the GHQ authorities will restudy the budget instructions because the people's tax burden has reached its limit.

(3) I hope the DLP's intentions will be incorporated into the uses of the favorable balance of the foreign trade account, which totals 175,000,000,000 yen.

After the conference, IKEDA exchanged opinions with MOSS, chief of the Internal Revenue Division, ESS, on the details of the taxation problem. The Finance Minister met Communication Minister OZAWA and Chief Cabinet Secretary MASUDA at the Premier's official residence at 1100 hours and reported the contents of his conference with Minister DODGE. Immediately after that, IKEDA called on Premier YOSHIDA at the Foreign Minister's official residence and told him the results of the conference and heard his policy related to budget negotiations.

At the conference between Minister DODGE and five DLP leaders--Chief Director HOSHIJIMA, Chief Secretary HIROKAWA, and Chairman UEHARA, SATO, and SUDO of the Budget, Political research, and Diet Policy committees respectively--which was held with ESS Chief MARQUAT in attendance, opinions were exchanged with regard to GHQ instructions on the 1949-50 budget. The DLP representatives hoped that the party's public pledges, including an increase in the public works appropriations, no increase in railway fares, the abolition of the transactions tax, and the satisfactory operation of the 6-3 educational system, would be realized.

Answering the above appeal, Minister DODGE commented: "The budget instructions issued recently are the best method of reconstructing JAPAN's economy by a life of austerity on the part of the people. If the instructions are put into practice, further US aid will be forwarded." The conference lasted for three hours.

Finance Minister IKEDA said: "I made a concrete appeal to Minister DODGE to reconsider several points of the recently-issued budget instructions, but no definite answer was given. I negotiated with Minister DODGE regarding the compilation of a provisional budget because this is technically unavoidable. It seems to me that he wants us to cut the period of deliberation upon the single budget bill to the minimum. I will, of course, continue negotiations. The Labor Minister and party leaders may engage in further negotiations regarding the unemployment insurance issue and the party's public pledges respectively."

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ITEM 1 (Continued)

Provisional Budget for Half of April to
Approximate 20,000,000,000 Yen

The Government is making efforts to present a single budget bill to the Diet, but it is believed that if the compilation of a single budget should not be in time, a provisional budget would become inevitable. In that case the provisional budget, considering the intention of the related quarters, would be prepared to cover only the first half of April and would approximate 20,000,000,000 yen.

Of the provisional budget, about 370,000,000 yen will be approximated for the payment of interest on national bonds, about 7,000,000,000 yen for occupation expenses, and approximately 5,000,000,000 yen for price differential subsidies. Besides these, the appropriations for prison, police, and tax office expenses and the wages to government workers will be included in the provisional budget, but no appropriations will be made for miscellaneous expenses.

DLP to Accept Budget Instructions

Immediately after the conference between Minister DODGE and five DLP leaders, including Chief Director HOSHIJIMA, the Democratic Liberal Party held an executive officers' meeting at 1400 hours and a secret general DLP Diet members' meeting at 1520 hours to hear a report on the aforementioned conference and to examine its results.

At the latter meeting, SHIODA, OZAKI, and TANAKA insisted strongly upon execution of the party's public pledges, but the meeting accepted Finance Minister IKEDA's request that the party wait a day or two longer for the outcome of his budget negotiations and agreed to exert added efforts to attain the party's insistences. Judging from the report made by the five leaders, however, it is believed that there is no alternative but for the party to accept the GHQ budget instructions.

Speakers of Both Houses Call on Premier

Speaker MATSUDAIRA of the Upper House and Speaker SHIDEHARA of the Lower House called on Premier YOSHIDA yesterday at the Foreign Minister's official residence at 1100 hours and 1320 hours respectively and held important conferences with him. President ICHIMADA of the Bank of Japan and Attorney-General UEDA also visited the Premier at 1430 and 1600 hours, respectively, and conferred on important matters.

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ITEM 24 BASIS CRITERIA FOR DISCUSSING BUDGET (PART III) BY SHIGA YOSHIO

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(Full Translation)

The first Yoshida Cabinet initiated a policy of "slide production" in 1946. The Katayama and Ashida cabinets, continued this policy and at the same time adopted measures of "slide financing" and "slide commodity prices". The deadlock in material funds and the production of manufactured goods at less than the cost of raw materials are manifestations of this policy. The Yoshida Cabinet, however, is trying to push this policy into still higher gear, and the transition from "slide production" to "concentrated production" is in line with this.

Small and medium enterprisers, who were allowed some productive activity under the "slide production" system, will not be able to survive unless they tie up with monopolistic capital. "Racial" capitalists will also be hard hit. Even in the entrepreneurial management of monopolistic capital, there are numerous examples of factories being closed down under the excuse of rationalization of production. Thus, "concentrated production" seeks to leave in existence only the most profitable operations conducted by monopolistic capital.

This concentrated production does not leave the nation with the peacetime industries necessary to sustain national livelihood, but leaves merely those industries that are closely linked with wartime demands along with just those export industries that are capable of paying for the importation of the raw materials needed by these industries. This can only mean the lowering of the nation's living standards and the expansion of the machinery of suppression. In consequence, the constructive and destructive fields of national economy will become more

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ITEM 24 (Continued)

widely separated.

The budget for the fiscal year 1949 is the embodiment of these facts in state finance. Premier YOSHIDA points to this budget and declares that expenditures and revenue balance each other. But such a balanced budget is not a healthy budget. The major part of the expenditures are for the maintemance of facilities that could be transformed into machinery for suppression and heavier tax levies and into latent militaristic forces, which have no connection whatever with the stabilization of national livelihood or are funds that are to be given away gratis to monopolistic capital, while revenue is to be raised by heavy taxes, by state monopoly commodity prices, and by cheap wages, all of which will go to lowering the living standards of the nation. This is the kind of budget that will drive the nation into war, whether it likes it or not. Through the years from 1932 to 1945 we underwent extreme hardships and are fully aware of the hatefulness of war. The last war was carried out in the name of the Emperor. Now they are trying to start a war in the name of democracy. The true nature of all this is actually nothing but steps along the road to fascism.

In order to prevent this danger from overwhelming the nation, the burdens of the masses --- heavy taxes, low wages, and high commodity prices --- must be lightened. This means simply that the purchasing power of the masses must be raised and that funds and materials must be diverted toward peacetime industries. Through this, the constructive aspects of national economy will become enormously enhanced. At the present rate, the destructive fields of our national economy will be greatly and unavoidably expanded.

Thus, the Communist Party asks that taxes on incomes of less than 300,000 yen (a year) be abolished. We demand a minimum wage system separate from the present 6,300 yen base. (The demand for an initial wage of 7,300 yen for newly employed workers and others is a transitional demand preceding the realization of a minimum wage system. However, an objection is possible at this juncture. People might say that if the budget is curtailed and the taxes levied upon the people lessened as much as possible, then important government industries will become weaker while capitalist enterprises in these industries will not be able to receive subsidies, that deficits will mount, that management will become difficult and that all the effects of this will be shifted onto the shoulders of workers.

When we oppose a huge budget we do so because we demand the elimination of latent military potentials and of wartime industries and the unlimited expansion of peacetime production. If peacetime industry is expanded on a unlimited scale, the present unemployed will be easily absorbed. The onus of the administrative reform planned by the Yoshida Cabinet falls lightly on the bureaucratic field and heavily on the non-bureaucratic sphere (laborers who are not included in the bureaucratic structure) and places a heavy burden upon lower government officials.

Although we are opposed to such an administrative reform and large-scale dismissals, we feel that when unemployment arises in the transitional period between the present and the time when unlimited expansion of peacetime production is achieved, adequate unemployment relief should be provided. Our opposition to a stupenduous budget arises from our desire to expand peacetime production on an unlimited scale. Thus, even though there may be temporary unemployment on our hands, it will not fall into the category of a huge budget. Even among our comrades in the Communist Party there are some who state that the various expenditures for unemployment relief will be larger than the money saved through administrative reform, despite the cries for curtailed expenditures, and who think they have found a good excuse to

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ITEM 24 (Continued)

oppose administrative reform, saying that the budget will become still greater for this reason. But from the abovementioned arguments it is clear that these comrades are mistaken. Isn't the Yoshida Cabinet already seeking to cut down even such items as expenditures for public works projects and funds for retirement allowances?

The balanced budget arrived at in this way is an unhealthy one that is compiled with the aim of spending large sums of money in suppressing the masses with funds acquired through depredations of the masses themselves. In order for a "balanced" budget to become a "healthy" budget, it is necessary to overthrow the so-called "cheap government" --- the bourgeois bureaucratic structure --- and set up a truly popular democratic government. To do this, the economic foundation of unlimited expansion of peacetime industries must be established. Only upon the basis of such a national economy, balanced in quality, can a budget, balanced in quantity, be compiled. If it is balanced only in appearance, then state and monopolistic capital can dish up any number of "balanced" budgets.

For this reason the budget for the 1949 fiscal year will never put a stop to inflated finance. When the various conditions of the general crisis of capitalism develop, an imperialistic state can only adopt a financial policy of inflation. This has been proved time and time again by world history since the first world war. Inflation may have seemed conquered during the period of relative stability of capitalism, but in proportion to this the various contradictions of the capitalist system festered inwardly. And has not inflation become more marked since the world economic panic? Because the various popular democratic countries have become separated from the imperialistic world structure, and because the curtailment of military expenditures resulting from the temporary disarmament carried out at the time of the Washington Conference of 1921 has not been achieved in this day and age -- three years and a half after the end of World War II -- the various contradictions of a balanced budget will surely explode in a short time, despite all the drastic efforts that may be made to curb inflation. This explosion will in all probability take place in the coming world economic panic that will start with an economic panic in the UNITED STATES.

The question of trade will only be properly solved when taken up from the standpoint of unlimited expansion of peacetime production. The unlimited expansion of peacetime production is inseparably linked with self-supporting trade. Monopolistic capital can enjoy lucrative profits as compradors, even though self-sustaining trade is not achieved, since they may obtain excessive profits from trade in unequal prices. On the other hand, peacetime industries and "racial" capital will be placed at a graver disadvantage through pressure from brokers than home-craft enterprises --- unless a self-sustaining trade structure is established. More so in the case of laborers, farmers, and small townsmen is this true, since they will be shouldered with the burden of trade subsidies for export and import enterprises.

In the first half of the Meiji Era, JAPAN's racial burgeois demanded the autonomous rights to supervise customs. The autonomous trade rights now being demanded are far more serious than this. Unless JAPAN recovers this autonomy, the materials necessary for peacetime industries will not be available, furthermore, it will be impossible to process this raw material and to expand domestic markets. And industrial products will have to be exported at extremely low prices. Starvation wages and starvation exports---these are the historic conditions that made Japanese capitalism gain its character of resorting to wars of aggression. The basic policy of the Potsdam Declaration and the Far Eastern Commission seeks to root out these causes in an outright manner. Meanwhile, the

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ITEM 24 (Continued)

Yoshida Cabinet is trying to carry out the policy of starvation wages and exports more obviously than ever attempted at any time in the past.

According to the trade program for the fiscal year 1949, the importation of raw materials for heavy industries shows a marked increase. At a glance it might seem that the greater the volume of imported heavy industry materials, the sonner the reconstruction of Japanese economy. However, this is a mistake that arises from abstract judgment regarding the standpoint of laborers. The undertaking of a construction program to divert heavy industry raw materials to meet government needs and the needs of industries capable of becoming latent war potentials will serve only to increase pressure upon popular livelihood. Has this not been already proved by World War II and the period of Japanese economy up to that time?

In those days it was advocated from the standpoint of the "theory of productive power" in which it was held that if Japanese heavy industries expanded---not excluding the war industries---the contradictions arising from productive power and producers would quicken the victory of the revolution, and that following the revolution, this productive potential could be transformed into the material basis for socialistic construction. But historic dialectism immediately becomes sophistry when it attempts to deal with the class struggle in abstractions. The "theory of productive power" is equivalent to the false theory that the development of capitalistic productive potentials will bring about socialism, even without class struggle.

We must overcome such social democratic theories in a correctly conducted struggle against state finance.

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ITEM 2 SMALL INDUSTRIES THREATENED BY NEW BUDGET POLICY

223

(Full Translation)

NIHON KEIZAI, 26 Mar -- In accordance with the instructions on the 1949-50 budget issued by GHQ authorities, the economic policy has been shifted to one which aims to stabilize JAPAN's economy by a decrease in price differential subsidies, reduction of producer prices, the approach of the export exchange rates to the import rates, and the contraction of industrial funds. This switchover in the economic policy is having a serious effect upon industrial circles.

The iron and steel, chemical fertilizer, soda, light metal and rolling stock industries are now meeting in emergency conferences daily to cope with the new situation. The Federation of Economic Organizations has launched vigorous activities to co-ordinate the various opinions of economic circles with regard to the formulation of the new budget.

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NEWS

ITEM 2 (Continued)

The contradictions of the new economic policy, which is designed to attain the dual purpose of increased production and economic stabilization simultaneously, seem likely to come to the fore because the general tendency in the industrial world leans to the following views:

1. An increase in the prices of basic commodities because of the reduction of price differential subsidies will, in most cases, affect the prices of manufactured products.

2. The attainment of an increased production program is very difficult because there are no good prospects for the ample distribution of equipment funds.

3. Budget contraction includes the danger that the electric machinery and rollin stock industries, which deliver their products to the Transportation and Communications Ministries, will become bankrupt because of a sharp decline in demand.

4. Many enterprises will be put in a difficult position, depending upon what steps will be taken to meet the period between the fixing of the exchange rate and the realization of enterprise rationalization programs.

5. There is the strong possibility that the measures to put enterprises on an independent basis will take the course of concentrated production, but many problems are still left unsolved as to what methods will actually be taken.

6. It is true that there is room for enterprise rationalization by mechanization, but the tight monetary situation is hampering rationalization in many enterprises.

7. The tendency of concentration of capital upon big enterprises, and the fall of small and weak enterprises, is now becoming marked.

The moves in industries relative to the new situation are as follows:

Iron and steel--A total of 41,600,000,000 yen has been appropriated as subsidies to the iron and steel industry, but it is difficult to forecast what concrete effects this will bring about because the method of allocation of these subsidies is still unknown.

The problem which is attracting the keenest attention in the iron and steel industry is that the 1,300,000 ton iron and steel output program does not have substantial monetary backing. If the plan to borrow 9,800,000,000 yen from the Finance Reconstruction Bank should be scrapped, the output of iron and steel during the year 1949-50 could not exceed 1,500,000 tons.

Consequently, the question facing the iron and steel industry is how much equipment funds will be obtained. The industry believes that if sufficient funds are guaranteed, an approximately 15 percent decrease in subsidies will be covered somehow by rationalization. The problem of concentrated production has come to the fore in this industry, as in other industries, but it seems difficult to reach a quick decision on the matter because it is closely related with measures regarding the factories to be closed, the designation of factories for closure, and the rehabilitation program.

Aluminum--The opinion prevails that if the exchange rate for imported bauxite fluor spar should be changed, it would result in a six or seven percent increase in production cost, and the consumers' price would be raised by the abolition of subsidies. The present official price of aluminum is not appropriate, and the Government and the aluminum industry are now re-examining cost calculations to determine the new price. But the present consumers' price is very high as compared with the international level. Under the present price setup, the export of aluminum goods will become impossible.

The domestic demand for aluminum is about 15,000 tons at most. Under the 25,000-ton output program, about 50 percent of the aluminum produced will have to be exported. With the fixing of the exchange rate in the offing, the reduction of production cost now forms the

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NEWS

ITEM 2 (Continued)

vital problem of the aluminum industry

The production cost of 95.5% pure aluminum is 148,278 yen per ton in the Japan Keikinzoku, 170,948 yen in the Showa Denko, and 174,293 yen in the Nisshin Kogaku. Under the 330 yen per dollar exchange rate, the aluminum price will not match the international level unless it is manufactured at about 116,000 yen per ton. This will require a 30-40 percent decrease in production costs. This will be next to impossible if the present operating efficiency is left as it is now.

The Japan Keikinzoku insists that the pooling calculation system in determining the metal price be abolished and that each company be allowed to use electric power of its own generator freely. It is believed in the aluminum industry that the price problem will certainly cause intraindustry friction. Aluminum pressing and rolling enterprisers say that their businesses will not pay, even under the present consumers' price, unless the exchange rate is set at 450 yen per dollar, and that a further price increase will mean the complete suspension of exportation of aluminum goods.

Shipbuilding--If the government subsidies for steel plate in the export shipbuilding industry are discontinued, manufacturers in this field believe that this industry will not be able to operate at a profit unless the proposed single exchange rate is raised to approximately 570 yen. If some measures for rationalization were implemented (for example, the increase in dollar prices, retrenchment of costs of production, improvement of productive efficiency, dismissal of workers, and technical improvement), it might not be impossible to lower the rate to 400 yen. For the purpose of rationalizing management further, however, there is no alternative at present but to implement the concentrated production formula to operate the gridirons fully. If a complete concentrated production formula were enforced, some circles presume, the industry will be able to operate a profit, even if the rate should be fixed on the 330-yen standard. The most urgent problem in this field is how to obtain funds for facilities and management. The suspension of the Reconstruction Finance Bank loans will greatly hinder the fifth domestic shipbuilding program. It is believed that most shipbuilding plants in JAPAN will be crippled economically.

Rolling stock--Such rolling stock manufacturers as the Mitsubishi Denki, the Mitsubishi Juko, and the Hitachi Seisakusho have already launched speculative production in anticipation of the appropriations which were to have been allotted to the Transportation Ministry next year. Judging from the progress in compiling next year's budget bill, no new order will be issued for rolling stock. Therefore, some manufacturers suspended the speculative production and have assumed a wait-and-see attitude. Since most of coaches are purchased by the Transportation Ministry, the manufacturers are standing at the cross-road. It is feared that the adjustment of rolling stock factories and the dismissal of workers will come to the surface sooner or later.

Electric Wire and Cable--The curtailment of subsidies for copper, and the abolition of subsidies for lead, have made it inevitable to increase the prices of cables. Together with the production of storage batteries, the manufacture of cables has consumed more than 40 percent of the nation's output of lead. Therefore, the increase in the price of lead will greatly influence the cost factor in the production of cables. As a result, the prices of cables will be increased by nearly 10 percent. However, 20 to 30 percent of this increase may be cut through rationalization of management.

Storage Battery--Over half the material used in making storage batteries is lead, so the increase in lead prices will greatly influence the official prices of storage batteries. However, some manufacturers

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ITEM 2 (Continued)

use old lead, so such an influence may be greatly alleviated in this field.

Raw Silk--The total abolition of export subsidies will deal a serious blow to the silk-reeling industry. The silk-reeling companies are planning to tide over the crisis by voluntarily cutting down the number of machines in operation, thus adopting a production concentration system. Big enterprises, such as the Katakura and Gunze, are planning to suspend operation of 10 to 20 percent of the existing facilities, thus saving about 20 percent of the production costs. Kata ura, which has 8,250 machines, will operate only 6,400 of them from now on. Gunze is now operating 90 percent of its 4,300 machines, and will gradually reduce the percentage to 80 percent.

The surplus personnel will be dealt with by stopping new employment of women workers this year (including voluntary retirement, amounting to 20 percent a year), and dismissal on account of age or continued absenteeism.

The production concentration method of the Katakura and Gunze Companies is expected to affect the entire silk-reeling industry. According to Agricultural Ministry authorities, about 25 percent of the nation's 45,000 available machines will suspend operations.

Miscellaneous--In many industries, including electric enterprises, sewing machines, automobiles, fertilizers, soda compounds, bicycles, machines, etc, the enterprises are facing many difficulties arising from the shortage of funds and consequent decrease in the purchasing power of the people. Production, too, is tending to decrease.

As regards sewing machines, automobiles, fertilizer, bicycles, and machines, elimination of inefficient enterprises and concentration on production by efficient enterprises will be inevitable, if the present policy is to be duly enforced.

As for finance, the reduction of the establishment funds of the Reconstruction Finance Bank will compel the enterprises to depend largely on their own capital. Several large enterprises, however, are planning to issue debentures. This will help to concentrate production in large enterprises.

As for medical and hygienic appliances, JAPAN exported 80,000,000 yen worth of hypodermic tubes to the UNITED STATES, INDIA, and SOUTH AMERICA in 1948. These countries have ordered four times as many tubes this year, and, accordingly, 92 plants in JAPAN have been planning to increase production to meet the demand. However, inasmuch as the contracts were based on the 450-500 yen to one dollar rates, it will be very difficult to continue the transactions on the basis of the projected 335-yen rate. The only way to overcome the difficulty will be to lower the costs by means of a drastic production concentration.

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ITEM 5 EFFECTS OF SCAP BUDGET STATEMENT

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(Full Translation)

NIHON KEIZAI, 23 Mar -- The SCAP suggestion regarding the budget compilation revealed the policy to lay aside from the General Accounts the trade surplus which is accumulating as a result of American aid. This surplus is to be utilized for the amortization of RFB bonds and government bonds, and direct government investments in national projects.

This measure is aimed at clarifying the heretofore obscured appropriation of the American-aid funds and providing city banks with sufficient funds to finance industries, as well as increasing rehabilitation funds required for such large-scale projects as the exploitation of electric power sources. On the other hand, however, the SCAP suggestion imposes upon the General Accounts the heavy burden of furnishing all import subsidies to meet the inevitable rise in imported goods prices following the establishment of a single exchange rate.

With the industrial fund bottleneck thus removed, the Government is now facing the more difficult problem of seeking sources for the General Accounts.

Effects of SCAP Suggestion

The effects of the SCAP suggestion on various economic spheres will be as follows:

Trade Surplus; The total trade surplus of 120,000,000,000 yen which corresponds to the 1949 American aid fund minus commission and miscellaneous charges, will probably be appropriated partly for the amortization of RFB bonds and government bonds, and partly for the government acceptance of the construction bonds, and for direct investments in national projects. Cash coming into city banks from the amortization of RFB bonds and government bonds will be appropriated for industrial loans, especially for equipment funds, under strict government supervision.

Import Subsidies: Import subsidies from the General Accounts are expected to total 85 to 90 billion yen. It has not yet been disclosed, however, on what rate of exchange the above figure is based, and what import items are to be subsidized. According to the ESB's calculation, a rate of 330 yen per dollar will necessitate an expenditure of 123 billion yen and that of 350 yen per dollar, 134.5 billion yen, even if all items imported as raw rather than industrial materials are raised.

Stability Zone Good Subsidies Cut

Price Adjustment Expenditure: Government subsidies for the so-called stability zone goods are slated to be held down to about 100 billion yen, approximately 20 billion yen less than the amount materials for export industries are excluded from the subsidization. Therefore, the retrenchment of import subsidies to 85 to 90 billion yen is considered impossible unless the domestic prices of imported foods and other consumer goods which the Price Board deemed necessary if prices of basic goods are to be kept unchanged. In view of this fact, it may become necessary to exclude some articles such as non-ferrous metals and soda. Incidentally, price adjustment expenditures for the 1949 fiscal year will be calculated to cover the entire fiscal year up to 31 March 1950, instead of excluding the period between 5 March and 31 March as before.

Export Subsidies: The abolition of export subsidies will mostly affect the raw silk industry, entailing the reducing of cocoon prices.

Exchange Rate: Since the amounts of import subsidies and trade surplus were probably calculated on the basis of a theoretical rate of exchange. The formal establishment of the exchange rate is expected in the near future. The rate will probably be between 330 yen and 350 yen per dollar.

Effects on Household Economy: Raised railway fares and gas rates, rising prices of imported foods to meet the reduction of import subsidies, and non-reduction of taxes will further oppress household economy. This will result in further reducing living standard and stirring labor unrest. Since business management will also be in dire difficulty, there will be no way to stabilize the standard of living but to maintain real wages through the intensification of production efforts.

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ITEM 7 GOVT CONCEDES FAILURE; ABANDONS NEGOTIATIONS WITH GHQ

(Summary)

YOMIURI, 29 Mar -- The Government yesterday decided to put an end to the present negotiations with GHQ authorities regarding the modification of the GHQ-suggested budget plan, and get down to the compilation of budget figures on the basis of the GHQ suggestions. The Government's decision came after the projected revision of both Income and Transactions Tax Laws became almost hopeless as a result of yesterday's conference between Finance Minister IKEDA and Minister DODGE, and with Chief MOSS of the Internal Revenue Division, ESS, GHQ.

In his interview with GHQ officials, Finance Minister IKEDA is reported to have consulted with them on the following particulars: 1. Whether or not the Government will be able to raise the basic deduction and exemption for dependents in the present income tax system, if not to scale down the income tax rates as a whole; and 2. Whether or not the Government will be able to raise the present exemption in the transactions tax, and, at the same time, reduce the existing scope of taxation, while replacing the present stamp-delivery system with that of cash payment to the Government. But the conference yielded little hope that the Government will be able to carry out these two points.

In order to fill the budget gap in the early part of the opening month of the new fiscal year, the Government at today's cabinet meeting is expected to decide on a provisional budget of between 6,000,000,000 and 7,000,000,000 yen, covering such urgent and necessary expenditures as occupation cost, government bond interests, and prison maintenance cost during the first half of April. At the same time, the Cabinet will decide on the outline of the budget proper sometime today, and the budget bill is expected to be presented to the Diet on 4 April.

Meanwhile, Chief Cabinet Secretary MASUDA made the following statement at yesterday's press conference in regard to the budget problem:

"The Government at Tuesday's cabinet meeting will decide on a provisional budget covering the first half of April. The Government will make every effort to shape the Democratic Liberal Party's campaign promises, particularly abolition of the transactions tax, into the budget proper. Finance Minister IKEDA is expected to make a progress report on the compilation of the budget proper before the cabinet meeting Tuesday. On the basis of this report, Premier YOSHIDA may probably conduct final negotiations with GHQ authorities.

"I believe that the Government will be able to complete the budget formulation by 4 April, for presentation to the Diet. During the interval, the Diet will hear the administration policy speech by Premier YOSHIDA, the speech on the nation's economic conditions by Director-general AOKI of the Economic Stabilization Board, and the report on budget compilation in relation to the nine-point economic stabilization program, by Finance Minister IKEDA."

Also, yesterday, the Government released the breakdown of the local budget in the GHQ-suggested budget plan, as follows:

(1) Revenues: (in 100,000,000 yen)

Tax revenue	1,500
Local distribution tax	577
Government spending	800
Local bonds	233
Various charges	179
Carry-over	1
Total	3,510

(2) Expenditures: (in 100,000,000 yen)

Ordinary expenditure	2,560
Personnel expenses	1,100
Others	1,460
Provisional expenses	950
Public utility	580
Others	370
Reserve	0
Total	3,510

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ITEM 6 DIET GETS BUDGET 4 APR; GHQ DRAFT REVEALED

923

(Full Translation)

YOMIURI, 29 Mar — The Government gave up all hope yesterday of incorporating its campaign pledges in the 1949 budget. With the exception of routine discussions on the transactions tax, the series of negotiation attempts to harmonize its election promises with the GHQ draft, presented on 22 March, has ended.

The Government is now speedily consolidating opinions and figures. As a temporary expedient, today's cabinet regular session will draw up a provisional budget covering the early part of April. This short-term budget, totalling 7,000,000,000 yen, will include only such absolutely essential items as Occupation expenses, police and personnel appropriations, and national debt service.

Today's meeting will also settle the main budget for presentation to the Diet by 4 April, at the latest. The Government's draft is expected to follow the GHQ draft almost to the letter. However, the existence of duplications in the GHQ-suggested budget may lead to certain changes in the over-all total and in itemized details, particularly as the result of juggling in the public works' appropriations.

Contents of GHQ Budget Draft Revealed

Details of the GHQ-suggested budget draft follow:

REVENUE

1.	Taxes and Excises		514,600,000,000
	-Income taxes	310,000,000,000	
	-Liquor taxes	65,000,000,000	
	-Transactions tax	45,100,000,000	
	-Others	94,500,000,000	
2.	Special account profits		134,860,000,000
	-Monopoly profits	120,000,000,000	
	-Others	14,860,000,000	
3.	Government business revenue		5,868,000,000
4.	Government property revenue		4,624,000,000
5.	Miscellaneous revenue		40,435,000,000
6.	Carry-over from fiscal 1948		3,085,000,000
		Total Revenue	703,472,200,000

EXPENDITURES

1.	Public works	50,000,000,000
2.	Government subsidies	
	-1948 price differential subsidies	100,400,000,000
	-1948 carry-over of same	15,000,000,000
	-Imported goods subsidies	83,300,000,000
	-CMMC (shipping) subsidies	6,266,700,000
	-1948 special acct & public corp subsidies	3,139,600,000
	-Same for 1949	12,016,400,000
3.	Tax grants to local governments	57,700,000,000
4.	Government loans	69,852,600,000
5.	Debt service	13,635,500,000
6.	Occupation expenses	
	-Fiscal 1948	17,443,000,000
	-Fiscal 1949	107,814,500,000
7.	Restitution of Allied property	1,709,000,000
8.	Reparations removal	2,656,000,000

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ITEM 6 (Continued)

9. Government employees housing		500,000,000
10. Released goods disposal expenses		148,600,000
11. Appropriations for Ministries		146,461,200,000
	Total Expenditures	703,049,100,000
	Surplus	423,100,000

BREAKDOWN OF MINISTRY APPROPRIATIONS

Imperial Household	97,800,000
Diet	1,377,300,000
Judiciary	4,212,000,000
Board of Audit	107,700,000
Premier's Office	14,956,400,000
Attorney General's Office	8,758,400,000
Foreign Ministry	448,600,000
Finance Ministry	17,239,300,000
Education Ministry	34,420,000,000
Welfare Ministry	28,799,000,000
Agriculture-Forestry Ministry	15,398,000,000
Commerce-Industry Ministry	3,949,800,000
Transportation Ministry	7,404,000,000
Telecommunications Ministry	1,117,800,000
Communications Ministry	894,600,000
Labor Ministry	4,883,300,000
Construction Ministry	2,329,200,000
Total	146,461,200,000

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1923 ASAHI's subeditorial declared that JAPAN must drink the castor oil budget as Mr DODGE called it. The nation has no right, the journal emphasized, to talk about freedom of budget compilation until it is self-sufficient. Praising the GHQ budget suggestions for providing that foreign trade surpluses will be earmarked as badly needed long-term investment funds, NIHON KEIZAI in its early editions hoped that adequate machinery will be put in motion to handle credit extension in a manner designed to avoid waste and expedite national independence and stability.

BUDGET

223 The Government submitted a short-term budget to the Diet yesterday to cover essential expenses between the start of the new fiscal year on Friday and the expected passage of the main 1949-50 budget in mid-April. The general budget bill, fully embodying the GHQ suggestions, will go to the Lower House on 4 April. Negotiations to reconcile the GHQ budget plan with Democratic Liberal campaign pledges were understood to have ended last night with Premier YOSHIDA's visit to Gen MacARTHUR. YOSHIDA will set the stage for the budget debate with his administrative speech on Saturday. (a)

Despite government acceptance of the GHQ draft, some factions of the Democratic Liberal Party called for further negotiations to salvage their election promises. Third-year DLP Diet members spearheaded the drive, urging Premier YOSHIDA to argue the Party's case himself. Party leaders planned to minimize the discontent by pointing out that "unavoidable circumstances"--not lack of sincerity--forced government negotiators to jettison such pledges as expansion of public works and repeal of the transactions tax. (b)

The proposed 30 percent cut in operation and the 20-30 percent personnel slash--one of the major economy moves of the Yoshida Cabinet--prompted strong objections from the threatened ministries. Their opposition prevented the Cabinet from approving the retrenchment plan yesterday as scheduled. (c)

30 MAR

223 Though budget news still dominated the front pages, the emphasis shifted from the general to the provisional budget. Most major papers led with the short-term budget for the first 15 days of the new fiscal year. Lower House approval of the examination committee was generally the runner-up story, with ASAHI giving it the most detailed coverage.

30. MAR

BUDGET

223 The short-term budget covering essential expenses from 1 to 15 April passed the Lower House Budget Committee yesterday over opposition protest. Socialist and Communist committeemen charged that the government-drafted budget for the first 15 days of the new fiscal year violated the Constitution. Unleashing a vigorous anticabinet offensive, they pointed out that the bill left out a section required in all budget legislation. Their attacks against the Government are expected to mount to a higher intensity when the main budget bill is presented next week. (a)

31. MAR

223 Premier YOSHIDA will time his thrice-delayed administrative speech with the presentation of the 1949-50 budget bill on 4 April. His address will affirm the Government's adherence to the nine economic principles while concurrently emphasizing that the Democratic Liberal pledges sacrificed to the GHQ budget draft are not completely dead. (b)

1. MAR

225 With partial realization of its tax relief program, the Government wound up its budget talks with GHQ. Premier YOSHIDA, however, will emphasize in his administrative speech that the Government will continue its drive to materialize all campaign pledges consonant with the nine economic principles. His brief Diet message will be timed with the presentation of the 1949-50 general budget bill on 4 April. (d)

The 1-15 April provisional budget passed the Lower House and went to the Upper House yesterday despite opposition efforts to snag it on technicalities. Socialist, Communist, and Worker-Farmer representatives tried to block the bill with a joint resolution challenging its legality. The Democratic Liberal majority crushed the resolution and rammed through the proposed stopgap appropriations for the first 15 days of the new fiscal year. (e)

Government budget planners, meanwhile, advised a 60-percent hike in passenger fare, starting on 1 May, to balance the 115,200,000,000-yen special railway account. Their plan will go to the Cabinet in a few days for integration into the general budget bill. (f)

APR.

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ITEM 12 ON THE BUDGET OUTLINE

223

(Full Translation)

YOMIURI, 24 Mar -- The Government's past policy for budget compilation is at a critical turning point because of the Dodge statement in the early part of this month. This has been clearly seen by the public. The Dodge statement has clarified the orthodox way of thinking in finance, banking, and prices, while denouncing JAPAN's past economic policy, in particular, her temporizing, and her excessively artificial and protective measures for these economic phases.

It is natural, in the orthodox manner of thinking, to seek to cover expenditures with tax revenues and limit industrial funds within the bounds of accumulated capital. It is also natural to try to reduce the amount of subsidies. However, in the present situation, in which production is barely maintained by means of recovery funds amounting to 400,000,000 dollars or more a year, none of these is easy to do.

Although stability may be emphasized more than recovery, to neglect recovery is to ask the impossible. Therefore, a policy against revision of the price level, while decreasing subsidies, is not necessarily acceptable. Therefore, the attention of the entire nation has been focused, since the Dodge statement, upon what bearing the statement will have on budget compilation, price differential subsidies, long-term funds, and taxation.

GHQ's instructions to the Yoshida Government the day before yesterday on the outline of the budget:

Pending the formal release of the budget outline, which has now been apparently submitted to a Cabinet Council, we regret to say that we cannot reveal our views. But, insofar as press reports are concerned, there are signs that the original budget outlined by the Yoshida Cabinet will be changed beyond recognition.

First, it is scheduled to establish a new collateral yen fund account by abandoning the policy for adjusting the prices of imports through the foreign trade fund special account. This will either be appropriated directly to the industrial fund or to the redemption fund for national loans, to help increase the industrial fund indirectly. In a nutshell, this is designed to appropriate the aid fund to a definite purpose of long-term construction, as in the case of Marshall Plan countries.

Second, in an attempt to maintain intact the existing domestic prices of foodstuffs, subsidies should be granted for foodstuffs which are imported as relief goods, and financial sources thereof should be covered by taxation. In addition, it is probable that subsidies for key materials will increase from the old 70,000,000,000-yen level to the 100,000,000,000-yen level, and that the total subsidies will reach the staggering sum of 185,000,000,000 yen.

Third, instead of raising freight rates in line with the principle of maintaining the existing price level, passenger fares will be increased by 60 percent. Postal charges and the price of stamps will also be hiked, but telegram and telephone rates will remain unchanged.

Fourth, tax revenue, including 300,000,000,000 yen from the income tax, will total 510,000,000,000 yen. Further, adding this to the monopoly profits of 120,000,000,000 yen and other items, revenue totalling 700,000,000,000 yen is under contemplation.

Pending formal announcement, it is not clear whether the contents of the GHQ instructions are actually as they have been represented, or how the Cabinet will accept them. If they prove to be such they will constitute a serious problem for JAPAN's economy.

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EDITORIALS

ITEM 12 (Continued)

First, the plan to establish a collateral yen fund account and to appropriate trade surplus to long-term funds may be logical. Deficits in long-term funds may be eliminated as a result. But, if this is to be possible and proper, there should be a premise that in every respect, except long-term funds, JAPAN's economy is on an independent footing. The issue at stake involves only this point.

Second, as a natural result, the Government will seek to cover increased subsidies by taxes, in order to maintain the existing price level. However, it is doubtful whether the income tax of 3,000,000,000 yen or a tax revenue of 5,000,000,000 yen is appropriate to JAPAN's economy. Each and every individual throughout the nation is well aware that austerity is essential for economic stabilization. Even in the current fiscal year, the capacity to bear the tax burden has reached the limit. For the masses, this is no time to discuss technical problems of tax collection; this is the time when the people are calling for tax reduction, although they are cognizant of the unreasonableness of their demand. Austerity may, in the final analysis, undoubtedly be beneficial to JAPAN's economy, but it behooves the Government to realize that there is a limit to such a way of life.

Third, increase of subsidies to 185,000,000,000 yen is also hard to understand. It might be proper, to the orthodox way of thinking, to plan a decrease of subsidies. There is room to reconsider whether it is necessary to go so far to maintain the existing price level. Although there is a prospect that subsidies for vital goods will be decreased with an increase in production, there is none whatever as far as imported foods are concerned. If that is the case, can the granting of subsidies be called rational?

A great many other problems remain. Among them are: Whether the passenger fare hike is appropriate to JAPAN's current situation; whether this is sufficient to place government railways on an independently paying basis; and whether key materials can dispense with price revision. It seems that rational and orthodox price measures are not necessarily adopted. Is it not now essential that rational and orthodox measures for finance, banking, and prices should be co-ordinated and pushed in a manner befitting the actual circumstances of Japanese economy?

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ITEM 8 SCAP SUGGESTIONS ON BUDGET COMPILATION ANALYZED

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(Full Translation)

JIJI, 27 Mar -- Despite the Government's strenuous efforts for the realization of the Democratic Liberals' election promises, it seems inevitable that the Government must swallow the 1949 budget suggested by SCAP, which consists of 703.4 billon yen as revenue and 703 billion yen as expenditure. The budget, which will be presented in the Diet around 5 April, is featured by almost perfect anti-inflationary measures and the rejection of tax alleviation desired by the people. On the other hand, it is bringing about the serious problem of the Yoshida Cabinet's political responsibility for its inability to carry out any programs requiring funds.

With the 85 billion-yen import subsidy account transferred to the General Accounts, the Government now can appropriate only 188.1 billion yen for the enforcement of economic policies. This amount represents trade surplus in the yen account (American aid funds converted at the

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ITEM 8 (Continued)

provisional rate of 330 yen per dollar). Even the trade surplus is not left entirely at the disposal of the Government. Since the UNITED STATES is going to dispatch a special mission including a controller to supervise this fund, the committee to be set up under the Finance Minister cannot be expected to have any substantial power to manipulate the fund.

With the Finance Ministry thus reduced to a mere tax collection organ the Government Democratic Liberal Party will be prevented from carrying out its election promises until the attainment of stabilized economy, at the same time losing every possibility of obtaining "special" funds through illicit routes.

On the other hand, the SCAP-suggested budget, which requires the strict collection of heavy taxes and the enforcement of austerity upon the people, will undoubtedly provide fuel for the propaganda machine of Communists and their sympathizers.

The above-mentioned characteristics of the budget will really begin to manifest themselves if the Government fails to hold its outlays within the limit of 700 billion yen. A careful study of the budget will reveal its main aim, which is the Japanese economic rehabilitation directly connected with the economic potentiality of the UNITED STATES, through the enforcement of austerity policies.

Expenditures

The expenditures consist of 125 billion yen as war termination expenditures, 50 billion yen as public works expenditures, 69.8 billion yen as government investments (33 billion yen for the amortization of RFB bonds, 27 billion yen for the Trade Special Account), 202 billion yen as price adjustment expenditures (116 billion yen for the stability zone goods, 85 billion yen for imported goods), and 57.7 billion yen as expenditures for the distribution of the local grant tax.

As these figures are all fixed with considerable leeway, economical spending will certainly result in surpluses at the end of the fiscal year. In calculating the price adjustment expenditures, for instance, the possibilities, of reducing production costs by increasing production, of dropping some kinds of goods from the production schedule, and of enforcing industrial rationalization, are all disregarded.

It is generally believed that the coming fiscal year will see further retrenchment in government outlays through economization and through the adoption of an expenditure concentration policy. In this connection, the Finance Ministry optimistically estimates the budget surplus at several tens of billion yen, with which the ministry hopes to improve counter-unemployment measures, the 6-3 compulsory education system, and various public works.

If this is impossible because of delays in determining the surplus funds or because of disapproval by the Occupation authorities, the Ministry plans to appropriate the surplus for the amortization of government and RFB bonds, thereby alleviating the tax burden on the people in the fiscal year 1950. Since the figures of the expenditure items represent their maximum limits, allowing the government considerable leeway in executing its own financial policies, one might be going too far in comparing the Finance Ministry to a mere tax collection office.

Revenues

The revenue side totals 703.4 billion yen, comprising 5.4 billion yen as the income taxes, 27 billion yen as the corporation tax, 65

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ITEM 8 (Continued)

billion yen as the liquor tax, 0.5 billion yen as the sugar consumption tax, 45.1 billion yen as the transaction tax, 4.3 billion yen as the gasoline tax), and 120 billion yen as monopoly profits.

The tax revenue of 514 billion yen is considered extremely large, an increase of 225.4 billion yen over the original plan of the Government and an 80 percent increase over the 1948 tax revenue. This compels the Government to give up the planned abolition of the transaction tax and the alleviation of income taxes.

The imposition of so heavy a tax burden on the people is considered to have been motivated, not only by the supreme requirement of a balanced budget, but also by the judgment that the living standard of the Japanese people can be reduced further, in view of the present high level of consumer goods production compared with that in European countries.

Since JAPAN is short of accumulated native capital, the above policy can be justified by the fundamental economic principle which supports the conversion of public purchasing power into industrial capital through the medium of taxes. However, public opinion is already too firmly set on the need for lowering taxes. Although Minister DODGE predicts that Dr. SHARP, a taxation expert from Columbia University, will visit JAPAN in May to study the present Japanese taxation system, it cannot be denied that the Yoshida Cabinet is placed at an extreme disadvantage in comparison with the Communists and other leftwingers, who fully realize their strengthened position and are out to make political capital of the situation.

Aid Funds

The management of American aid funds such as the GARIDA and the EROA Funds has been kept obscure from the public behind the screen of the Trade Fund Special Account.

The SCAP-suggested budget eliminates this obscurity by appropriating 85 billion yen for import subsidies and 25 billion yen for operating funds in the Trade Fund Special Account, all from the General Accounts. This means that an estimated total of 188.1 billion yen, to be created in the yen account by converting the 1949 American aid funds (expected to total 556 million dollars) at the provisional rate of 330 yen per dollar, can be fully earmarked for equipment funds to speed up the production and the general economic rehabilitation programs.

The actual operation of this trade surplus, unlike the former functioning, will be placed under direct SCAP control upon the arrival of a special mission from the UNITED STATES, including an official specially appointed as the controller.

The trade surplus will be first utilized for the amortization of government and RFB bonds, in order to supply city banks with funds. City banks in turn will finance SCAP authorized private enterprises only for their equipment funds. In this connection, there is little possibility that a special bank similar to RFB will be set up. Despite the Government's desire to have a voice in this important industrial and financial measure, the committee to be set up in the Government for this purpose will be no more than an instrument of GHQ to implement GHQ policies.

In short, the SCAP-suggested budget foreshadows tightened SCAP control and supervision over economic policies of the Government with the support of American economic experts, for the early attainment of JAPAN's economic independence.

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ITEM 1 BALANCED BUDGET AND THE ROLE OF THE BANK OF JAPAN

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(Summary)

SANGYO KEIZAI SHIMBUN,(Osaka), 26 Mar -- In view of their latent influence in postwar economic and political circles, the Bank of Japan is called the Vatican, and its Governor ICHIMADA, the Pope. However, the position of the Bank of Japan will be quite different in the future.

The 1949-50 budget, which envisages the nine-point Economic Stabilization Program and Minister DODGE's opinion, indicates that central and local government finances will be drastically curtailed, and that government investments will be replaced by private investments. This is manifested in the proposed drastic retrenchment of Reconstruction Finance Bank loans and the curtailment or suspension of local bonds. It is evident that State finance will necessarily be separated from banking.

There have in the past been three money suppliers, the Government, the Reconstruction Finance Bank, and the Bank of Japan. As Mr DODGE emphasized, however, the Government must stop inflation. It is therefore, necessary that the Government quit its role as one of the money suppliers, and the Reconstruction Finance Bank, which is financed by the Government, be placed under strict restrictions. Consequently, in view of the nation's present tight money situation, increased demand for credits will be directed to the Bank of Japan.

The Bank of Japan was able to wield its "latent" influence because financial control was heretofore held by the Government and the Reconstruction Finance Bank and it could shift its financial responsibility to them. Now that the responsibility and discretion of private banking institutions have become important, the Bank of Japan must shoulder the greatest responsibility. Since it must act as the Central Bank under the constantly changing financial situation, its every action will have a vital bearing on economic circles.

As we pointed out the other day, production and flow of commodities will be hampered if loans from the Bank of Japan are rigidly restricted, while on the other hand, if the loans are granted too freely, it will accelerate the inflation. Therefore, the adequate adjustment of these two phases is the primary mission of the Central Bank. The Bank of Japan is in an extremely difficult position in carrying out this mission because of the nation's economic difficulties.

Although it did not favor reckless government investments and Reconstruction Finance Bank loans, the Bank of Japan was hitherto able to function peacefully because of its comparatively light responsibility in the fields of currency and finance. It will, however, in the future face the dilemma of whether to adopt a restricted currency policy which will hamper production and the flow of commodities, or a lenient loan policy which will aggravate inflation.

In this connection, the Bank of Japan declares that the industrial loans, as a basic rule, will be appropriated from the accumulated capital of the money market by means of popularizing savings and securities, and that it will adopt a high-rate loan policy beginning on 1 April. It also promises that loans to key enterprises, such as the export enterprise, will be granted freely.

The idea that loans should be shouldered by money market capital is understandable, but despite the tremendous amount of the currency in circulation, the total amount of the market capital in JAPAN is less than twice the total bank deposits. If the Bank of Japan does not grant further financial aid, Japan's economy will have to be reduced to the limits of this scanty capital. Although this may be the step to rationalization, radical retrenchment will result in the collapse of smaller weak industries, and if this sacrifice is tremendous, it will eventually undermine the entire economy of the nation. How should we solve this problem? The responsibility and power now rests entirely with the Bank of Japan.

Thus, the Bank of Japan and its Governor ICHIMADA cannot, and should not, be the Vatican and Pope today. Instead of acting as Pope, ICHIMADA must now act as "Apostle JOHN under storm."

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ITEM 20 CAMPAIGN PROMISES AND CABINET RESPONSIBILITY

2-23

(Full Translation)

YOMIURI, 30 Mar -- As a result of the decision to compile the budget for the 1949 fiscal year on the basis of the GHQ budget suggestions, the main election planks of the Democratic Liberal Party cannot be fulfilled.

The fact that the Democratic Liberal Party--after obtaining an absolute majority through the support of the nation in the January election--cannot fulfill its election promises, is first and last the responsibility of that party. It should fully accept its responsibility for being unable to carry out these promises and bluntly apologize to the nation. In ordinary cases, the Yoshida Cabinet should immediately resign en bloc from the standpoint of assuming political responsibility; however, under the special circumstances of a JAPAN under Allied occupation, this cannot be permitted. Thus, the Cabinet and the government party should use every opportunity in the future to strive for the fulfillment of election promises and, at the same time, should execute thoroughly any election promises capable of immediate fulfillment.

Indeed, of the main election promises of the Democratic Liberal Party, the abolition of the transactions tax, the lessening of the income tax, and the increased appropriations for public works projects have been shelved. Happily, however, those pledges peculiar to the Democratic Liberal Party, such as the reopening of drinking and eating establishments, the abolition of controls over daily necessities, and administrative reform have become possible of execution, and the Government should strive conscientiously and effectively to bring these promises to fruition.

For example, among the controls over daily necessities, only the decontrol of vegetables is being discussed in detail. However, considering that fresh foods, "miso", "shoyu", and charcoal are fairly plentiful at the present time and that distribution corporations are troubled with excess supplies on their hands, we feel it advisable for the Government to carry out the drastic abolition of controls and to eliminate to whatever extent possible those bureaucratic controls based on the public corporation system. By thoroughgoing liquidation of bureaucratic controls, various public corporations will be abolished and the administrative structure proportionately simplified.

Although administrative reform is one of the principle planks of the Democratic Liberal Party election platform, it has been advocated by successive cabinets since the end of the war, yet never effected to date. The administrative structure which became bloated during the war has been handed down from one cabinet to another to this day and now, through the strengthening of various controls, has become even more bloated. Since the aim of administrative reform lies in the drastic curtailment of structure and personnel, it is natural that opposition should rise against this move from government officials who will be on the receiving end of personnel cuts. The reason that each successive cabinet since the end of the war, although formulating plans for administrative reform, has failed to realize these plans lies in the fact that they have been cowed by the bitter opposition of government officials and workers. But if the Government fears the opposition of government officials and workers, administrative reform will never be carried out.

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EDITORIALS

ITEM 20 (Continued)

As long as the budget, balanced in keeping with the nine-point economic stabilization program, meets practically all expenditures out of revenue from taxes and profits from monopoly sales--all borne by the people--the Government has the job of curtailing the administrative structure as thoroughly as possible in order to economize on expenditures and create a "cheap government". Naturally, the Government should curtail expenditures in all fields, not just in administrative reform, in a serious effort to lighten the burden upon the people. However, if administrative reform and the liquidation of control organs through the abolition of economic controls are the only immediate ways of curtailing expenditures, the Cabinet should, at this juncture, adopt drastic measures and effectively realize this task which has been imposed on the successive cabinets since the end of the war. The problem of unemployment measures, which will result from administrative reform, can be considered from a separate standpoint.

The Democratic Liberal Party Cabinet has been placed in a difficult position as a result of the opposition's attack in the Diet over the question of public promises. Within the Democratic Liberal Party itself, a movement has arisen to place blame on the party leaders for the election promise issue. However, the Cabinet and the Government party should bear the opposition attacks in silence. Since the nine-point economic stabilization program was laid down before the January general election, the Democratic Liberal Party is responsible for announcing unrealizable promises, and the party leaders are to blame for lack of foresight.

While apologizing to the nation at this point for not fulfilling election promises, the Cabinet and the government party should also reflect adequately on future measures. In addition, they should carry out measures with thoroughness within the limits of permissible election promises. Since the Yoshida Cabinet faces the possibility of holding the reins of the government for a considerable length of time in the future, it should, during this long period, strive to realize its public promises and repay the support which the nation has given to it.

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ITEM 12 SCAP SUGGESTIONS CATCH DLP IN SQUEEZE

d23

(Full Translation)

CHUKA KOKUSAI, Provincial Paper (Osaka), 24 Mar — Troubles facing the Cabinet and the Democratic Liberal Party are expected to reach a head within a few days because the 700 billion yen budget bill suggested by US Minister DODGE was larger than expected, and the Government, not having enough time to negotiate with SCAP officials for even minimum inclusion of its public pledges, is slowly being squeezed into a dead-end.

A meeting of top-ranking DLP leaders was held on the afternoon of 22 March to discuss counter-measures. After opinions were exchanged in "an unprecedentedly oppressive atmosphere", according to DLP Diet Policy Committee Chairman SUDO, it was concluded that there is no other alternative but to leave the matter to Premier YOSHIDA's decision. Although DLP leaders had expected that some of their public promises, such as abolition of the sales tax, etc, might have to be broken, reports on the budget compilation carried to the Democratic Liberal Party through Finance Minister IKEDA up to 21 March had been exceedingly optimistic as compared with Mr DODGE's thoughts on the budget, into which the nine-point economic program is incorporated from a broader view such as establishment of an exchange rate and management of US-aid funds. There now seems no hope for the DLP's pledges.

Newly confronted with a strong opinion favoring a 60 percent boost in railway passenger fares, a 10 percent increase in the price of staple food, an increase of subsidies for price differentials and a broad curtailment of local bonds for the 6-3 educational system, the Democratic Liberal Party has been driven against the wall, and non-confidence in Finance Minister IKEDA is mounting.

DLP Diet members feel that the only way to handle the public pledge problem is to rely on Premier YOSHIDA's political ability, no matter how strong the antipathy of the rank and file may be. They are also counting on YOSHIDA effectively employing his qualities in negotiations with SCAP officials. The Premier, however, is expected to concentrate his political ability on control of his party. He does not appear concerned over the possibility of 90 percent of his party's promises being broken.

According to Chief Cabinet Secretary MASUDA, the Premier says, "To enable JAPAN's economy to stand on its own feet is the most important of our public pledges. If this is achieved, the rest can be sacrificed." This means that YOSHIDA will work to back Mr DODGE's views and will make JAPAN's economy stand on its "own feet" rather than shorten "the legs of stilts" and even if the DLP's public promises are completely shelved for this purpose it cannot be helped.

Thus, SCAP's suggestions on the formulation of the budget will not only modify the DLP's public pleges, but will create a new dispute between Premier YOSHIDA and his party. The line of abandoning public pledges cannot be changed, even if some measure of complications will have to be met. The prevailing view is that DLP Diet members will eventually drop the matter, leaving it to YOSHIDA's decision. The Diet policy of the Government and the Democratic Liberal Party will be noteworthy.

ITEM 2 MASUDA HOPES DIET WILL CLOSE 3-DAY BUDGETLESS GAP

(Full Translation)

d23

ASAHI, 30 Mar -- At the Lower House Steering Committee meeting yesterday, Communist Diet member HAYASHI Hyakuro raised the following question: "The Government has declared that the new budget will be presented to the Diet on 4 April, expecting that it will take two weeks to complete discussions on it. If the period covered by the short-term budget is 15 days and discussions on the main budget are to end on 18 April, then there will be a gap of three days with no budget. What are the Government's countermeasures for this?"

Chief Cabinet Secretary MASUDA replied: "The Government is to present the short-term budget today. The main budget will be submitted to the Diet on 4 April without fail. Two weeks were originally set aside for debate on it. However, since the period covered by the short-term budget is 15 days, a budgetless period of three days would arise. We hope the Diet will solve this technical problem by its own initiative,"

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ITEM 1 OPPOSITION OFFENSIVE UNLEASHED AT PROVISIONAL BUDGET

(Full Translation)

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ASAHI, 31 Mar -- With the delivery of the Premier's administrative address and the presentation of the budget bill, the fifth session of the Diet will enter into formal deliberations. However, the first offensive of the opposition parties headed by the Socialists and the Communists took positive shape on Tuesday in their attack on the creation of the Examination Committee. Moreover, the opposition launched another offensive against the Government yesterday on the provisional budget bill. Under the circumstances, the Diet has gradually become very active.

Yesterday's meeting of the Lower House Budget Committee convened at 1000 hours to deliberate on the provisional budget bill for 1 to 15 April. SHIGA Yoshio, Communist, declared that the presentation of just section A-2 (appropriations for administrative departments) of the budget bill is a violation of the Constitution. As a result, the meeting was forced to recess from 1230 hours to 1500 hours. During the recess, this problem was studied at a director's meeting but no conclusion was reached.

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NEWS

ITEM 1 (Continued)

Budget Committee Okays Bill

The committee meeting was resumed at 1510 hours and the Communist-sponsored resolution that the bill is unconstitutional was voted down by a majority vote. After interpelations from various parties, the provisional budget bill passed the Lower House Budget Committee at 1550 hours without amendments. The bill will therefore be presented to the plenary session today.

The State Finance Law Amendment Bill is being deliberated by the Diet. This bill permits the Government to present the "A-2" budget bill separately to the Diet.

According to the old law, the formal budget bill is to be composed of the A-1 section (appropriations for specific purposes such as war termination expenses and com odity price adjustment funds) and A-2 section (appropriations to various organizations such as government departments). The provisional budget bill from 1 to 15 April, which is now being discussed, lacks the A-1 section. Therefore, on the ground that the State Finance Law Amendment Bill has not yet passed the Diet, the Socialists and the Communists contended that the provisional budget bill in question is a violation of the Constitution.

Although the provisional budget bill passed yesterday's session of the Lower House Budget Committee, the opposition parties headed by the Socialists and the Communists regard it as unconstitutional, since it was not compiled on the basis of the existing State Finance Law. Moreover, they denounce the attitude of Chairman UEHARA of the Budget Committee and members of the government parties as being too dictatorial. They declared that government party members spurned the deliberation of the Diet.

Opposition Claims Dictatorial Tactics Used

According to the opposition parties, the Government has completely ignored the existing State Finance Law, since the provisional budget bill was compiled on the basis of the State Finance Law Amendment Bill, which has not yet passed the Diet. Moreover, members of the opposition were not given enough time for deliberation at the committee meeting yesterday and the bill was adopted with a majority vote by suspending interpellations and without conducting any debate on it.

Meanwhile, government authorities insist that the provisional budget bill is by no means a violation of the Constitution, since it was compiled on the premise that the State Finance Law Amendment Bill passed the Diet.

At the Lower House Steering Committee meeting yesterday, SHIGA and HAYASHI of the Communist Party and other members of the opposition expressed their hope that Democratic Liberal members of the Budget Committee will take a prudent attitude, since they were too dictatorial. ISHIDA Hirohide, Democratic Liberal, answered that the party will take prudent steps if further investigation reveals the truth of the demand of the opposition parties.

Socialists Will Appeal to Supreme Court

The Socialist Party is planning measures which will invalidate the provisional budget bill, even if it passes the Diet, since it violates the various laws concerned. Meanwhile, the Communist and Worker Farmer parties are planning a resolution to nullify the passage of the provisional budget bill.

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NEWS

ITEM 1 (Continued)

The Socialist Party issued a statement on this problem yesterday. Moreover, the party decided to appeal to the Speaker of the House of Representatives and the Supreme Court for the invalidation of the votes for the provisional budget bill at the Lower House Budget Committee.

Communists Issue Statement

Contending that the provisional budget bill is illegal, the Communist Diet member group issued the following statement:

"The Government-drafted provisional budget bill cannot be regarded as formal and proper for the following reasons: 1) this bill has been compiled on the basis of the State Finance Law, which is to be amended in the future; 2) The amendment of the State Finance Bill is now being deliberated in the Lower House Finance Committee and it has not yet formally passed the Diet; 3) Various documents necessary for the provisional budget bill, as provided in the State Finance Law, have not been presented."

At the Lower House Steering Committee meeting yesterday, Finance Minister IKEDA insisted as follows:

"It is hoped that the deliberation on the formal budget bill, which is to be presented before 5 April, will be conducted as quickly as possible. I am sure that it will be adopted by 15 April. No positive measure is being contemplated as yet, on problems to arise if it does not pass the Diet by 15 April.

The compilation of the provisional budget bill, on the ground that the State Finance Law Amendment Bill has passed the Diet, is by no means a violation of the Constitution. Up to the present, bills and budget bills have often been presented simultaneously to the Diet. Since the formal budget bill is to be compiled on the basis of the amendment bill, the provisional budget bill was also compiled on the same basis."