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STANDARD FORM NO. 64

CONFIDENTIAL

Tom Koddy
F/B.1

Office Memorandum • UNITED STATES GOVERNMENT

894.51/1-2549

TO : Mr. Saltzman

DATE: January 25, 1949

FROM : H. Koch, O *HK*

SUBJECT: The Dodge Mission to Japan.

XR 5151
894.5151

I understand from Phil Claxton that the Department has decided not to send a representative on this mission since no senior officer is available at this time who meets the conditions indicated by Mr. Dodge.

FILED
MAY 3 1950

Since Bill Draper has requested State participation in this mission and in view of the desirability that State be kept informed of the mission's activities in Japan, it seems to me that it would be advisable to send a representative, possibly Ed Dougherty of FN, so that the Department could be kept informed of all important developments. In my opinion a senior State Department representative is not necessary in view of the composition of the Dodge group.

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CONFIDENTIAL

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STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

TO : Mr. ~~Clanton~~ ¹⁰

FROM : Harold W. Moseley *NWM* *Thompson*

SUBJECT: Protocol for Japanese MFN.

DATE: March 1, 1949

With reference to your inquiries about what is being done on this subject, I am advised as follows:

MFN for Japan will be taken up at the third session of GATT, which takes place on the 11th of April at Annecy, France. Preparation for raising this question is being actively handled by ITP. In this connection you will wish to see the attached circular telegram of February 11. This has been followed up by personal telegram from Thorp to Douglas, and Caffery, and other officials, outlining the importance that the Department attaches to this subject and requesting that it be taken up at a high level.

You will note that the circular telegram states that it is assumed that the protocol will be similar to that of Germany. However, separate protocol which will differ in some respects from that of Germany is now being drafted in ITP with the assistance of the Legal Division.

With respect to specific questions raised in No. 28 from Wellington, Mr. McCornick from CP has the action and he will clear his reply through us. Please return this file to me.

Attachments:

No. 2930 of Feb. 11,
No. 588 of Feb. 19,
No. 28 of Feb. 28.

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O:HWMoseley:fa

This Document Must Be Returned to
RM/R 894.51/3-149
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894.51/3-11

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STANDARD FORM NO. 64

SECRET

FE
January 1949

Office Memorandum • UNITED STATES GOVERNMENT

TO : Mr. Butterworth - *FE* .
FROM : R. W. Barnett - *OFD*
SUBJECT: Japanese Gold Pot.

DATE: *file* March 16, 1949

31370

For over six months there have been recurring proposals that the Japanese-owned gold which makes up the Occupied Japan Export-Import Revolving Fund should be removed from Japan to the U.S., where, it is contended, that it would be more secure and would be, from an economic standpoint, more productive in contributing to the general purposes of the occupation.

OJEIRF was established as a result of a Far Eastern Commission policy action which authorized SCAP to place gold of clearly established Japanese ownership in a Revolving Fund to be used as a credit base in connection with a program for reviving Japanese trade and commerce. The F.E.C. policy decision restricted SCAP's freedom in the use of this Fund only by the limitation that its "values should be preserved" for ultimate disposition as reparations.

When the Army Department undertook negotiations with certain American bankers for the purpose of securing extension of credits to Japan, the security of the Fund was challenged by these bankers. At that time the Legal Office of the Department of State prepared an opinion (TAB C) which dealt with this point. That opinion summarized the background of the F.E.C.'s policy decision and attempted to dispose of a number of doubts as to SCAP's authority to use the Fund, which had been expressed to the Army Department and were passed on by the Army Department to the Department of State.

On 3 February 1949, Undersecretary Draper requested Secretary Royall to discuss with General MacArthur the desirability of shipping the OJEIRF Gold Pot to this country (TAB D). On 21 February, Mr. Dodge sent to Undersecretary Draper a communication (TAB E) requesting that further consideration be given by Washington to the whole question of the legality and desirability of effecting the removal of the Gold Pot.

The attached letter (TAB A) to Assistant Secretary of the Army, Mr. Voorhees, together with its attached draft cable (TAB B) to Mr. Dodge, set forth the position of the Department of State as being that, whereas there are no legal considerations which could be considered to preclude SCAP's shipping the Gold Pot to the U.S., there are, from the political, psychological, as well as from the economic standpoint, reasons why the actions would be undesirable. These reasons are set forth in the draft telegram.

RECOMMENDATION

It is recommended that you approve and sign the attached draft letter to Mr. Voorhees with its annexed draft message to SCAP, for Dodge.

OFD:RWBarnett:mck
3/16/49

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Mr. Butterworth - FE

March 16, 1949

R. W. Barnett - OFD

Japanese Gold Pot.

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OJEIF was established as a result of a Far Eastern Commission policy action which authorized SCAP to place gold of clearly established Japanese ownership in a Revolving Fund to be used as a credit base in connection with a program for reviving Japanese trade and commerce. The F.E.C. policy decision restricted SCAP's freedom in the use of this Fund only by the limitation that its "values should be preserved" for ultimate disposition as reparations.

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On 3 February 1949, Undersecretary Draper requested Secretary Royall to discuss with General MacArthur the desirability of shipping the OJEIF Gold Pot to this country (TAB D). On 21 February, Mr. Dodge sent to Undersecretary Draper a communication (TAB E) requesting that further consideration be given by Washington to the whole question of the legality and desirability of effecting the removal of the Gold Pot.

The attached letter (TAB A) to Assistant Secretary of the Army, Mr. Voorhees, together with its attached draft cable (TAB B) to Mr. Dodge, set forth the position of the Department of State as being that, whereas there are no legal considerations which could be considered to preclude SCAP's shipping the Gold Pot to the U.S., there are, from the political, psychological, as well as from the economic standpoint, reasons why the actions would be undesirable. These reasons are set forth in the draft telegram.

RECOMMENDATION

It is recommended that you approve and sign the attached draft letter to Mr. Voorhees with its annexed draft message to SCAP, for Dodge.

OFD:RWBarnett:mek
3/16/49**SECRET**

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March 16, 1949

Mr. Buttersworth - FS

R. W. Barnett - OFD

Japanese Gold Pot.

For over six months there have been recurring proposals that the Japanese-owned gold which makes up the Occupied Japan Export-Import Revolving Fund should be removed from Japan to the U.S., where, it is contended, that it would be more secure and would be, from an economic standpoint, more productive in contributing to the general purposes of the occupation.

OJEIFP was established as a result of a Far Eastern Commission policy action which authorized SCAP to place gold of clearly established Japanese ownership in a Revolving Fund to be used as a credit base in connection with a program for reviving Japanese trade and commerce. The F.E.C. policy decision restricted SCAP's freedom in the use of this Fund only by the limitation that its "values should be preserved" for ultimate disposition as reparations.

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The attached letter (TAB A) to Assistant Secretary of the Army, Mr. Voorhees, together with its attached draft cable (TAB B) to Mr. Dodge, set forth the position of the Department of State as being that, whereas there are no legal considerations which could be considered to preclude SCAP's shipping the Gold Pot to the U.S., there are, from the political, psychological, as well as from the economic standpoint, reasons why the actions would be undesirable. These reasons are set forth in the draft telegram.

RECOMMENDATION

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OFD:RB Barnett:mek
3/16/49**SECRET**

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DC-R

DIVISION OF
NORTHEAST ASIAN AFFAIRS

MAR 14 1949

DEPARTMENT OF STATE

MAR 18 1949

In reply refer to
OFD

Dear Mr. Secretary:

There is attached a draft message to SCAP, personal for Dodge, dealing with points which have been raised by Mr. Dodge in part 1 of C 68013, of 21 February. In this message Mr. Dodge has requested the views of this Government regarding the desirability of removing to the U.S. of the OJEIF Gold Pot.

In brief, the position of the Department of State is that whereas there are no legal considerations which could be considered to preclude SCAP from taking this action, there are from the political, psychological, as well as from the economic standpoint, reasons why the action would be undesirable.

I hope that the Department of the Army can concur in our draft message.

Sincerely yours,

W. Walton Butterworth
Director for Far Eastern Affairs

Enclosure:

Draft Message

The Honorable Tracy S. Voorhees,
Assistant Secretary of the Army,
Washington, D. C.

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OFD:RWBarnett:mck
3/15/49

MAR 18 1949

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SECRETATTACHMENT

TO: SCAP Tokyo PERSONAL to Dodge

FROM: Dept of Army Wash DC from Voorhees

Nr. REURAD C 68013 Serial Number 5 21 February 1949

After consultation with Dept of State it is considered here that from the legal standpoint, remarks under question No. 2 (b) of memorandum from Mr. Gross, Legal Adviser of the Dept of State, to Mr. Saltzman, Assistant Secretary for Occupied Areas, dated October 22nd, require no change. It is stated there that SCAP has the power to ship the gold, etc., for assay or safe-keeping outside of Japan. Would welcome further comment regarding your suggestion that transfer gold pot would render it considerably more productive as credit base and provide an increase of capital.

However, at present time Dept of State deems shipping to U.S. of gold of clearly established Japanese ownership now in OJEIRF Gold Pot not (repeat not) advisable for following reasons:

1. Possible unfavorable impression on Japanese and on certain FEC countries and possible use of such move by USSR propaganda broadcasting to the world "U.S. grab Japanese gold" or even worse "U.S. consider Japanese gold no longer secure in Japan".
2. According to provisions (page 6, last sentence) of the Agreement between the Occupied Japan Export-Import Revolving Fund and American Banks, the gold once sent to this country could not be returned to Japan at a particular time, if so decided, to the extent that notes were already accepted at the lower rate.
3. The contemplated savings resulting from a lower interest rate on loans would be cancelled for as long as almost two years by the high cost of transportation and insurance incurred in the transfer of the gold. Such costs would run as high as about \$715,000 for commercial airline transportation. Transportation in U.S. Navy bottoms was considered inadvisable when shipment of gold from Frankfurt to New York was under consideration by the State, Army and Treasury experts because of the fact that costs in that case would run almost as high as commercial air transportation including insurance, length of travel time, technical difficulties to comply with insurance specifications and the undesirability of competing with private industry.

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4. Subject gold was checked by U.S. Treasury Mint experts about a year ago. These experts believe that slight valuation upward has been made since and do not expect that a U.S. assay would establish substantially greater basic value.

dec file

DEPARTMENT OF STATE
TELEPHONE
Memorandum of Conversation

DATE: March 23, 1949

SUBJECT: Removal of Gold Pot to United States.



PARTICIPANTS: Mr. Bishop - NA
Mr. Robert West - Office of Assistant Secretary Voorhees,
Department of the Army.

COPIES TO: FE
OED - Mr. Barnett
FN - Mr. Fletcher

894.51/3-2349

*XR 894.515
800.515*

1-1493

Mr. West called today in regard to Mr. Butterworth's letter of March 18 to Mr. Voorhees enclosing a proposed telegram to Mr. Dodge on the question of the removal of the OJEIRF Gold Pot to the United States.

Mr. West stated that he planned to write rather than cable Mr. Dodge. He went on to say that although he would transmit the Department's views on the political factors involved for careful consideration, he did not at all agree with our analysis of the economic factors in the question. It was his view that the reduced rates of interest resulting from removal of the gold to the United States would pay the cost of removal in one year, and that the step might render the gold as much as ~~ten~~ ^{two} times more productive as a credit base.

CS/A

I gathered that Mr. West planned to send his proposed letter without further reference to the Department. It would seem desirable, however, for the Department to explain its economic position further, and I would be glad to pass to Mr. West any comments which OED or FN might wish to make.

APR 12 1949
TTL-EDD

ADDENDUM - March 28, 1949:

Mr. West telephoned me today stating he would like to send the proposed cable deleting paragraph 3. I concurred.

MWB.

MWB

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3/28/49

Routing slip with handwritten initials 'FLH' and 'HK' and fields for 'Cat.' and 'Dist.'



THE FOREIGN SERVICE OF THE UNITED STATES OF AMERICA

United States Political Adviser for Japan

Tokyo, April 19, 1949

No. 237

DIVISION OF FINANCIAL AFFAIRS
File no action
MAY 3 1949

DEPARTMENT OF STATE

UNCLASSIFIED

Subject: Transmitting Statement on Japanese Budget by Minister Joseph M. Dodge and Editorial Comment Thereon

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to refer to this Mission's despatch No. 144 dated March 11, 1949, transmitting copies of the text of a statement on the Japanese economic and financial position issued March 7, 1949, by Joseph M. DODGE, Financial Adviser to General MacARTHUR, together with editorial comment thereon.

There is now enclosed a copy of a statement on the Japanese budget for the fiscal year commencing April 1, 1949, issued by Mr. Dodge on April 15, 1949. In this statement, which was generally republished in full in the Japanese press, by which it was the subject of considerable editorial comment, Mr. Dodge stated categorically that "the creation and implementation of a balanced budget is the first requirement of the Nine Point Stabilization Program" and "essential to establishing a sound foundation for further economic reconstruction and the effective use of U. S. appropriations made for the benefit of the Japanese economy."

Mr. Dodge stated further that any realistic view of the Japanese economic problem suggests a rough and rocky road which will severely test the strength, character and loyalty of the people. He pointed out that "the economy has travelled the early part of this road in a damaged and unrepaired vehicle but the vehicle and the passengers have been protected from road shocks by a cushion of U. S. aid. It is time the Japanese began to face up to the unalterable facts of their own life and organize themselves to meet their own problems and regain their independence by their own efforts."

Referring to the 1949-50 budget, which has already been passed by the House of Representatives of the Diet and which is expected to be approved April 20, 1949, by the House of Councillors, Mr. Dodge stated that it "is intended to accomplish a balance of all

government

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RETURN TO DC/R FILES WITHIN 14 DAYS, WITH A NOTATION OF ACTION TAKEN.

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Tokyo's Despatch No. 237,
April 19, 1949

- 2 -

government accounts." The Japanese Government budget system has heretofore been "inadequate", "neither clear nor understandable", Mr. Dodge asserted, adding that the record of the past points to budget delays, provisional budgets, supplementary budgets and deficits.

Regarding the Japanese Government's revenues under the 1949-50 budget, Mr. Dodge stated that the larger estimated tax revenues therein have been generally referred to as "tax increases." This, he pointed out, is inaccurate since tax revenues in the present budget are at the already existing tax rates applied to a higher level of income and prices. He added that "the tax rates themselves are high but the effective collection under the rates are low....Modification of the existing tax rates can be justified only when the people wholeheartedly do their part in meeting their tax liability."

Concerning expenditures of the Japanese Government, Mr. Dodge stated that they remain high but that planned expenditures and subsidies are shown for the first time in the 1949-50 budget, and that generally there has been no "slashing" of expenditures. He concluded, however, that "there is still much to be done and much that can be done to reduce expenditures."

Taking up the question of Japanese Government subsidies, a question which has aroused his critical interest since his arrival here in February 1949, Mr. Dodge stated flatly that "since the end of the war large amounts of U. S. goods have gone into the foreign trade account but this fund shows no balance because the imported goods have been sold at so much less than cost. This process has obscured subsidies from the view of the public." These subsidies, he pointed out, actually are government grants to particular producers, or consumers, from the government tax revenues collected from all the people and from the proceeds of U. S. aid furnished Japan. From now on, Mr. Dodge stated, these "subsidies are exposed in the budget so as to clearly place the responsibility for their use in the Japanese Government and to ensure that appropriate action will be taken to reduce and finally eliminate them."

Referring to the Counterpart Fund (see this Mission's despatch No. 213, April 12, 1949, entitled "Establishment of U. S. Aid Counterpart Fund for Japanese Stabilization"), Mr. Dodge reminded the Japanese that "the use of this fund will be under the control of SCAP," and that "its use will be closely supervised and follow the general principles of similar U. S. aid funds elsewhere but related to the particular conditions of this economy." After stating that the Fund will not be "a political grab bag," Mr. Dodge said that, in considering releases from that Fund, great

weight

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Tokyo's Despatch No. 237,
April 19, 1949

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weight will be given to Japanese progress in achieving tax goals, in administration of budget expenditures and in fulfillment of the terms of the Nine Point Stabilization Program.

Mr. Dodge closed his statement with a paragraph on credit policy in which he stated that "the balanced consolidated budget for 1949-50 together with the Counterpart Fund "provide instruments with which the Government operations may be carried on without contributing to an inflationary expansion of the money supply."

Generally speaking, Mr. Dodge's April 15 statement is a more forceful, more blunt, and more direct statement than the one issued by him March 7. Issuance of the statement prompted the Japanese Government on April 15 to issue the following brief comment, as reported the following day by the Nippon Times, Tokyo:

"The Government intends to do its utmost to carry out the spirit of the Dodge statement so as to make the most effective use of the American aid to Japan and stabilize our living as soon as possible. We hope, therefore, that the Diet will quickly pass the budget presented by the Government so that it can promptly be executed."

2/ In a despatch sent from Tokyo on April 16, the local United Press correspondent observed that Mr. Dodge's statement was interpreted in "authoritative quarters" as leading to a possible reconsideration of United States aid in six months unless Japan "stops living beyond its means." This correspondent stated his informants indicated that a general accounting in six months of Japanese efforts to implement the Nine Point Stabilization Program would be recommended. A copy of the UP report, as published April 17, 1949, in the English edition of the Osaka Mainichi, Osaka, is enclosed.

3/ The Nippon Times, Tokyo, in an editorial published April 16, 1949 (copy enclosed) termed Mr. Dodge's statement "the bluntest but most revealing comment concerning this year's budget that has yet appeared from any source," adding that "Mr. Dodge pulls no punches in pointing out how unsound Japan's fiscal policy has been during the past several years. He shows how this unsound fiscal policy has been hidden from the knowledge of the people by a highly complicated and incomprehensible budget which served to deceive the average citizen regarding the state of the Government's finances." After noting that the favored recipients of subsidies are protesting against the new budget, the Nippon Times observed that "the greatest effect of Mr. Dodge's statement will go far beyond the matter of this year's budget alone. It will inevitably

help

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Tokyo's Despatch No. 237,
April 19, 1949

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help spur a necessary fundamental reform in the Government's budgetary practices so that in future the taxpayers will nevermore be fooled as they were in the past."

With regard to editorial comment on Mr. Dodge's statement in the Japanese language press, it may be noted that the Tokyo Shimbun April 17 likened it to a "bucket of cold water poured on those dreaming after taking a narcotic," the dreamers in this case being identified as the Diet members currently discussing the budget "as though the fact that Japan is a defeated nation has been forgotten."

Realizing that the life of austerity demanded by Mr. Dodge is imperative from the standpoint of both the United States and Japan, the Nihon Keizai (Japan Economy), Tokyo, on the same day saw no other course for the Japanese but to voluntarily reduce their living standard. The paper suggested, however, that the people may derive some encouragement over prospects of a better life with the creation of the Counterpart Fund which will spur economic independence. The rude awakening the statement affords the Japanese people should prod the Government to revamp the nation's financial setup drastically and to act to hasten national independence, the Sekai Keizai (World Economy), Tokyo, emphasized in its April 17 editorial. This paper also pointed out that while life might be difficult now, better days lie ahead.

The influential Mainichi, Tokyo, terming the statement the "bluntest but most revealing" thus far, was "somewhat disappointed" with the budget even though its being balanced is an epoch-making event. Now it behooves the Japanese Government to work hand in hand with General Headquarters, SCAP, to use the Counterpart Fund to the best advantage, the journal pointed out. Taking up Mr. Dodge's references to currency issue, the Jiji Shimpo, Tokyo, April 17 interpreted his statement to mean that the note issue would not necessarily have to be held at the present level. The journal declared that while it did not agree on every point of the statement, "there is no room to disagree, positively and technically."

The Asahi, Tokyo, April 17 censured the Government for rigidly collecting taxes while neglecting to meet its current financial obligations promptly. If it does not act quickly to pay its bills, the Asahi opined, effectuation of the economic stabilization program may be thrown out of gear. The Yomiuri, Tokyo, on April 18 labeled the statement an "exact indication of the cold reality," facing the Japanese people. It called down the people for not confronting matters courageously and regretted that Mr. Dodge's words about their lack of comprehension were very true. But the politicians, who should be the first to realize the situation, are chiefly to blame for the widespread optimism which prevailed among the

people

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Tokyo's Despatch No. 237,
April 19, 1949

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4/ people, the daily asserted. In an analysis of the current tax structure, the Yomiuri editorial writer underlined the definite need for a comprehensive reorganization of the whole system. Pertinent extracts from translations of the above cited editorials from the vernacular press are enclosed, the repetitious comments being largely deleted.

In closing, it may be stated that, in the opinion of this Mission, Mr. Dodge's statement warrants considerable attention as being a fully justified and clear-cut exposition of the shortcomings in Japanese fiscal practices. It is obvious that these shortcomings must be corrected promptly and positively by the Japanese Government if the Nine Point Stabilization Program, referred December 19, 1948, by General MacArthur to Premier YOSMIDA Shigeru, is to be effectively implemented and most effective use made of United States aid to Japan.

Respectfully yours,

W. J. Sebald

Enclosures:

1. Copy of press release issued April 15, 1949, by the Public Information Office, General Headquarters, Far East Command, Tokyo (10 copies forwarded herewith);
2. Copy of United Press dispatch from Tokyo filed April 16, 1949, and published following day by Osaka Mainichi under heading "US Will Judge Japan By Actions, Not Words";
3. Copy of editorial entitled "The Nature of the Budget" published April 16, 1949, by the Nippon Times, Tokyo;
4. Memorandum containing excerpts from translations published April 17 and 18, 1949, by Japanese language newspapers.

Parchment to Department

Copies to: American Embassy, Nanking
American Embassy, London

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Enclosure No. 2 to Despatch No. 237
dated April 19, 1949 from United States
Political Adviser to Japan, Tokyo, on
the subject "Transmitting Statement on
Japanese Budget by Minister Joseph M.
Dodge and Editorial Comment Thereon."

(COPY)

(Copy of news item published April 17, 1949, by the
English language edition of Osaka Mainichi, Osaka)

US WILL JUDGE JAPAN BY ACTIONS, NOT WORDS

Dodge Remarks Interpreted to Hint
Rescrutiny of Aid

By Peter Kalischer
United Press Staff Correspondent

TOKYO, Apr. 16.--Friday's stern lecture to the Japanese by SCAP Financial Adviser Joseph M. Dodge was interpreted in authoritative quarters as leading to a possible reconsideration of United States aid in six months unless Japan "stops living beyond its means."

These sources said that Japan would be judged henceforth not by the actions it took to deserve continued United States help.

Since his arrival in Japan on February 1, Dodge has held innumerable conferences with Japanese Government and economic leaders on productive investment of an estimated \$1-million per day American aid. It is no secret that the conservative president of the Detroit Bank is out of patience with the Japanese brand of deficit budgeting, Government subsidies of unprofitable enterprises and the complete lack of an accounting system in Government and private business.

Dodge himself hinted at a possible end of United States bounty Friday when he said the Japanese would have a better perspective if they realized what conditions would be like "when aid has to be reduced or withdrawn."

These sources said a general accounting in six months of Japanese efforts to implement the Nine-Point Economic Stabilization Program would be recommended. If the Japanese had not stopped using American aid as a political football by then, these sources said, the actual halting of American shipments to Japan might be in order as was done in the case of Italy shortly after the war.

It was pointed out that there was a possibility, but no proof, that a program of inflation and economic chaos might have been deliberately inspired by some behind-the-scenes Japanese to force the Americans out of Japan.

This was the technique employed by the German financial wizard Hjalmer Schacht to get the Allies out of Germany after World War I.

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Enclosure No. 3 to Despatch No. 237
dated April 19, 1949 from United States
Political Adviser to Japan, Tokyo, on
the subject "Transmitting Statement on
Japanese Budget by Minister Joseph M.
Dodge and Editorial Comment Thereon."

(Copy of editorial published April 16, 1949,
by the Nippon Times, Tokyo)

THE NATURE OF THE BUDGET

The statement made yesterday by Joseph M. Dodge, SCAP's financial adviser, is the bluntest but most revealing comment concerning this year's budget and Japanese Government budgets in general that has yet appeared from any source. It will be strong medicine to the special groups which have been profiting from the unsound budgetary practices of the past, but it will be welcomed by the people at large.

The present Administration, although sure of getting its budget passed by reason of its control of a majority in the Diet, has nevertheless been anxious for some official statement from the SCAP authorities which it could use to silence the discontent in certain quarters. Mr. Dodge's statement, however, is undoubtedly more than the Administration bargained for.

For Mr. Dodge pulls no punches in pointing out how unsound Japan's fiscal policy has been during the past several years. He shows how this unsound fiscal policy has been hidden from the knowledge of the people by a highly complicated and incomprehensible budget which served to deceive the average citizen regarding the state of the Government's finances. In consequence the people have been lulled into remaining relatively indifferent to, or even abetting in the continuation of, a situation which they would not have tolerated had they but only understood it. He goes on to show how this year's budget, for the first time, makes a serious start toward correcting these past abuses.

The inevitable conclusion is, although there will be some painful consequences, these will be not so much the consequences of the new budget itself as consequences rather of the unsound fiscal practices which are being brought to an end. Painful as it may be to bring an end to a rosy dream, it will be less painful to be awakened to reality now than later.

Specifically, Mr. Dodge shows how the Japanese Government has been spending far beyond the means which the nation possesses. He shows how the extent of these expenditures and the limitations on these means have been hidden in previous budgets. He shows how these disproportionate expenditures squeezed out of inadequate means have gone in large part through subsidies to special interests. Even though some of these special interests undoubtedly perform a valuable public service, taxing the entire nation to pay subsidies to special interests is an unequitable and inefficient way of advancing the interest of the nation as a whole.

The

UNCLASSIFIED

Enclosure No. 3 to
Tokyo's Despatch No. 237,
April 19, 1949.

- 2 -

The painful aspects of this year's budget arises in large part from the start which has been taken in shutting off these subsidies. Naturally the former beneficiaries do not like it, and they are the ones who are protesting. But the people at large will benefit from the savings which will result. Furthermore, Mr. Dodge points out that the cut in subsidies is not so abrupt as to cause any serious disruption, but that it makes a beginning in the right direction in as relatively painless a manner as possible.

He points out, furthermore, that those who do not like the present budget make much of its apparent great size. But he points out that this budget is, considering all factors, really much smaller than it appears. Its apparent size arises out of the fact that it includes honestly all of the items which customarily had been hidden in previous budgets.

This statement of Mr. Dodge will probably have little effect on Diet action, as has already been noted, for passage of the budget was assured in any case. But this statement will render a great service in enabling the public to judge soundly who are the ones that oppose the budget and for what reasons. It will enable the public to support the new budget with understanding and appreciation.

But the greatest effect of Mr. Dodge's statement will go far beyond the matter of this year's budget alone. It will inevitably help spur a necessary fundamental reform in the Government's budgetary practices so that in the future the taxpayers will nevermore be fooled as they were in the past.

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Enclosure No. 4 to Despatch No. 237
dated April 19, 1949 from United States
Political Adviser to Japan, Tokyo, on
the subject "Transmitting Statement on
Japanese Budget by Minister Joseph M.
Dodge and Editorial Comment Thereon."

(Extracts from translations of editorials published
April 18 and 19, 1949, by Japanese language papers)

Tokyo Shimbun, Tokyo,
April 17, 1949

DODGE STATEMENT AND A REAPPRECIATION OF BUDGET BILLS

Minister Dodge, adviser to General MacArthur, recently issued a statement relative to Japan's economic rehabilitation, in which he pointed out that the inflation should be checked at its source; that all economic measures are related to finance and banking and that the Japanese economy is walking unsteadily on stilts provided by US aid and government subsidies.

The draft budget for the new fiscal year, now under deliberation in the Diet, is based on the Minister's suggestions that it be a balanced budget....This budget, according to the Government, is disinflationary, but it may be termed a deflationary budget. It is no surprise that this has proved a surprise to the people, who have long been living beyond their means, little comprehending the real situation.

Discussions in the Diet are being carried out brazenly, as though the fact that Japan is a defeated nation has been forgotten. Minister Dodge's statement on the draft budget must have been like a bucket of water poured on those dreaming after taking a narcotic.

Minister Dodge's statement is exceedingly painstaking and to the point. Some of the outstanding points include his revelation of the actual economic situation, that a balanced budget is important for a stabilized economy, that special accounts and budget estimates of government agencies are far more important than general accounts, and that reduced taxes are practicable only when total tax collection has been achieved.

It is regrettable that the Government's explanations of the budget bill to the Diet were not so plain and detailed as Minister Dodge's statement....

Nihon Keizai, Tokyo,
April 17, 1949

THEORY OF AUSTERE LIVELIHOOD

The Dodge statement on the budget for 1949 fiscal year requiring the Japanese people to live an austerity life is very blunt....Frankly speaking, the Japanese people are not satisfactorily

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ready to endure the austerity life, even if they recognized ideologically its necessity and inevitability. All of them hope to hold it off as long as possible. It is undeniable that most of the people have been reluctant to lead the austerity life up to the present even when they have been convinced of the severity of the Nine Point Economic Stabilization Program, aiming at economic stabilization and independence, and when they have been informed of the balanced budget for the 1949 fiscal year, compiled along the lines of that Program....

Moreover, most of the people have been liable to forget that our living standard is supported by US aid. The budget of the current year will remind us clearly of what we have been liable to forget. This is just what the Dodge statement aims at. However, the view that the call for an austerity living comes exclusively from the standpoint of the US is, of course, one that sees no more than one side of the truth. It behooves the Japanese people to see the other side and think of the meaning of the austerity living from their own standpoint....

Not only is an austerity living our obligation to the US but it is a necessity and categorical imperative for us. If this is the case with us, we would do well to understand that independence of Japanese economy is our supreme goal and to discover the ethics of an austerity living by considering the standpoints of both Japan and the US which calls for it.

Sekai Keizei, Tokyo,
April 17, 1949

LESSONS FROM THE DODGE STATEMENT

In his statement on the Japanese budget, Minister Dodge pointed out that there seems to be astonishingly little comprehension among the Japanese people of the real situation in their country, for nothing else should have been expected as the result of the war but a long period of hardship and self-denial. Such remarks have hit the Japanese people in a sore spot. In the past rehabilitation has been sought through inflation, completely ignoring the loss of the nation's basic economic factors, increased population, and dwindling of economic resources. This means nothing more than building castles in the sand, as the Dodge statement and the nine point economic principles have clearly shown....

It should be borne in mind that the Dodge statement is a warning to many enterprises. Indeed, mere reliance upon subsidies and

inflation

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inflation, while procrastinating rationalization, can ensure neither stabilization nor reconstruction....As Minister Dodge pointed out, the Japanese people are living beyond their means. A sizable portion of the people are intoxicated with inflation, and many have lost the will to work and are living on what they have accumulated in the past. It is time we take stock of ourselves, bearing in mind that inflation has virtually crippled national finance, enterprise, and management, and has plunged the national economy into disorder....

The Dodge statement has no direct bearing upon the passage of the budget bill by the Diet. This is because the Lower House will pass the bill on the numerical strength of the government parties. The merit of his statement, therefore, should be sought elsewhere. Indeed, it has called upon the Japanese Government to drastically revamp the nation's financial and economic policies and it has awakened the people to the actual state of affairs.

Mainichi, Tokyo,
April 17, 1949

MINISTER DODGE'S STATEMENT

Minister Dodge has made public his second statement on the Japanese budget. The statement clarifies the basic policy for working out the budget for the 1949-50 fiscal year for which he has continued energetic study and has given guidance to the Government since his arrival here. It is the bluntest but most revealing comment.

From the draft budget presented to the Diet and the Finance Minister's speech, we understand what a really balanced consolidated budget is like. It is undeniable that the weakness, inconsistency, and instability of the Japanese economy are reflected in the new draft budget because public finance, with the national and local government budgets on a large scale, has an overwhelming influence upon the national economy. It is certain that the Diet will pass the budget bill. But, we cannot help feeling somewhat disappointed. However, it is really one of the most epoch-making events since the war that a really balanced budget and a wholesome finance should be inaugurated this year....

Minister Dodge clarified the policy for the use of the US aid counterpart fund expected to amount to 175,000,000,000 yen. Japanese financial circles are now paying keen attention to this problem. This is because the question whether the Japanese economy will be along the line of disinflation or be thrown into deflation depends

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largely upon the operation of the counterpart fund. Minister Dodge described only the basic policy for its operation. We are deeply interested in the concrete application of the policy. Both the Government and the Bank of Japan as well as all other financial institutions and industrial circles must be ready to cooperate closely with the GHQ authorities for the fair and appropriate use of this fund which is placed under the supervision of SCAP.

Jiji Shimpō, Tokyo,
April 17, 1949

DODGE STATEMENT AND AMOUNT OF CURRENCY

The Dodge statement clarified the outline of Japan's financial policy, leaving no room for doubt. However, it did not necessarily clarify important banking policies, excepting that for the strict control over the operation of the central bank backed by national credit. Particularly, it is impossible to have any knowledge of whether to increase or decrease bank notes under the new banking policy; that is to say, whether or not an increase of bank notes is considered as being a cause for accelerated inflation, whether to take specific control measures or not if it is considered as being a cause for inflation, or what formula will be adopted in employing such measures. Not only bankers but general industrialists are highly interested in these issues....

In the past the Government met the requirements of industry for working capital and equipment funds by means of the central bank's credit backed by national power. This fact was represented by "the Reconstruction Finance Bank inflation." In other words, the past formula was political rather than purely economical. It meant drawing out the central bank's credit by means of politics rather than making the actual conditions of economy reflect on the credit of the central bank. However, under the new policy the past formula, that is the political one, was eliminated. In the future, industrial funds will flow according to purely economic value--at least with economic value as a center. The result will be that even if the central bank note issue increases, such increases will not be made by political means as it was in the past, that is not limitlessly, but will reflect the actual conditions of economy--in other words, there will be a limit to such increases....

Needless to say, we do not necessarily agree on every part of the statement. We, nevertheless, admit that there is no room to disagree, positively and technically, on any part of the statement. This fact affords us ample ground for believing that the line of thought, under the new policy, about note issuance is accepted, both positively and technically. In other words, it does not

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necessarily disfavor an increase of bank notes. It is hoped that the aforementioned statement is a literal expression of such a basis.

Asahi, Tokyo,
April 17, 1949

SPEED SOLUTION OF DELAYED PAYMENTS

A problem that should be solved first in embarking upon the 1949 economy, centering around the administration of the new budget, is the elimination of various unpaid bills. It may not be unreasonable to assert that the nation's present-day economy is under a slow, partial moratorium. The Government, for instance, is the first to evidence this, delaying payments of its bills to private circles....

Reportedly, overdue government payments total approximately 50,000,000,000 yen as of the end of March. Moreover, it is to be pointed out that the 1948 budget appropriations can meet these payments but that officials have caused the delay.... Price subsidies also constitute an issue. Those subsidies which ran short in the fiscal year 1948 and consequently have been appropriated in the 1949 budget, total 50,000,000,000 yen. This may also be termed payment in arrears. Moreover, the existence of unpaid accounts among vital industries, with the coal industry heading the list, is to be noted. Reportedly the coal industry's delayed payments to its related businesses are estimated at around 10,000,000,000 yen.... These unpaid accounts among essential industries naturally have a distressing effect upon smaller industries. With these accounts figured at approximately 60,000,000,000 yen, it is becoming common knowledge in economics that prompt payment of bills is impossible nowadays....

The delay in payments is not due to the lack of money. Government deposits exist in various forms, recording approximately 57,000,000,000 yen as of April 14. Therefore, even if all the overdue bills under the 1948 budget are paid, it is estimated that a surplus will ensue. There is hardly any other country in the world where the Government is unusually persistent in collecting taxes and yet neglectful of paying bills. The Government may attempt to excuse itself in various ways; they may, for instance, cite some government ordinances or the inevitable deterioration of business efficiency. Essentially, however, it cannot be denied that the Government is lacking in a genuine desire to rid the nation's industry

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of its distress. It is most essential at this moment that a sense of money interest be implanted in our officialdom....

A comprehensive grasp of the truth is of paramount importance in coping with the problem of delayed payments. A drastic plan should then be worked out in keeping with such an understanding. Hesitation may obstruct the promotion of the nine-point economic program considerably. Prompt clearance work should begin at the earliest date. The Government should not ward off its responsibilities.

Yomiuri, Tokyo,
April 18, 1949

COLD REALITY AND POLITICAL POVERTY

Minister Dodge has released a statement regarding the budget for the 1949 fiscal year. Since a tendency favoring budget revision has been in evidence among the government and opposition parties, the statement has turned out to be a stern warning to political circles, while calling for serious reflection on the part of the entire nation.

The Japanese people, he said, have been living beyond their means. US aid has been given to enable them to stand alone, not to live in comfort; in other words, to enable them to get along somehow or other in the future without the benefit of US aid. He continued that it is time the Japanese began to face reality and regain their independence through their own efforts. His warning is not a mere sermon but an exact indication of the cold reality confronting us.

As we have stressed in this column again and again, too many optimistic views have prevailed in regard to present-day Japan's objective situation. The natural weakness of the Japanese, particularly of politicians, is the strong inclination to interpret reality from a standpoint convenient to themselves, without screwing up our courage and confronting matters bravely.

The recent war, which has brought about such hardships to the nation, is basically attributable to the mistaken wishful thinking of militarists, bureaucrats, and politicians. Similar errors have been repeated by postwar politics. The Dodge statement has pointed out this weakness in a straight-forward fashion.

Now is the time for the nation to face stern reality bravely. It would be well to discard the optimistic view that the United States will give us as much aid as we desire in order to prevent Japan from going communistic. It is necessary to realize that US aims to help the Japanese regain their independence through their own efforts, rather than to give them relief....

GENERAL HEADQUARTERS
 FAR EAST COMMAND
 Public Information Office

Enclosure No. 1 to Despatch 237
 dated April 19, 1949, from USPOLAD,
 Tokyo, on subject "Transmitting
 Statement on Japanese Budget by
 Minister Joseph M. Dodge and
 editorial Comment Thereon."
 15 April 1949

IMMEDIATE RELEASE:

The following statement on the Japanese budget was made public today by the Honorable Joseph M. Dodge, Financial Adviser to the Supreme Commander:

Introduction

Every element of the budget problem can be discussed and amplified almost indefinitely in any direction. It is not my intention to do this but to make comments on its more important aspects which will suggest appropriate analyses and conclusions. I already have observed keen interpretations of the economic implications of the budget in the press.

General Comment

The creation and implementation of a balanced budget is the first requirement of the Nine Point Stabilization Program. As such it is the unqualified obligation of every political party and every individual. It should have been made an integral part of each party platform. It is a Japanese national problem, not a political party problem. It is essential to establishing a sound foundation for further economic reconstruction and the effective use of U.S. appropriations made for the benefit of the Japanese economy.

The stabilization program requires of the Japanese government what the former Allies of the United States, who are receiving its aid, have agreed to do in formal contracts with the U.S. government.

There seems to be astonishingly little comprehension among the Japanese people of the real situation of their country. Nothing should have been expected as the result of the war but a long term of hardship and self-denial. The nation continuously has been living beyond its means. There has been a general disposition in the Japanese government to accede to any demand to spend more and more and to attempt to spend every source of income more than once. Too much of this spending has not been put to productive use.

Any measurement of the direct and indirect losses resulting from the war will clearly show that Japan cannot afford to dissipate capital. It has suffered severe physical loss and damage and economic and financial dislocations. It has lost its empire and with that has lost great investments and sources of raw materials, production and trade. Also there has been a loss of the influences that empire brought to bear on other contiguous trading areas. Japan's population has been increased by repatriation and concentrated to its homeland. There is a large net gain in population each year. These are serious problems. Their effects reach everywhere and they cannot be quickly or easily overcome.

Any realistic view of the economic problem suggests a rough and rocky road which will severely test the strength, character and loyalty of the people. The economy has travelled the early part of this road in a damaged and unrepaired vehicle but the vehicle and the passengers have been protected from road shocks by a cushion of U.S. aid. It is time the Japanese began to face up to the unalterable facts of their own life and organize themselves to meet their own problems and regain their independence by their own efforts.

A better perspective of the problems of the present situation can be achieved if they are properly related to what the conditions might have been without the benefit of U.S. aid or might become when this aid has to be reduced or withdrawn.

It will require the active and continuous support of every individual in meeting its national problems for this country to regain

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an independent status in world affairs. U.S. aid only can serve as a stimulant to the efforts of the Japanese people to find the way to develop a self supporting economy as a result of their own labors.

There is no place where inflation takes over quicker and moves faster than in a shortage economy. Productivity is decreased and not increased by government spending. It should be remembered that a government can neither spend nor give away except what it first acquires from someone. Governments only spend other people's money. Wealth must be created before it can be divided.

The Japanese people should demand a balanced budget and should then direct their attention to the elimination of excessive expenditures, wastefulness, subsidies, over employment and the general dependence on government instead of individual or group accomplishment. It is these which must be revised to produce later tax reductions.

The Government Budget

The government budget is the financial structure within which the government conducts its business. It is the window through which the people should clearly see what the government intends to do, how it will operate and what its impact on the people and the economy will be in the coming fiscal year.

Heretofore, the budget has not adequately served this purpose. The two principal reasons for this are that the facts have not been made clear by the form of the budget itself and that the discussion and publicity has always centered around only one part of the budget, the general accounts. Another important part of the government operations is represented in the special accounts, which have been largely ignored.

These two parts are closely interrelated. One part could show a balance or even a surplus and the other show even a greater deficit. One could show a small deficit and the other add to this a much larger deficit. Combined, as they should be, in a consolidated budget the real facts of the government financial position and intentions are shown and in this way part of the window is cleared.

This fiscal year's budget is intended to accomplish a balance of all government accounts. It discards the practice of encouraging and permitting the people to believe the situation is different than it is by emphasizing merely the result given in the general accounts of the government which is only part of the story of what the government is doing with public funds.

The Japanese government budget system is inadequate, both in its mechanism and the time elements allowed for preparing a budget. It has been completely ineffective as an instrument of administrative control. It is neither clear nor understandable. It has not shown all of the current government obligation. The record of the past shows that it has had little meaning. It has been a record of budget delays, provisional budgets, supplementary budgets and deficits.

The 1948 Deficit Record

In 10 months of the last fiscal year the government debt increased 178 billion. At the end of the fiscal year the government had an unfunded deficit of about 48 billion. A large part of this increase in debt was nothing more than a funded deficit. Any combination or adjustments of these figures indicates an actual deficit of more than 150 billion for fiscal year 1948.

The Overall Budget

The total figures of the consolidated budget will appear large for several reasons. First, because it is a consolidated budget. Second, because it is on a higher inflation level than existed a

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year ago. Third, because there are so many elements appearing in the budget for the first time, which had previously been obscured in other accounts. Fourth, because the budget computation includes many inter-account transfers, viz., amounts appearing on the disbursement side of one account and the revenue side of another.

The total of the publicly reported budget is about one hundred per cent greater than the actual budget transactions. The general accounts represent only about one-sixth of the reported total budget. The tax revenues represent only about one-eighth of the total reported revenues. The remainder comes from other special and general account revenues.

The Japanese press reports a total budget in excess of 4 trillion yen. This figure includes approximately 400 billion yen for local government budgets which are independent of the national budget. The 3.6 trillion yen national budget is further reduced to about 2 trillion yen by accounting transfers and necessary temporary borrowing to finance current transactions. The budget is balanced in consolidated form at an actual level of about 2 trillion yen.

In the most general terms the normal increase in expected tax revenues at the existing rates due to inflationary increases, and the limitation of expenditure expansions has been set aside to absorb the heretofore concealed subsidies, to create the Counterpart Fund representing U.S. aid, to absorb the unfunded deficit and other losses in government accounts and to retire a portion of the existing government debt.

The actual total of approximately two trillion for the consolidated budget compared to any estimate of annual national income shows that an appalling proportion of the total national business is represented by government transactions viz: transactions which proceed through government instead of private channels. Some estimates indicate this is as much as two-thirds.

The Government Revenues

The larger estimated tax revenues of the government in this year's budget have been generally referred to as "tax increases". This is inaccurate. The tax revenues in the present budget are at the already existing tax rates applied to a higher level of income and prices. This is one of the products of inflation.

The attainment of the revenue objective under the taxes set forth in the budget is essential to meet the expenditures provided for in the budget.

The tax rates themselves are high but the effective collection under the rates are low. There is a real need for greater equity in tax administration. But no tax rate will be equitable or effective until each individual is willing and is required to pay his proper share of the tax burden. Modification of the existing tax rates can be justified only when the people wholeheartedly do their part in meeting their tax liability.

The administrative requirement is to insure that every individual pays his full legal tax debt. The honest tax payer should not be penalized by being forced to carry the load of the tax evader. The profits of the tax evaders and the black market operators should be the first and most vigorously attacked.

Tax reduction must be predicated on an assured revenue under whatever rate is established. Taxes cannot be reduced in face of a record of progressively greater government spending. They can only be reduced as a result of progressively less government spending. After accomplishment, not before.

Emphasis to date has been on a maximum of government expenditures instead of on a minimum. Under these conditions there can be no other result than an increased tax burden.

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In insisting on the removal of the deficit financing the most vicious type of general taxation has been eliminated. Actually, everyone has been paying two types of taxes. One type is composed of legal taxes, the other is the indirect taxation reflected by uncontrolled and continuous government deficit financing.

The Government Expenditures

Government expenditures remain high. Planned expenditures are all shown for the first time. Subsidies are revealed for the first time. Where there is concern about the level of taxation the level of expenditures also should be noted. It is government expenditures that determines tax requirements.

There has generally been no "slashing" of expenditures. Most expenditures actually are higher than last year. The saving on expenditures has been primarily in restricting their further large expansion. The reductions are from extremely high original estimates of proposed expenditures, which were inappropriate to the general financial means available. This is an accomplishment only in that it modifies the past practice. There is still much to be done and much that can be done to reduce expenditures.

The Government Subsidies

Since the end of the war large amounts of U.S. goods have gone into the foreign trade account but this fund shows no balance because the imported goods have been sold at so much less than cost. This process has obscured subsidies from the view of the public.

One leg of the "stilts" has been built from subsidies. These have been hidden in the transactions of the foreign trade account and have not been clearly shown in the budget. Actually they are government grants to particular producers, or consumers, from the government tax revenues collected from all of the people and from the proceeds of the U.S. aid furnished Japan. Now these actions will be made clear and grants of tax money to reduce prices of special goods or products to consumers will be seen.

Subsidies are exposed in the budget so as to clearly place the responsibility for their use in the Japanese government and to ensure that appropriate action will be taken to reduce and finally eliminate them. They represent a large amount, seen for the first time. But the amount is actually much less than it would have been had the practice of last year been fully extended to the wage and price levels of this year. The amount does embody a substantial reduction. It should be progressively eliminated.

This practice of the general use of subsidies is abnormal and undesirable. It creates fictitious and unnatural price relationships. Also it is more costly than the mere figures indicate. The amount collected in taxes for subsidies is first reduced by the cost of tax collection and then progressively reduced by the other administrative costs of the government and the operating costs of every Kodan or government department handling the transaction until the remainder is actually applied to a consumer price of food, material, or product. Thus the consumer taxpayer inevitably receives back only part of what he pays out for this purpose. But the taxes are paid by all of the people and except for subsidies granted to hold down the price of basic foods consumed by all the people, the tax proceeds going into subsidies are distributed for the benefit and protection of special groups of people.

Something can be said in favor of certain price increases perhaps costing the consumer less than some taxes are now costing him. Too much of the price of too many materials and products is collected by the Tax Bureau of the government instead of in the market.

Whatever these subsidies may be, and whatever amount of them may be considered necessary, they should and must be paid from tax-

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revenues and not from the proceeds of the U.S. aid. By the transfer of these subsidies from the foreign trade account and making them a charge to government revenues it has been possible to set up the Counterpart Fund as the equivalent of U.S. aid imports.

The Counterpart Fund

The Counterpart Fund sets up in the budget for the first time the estimated amount of U.S. aid which may be received during the coming fiscal year. The use of this fund will be under the control of SCAP. It is a powerful fiscal instrument for helping meet the future trends of the economy. Its use will be closely supervised and follow the general principles of similar U.S. aid funds elsewhere but related to the particular conditions of this economy. Its principal uses will be for the retirement of government debt and for capital investment purposes which contribute directly and quickly to economic reconstruction. It will not be a political grab bag. In considering releases from the Counterpart Fund for investment projects great weight will be given to the progress made in achieving the tax goals set forth in the budget, how the budget expenditures are being administered, and the fulfilment of the terms of the Nine-Point Stabilization Program.

Credit Policy

The balanced consolidated budget for the 1949 fiscal year together with the Counterpart Fund provide instruments with which the Government operations may be carried on without contributing to an inflationary expansion of the money supply. These also supply the means through which the legitimate requirements of industry for working capital and equipment funds may be met without an inflationary impact. The effect of this is closely related to credit policy. Investment expenditures from the Counterpart Fund will offset in advance by collections from the proceeds of imports. However, through the investment funds and the retirement of RFB and other government debt provided for in the budget and through the Counterpart Fund substantial means have been created for meeting the needs for extending sound and proper credit and for essential capital investment purposes.

Enclosure No. 1 to Despatch 237
dated April 19, 1949, from USPOLAD,
GENERAL HEADQUARTERS Tokyo, on subject "Transmitting
FAR EAST COMMAND Statement on Japanese Budget by
Public Information Office Minister Joseph M. Dodge and
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It will require the active and continuous support of every individual in meeting its national problems for this country to regain

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year ago. Third, because there are so many elements appearing in the budget for the first time, which had previously been obscured in other accounts. Fourth, because the budget computation includes many inter-account transfers, viz., amounts appearing on the disbursement side of one account and the revenue side of another.

The total of the publicly reported budget is about one hundred per cent greater than the actual budget transactions. The general accounts represent only about one-sixth of the reported total budget. The tax revenues represent only about one-eighth of the total reported revenues. The remainder comes from other special and general account revenues.

The Japanese press reports a total budget in excess of 4 trillion yen. This figure includes approximately 400 billion yen for local government budgets which are independent of the national budget. The 3.6 trillion yen national budget is further reduced to about 2 trillion yen by accounting transfers and necessary temporary borrowing to finance current transactions. The budget is balanced in consolidated form at an actual level of about 2 trillion yen.

In the most general terms the normal increase in expected tax revenues at the existing rates due to inflationary increases, and the limitation of expenditure expansions has been set aside to absorb the heretofore concealed subsidies, to create the Counterpart Fund representing U.S. aid, to absorb the unfunded deficit and other losses in government accounts and to retire a portion of the existing government debt.

The actual total of approximately two trillion for the consolidated budget compared to any estimate of annual national income shows that an appalling proportion of the total national business is represented by government transactions viz: transactions which proceed through government instead of private channels. Some estimates indicate this is as much as two-thirds.

The Government Revenues

The larger estimated tax revenues of the government in this year's budget have been generally referred to as "tax increases". This is inaccurate. The tax revenues in the present budget are at the already existing tax rates applied to a higher level of income and prices. This is one of the products of inflation.

The attainment of the revenue objective under the taxes set forth in the budget is essential to meet the expenditures provided for in the budget.

The tax rates themselves are high but the effective collection under the rates are low. There is a real need for greater equity in tax administration. But no tax rate will be equitable or effective until each individual is willing and is required to pay his proper share of the tax burden. Modification of the existing tax rates can be justified only when the people wholeheartedly do their part in meeting their tax liability.

The administrative requirement is to insure that every individual pays his full legal tax debt. The honest tax payer should not be penalized by being forced to carry the load of the tax evader. The profits of the tax evaders and the black market operators should be the first and most vigorously attacked.

Tax reduction must be predicated on an assured revenue under whatever rate is established. Taxes cannot be reduced in face of a record of progressively greater government spending. They can only be reduced as a result of progressively less government spending. After accomplishment, not before.

Emphasis to date has been on a maximum of government expenditures instead of on a minimum. Under these conditions there can be no other result than an increased tax burden.

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In insisting on the removal of the deficit financing the most vicious type of general taxation has been eliminated. Actually, everyone has been paying two types of taxes. One type is composed of legal taxes, the other is the indirect taxation reflected by uncontrolled and continuous government deficit financing.

The Government Expenditures

Government expenditures remain high. Planned expenditures are all shown for the first time. Subsidies are revealed for the first time. Where there is concern about the level of taxation the level of expenditures also should be noted. It is government expenditures that determines tax requirements.

There has generally been no "slashing" of expenditures. Most expenditures actually are higher than last year. The saving on expenditures has been primarily in restricting their further large expansion. The reductions are from extremely high original estimates of proposed expenditures, which were inappropriate to the general financial means available. This is an accomplishment only in that it modifies the past practice. There is still much to be done and much that can be done to reduce expenditures.

The Government Subsidies

Since the end of the war large amounts of U.S. goods have gone into the foreign trade account but this fund shows no balance because the imported goods have been sold at so much less than cost. This process has obscured subsidies from the view of the public.

One leg of the "stilts" has been built from subsidies. These have been hidden in the transactions of the foreign trade account and have not been clearly shown in the budget. Actually they are government grants to particular producers, or consumers, from the government tax revenues collected from all of the people and from the proceeds of the U.S. aid furnished Japan. Now these actions will be made clear and grants of tax money to reduce prices of special goods or products to consumers will be seen.

Subsidies are exposed in the budget so as to clearly place the responsibility for their use in the Japanese government and to ensure that appropriate action will be taken to reduce and finally eliminate them. They represent a large amount, seen for the first time. But the amount is actually much less than it would have been had the practice of last year been fully extended to the wage and price levels of this year. The amount does embody a substantial reduction. It should be progressively eliminated.

This practice of the general use of subsidies is abnormal and undesirable. It creates fictitious and unnatural price relationships. Also it is more costly than the mere figures indicate. The amount collected in taxes for subsidies is first reduced by the cost of tax collection and then progressively reduced by the other administrative costs of the government and the operating costs of every Kodan or government department handling the transaction until the remainder is actually applied to a consumer price of food, material or product. Thus the consumer taxpayer inevitably receives back only part of what he pays out for this purpose. But the taxes are paid by all of the people and except for subsidies granted to hold down the price of basic foods consumed by all the people, the tax proceeds going into subsidies are distributed for the benefit and protection of special groups of people.

Something can be said in favor of certain price increases perhaps costing the consumer less than some taxes are now costing him. Too much of the price of too many materials and products is collected by the Tax Bureau of the government instead of in the market.

Whatever these subsidies may be, and whatever amount of them may be considered necessary, they should and must be paid from tax

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revenues and not from the proceeds of the U.S. aid. By the transfer of these subsidies from the foreign trade account and making them a charge to government revenues it has been possible to set up the Counterpart Fund as the equivalent of U.S. aid imports.

The Counterpart Fund

The Counterpart Fund sets up in the budget for the first time the estimated amount of U.S. aid which may be received during the coming fiscal year. The use of this fund will be under the control of SCAP. It is a powerful fiscal instrument for helping meet the future trends of the economy. Its use will be closely supervised and follow the general principles of similar U.S. aid funds elsewhere but related to the particular conditions of this economy. Its principal uses will be for the retirement of government debt and for capital investment purposes which contribute directly and quickly to economic reconstruction. It will not be a political grab bag. In considering releases from the Counterpart Fund for investment projects great weight will be given to the progress made in achieving the tax goals set forth in the budget, how the budget expenditures are being administered, and the fulfilment of the terms of the Nine-Point Stabilization Program.

Credit Policy

The balanced consolidated budget for the 1949 fiscal year together with the Counterpart Fund provide instruments with which the Government operations may be carried on without contributing to an inflationary expansion of the money supply. These also supply the means through which the legitimate requirements of industry for working capital and equipment funds may be met without an inflationary impact. The effect of this is closely related to credit policy. Investment expenditures from the Counterpart Fund will offset in advance by collections from the proceeds of imports. However, through the investment funds and the retirement of RFB and other government debt provided for in the budget and through the Counterpart Fund substantial means have been created for meeting the needs for extending sound and proper credit and for essential capital investment purposes.

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THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

United States Political Adviser
for Japan

Handwritten initials and signature

No. 239

Tokyo, April 20, 1949

CONFIDENTIAL
(For Department Use Only)

Subject: Comment on Statement on Japanese Budget issued
April 15, 1949 by Financial Adviser Dodge

DIVISION OF FINANCIAL AFFAIRS
File 40 action
4/25/49
DEPARTMENT OF STATE

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APR. 28

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The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to refer to this Mission's despatch No. 237 dated April 19, 1949, transmitting a copy of a statement on the Japanese budget issued April 15 by Mr. Joseph M. DODGE, financial adviser to General MacARTHUR.

According to statements made to an officer of this Mission by Dr. W. E. REID, a member of the Dodge group, the statement in question was drawn up under Mr. Dodge's direction in consultation with Finance Minister IKEDA Hayato, who assertedly expressed concurrence on all points contained therein.

Issuance of the statement was timed to coincide with the discussions in the Diet on the budget, according to Dr. Reid, who added that one of the important objectives sought was to counter Communist attacks on the budget and on the present Japanese Government administration headed by Prime Minister YOSHIDA Shigeru.

Dr. Reid stated further that Mr. Dodge's statement of March 7, 1949 (see this Mission's despatch No. 144 of March 11, 1949), has regularly been cited by Japanese officials and by the local press as of more or less equal status with the Nine Point Economic Stabilization Program. He expressed the opinion that the April 15 statement will undoubtedly be added to those two documents to constitute a three-cornered platform for Japanese economic stabilization.

Respectfully yours,

W. J. Sebald
W. J. Sebald

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June 3, 1949

Dear Major Eklund:

Mr. Butterworth has asked me to thank you and Mr. West for sending us, with your letter of May 31, 1949, a copy of Mr. Joseph Dodge's press statements.

Sincerely yours,

MWB
Max W. Bishop
Chief

Division of Northeast Asian Affairs

Maj. Lowell R. Eklund,
Assistant Executive,
Office, Assistant Secretary,
Department of the Army,
Washington, D. C.

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

31 May 1949

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Honorable W. Walton Butterworth
Director for Far Eastern Affairs
Department of State
Washington 25, D. C.

Dear Mr. Butterworth:

Mr. West has directed that you be furnished the enclosed copy of Mr. Joseph Dodge's press statements.

Sincerely yours,

Lowell R. Eklund
LOWELL R. EKLUND
Major, General Staff Corps
Assistant Executive

Encl
a/s

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PRESS STATEMENTS

JOSEPH M. DODGE

UNITED STATES MINISTER and FINANCIAL ADVISOR
to the SUPREME COMMANDER for the ALLIED POWERS
JAPAN

PRESS STATEMENT of MARCH 7, 1949 - TOKYO, JAPANOn a New Currency

There is no reason for any assumptions to arise from the fact that at one time I worked on the original plans for a German financial rehabilitation which included a drastic currency devaluation, since put into effect.

My presence in Japan does not indicate that any plans have been made for a similar monetary devaluation for Japan.

Whatever the problems may be here, they will be approached and considered by everyone concerned solely on the basis of local conditions and the fundamental requirements for achieving an effective financial and economic stabilization under the conditions relating to Japan alone.

I will state my personal conviction that, as a matter of principle, a currency devaluation should be avoided if any way can be found to do so. This will largely depend on the course of events. Principally, it will depend upon the sincerity and effectiveness with which the Japanese Government and the Japanese people meet the difficult problems connected with halting inflationary trends and achieving an actual financial and economic stabilization.

On the Foreign Exchange Rate

There exists a general desire for the early establishment of a single rate of exchange on foreign trade transactions. The urge to accomplish this is easily understood and there is an official objective to do so as soon as practicable.

While it is not too difficult a matter to compute a rate based on present circumstances, that is not all there is to the problem. There are other factors which should be considered.

It is one thing to establish a single official rate and another to defend it after it has been established. No one should want a rate which jiggles violently up and down.

Today the dollar rate is almost the sole consideration and concern because the present pattern of imports is overwhelmingly in dollars. However, that is not the historical pattern of Japanese foreign trade, and may not and probably should not be the pattern of the longer term future. Thus the ultimate pattern of Japanese trade is a factor also deserving of consideration.

Finally it should be remembered that the primary objective must be the accomplishment of a rate which will stimulate exports without unduly penalizing imports, and that an effective economic stabilization is closely related to achieving a sound and satisfactory result.

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On Inflation and Stabilization

Real stability and progress has to be based on a sound fiscal and monetary approach to the Nation's problems. An effective stabilization requires relating all policy decisions to the government budget as a primary instrument of financial policy.

It is government which turns on the spigots of inflation and government which must turn them off. Inflation first must be sterilized at the source. This means that all economic and political decisions must be directly related to cost and the production needs of the economy.

It is not easy for a government to reduce its own spending in terms of subsidies, investments, and other general expenses. Nevertheless, it has to be done and awkward decisions cannot be set aside. Government expenditures have to be limited to the resources from available taxes. Reduction of taxes is the end result of reduction in government expenditures.

Also it must not be overlooked that government investments and expenditures are rarely as productive as private investments and expenditures of the same amount. In a shortage economy every resource, whether money, labor, or material, drawn off for unnecessary or non-productive purposes tends to add to inflationary pressures. Therefore the questions of absolute need, priority of need, and the effective use of the funds absorbed by taxation and spent by the government have equal importance with the principle of their being covered by the revenues actually received.

To meet the problem it will be necessary for the Japanese Government to assume and exercise the power and find the means to discharge its responsibilities to the Nation, to the United States, and to the Allied Powers. Restrictions on private consumption and expenditure cannot be advocated by the State and then most widely ignored by the State. The average man cannot be induced to practice thrift unless his government sets the example. No government can expect from its people virtues which it does not itself practice.

Some salutary anti-inflation readjustments and developments are not only necessary but desirable for the longer-run good of the Japanese economy. It cannot afford to waste any existing elements of strength supporting the unrealistic distortions and dislocations of an inflationary trend. A postponed readjustment inevitably will be extremely serious and of much longer duration.

Everyone complains about the high price effects of inflation but wants to keep on getting his own slice of government funds. Inflation is always considered bad for other people but individuals want to keep for themselves whatever personal benefits they mistakenly believe arise from it. Increased subsidies, increased wages, and increased government expenditures go hand in hand with higher prices to consumers and higher taxes. That is why wage stabilization is a fundamental factor in general stabilization. It must be remembered that while wages increase by arithmetical progression, prices increase by geometrical progression. The consumer is always the loser.

- 3 -

Inflation burns the economic candle at both ends. The off end belongs to those who are being stripped of the value of their earnings and savings by rising prices. The near end belongs to those who are spending the values extracted from the public. They are spending other people's money.

Political and economic liberation has not increased the supply of goods and services as much as it has the demand for them. The facts are that the spending power in existence is too large for the supply of goods and services left over after satisfying the requirements of the government, exports, capital programs, and war termination costs.

Under present conditions if the people are to have or to consume more, it can only come from reducing these requirements or as a gift from the United States. Therefore, any relaxation in favor of the domestic economy must be offset by a tightening up somewhere else, and every consideration in favor of the domestic economy must be accompanied by offsetting proposals of retrenchment.

There should be a general recognition that an increasing part of the national output will be needed for years ahead to replace the free goods now coming from the United States, which cannot come forever.

If this is to be accomplished, there must be less thinking solely in terms of how much United States aid will be forthcoming and more thinking of increased production, decreased costs, and greater exports. To increase substantially exports will require continued limitations on domestic consumption and an emphasis on the needs of the export consumer rather than that of the domestic consumer. While the domestic need for consumer and capital goods is real and apparent, internal rehabilitation and expansion necessarily falls into second place behind the need for a priority of exports. The objective must be to achieve self-support so as to warrant continuation of United States aid and ultimately create the conditions favorable for foreign credits.

It should be understood clearly that the United States Government is rightly concerned that lasting benefits to the Japanese economy and itself must result from grants of aid or credits.

These are the simple propositions governing economic policy. They are hard truths and not pleasant to hear, but they are no more inexorable than the facts themselves.

The problems cannot be met by any form of monetary miracle or fiscal policy alone. They can be met only by increased production at less cost, sound fiscal and monetary policies, increased exports, and a continued domestic self-denial.

In Conclusion

Finally, I urge every Japanese citizen to understand and remember these facts:

First: The hundreds of millions of dollars of aid received each year by Japan from the United States comes from the taxes imposed on the individual

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citizens and business enterprises of the United States. In turn these taxes have been paid from the wages of American workers and the production and profits of American business and industry. And the American citizen does not like to pay taxes any more than does the Japanese citizen.

Second: These dollars, or their equivalent in goods being received by Japan (which are so necessary right now to its economic life and rehabilitation) actually are only a temporary substitute for and supplement to the production and exports which Japan must provide for itself. Japan has met the requirements of its own livelihood and progress in the past and must prepare to do so again, as quickly as possible.

There can be no permanent substitute from the resources of another Nation for the efforts required from the Japanese Government and the Japanese people to meet their own problems. To live as a self-supporting and not a dependent Nation, Japan must produce more at less cost, it must accumulate capital by savings and economy, it must supplement its limited internal resources with materials and products only available from other sources and it must be able to pay for them from expanding exports.

To put it briefly, the national deficit cannot be allowed to increase as production expands.

We have seen a rising production index, accompanied by a large and progressive increase in the amount of United States aid. The excess of imports has increased and the gap between imports and exports has substantially widened. The time must come when this national trend is completely reversed.

If individual enterprise continuously has to be subsidized to provide saleable exports, then increasing volume suggests only correspondingly increased subsidies and proportionally increased deficits.

To meet this problem the way has to be found to convert the dollar of imported materials into more, and not less, than a dollar of exports.

It is the height of folly to point with pride at an increasing production index or increasing exports which may actually represent only increased United States aid, increased subsidies and increased deficits. Too little attention is being given to the need for creating the greatest possible net production and using imported raw materials so as to create the greatest possible amount of net exports.

It is for these fundamental reasons that every individual citizen has to make it a personal, as well as a national goal to produce more and to save more.

There is no other way for the individual or the Nation to have more.

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PRESS STATEMENT of APRIL 15, 1949 - TOKYO, JAPAN

This statement on the Japanese budget was made public today by the Honorable Joseph M. Dodge, Financial Adviser to the Supreme Commander:

Introduction

Every element of the budget problem can be discussed and amplified almost indefinitely in any direction. It is not my intention to do this but to make comments on its more important aspects which will suggest appropriate analyses and conclusions. Already I have observed in the press, keen interpretations of the economic implications of the budget.

General Comment

The creation and implementation of a balanced budget is the first requirement of the Nine Point Stabilization Program. As such, it is the unqualified obligation of every political party and every individual. It should have been made an integral part of each party platform. It is a Japanese national problem, not a political party problem. It is essential to establishing a sound foundation for further economic reconstruction and the effective use of United States appropriations made for the benefit of the Japanese economy.

The stabilization program requires of the Japanese Government what the former allies of the United States, who are receiving its aid, have agreed to do in formal contracts with the United States Government.

There seems to be astonishingly little comprehension among the Japanese people of the real situation of their Country. Nothing should have been expected as the result of the war but a long term of hardship and self-denial. The Nation continuously has been living beyond its means. There has been a general disposition in the Japanese Government to accede to any demand to spend more and more and attempt to spend every source of income more than once. Too much of this spending has not been put to productive use.

Any measurement of the direct and indirect losses resulting from the war will clearly show that Japan cannot afford to dissipate capital. It has suffered severe physical loss and damage, and economic and financial dislocations. It has lost its empire and, with that, has lost great investments and sources of raw materials, production, and trade. Also, there has been a loss of the influences the Empire brought to bear on other contiguous trading areas. Japan's population has been increased by repatriation and concentrated to its homeland. There is a large net gain in population each year. These are serious problems. Their effects reach everywhere and they cannot be quickly or easily overcome.

Any realistic view of the economic problem suggests a rough and rocky road which will severely test the strength, character, and loyalty of the people. The economy has traveled the early part of this road in a damaged and unrepaired vehicle but the vehicle and the passengers have been protected from road shocks by a cushion

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of United States aid. It is time the Japanese began to face up to the unalterable facts of their own life and organize themselves to meet their own problems and regain their independence by their own efforts.

A better perspective of the problems of the present situation can be achieved if they are properly related to what the conditions might have been without the benefit of United States aid or might become when this aid has to be reduced or withdrawn.

It will require the active and continuous support of every individual in meeting its national problems for this Country to regain an independent status in world affairs. United States aid only can serve as a stimulant to the efforts of the Japanese people to find the way to develop a self-supporting economy as a result of their own labors.

There is no place where inflation takes over quicker and moves faster than in a shortage economy. Productivity is decreased and not increased by government spending. It should be remembered that a government can neither spend nor give away except what it first acquires from someone. Governments only spend other people's money. Wealth must be created before it can be divided.

The Japanese people should demand a balanced budget and should then direct their attention to eliminating excessive expenditures, wastefulness, subsidies, over-employment, and the general dependence on government instead of individual or group accomplishment. It is these which must be revised to produce later tax reductions.

The Government Budget

The government budget is the financial structure within which the government conducts its business. It is the window through which the people should clearly see what the government intends to do, how it will operate, and what its impact on the people and the economy will be in the coming fiscal year.

Heretofore, the budget has not adequately served this purpose. The two principal reasons for this are that the facts have not been made clear by the form of the budget itself, and that the discussion and publicity has always centered around only one part of the budget, the general accounts. Another important part of the government operations is represented in the special accounts, which have been largely ignored.

These two parts are closely interrelated. One part could show a balance or even a surplus and the other show even a greater deficit. One could show a small deficit and the other add to this a much larger deficit. Combined, as they should be, in a consolidated budget the real facts of the government financial position and intentions are shown and in this way part of the window is cleared.

This fiscal year's budget is intended to accomplish a balance of all government accounts. It discards the practice of encouraging and permitting the people to

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believe the situation is different than it is by emphasizing merely the result given in the general accounts of the government which is only part of the story of what the government is doing with public funds.

The Japanese Government budget system is inadequate, both in its mechanism and the time elements allowed for preparing a budget. It has been completely ineffective as an instrument of administrative control. It is neither clear nor understandable. It has not shown all of the current government obligations. The record of the past shows that it has had little meaning. It has been a record of budget delays, provisional budgets, supplementary budgets, and deficits.

The 1948 Deficit Record

In 10 months of the last fiscal year the government debt increased 178 billion. At the end of the fiscal year the government had an unfunded deficit of about 48 billion. A large part of this increase in debt was nothing more than a funded deficit. Any combination or adjustment of these figures indicates an actual deficit of more than 150 billion for fiscal year 1948.

The Overall Budget

For several reasons the total figures of the consolidated budget will appear large. First, because it is a consolidated budget. Second, because it is on a higher inflation level than existed a year ago. Third, because there are so many elements appearing in the budget for the first time, which previously have been obscured in other accounts. Fourth, because the budget computation includes many inter-account transfers - that is, amounts appearing on the disbursement side of one account and the revenue side of another.

The total of the publicly reported budget is about one hundred per cent greater than the actual budget transactions. The general accounts represent only about one-sixth of the reported total budget. The tax revenues represent only about one-eighth of the total reported revenues. The remainder comes from other special and general account revenues.

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In the most general terms, the normal increase in expected tax revenues at the existing rates applied to inflationary increases, and the limitation of expenditure expansions has been set aside to absorb the heretofore concealed subsidies, to create the Counterpart Fund representing United States aid, to absorb the unfunded deficit and other losses in government accounts, and to retire a portion of the existing government debt.

- 8 -

The actual total of approximately 2 trillion for the consolidated budget, compared to any estimate of annual national income, shows that an appalling proportion of the total national business is represented by government transactions, that is, transactions which proceed through government instead of private channels. Some estimates indicate this is as much as two-thirds.

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The attainment of the revenue objective under the taxes set forth in the budget is essential to meet the expenditures provided for in the budget.

The tax rates themselves are high, but the effective collections under the rates are low. There is a real need for greater equity in tax administration. But no tax rate will be equitable or effective until each individual is willing and is required to pay his proper share of the tax burden. Modification of the existing tax rates can be justified only when the people wholeheartedly do their part in meeting their tax liability.

The administrative requirement is to insure that every individual pays his full legal tax debt. The honest tax payer should not be penalized by being forced to carry the load of the tax evader. The profits of the tax evaders and the black market operators should be the first and most vigorously attacked.

Tax reduction must be predicated on an assured revenue under whatever rate is established. Taxes cannot be reduced in face of a record of progressively greater government spending. They can only be reduced as a result of progressively less government spending - after accomplishment, not before.

Emphasis to date has been on a maximum of government expenditures instead of on a minimum. Under these conditions there can be no other result than an increased tax burden.

In insisting on the removal of the deficit financing the most vicious type of general taxation has been eliminated. Actually, everyone has been paying two types of taxes. One type is composed of legal taxes, the other is the indirect taxation reflected by uncontrolled and continuous government deficit financing.

The Government Expenditures

Government expenditures remain high. Planned expenditures are all shown for the first time. Subsidies are revealed for the first time. Where there is concern about the level of taxation, the level of expenditures also should be noted. It is government expenditures that determine tax requirements.

- 9 -

Generally there has been no "slashing" of expenditures. Most expenditures actually are higher than last year. Primarily the saving on expenditures has been in restricting their further large expansion. The reductions are from extremely high original estimate of proposed expenditures, which were inappropriate to the general financial means available. This is an accomplishment only in that it modifies the past practice. There is still much to be done and much that can be done to reduce expenditures.

The Government Subsidies

Since the end of the war large amounts of United States goods have gone into the foreign trade account but this fund shows no balance because the imported goods have been sold at so much less than cost. This process has obscured subsidies from the view of the public.

One leg of the "stilts" has been built from subsidies. These have been hidden in the transactions of the foreign trade account and have not been clearly shown in the budget. Actually they are government grants to particular producers, or consumers, from the government tax revenues collected from all of the people and from the proceeds of the United States aid furnished Japan. Now these actions will be made clear, and grants of tax money to reduce prices of special goods or products to consumers will be seen.

Subsidies are exposed in the budget so as to clearly place the responsibility for their use in the Japanese Government and to ensure that appropriate action will be taken to reduce and finally eliminate them. They represent a large amount, seen for the first time. But actually the amount is much less than it would have been had the practice of last year been fully extended to the wage and price levels of this year. The amount does embody a substantial reduction. It should be progressively eliminated.

The practice of the general use of subsidies is abnormal and undesirable. It creates fictitious and unnatural price relationships. Also, it is more costly than the mere figures indicate. The amount collected in taxes for subsidies is first reduced by the cost of tax collection and then progressively reduced by the other administrative costs of the government and the operating costs of every Kodan or Government Department handling the transaction until the remainder is actually applied to a consumer price of food, material, or product. Thus, the consumer taxpayer inevitably receives back only part of what he pays out for this purpose. But the taxes are paid by all of the people and, except for subsidies granted to hold down the price of basic foods consumed by all of the people, the tax proceeds going into subsidies are distributed for the benefit and protection of special groups of people.

Something can be said in favor of certain price increases, perhaps costing the consumer less than some taxes are now costing him. Too much of the price of too many materials and products is collected by the Tax Bureau of the Government, instead of in the market.

- 10 -

Whatever these subsidies may be, and whatever amount of them may be considered necessary, they should and must be paid from tax revenues and not from the proceeds of the United States aid. By the transfer of these subsidies from the foreign trade account and making them a charge to government revenues, it has been possible to set up the Counterpart Fund as the equivalent of United States aid imports.

The Counterpart Fund

The Counterpart Fund sets up in the budget for the first time the estimated amount of United States aid which may be received during the coming fiscal year. The use of this fund will be under the control of SCAP. It is a powerful fiscal instrument for helping meet the future trends of the economy. Its use will be closely supervised and will follow the general principles of similar United States aid funds elsewhere but related to the particular conditions of this economy. Its principal uses will be for the retirement of government debt and for capital investment purposes which contribute directly and quickly to economic reconstruction. It will not be a political grab bag. In considering releases from the Counterpart Fund for investment projects, great weight will be given to the progress made in achieving the tax goals set forth in the budget, how the budget expenditures are being administered, and the fulfilment of the terms of the Nine-Point Stabilization Program.

Credit Policy

The balanced consolidated budget for the 1949 fiscal year, with the Counterpart Fund, provide instruments with which the government operations may be carried on without contributing to an inflationary expansion of the money supply. These also supply the means through which the legitimate requirements of industry for working capital and equipment funds may be met without an inflationary impact. The effect of this is closely related to credit policy. Investment expenditures from the Counterpart Fund will be offset in advance by collections from the proceeds of imports. However, through the investment funds and the retirement of RFB and other government debt provided for in the budget and through the Counterpart Fund, substantial means have been created for meeting the needs for extending sound and proper credit and for essential capital investment purposes.

PRESS STATEMENT of MAY 2, 1949 - TOKYO, JAPAN

Our mission here was to be of assistance to General MacArthur in meeting the problems related to a high level decision of the United States Government, represented by the Stabilization Program.

Such a mission naturally involved many complications and difficulties, not only for ourselves but for this Headquarters, the Japanese Government, and the Japanese people.

- 11 -

The difficulties and complications have been minimized by the complete cooperation accorded us by General MacArthur, Major General Almond, Major General Marquat, and other individuals of the Command who have been directly and indirectly related to the solving of the problems. This cooperation has been greatly appreciated.

In return, General MacArthur has been informed day by day of the problems and their background, our recommendations, and the reasons for them, in as completely objective a manner as possible. We could not have asked for greater support of our recommendations than he has given us.

PRESS STATEMENT of MAY 14, 1949 - SAN FRANCISCO, CALIFORNIA

Statements by Joseph M. Dodge, United States Minister and Financial Advisor to the Supreme Commander for the Allied Powers, San Francisco, California, May 14, 1949.

Our group went to Japan February 1 to assist General MacArthur in implementing a high level policy decision of the United States Government, represented by the Stabilization Directive of December 10, 1948. This decision was made in the fundamental, longer-term interests of the United States taxpayer and the Japanese people. Its objective was to ensure the constructive and effective use of United States appropriations for the reconstruction and rehabilitation of the Japanese economy. It was obvious that steps had to be taken to initiate a change in the existing extremely inflationary trend of affairs and to establish a base from which plans could be made which envisaged a progressive reduction and final elimination of United States aid appropriations.

Our work was facilitated and its problems minimized by the complete cooperation of General MacArthur and his staff, and was also materially assisted by the cooperation of Prime Minister Yoshida and Finance Minister Ikeda. These efforts, based on the Stabilization Directive, have produced certain significant results:

1. A balanced consolidated budget, which brought to a halt the long procession of progressive and large government deficits, and removed a most vicious type of double taxation.
2. The elimination of export subsidies, the reduction of import subsidies, and the transfer to the budget and disclosure of these latter subsidies, heretofore obscured in Foreign Trade Account transactions.
3. The creation of a Counterpart Fund, representing and clearly showing in the budget the amount of United States aid and allocating it to capital, rather than operating expenditures of the Japanese Government.
4. The establishment of a single rate of exchange, to stimulate and rationalize foreign trade transactions.

- 12 -

5. The tightening of the process of raw materials allocations for the purpose of maximizing export end products.

These and other related projects are directed at creating conditions under which the relatively low total of Japanese national debt and the traditional industry and capacity of the Japanese people can be adjusted and developed toward economic self-support.

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Office, Assistant Secretary
Lt Col Love 71259

To: SCAP

Nr: WAR 90656

24 Jun 49

Fr SAOAS cite FE.

1. NY stock exchanges have requested Govt to permit trading in Japanese Govt, municipal and corporate dollar scrys and relisting on exchanges when info reqd fr obligors by US scrys laws is aval. Scrys dealers are still inhibited fr trading these scrys by request of scrys and exchange com made during war after consultation with interested Govt Agencies. Trading in Japanese bonds in Swiss and London markets never was suspended. Present thinking here is that steps can now be taken toward resumption of trading in Japanese dollar scrys, incg the filing of info reqd under US scrys laws.

2. Considered here SCAPIN number 45 purports to void any unlicensed trf by any person anywhere although probably not enforceable as such outside of Japan. Resumption of trading would seem to indicate desirability for gen license under this law or amendment thereof covering Japanese dollar scrys not physically located in Japan.

3. While these scrys are considered extremely speculative, it is believed that advantage of quoted markets outweighs arguments for continuance of present ban on trading.

4. Your comments and/or recms desired soonest.

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DEPARTMENT OF STATE

Memorandum of Conversation CONFIDENTIAL

DATE: June 30, 1949

SUBJECT: Disposition of gold held in Japan which was earmarked for France and Thailand

PARTICIPANTS: The Secretary
G - Mr. Rusk DR
FE - Mr. Butterworth
L - Mr. Fisher
L - Mr. Tate
E - Mr. Thorp
Mr. Sebold, Political Adviser to General MacArthur

COPIES TO: Messrs. Rusk, Butterworth, Fisher, Tate, Thorp, Sebold.

1-1403

The Secretary approved the course of action contemplated by the letter to the Secretary of Defense and the directive to SCAP.

The Legal Adviser will revise the sentence on page 2: "Some of the gold was earmarked before December 7," etc.

Procedure:

After coordination has been carried out with the Army, the Secretary will take the matter up for approval of the President.

(It was considered for the Secretary to take up this matter with the President today, requesting him to appoint some member of his staff to sit down with the Army and Navy and work out an agreement. Mr. Rusk advised against this because such a procedure presumed greater difficulties with the Army than may be forthcoming. It was his view that the Army would probably go along.)

Mr. Rusk is responsible for coordination with the Army and will see to it that the Secretary is advised when he should take the matter up with the President.

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Per [Signature]

Executive Secy
[Signature]
S/S: [Signature]:AVH

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

49180

4 August 1949

Mr. O. J. McDiarmid
Room 623, State Annex 7
State Department
21st and C Streets, N.W.
Washington, D. C.

DIVISION OF FINANCIAL AFFAIRS
No action needed.
AUG 5 - 1949
Om
DEPARTMENT OF STATE

Dear Mac:

Re inflation in Japan.

Attached herewith letter from Mr. Dodge which he asked be sent on to you.

He is now preparing a final draft which he will send on to us at the same time as he forwards the original letter to Minister Ikeda. I will have copies made and sent on to you.

Thank you very much for helping out as quickly as you did.

Sincerely yours,

RALPH W. E. REID
Office, Assistant Secretary

Attachment 1

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4 August 1949

Mr. C. J. McDiarmid
Room 623, State Annex 7
State Department
21st and C Streets, N.W.
Washington, D. C.

Dear Mac:

Attached herewith letter from Mr. Dodge which he asked be sent on to you.

He is now preparing a final draft which he will send on to us at the same time as he forwards the original letter to Minister Ikeda. I will have copies made and sent on to you.

Thank you very much for helping out as quickly as you did.

Sincerely yours,

RALPH W. E. REID
Office, Assistant Secretary

Attachment 1

THE DETROIT BANK

McDiarmid

August 3, 1949

C
O
P
Y

Dear Rex

Your letter was received this morning, with the comments of State, Treasury, and Army on the Ikeda letter. I have incorporated all of the suggestions.

Your comment about Page 7, Paragraph 3, Line 1, already had been taken care of by an addition I made after the words "both are extremely low" by adding "productivity is not the maximum quantity of production at any cost, it is the highest possible return on the use of all forms of productive resources".

Because of the tendency of the Japanese to wail about their own taxes, I had wanted to include the comment about British taxation in Paragraph 3, Page 3. Except for the last line of the paragraph, I took my statement completely out of the London Economist of March 19 from an article titled, The Price of Government, on Page 503. This refers to the revenue of the State itself, of its local Governments, and of the social insurance funds derived from taxes of all sorts and from the net profits of trading enterprises (which are barely distinguishable from taxes). No reference is made to the income of State enterprises. Perhaps in view of this McDiarmid would agree with its inclusion.

I have incorporated the paragraph suggested by State, which I think is very good.

On Page 2, after the end of the first full paragraph, I am proposing to add two paragraphs, after words "increased domestic production".

The percent is related to total private business. I will leave off the last line comparison.

FW 894.51/8-449

THE DETROIT BANK

Dr. Ralph W. E. Reid--August 3, 1949--2

There is another paragraph to be inserted on Page 4, after the end of the first paragraph, which concludes with the words "seeds of fear".

I have rewritten the first paragraph on Page 5 breaking it into three short paragraphs, including some of Mr. Snyder's suggestions. Also, the last paragraph on that page.

On Page 8 I have added the paragraph from State, and another paragraph from the suggestions of the Treasury.

Also, I have added two paragraphs to precede the closing remarks on Page 9.

The minor changes have been incorporated. These major changes are in the enclosed schedule.

Very sincerely,

Dr. Reid

Dr. Ralph W. E. Reid
525 Argyle Drive
Falls Church, Virginia

C
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DEPARTMENT OF THE ARMY
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NORTHEAST ASIAN AFFAIRS

SEP 21 1949

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From: SCAP Tokyo Japan DEPARTMENT OF STATE

To: Dept of Army for SAOUS

Nr: C 52595

20 Sep 49

1. With reference to recent TELECON concerning subject of revaluation of the yen rate, instructions have been issued to the Japanese government readjusting the rate of yen to the pound sterling from yen 1450.8 to yen 1008.0.

2. There is no intention at the present time to revalue the rate of the yen with respect to the US dollar.

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15 JAN 1949

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By CD/MT NARS, Date 9/8/75

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Office Memorandum

UNITED STATES GOVERNMENT
DIVISION OF NORTH EAST ASIAN AFFAIRS

RAP
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TO : NA
FROM : FE - Mr. Butterworth
SUBJECT:

SEP 21 1949 DATE: September 21, 1949

DEPARTMENT OF STATE

Yen
devaluation

DC/R
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In the course of our conversation yesterday, I raised with Under Secretary of the Army Voorhees the question of devaluating the yen without undue delay. I put forward the obvious reasons why the Occupation Authorities could not disregard the effect that a 30% devaluation of Sterling area countries would have, augmented as this movement has been by subsequent devaluations in Western Europe and their dependencies.

Mr. Voorhees expressed great indignation that he had not been informed in advance of the British action but volunteered that Mr. Murphy was in the same boat on behalf of the Department's responsibility with respect to Germany. He said that following the announcement of devaluation, he had telephoned Mr. Dodge in Detroit and asked him to consider what should be done and that Mr. Dodge had mentioned that a few days delay would not put Japan at any great disadvantage due to the rigid nature of the controls of the yen. Voorhees also telegraphed SCAP and asked for recommendations. I did not get the sense that the Department of the Army was fully aware of the stultifying effects of delay.

Consequently, I raised at Mr. Webb's meeting this morning this question and requested that E immediately take the requisite action which presumably would entail NAC consideration of the rate.

cc: S/P - Mr. Nitze
OFD - Mr. Knapp

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DEVALUATION-JAPAN
TOKYO--THE JAPANESE WATCHED TODAY THE DEVALUATION OF THE BRITISH POUND, HOPING THEY WILL BE PERMITTED TO DO THE SAME WITH THE YEN. FINANCIAL CIRCLES SAID PRIVATELY THE VALUE OF THE YEN WILL HAVE TO BE CUT "15 TO 20 PER CENT TO KEEP PACE." THE YEN IS PEGGED AT 360 TO \$1. ANY CHANGE MUST BE APPROVED BY AMERICAN OCCUPATION OFFICIALS.

THE JAPANESE DESIRE FOR DEVALUATION OF THE YEN STEMS FROM THEIR BELIEF THAT THEIR FINANCIAL DIFFICULTIES PARALLEL BRITAIN'S. BRITISH QUARTERS HERE EXPRESSED BELIEF THE POUND DEVALUATION WILL HAVE RELATIVELY LITTLE EFFECT ON BARTER TRADE BETWEEN JAPAN AND THE STERLING AREA.

DURING THE PAST FISCAL YEAR, THE STERLING AREA SOLD TO JAPAN PRODUCTS VALUED AT \$130,000,000 AND BOUGHT \$160,000,000. INFORMED. SOURCES EXPECT ABOUT THE SAME VOLUME THIS YEAR.

GC1141A 9/19

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DIVISION OF
NORTHEAST ASIAN AFFAIRS
Office, Under Secretary of
the Army/Robert R West/71301

SEP 27 1949

To: SCAP *Tokyo*
Nr: WAR 94635
Telecon 2666
Fr OUSFE. Urmsgs Sept C 52595, C 52238 and mymsg
Reurmsg Sept C 52595.
DEPARTMENT OF STATE
22 Sep 49

1. Para 2 urmsg is not fully understood here.
2. Far-reaching effects of pound sterling devaluation and tendency of all nations to adjust their curr values in order to maximize exports make it essential and timely for us to be able to appraise full effects such actions on Japanese fgn trade, particularly with view towards avoidance further loss of export markets, and to consider and consult concerning the pros and cons of yen devaluation as cited para two, DA 2, Sept Telecon.
3. We are particularly anxious to rec your views as soon as possible as to points raised in DA 3 and DA 5, Sept Telecon. In add, info relative to changes in status trade and overall pmts agreement as result discussions with sterling area representatives in Tokyo and to availability food and other essential commodities fr area participants urmsg C 52238, Part 3, would be most helpful.
4. Mr Dodge will be in Wash next Monday and Tuesday 26 and 27 Sep, to discuss this subj among others. We would appreciate receipt your comments on above matters together with recommendations to discuss with Dodge. Dodge will probably discuss subj with interested agencies and, if possible, sed Telecon with you.

NOTE: C 52595 is CM IN 6869 (20 Sep 49)
C 52238 is CM IN 3618 (1 Sept 49)

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DEPARTMENT OF THE ARMY DIVISION OF
STAFF COMMUNICATIONS OFFICE NORTHEAST ASIAN AFFAIRS

SEP 27 1949

DEPARTMENT OF STATE

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From: SCAP Tokyo Japan
To: Dept of Army for OUSFE
Nr: C 52705

25 Sep 49

Reurmsg W 94635. Subject is devaluation of yen.
Items referred herein pertain to TT 2666.

Part 1. Re item DA 3 there follows considered
analysis of effect upon factors cited of maintaining present
yen-dollar rate as opposed to a yen-dollar devaluation:

A. Subsidy program: Assuming that the sterling
devaluation action will result in a realistic price
reduction for imports in the neighborhood of 15% it
is estimated that an overall savings of about 1.5
billion yen would accrue to the Japanese budget as
savings on its presently programmed import subsidies.
However, should a corresponding devaluation of the
yen vis a vis the dollar be undertaken at this time,
it would require approximately 15 billion yen to meet
subsidy requirements for imported foods, fertilizers,
iron ore, coal and miscellaneous items currently
programmed for subsidy.

B. Japanese budget: It is estimated that
approximately 60 million dollars worth of imports
from the devaluated areas are now held by the Japanese
government and that some 100 million dollars worth of
goods will be imported from those areas during the
remainder of the current Japanese fiscal year. If
lower import prices resulting from sterling devaluat-
ion are assumed, the loss of revenue from the sale
of those good would amount to approximately 24 billion
yen. However, to the extent that present yen prices
are maintained for such goods, this loss can be re-

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By CA/MT NARS, Date SEP 8 1975

ED JOURNAL No. 52

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Nr: C 52705

Page 2

duced and largely eliminated. Devaluation of the yen on the other hand would result in an increase of import subsidy requirements of some 15 billion yen as indicated above. However, it is estimated that higher yen import prices on the estimated 500 million dollars worth of imports on hand and to be received during the remainder of the fiscal year from both dollar and devalued areas would result in an increase of revenues of the Japanese government of some 54 billion yen. Such increases in prices resulting from yen devaluation would be necessary in order to provide for proper transfers to the counterpart fund and to give effect to world prices upon the Japanese price level.

While yen devaluation would be advantageous from the point of view of increasing budgetary revenues, it does not appear that such budgetary considerations are of sufficient magnitude to influence the decision to be made, when compared with the numerous disadvantages affecting the Japanese economy.

C. Total export program:

(1) Current projection fiscal year 50 exports total \$535 million. For purposes of analysis of program 3 major export areas established as follows:

Group 1 area are countries with which Japan has trade arrangements and which have devalued their currencies-estimated exports approximate \$265 million.

Group 2 areas are countries with which Japan has trade arrangements or conducts trade on a compensatory basis and where devaluation does not appear imminent-estimated exports approximate \$170 million.

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Page 3

Group 3 areas are countries with which Japan does not have trade arrangements and where all transactions are in terms of free United States dollars—estimated exports approximate \$100 million.

(2)

(A) In the event yen is devalued 30% viz a viz the dollar it is anticipated that exports to groups 1 and 2 areas will not expand since the principal of trade arrangements is that trade will be balanced at the highest practicable level. Experience has shown that the level of trade is governed by the amount of goods that Japan can buy from these areas since their requirements of Japanese goods exceeds Japan's requirements from them based on availability. Therefore approximately the same quantity of goods should be exchanged with countries in group 1 though the quoted export prices in terms of sterling and yen will be higher. Exports to group 2 countries would probably remain at the same level though greater quantity of Japanese goods should be exported because of lower prices. Similarly, sales to group 3 should be increased by approximately 10% because of more attractive prices.

(B) Since exports to groups 1 and 2 areas account for approximately 80% of planned fiscal year 50 exports with no increase in sales expected and because increased sales to the extent of about 10% can be expected in group 3 countries only, the total increase probably over the fiscal year 50 projections should be about 2%.

(3)

(A) In event yen is not devalued and the following anticipated conditions prevail:

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1. Countries in group 1 have devalued their currencies: approximately 30%.
2. Elimination of floor prices permit an average reduction in export prices of approximately 15%.
3. Countries in group 2 do not devalue.
4. Trade is balanced with groups 1 and 2 areas.
5. Level of trade is governed by Japanese purchases, the following estimates are made re trade areas:

(B) It is expected that exports to group 1 area will not vary substantially from fiscal year 50 projections in terms of volume even though in terms of dollars a 10% decrease is anticipated. Re group 2 areas, since devaluation does not appear imminent, the price of Japanese exports which compete with goods from devalued currency areas should be competitively priced and reflect little loss to Japanese exports to these countries. It is expected that the overall level of trade in this area would be reduced not more than 10% in terms of dollars. Re group 3 areas, sales can be expected to decrease by approximately 10% since a large percentage of Japanese exports will not be competitive with exports from devalued currency areas.

(C) Based upon the foregoing analysis it is expected that exports will probably fall short of the fiscal year 50 projections by no more than 10% if the yen were not devalued.

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D. Current trade negotiations:

Discussions with the commonwealth trade delegation are proceeding slowly but satisfactorily. present level of trade for period 1st July 49-30th June 50 indicated purchases by Japan from participant countries only; viz, Australia, Ceylon, India, New Zealand, South Africa, United Kingdom and colonies of approximately 50 million pounds sterling. This estimate reflects Japanese requirements based on availability. In the event of yen devaluation approximately the same quantity of goods would be exchanged although overall trade measured in terms of yen and sterling would be increased and trade measured in dollars decreased.

E. Disposition of pound balances:

In event there developed a sizeable temporary decline here of sales to sterling area, present sterling balances would be used more rapidly than originally expected to procure tonnages originally programmed at new rates. However there is no immediate evidence of such sales decline occurring to a point where critical shortage of sterling would exist. Also consider adjustments of procurement schedules could be made to maintain adequate balances or obtain credits as required. It is therefore considered that yen-dollar devaluation is not a necessary action to safeguard sterling position or guarantee disposition of balances on hand.

Part 2. Other considerations pertinent to the analysis of devaluation are indicated as follows:

A. When the yen dollar ratio of 360 to 1 was

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adopted in April 1949, it was clearly recognized that the rate was over-valued in anticipation of transitional difficulties of adjustment as well as in part such contingencies as a sterling devaluation. One of the original objections here to fixing the rate at a figure as high as 360 was that it reduced the pressure for Japanese export industries to rationalize. To accept devaluation at this time, whether 10%, 20% or 30% would immediately nullify existing pressures to increase efficiency and cut costs and selling prices. Devaluation would subsidize inefficiency and poor allocation of resources.

B. Japan for the first time in the postwar period has achieved a substantial degree of genuine economic stabilization. It is considered that devaluation of the yen would immediately prompt an overall disruption of existing stability and force an upward adjustment of living costs, wages, and hence, selling prices, both internal and external. Currently, there exists significant pressures for upward adjustment of internal Japanese prices, especially food, power and transportation. The current inflationary forces stem from the program for elimination of subsidies and price decontrol as well as from the pressures to reduce taxes. Yen devaluation, under such circumstances, is likely to set in motion irresistible pressures for a renewed inflationary spiral out of all proportion to the specific degree of devaluation. Important psychological barriers have been created to further wage and other upward price adjustments. Devaluation would immediately nullify the tremendously valuable stabilization atmosphere which has been created very slowly and as a result of a highly organized

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Page 7

and carefully integrated effort.

C. The recent widespread currency devaluations will reduce the price of Japanese imports to the extent of the devaluation minus integral price increases incidental thereto. Securing cheaper imports of raw materials, Japan should be able to sell her manufactured goods at reduced prices. The cheapening of sterling area exports to Japan will contribute to encouraging the shift of Japan's sources of supply to the Far East and sterling areas in particular. This is in line with the long term objective of achieving a self-supporting Japan at the earliest date. Devaluation of the yen-dollar by Japan to the extent undertaken by the sterling area would eliminate this advantage. The high level of sterling prices for a variety of raw materials has operated in part to reduce the scale of procurement from that area.

Part 3. Re DA-5:

Do not consider it feasible to obtain conversion of sterling balances into dollars or to insist upon deliveries from sterling area at old rate for following reasons:

A. Overall payments arrangement of 29th May 48 permits conversion in the event of an emergency provided SCAP considered such conversion necessary for the protection of the foreign exchange assets of Japan. This clause probably could have been invoked in expectation of devaluation regardless of earlier SCAP letter of 5th February 49 which indicated agreement not to invoke the right of convertibility during the period of 30 June to 31 December. However, there is no provision in the OPA which would permit conversion after de facto devaluation except at the New Bank of England middle rate; i.e. \$2.80 to the pound sterling. Conversion at that

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figure would not be considered necessary to protect the foreign exchange position of Japan and hence emergency clause not applicable.

B. During March-April review here British were requested to "guarantee" \$4.03 sterling rate for trade purposes during balance of 1949. This met with flat and unequivocal rejection and consider there is no change this position now. Also since practically all of sterling trade is on private basis the only method by which British could insure deliveries at old rate would be through government subsidy and there is little evidence serious consideration would be given to such action.

Part 4. Reourmsg C 52238.

A. Status of trade is estimated as indicated above.

B. Efforts will be made here to secure some basis for "guarantee" of present sterling rate against further devaluation in developing revised overall payments arrangement (OPA). Will advise later.

C. Commonwealth trade delegation now here have indicated tonnage availabilities of food, petroleum, and other commodities programmed under trade arrangement will not be reduced by sterling devaluation and possibility exists for increased availabilities thereof.

Part 5. For your information, it is noted that informal discussions with top representatives of the ministry of international trade and industry, ministry of finance and Bank of Japan indicate unanimous agreement that it would be unwise to devalue the yen at this time when so many of the consequences of the devaluation of sterling and other currencies are not yet susceptible to intelligent appraisal and such action would immediately disrupt the hard won gains of the economic stabilization program. While there is no clear

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consensus of opinion among American and other foreign trade interests, along with Japanese private traders, there appears to be some preponderance on the side of those advocating devaluation. This is not surprising, however, since exporters would naturally favor any action which appeared to advance their sales prospects irrespective of the long run repercussions upon the internal and external economy.

Part 6. Following is memorandum presented to Mister Verity from Messrs Freille, Davis, Doherty and Stuart on the subject of yen exchange rate: "Reference is made to your request of this afternoon for an expression of our views on the question of a possible adjustment of the yen dollar exchange rate. We have not had an opportunity for extended discussion of this question with your staff, nor have we conducted an independent study of the problem. We have considered the arguments advanced in a memorandum prepared by Doctor Fine in support of retention for the time being at least of the existing yen-dollar rate. On the basis of this memorandum and other evidence available to us, it is our opinion that the arguments against an adjustment in the existing rate are preponderant, and that a change in the existing rate at this time would be inadvisable. We have no objection to your communicating the above to the Department of the Army."

Part 7. After full and detailed consideration of all elements involved it is concluded that it would be unwise to change the present yen-dollar rate. It is most unfortunate that some advance notice was not available at this headquarters on a matter which so vitally affects its responsibilities

NOTE: 52238 is CM IN 3618 (1 Sep 49) OUSFE

ACTION: OUSFE

INFO : ID, OUS

CM IN 7960

(25 Sept 49) DTG 250745Z hb/B

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DEPARTMENT OF THE ARMY
STAFF MESSAGE CENTER
OUTGOING CLASSIFIED MESSAGE

Luigi
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HWB

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~~PRIORITY~~

DIVISION OF
NORTHEAST ASIAN AFFAIRS
PARAPHRASE NOT REQUIRED

~~TOP SECRET~~

OCT - 31 1949 OUSFE/M F Foster/76817

[Handwritten signature]

To: SCAP *Tokyo*
DEPARTMENT OF STATE

Nr: WAR 94973

File
30 Sep 49

Fr OUSFE. Reurmsg Sep C 52705, Sep C 52238 and Apr C 68953. Devaluation of Yen is Subj

Part I.

1. Meeting with Mister Dodge and representatives of interested agencies was held 27 Sep to discuss factors related to devaluation problem and to obtain a better understanding of all implications.

2. Urmsg C 52705 appears to lay principal emphasis upon the dom impact rather than upon the fgn trade impact. Recognize essentiality of keeping in full force economic stabilization program to achieve rqd objectives earliest, but fr standpoint of effectuating longrange goal of self support by Japan, considered here that international situation fully warrants add study and info on possible effects of yen devaluation or failure to devalue upon future expansion and maximization of fgn trade and the future balance of pmts pos. This considered particularly important in view objective to rel burden on US appns.

Part II.

Fol questions have been posed by agencies for your further consideration and comment, with intent of asstg you in this.

1. What agreement has been reached with British negotiators with respect to prices and volume of Japanese exports, particularly textiles, to be purchd by sterling area participants during pd 1 Jul 49-30 Jun 50? Has devaluation resulted appreciable change in such prices and quantities?

CM OUT 94973

(Oct 49)

~~TOP SECRET~~

DECLASSIFIED

E.O. 11652, Sec. 3(E) and 5(D) or (E)

NND 760044

By *CD/MT* NARS, Date SEP 8 1975

JUL 14 1952

FILED

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COPY NO.

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894.51/9-3049
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DC 894.51/9-3049
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THE MAKING OF AN EXACT COPY OF THIS MESSAGE IS FORBIDDEN

DC/R
HW
[Signature]

DEPARTMENT OF THE ARMY
STAFF MESSAGE CENTER
OUTGOING CLASSIFIED MESSAGE~~TOP SECRET~~
PRIORITY

Nr: WAR 94973

Page 2

~~TOP SECRET~~

2. What agreement exists as to prices and volume of Japanese imports, particularly food-stuffs, raw cotton, and other raw mats, fr sterling area in same pd? Have these been affected by devaluation? Is it possible to plan larger purchs of food fr sterling areas at lower costs than fr dollar areas as result devaluation? Or do you foresee markup in sterling food prices in near future as offset to probably higher sterling prices of Japanese exports.

3. Assuming textile prices in sterling area rise 10-15 percent within few months and consequently equivalent yen price at present exchange rate drops 15-20 percent, could Japanese textile producers absorb such a cut in export market prices?

4. Are stockpiles of textiles and other export commodities of such magnitude that a decline in present level of pdn is imminent?

5. Has rationalization of such export industries as iron and steel prods, mach, ships, etc., marginal producers handicapped by fixing of 360 rate, progressed to the extent

(a) That they can presently opr profitably without subsidies, and

(b) That they can offset adverse effects of soft currency devaluations on the yen equivalent of realizable sale prices?

Please enumerate Japanese export commodities above nature that might compete favorably against devaluated currency goods as result of elimination of floor prices and further rationalization and without change in 360 rate.

CM OUT 94973

(Oct 49)

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Nr: WAR 94973

Page 3

6. What would be probable effect on development of new export lines for Japan of

(1) Maintenance of 360 rate, or

(2) Devaluation of 10, 20, or 30 percent, respectively?

Under (2) is our understanding correct that increased price of imports could be partly absorbed in increased subsidies without endangering the balanced bud?

7. In view serious status of Japanese balance pmts has consideration been given to possible desirability of increasing yen cost to Japanese consumers of food imports in relation to gen level of dom costs and incomes in order to stimulate most efficient use of dom coarse grains? A devaluation reqd by fgn trade exigencies would seem to provide a favorable occasion for steps in this dir.

8. Widespread anticipation of devaluation tended to minimize fgn purchs of British goods for many months prior to 19 Sept 49, thereby intensifying need for devaluation. Do you anticipate similar reaction in case Japan does not participate in gen devaluation? (US trade with South America is alleged to be seriously affected pending possible devaluations.)

9. Increase in value of dollar as indicated by reduction in US prices last six months will tend to discourage Jap exports to US unless comparable changes have occurred in value of yen. Are price trends discernible in Japan which will result in improvement in value of yen with

CM OUT 94973

(Oct 49)

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PRIORITY

Nr: WAR 94973

Page 4

~~TOP SECRET~~

respect to the dollar? In your op will Japanese exports of ceramics and sundry items to US be able to maintain their present level or reach a higher level without an alteration of yen-dollar rate?

10. In light worldwide scope of currency devaluation and dom American reaction in gen minimizing concern over the increased flow of imports into US, what is your reaction to necessity for fairly im yen rate action, within three-four weeks, rather than later? If some devaluation is inevitable, thinking in some qrs favors early action as part of present pattern rather than later action after loss of export trade and at time when it might appear as unilaterally competitive and thus provoke retaliatory measures.

11. To what extent does the current pattern of devaluation require a reappraisal of the amt of US aid reqd for Japan?

12. Should your statement that limiting factor Jap fgn trade is value of goods Japan can buy from areas with devalued currencies rather than Jap exports to such areas be interpreted as applicable for longer than near future? May not ret Jap import trade to pvt hands and permission Jap coml representatives to go abroad substantially affect this situation by increasing efficiency proj Jap imports?

13. Have you included Latin American countries among gp where devaluation deemed unlikely? No firm views here likelihood gen devaluation this area but believe your analysis should inc appraisal impact such possible action on Jap exports.

CM OUT 94973

(Oct 49)

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PRIORITY

Page 5

Nr: WAR 94973

Part III.

Para 7 urmsg C 68953 dated 1 Apr 49 indicates earlier rptd waiver convertibility 30 Jun 49 sterling balances was actually an extension thereof at \$4.03 rate until 31 Dec 49. Fr your info, and in absence any advice to contrary in interim, that has been assumed here. However, Para B, part 3, urmsg C 52705, seems to indicate the opposite. Please fur specific clarification on question whether or not you are completely protected to the extent of converting on 31 Dec, at the \$4.03 rate, up to 12.85 million pounds held by you on 30 Jun according to part 1, urmsg C 52238 of 1 Sep 49.

Part IV.

Request your comments soonest.

NOTE: C 52705 is CM IN 7960 (25 Sep 49)
C 68953 is CM IN 13868 (1 Apr 49)
C 52238 is CM IN 3618 (1 Sep 49)

ORIGIN: MR WEST

DISTR: GEN IRWIN (STATE-TREASURY-FED RES), GEN BOLTE,
MR JOHNSON, LT COL SKIDMORE

CM OUT 94973

(Oct 49)

DTG 010016Z wk

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COPY NO.

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STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

Mr. Fearey

TO : FE - Mr. Merchant
FROM : NA - R. Fearey *RF*
SUBJECT: Devaluation of the Yen



DATE: October 3, 1949

*Wants to see
looks ok to me
894.51
File*

The attached draft reply to SCAP's September 25 wire (also attached) regarding devaluation of the yen was brought over for clearance late Friday afternoon. Since you were tied up I showed it to Mr. Butterworth who thought it was all right. The reply consists of a series of questions to clarify the considerations involved, but at the same time indicates that the Washington agencies are inclined at the moment to believe that devaluation will be necessary and should occur with minimum further delay.

*XR
740.00119 PW*

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Date *RF*

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M F Foster/76317
OUSAFEProposed Cable to SCAP

Reurnsg Sep C 52705.

Subject is devaluation of yen.

Part I

1. Meeting with Mr. Dodge and representatives of interested agencies was held 27 September to discuss factors related to devaluation problem and to obtain a better understanding of all implications.

2. Your cable appears to lay principal emphasis upon the domestic impact rather than upon the foreign trade impact. Recognize essentiality of keeping in full force economic stabilization program to achieve required objectives earliest, but from standpoint of effectuating long-range goal of self-support by Japan, considered here that international situation fully warrants additional study and information on possible effects of yen devaluation or failure to devalue upon future expansion and maximization of foreign trade and the future balance of payments position. This considered particularly important in view objective to relieve burden on U. S.

Appropriations.

Part II.

Following questions have been posed by agencies for your further consideration and comment, with intent of assisting you in this.

1. What agreement has been reached with British negotiators with respect to prices and volume of Japanese exports, particularly textiles, to be purchased by sterling area participants during period 1 July 49 - 30 June 50? *This devaluation resulted appreciable changes in such prices and quantities.*

2. What agreement exists as to prices and volume of Japanese

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imports, particularly foodstuffs, raw cotton, and other raw materials, from sterling area in same period? ^{Have these been affected by devaluation?} Is it possible to plan larger purchases of food from sterling areas at lower costs than from dollar areas as result devaluation? Or do you foresee any markup in sterling food prices in near future ^{as offset to probably higher sterling prices of} ~~that might be necessary to enable suppliers to purchase~~ Japanese exports?

3. Assuming textile prices in sterling area rise ^{only} 10 - 20 percent within few months and ^{consequently} equivalent yen price at present exchange rate drops 15 - 20 percent, could Japanese textile producers absorb such a cut in export market prices?

4. Are stockpiles of textiles and other export commodities of such magnitude that a decline in present level of production is imminent?

5. Has rationalization of such export industries as iron and steel products, machinery, ships, etc., marginal producers handicapped by fixing of 360 rate, progressed to the extent (a) that they can presently operate profitably without subsidies, and (b) that they can offset adverse effects of soft ^{only} currency devaluations on the yen equivalent of realizable sale prices? Please enumerate Japanese export commodities that might compete favorably against devaluated currency goods as result of elimination of floor prices and further rationalization and without change in 360 rate.

6. What would be probable effect on development of new export lines for Japan of (1) maintenance of 360 rate, or (2) devaluation of 10, 20, or 30 percent, respectively? Under (2) ^{is an understanding correct that} ~~could~~ increased price

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of imports, ^{could} be absorbed in increased subsidies without endangering the balanced budget?

7. In view serious status of Japanese balance of payments has consideration been given to possible desirability of increasing yen cost to Japanese consumers on food imports in relation to general level of domestic costs and incomes in order to stimulate most efficient use of domestic coarse grains? A devaluation required by foreign trade exigencies would seem to provide a favorable occasion for steps in this direction.

8. Widespread anticipation of devaluation tended to minimize foreign purchases of British goods for many months prior to 19 Sept 49, thereby intensifying need for devaluation. Do you anticipate similar reaction in case Japan does not participate in general ~~trend towards~~ devaluation? (U. S. trade with South America is alleged to be at stand-still pending ^{possible} devaluations.).

9. Has yen ~~increased in value during the past six months~~ comparable to the U. S. dollar? In your opinion will Japanese exports of ceramics and sundry items to U. S. be able to maintain their present level or reach a higher level without analteration of yen-dollar rate?

10. In light world-wide scope of currency devaluation and domestic American reaction in general minimizing concern over the increased flow of imports into U. S., what is your reaction to necessity for fairly immediate yen rate action, within 3 - 4 weeks, rather than later? If devaluation is inevitable, thinking in some quarters favors early action of limited degree as part of present pattern than later action after loss of export trade and at time when it might appear as unilaterally

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competitive and thus provoke retaliatory measures.

omit 11. What effect will devaluation have upon trade arrangements presently enjoyed by Japan?

12. To what extent does the current pattern of devaluation require a reappraisal of the amount of U. S. aid required for Japan.

omit 13. What weight is being given to your accumulated sterling balance in considering an alteration of the yen dollar rate?

Part III.

Para 7 urmsg C 68953 dated 1 Apr 49 indicates earlier reported waiver convertibility 30 June 49 sterling balances was actually an extension thereof at \$4.03 rate until 31 Dec 49. From your information, and in absence any advice to contrary in interim, that has been assumed here. However, Para B, Part 3, urmsg C 52705, seems to indicate the opposite. Please furnish specific clarification on question whether or not you are completely protected to the extent of converting on 31 Dec., at the \$4.03 rate, up to 12.85 million pounds held by you on 30 June according to Part 1, urmsg C 52238 of 1 Sept 49.

Part IV.

Request your comments soonest.

C 52705 is CM-IN 7960 (25 Sep 49)
C 68953 is CM-IN 13868(1 Apr 49)

SECRET

11. Should your statement that limiting factor in Jap trade is value of goods Japan can buy from areas with devalued currencies rather than Jap exports to such areas be interpreted as applicable for longer than near future made in return Jap import trade to private hands and permission commercial representatives to go abroad substantially affect this situation by increasing efficiency procurement Jap imports.

(12) Have you included Latin American countries among group where devaluation deemed unlikely? No firm views here likelihood general devaluation this area but believe your analysis should include proposal impact of such possible action on Jap exports.

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Effect of Pound Sterling Devaluation on Japan:

Questions to be Directed to SCAP

1. Has agreement been reached with British negotiators on the prospective amount of Japanese exports, particularly textiles, to be purchased by the United Kingdom and its colonies during the coming year? In this connection are there understandings as to volume of Japanese exports destined for entire sterling area? What commitments as to prices exist?
2. Does agreement exist as to volume and pricing of Japanese imports, particularly foodstuffs, from the sterling area?
3. Assuming that within a few months textile prices in the sterling area will have risen somewhat but not in proportion to sterling devaluation; that is, by 10 to 20 percent, the equivalent yen price at the present exchange rate would then be down by 15-25 percent: do you anticipate that Japanese textile producers could absorb such a cut in export market prices?
4. Are existing stockpiles of textiles and other commodities of such magnitude as to present a serious danger of unemployment in Japan?
5. At the time of fixing the 360 rate apprehension was expressed that Japanese exports of iron and steel products, machinery, ships, etc. would be adversely affected and that in the absence of heavy subsidies these industries would either be

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forced

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- 2 -

substantially to curtail production or cease operation: Has rationalization progressed sufficiently not only to remove such apprehensions but also to offset the adverse effects of soft currency devaluations on the yen equivalent of realizable sale prices?

6. Assuming a devaluation of the yen of 10 percent, 20 percent, and 30 percent respectively, could the increased price of imports be absorbed in increased subsidies without endangering the balanced budget?

7. What would be the probable effect on the development of new export lines for Japan of (1) maintenance of the 360 rate, or (2) devaluation of 10 percent, 20 percent and 30 percent, respectively?

8. To what extent does the current pattern of devaluation require a reappraisal of the amount of United States aid required for Japan?

9. Has consideration been given to the possible desirability of raising the yen cost of Japanese imports relative to the level of domestic costs and incomes in order to maximize domestic production?

10. In your

CONFIDENTIAL

- 3 -

CONFIDENTIAL

10. In your view how important are the terms of trade enjoyed by Japan in arriving at a conclusion on devaluation?

11. What weight is being given to your accumulated balance of sterling in considering an alteration of the yen dollar rate?

12. In view of current world wide scope and pattern of currency devaluations and the domestic American reaction including concern over increased flow of imports into the United States, what is your reaction to the necessity for fairly immediate action, say within 3 to 4 weeks rather than later? Does the seasonal pattern of Japanese trade have a bearing on the timing of such a decision?

OPD:FN:GStrong/mjp

9-26-49

CONFIDENTIAL

In reply refer to
NA

OCT 14 1949

XOR
894.51 Bond holders
800.515

CONFIDENTIAL

MEMORANDUM FOR MR. WEST:

Subject: Draft Cable to SCAP on Japanese Foreign Currency Securities.

I attach a draft radio on the above subject prepared in the Department of State and request that if the Department of the Army concurs it be dispatched to the Supreme Commander for the Allied Powers.

The object of the radio is to suggest to SCAP the revision of a Japanese law of March 15, 1943 which converted private foreign currency obligations to Government obligations, releasing the underlying mortgages. This appears desirable in order to allow resumption of trading in the United States in Japanese dollar bonds and to clear the ground for resumption of service on such obligations when that becomes possible.

894.51/10-1449

John M. Allison
Director
Office of Northeast Asian Affairs

Enclosure:

(Draft radio.)

Mr. Robert R. West,
Deputy to Under Secretary of the Army,
Department of the Army.

OCT 14 1949

FUT

PK

CONFIDENTIAL

A true copy of
the original
sent.

CS/H

894.51
10-1449

FE:NA:NH:mendinger:lk (10/12/49)

CONFIDENTIAL

SCAP

ACTION

OAS/EU - State

Reurad C-51178 July. Subj Japanese foreign currency securities.

Recent statements Jap Govt officials re servicing external debt increase pressure removal US Govt ban against trading dollar bonds. SEC considers listing and trading desirable once routine reports Jap obligors including Govt become available for public info. Revision Jap law 60, Mar 15, 1943, considered necessary prerequisite above.

Believed here unilateral acts Jap Govt thereunder affecting rights holders foreign currency bonds should be corrected to reinstate mortgage liens and restore prewar debtor-creditor relationships greatest extent possible. In view liquidation Jap trustees provision for successor trustees (in US for dollar bonds) appears necessary. Not considered essential set aside conversion to yen obligations of repatriated Jap holdings of external bonds. Cancellation these repatriated bonds by trustees and subordination of new yen obligations issued therefor to remaining foreign currency bonds with respect to lien priority considered desirable.

Your recommendations re such program desired soonest with particular reference practicability restoring mortgage liens on some equitable basis in view changed ownership properties and corporate setups subsequent to legislation releasing liens.

FLH

-2-

Revised W-31450 Jul and C-51740 Aug foreign currency obligations will be excluded from further policy proposal on restoration UN property.

C-51178 is OK IN 18683, 3 July.

C-51740 is OK IN 18213, August.

OFD:FN:GEPalmer
FE:NA:NHemendinger:lk
10/12/49

OFD L/E L/C NA
see attached for written concurrences.

CONFIDENTIAL

DRAFT TELEGRAM JAPAN

SCAP

~~Restricted~~

REFERENCE:

Remad

SCAPIN C-51178 July. Subject Japanese

foreign currency securities.

Recent statements Jap Govt officials re servicing external debt increase pressure removal US Govt ban against trading dollar bonds. SEC considers listing and trading desirable once routine reports Jap obligors including Govt become available for public info. Revision Jap law 60, Mar 15 1943, considered necessary prerequisite above.

Believed here unilateral acts Jap Govt thereunder affecting rights holders foreign currency bonds should be corrected to reinstate mortgage liens and restore prewar debtor-creditor relationships greatest extent possible.

2 want Liquidation Jap trustees ~~indicates~~ ^{appears necessary} provision for successor trustees (in US for dollar bonds). Not considered essential set aside conversion to yen obligations, repatriated Jap holdings, external bonds. Cancellation these repatriated bonds by trustees and subordination ^{of} new yen obligations issued therefor to remaining foreign currency bonds, ^{with} respect ^{to} lien priority considered desirable.

Your recommendations desired soonest ^{re} such program ^{with} particular reference practicability restoring mortgage liens ^{on} some equitable basis in view changed ownership properties and corporate setups subsequent ^{to} legislation releasing liens.

Re OURAD WAR 91450 JUL URAD C 51740 AUG foreign currency obligations will be excluded from ~~any~~ further policy proposal on restoration ^{UN} property. ^{UN} ^A ~~UN~~ nationals.

III, 18213

OFD:FN:GEPalmer:hmg

10-6-49

OFD

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NA

3/3-01

Closed with 74 - has to be revised

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From: SCAP Tokyo Japan
To: Dept of Army for SAOAS FE
Nr: C 51178

Reurad W 90656. Subject is listing of Japanese dollar securities on New York Exchanges.

1. Under the law relating to the ⁶⁰treatment of foreign currency bonds, enacted 15 March 43, all Japanese municipal and corporate foreign currency securities were converted to central government obligations with substantially the same terms and conditions except that any underlying mortgages on corporate property securing the corporate obligations were released. As a consequence of this conversion, the corporate and municipal bond issuers became indebted ~~to the corporate and municipal bond issuers became indebted~~ to the central government. This indebtedness has been in part liquidated by yen payments from the issuers to the central government. The actions taken under this law have not been voided.

2. Present position here is that foreign exchange is not available to the Japanese Government to pay either the interest or principal of these obligations and the question of when foreign exchange will be available to service these obligations is indeterminate under present circumstances.

3. SCAP in 45 was not intended and is not effective to void transfers of these securities between parties neither of whom are subject to Japanese jurisdiction.

ACTION: OASFE

INFO: ID (STATE), OAS, PO

CM IN L2683 (3 Jul 49) DTG: 020721Z fmb/2

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INCOMING AIRGRAM

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

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Action Assigned to *NA*
Action Taken *sent to*
FROM: Embassy, London
DATE: Nov. 30th 1949

DIVISION 142

EAST ASIAN AFFAIRS

DEPT OF STATE

RECD: Dec. 2, 1949 9:02 a.m.

POLAD

UNCLASSIFIED Date of Action *12/7/49*

Date of mailing unknown

Secretary of State, Washington

Name of Officer *C.T. White*

A- 2237 Direction to DC/R *File*

Office of
FAR EASTERN AFFAIRS
DEC 6 - 1949
DEPARTMENT OF STATE

Following is a question and answer, as reported in HANSARD, which took place in the House of Commons on November 28, 1949, in regard to interest due on Japanese loans:

FR
641 9431
Com
Dec 21 1949
Office
for

"JAPANESE LOANS (INTEREST)"

"MR. WILLIAM TELLING asked the Chancellor of the Exchequer whether he is aware that in the new Anglo-Japanese Trade Agreement, Japan has to be provided with £10 million worth more of goods than we are taking from her, because we are unable to touch the interest due to us on Japanese loans since 1941 until a peace treaty has been signed; and whether, in view of our precarious financial position and the willingness of Japan to repay the loans due, if possible by means of a trade agreement, he will either examine this matter at once or have it brought up at the Colombo Conference.

"THE ECONOMIC SECRETARY TO THE TREASURY (MR. DOUGLAS JAY): No, Sir, The reason is not as suggested, I would refer the hon. Member to the reply which I gave to his Question on 8th March.

"MR. TELLING: Is the hon. Gentleman aware that something like £10 million is being handed over for the Japanese to use, and that we are being asked to provide goods for sale in the dollar area? would it not be much better if it was made clear what are the reasons why the Japanese cannot pay back now?

"MR. JAY: As I told the hon. Member in March, the difficulty is that so long as the American taxpayer is paying aid on a large scale to Japan, we cannot effectively press for these payments to be resumed. We are, however, anxious to see them resumed as soon as possible.

"MR. TELLING: Is the hon. Gentleman aware that since
PERMANENT RECORD COPY.—This copy must be returned to DC/R central files with notation of action taken.

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A-2237

Dated:

From: Embassy, London

have received something like £10 million, and that they themselves say they wish to pay this money back? Why must we provide goods?

MR. JAY: That does not alter the basic situation arising from the American taxpayer paying large subventions to Japan.

MR. DONALD HARVEY: Will the hon. Gentleman take into account what the British paid in Burma?"

DOUGLAS

A. Kingwalt/sg

UNCLASSIFIED

December 7, 1949

Acting United States political adviser for
Japan, Tokyo,

For the information of the Supreme
Commander for the Allied Powers.

Attached: Information copy of Incoming
Airgram from Amembassy, London, to Secretary
of State - No. A-2237, dated Nov. 30th,
1949.

Edward W. Doherty,
Office of Northeast Asian Affairs

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FOI 894.51 / 11-30492451-1009

INCOMING AIRGRAM

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

H. W. H.

OUTGOING AIRGRAM

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Action Assigned to *NA*
Action Taken *no act*

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Office Symbol *NA*
Date of Action *12/9*
Secretary of State
Washington
Date of mailing unknown
Office of
FAR EASTERN AFFAIRS
DEC 9 - 1949
DEPUTY DIRECTOR
Department of State

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control (Japan)

Following is a question and answer, as reported by HANSARD, which took place on November 30, 1949 in the House of Commons, on the subject of the cost to the British Government of the occupation of Japan:

"JAPAN (OCCUPATION COSTS)

"MR. PRESCOTT asked the Secretary of State for Foreign Affairs to state, to the most recent convenient date, the total cost to His Majesty's Government of the occupation of Japan; and what proportion has involved dollar expenditures.

"MR. MAYHEW: Apart from the cost of the United Kingdom Liaison Mission which has provided diplomatic representation in Japan since the surrender, and of a small Royal Navy element which equally had no specific task in connection with the occupation, the cost to His Majesty's Government of the occupation of Japan up to the withdrawal of the United Kingdom contingent in the British Commonwealth Occupation Force has been as follows:

Pay and Allowances--Army and Royal Air Force	...	2,936,000
Maintenance--all Services	...	6,300,000
Transport of personnel--all Services	...	1,350,000
Transport of equipment--all Services	...	87,000
Total--all Services	...	£10,673,000.

It is not possible to give the proportion of this expenditure incurred in dollars; but it is very small."

PERMANENT RECORD COPY.—This copy must be returned to DC/R central files with notation of action taken.
ARR:nevalt/sg

894.51/12-549

DEC 21 1949

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THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

[Handwritten signatures and initials]

894.51/12-549

19
REC'D
DEC 9

DIVISION OF
NORTHEAST ASIAN AFFAIRS

United States Political Adviser
for Japan

DEC 1 1949

DEPARTMENT OF STATE
Tokyo, December 5, 1949.

*No action
with
file*

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No. 852

UNCLASSIFIED

Subject: Transmission of Copy of Statement Issued by
Financial Adviser Joseph M. Dodge.

c

The Acting Political Adviser has the honor to forward a
copy of a statement released to the press on December 4, 1949,
by Mr. Joseph M. DODGE, Financial Adviser to the Supreme Com-
mander for the Allied Powers.

894.51/12-549

*xR
894.5151
xR*

194-5101

Enclosure: *[Handwritten mark]*

Copy of statement issued by
Financial Adviser Joseph M.
Dodge.

Parchment Mat to the Department

Copy to:

American Embassy, London.

501
WWD:eh1:keb

UNCLASSIFIED

ACTION COPY

RETURN TO DC/R FILES WITHIN 14 DAYS, WITH A NOTATION OF ACTION TAKEN.

JAN 12 1950

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Enclosure to Despatch No. 852 dated December 5, 1949 from the United States Political Adviser for Japan, Tokyo, on the subject "Transmission of Copy of Statement Issued by Financial Adviser Joseph M. Dodge.

(COPY)

PRESS CONFERENCE

1730 - 4 December 1949

JOSEPH M. DODGE

There are a number of significant things deserving comment.

Insofar as the 360 to 1 single exchange rate for the yen may have been a somewhat lower rate than might have been justified by the circumstances at that time, the rate set was a devaluation of the yen which preceded other similar actions since taken by nations elsewhere in the world.

For the fiscal year 49-50, Japan achieved a balanced consolidated budget for the first time in many years. As a result, and from a firm adherence to its principles, it has been possible to introduce a supplementary budget which provided for tax reductions applying to the current fiscal year and included certain increases in government expenditures over those provided in the original budget.

The principle of a balanced consolidated budget has been carried forward into the JFY 50-51 fiscal year. Provided there is no action that will disturb the agreed upon budget, there will be further substantial increases in government expenditures and the tax reductions will be carried forward through the next fiscal year. Both this year's budget and the next year's budget also provide for an appropriate Government debt reduction, which in turn increases bank funds for legitimate credit purposes.

This has been accomplished at a time when most other nations of the world are struggling with similar problems without such effective results.

It is a pleasure to testify that this has been made possible by the complete cooperation of General MacArthur and his Staff and the Japanese Government, under the leadership of Prime Minister Yoshida and Finance Minister Ikeda.

It is also significant that the reported accumulation of savings from all sources so far in this fiscal year is approximately 250 billion yen and by the end of the fiscal year may reach a total of 300 billion yen. These savings represent the holdings of millions of the people of Japan. Their growth is a direct indication of the willingness of the people of Japan to accumulate funds rather than goods because of their increasing confidence in the stabilization program and in the future value of their money. It is also evidence of their ability to do so.

In the

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Enclosure to Tokyo's Despatch
No. 852, December 5, 1949.

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In the period of April 1st - October 30th, a total of 250 billion yen has been made available for industrial purposes excluding government investment. This compares with the same period of the 1948-49 fiscal year when there was a total of 175 billion.

Because government disbursements have been restricted and tax collections increased, the financial position of the Japanese Government has been completely reversed. For the period of April until the end of November 1948, disbursements exceeded collections by 82.7 billion in the General and Special accounts, whereas in FY 49, over the same period, the collections exceeded the disbursements by 7.1 billion. This is a change of 90 billion.

There is one point I want to emphasize. No one should assume that all danger of more inflation is past. Substantial inflationary factors still exist. Inflation has been checked but an inflation always creates a vast net of interests that have learned to profit from it at the expense of all the people and will struggle desperately to continue it. These interests bring continuous pressures on the government to stop any reform of public or private finances and vigorously and loudly oppose any return to more normal monetary conditions.

Nothing can be more inconsistent with international economic reality or more detrimental to the sound long-term recovery of Japan than to accept the studied exaggerations and distortions of those who would attempt to reverse the stabilization program. The need for a rationalization of the domestic and export economy has only become more urgent.

One of Japan's fundamental problems is that of finding adequate foreign markets. This will not depend on any mere change in the rate of foreign exchange or price cutting. It will depend on more efficient production, higher quality products, the assurance of competitive prices, the fitness of the products for present and future export markets and salesmanship. Those with the lowest costs naturally will acquire most of the business but do not forget that the high cost of government is included in the price of exports.

Japan cannot compete successfully as a high cost-low quality producer. Increasing production is not automatically followed by more exports and a better balance in the foreign account. No specific level of production will either balance the foreign trade account or the dollar deficit. Therefore, production alone will not be sufficient to meet Japan's principal problem. The task is to adjust an increasing volume of output more exactly to the demands of a growing foreign competition. While doing this, Japan must combine strong efforts for increased exports with internal and economic financial policies which increase the incentives to export and decrease the incentives to import.

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No. 852, December 5, 1949.

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One of the fundamental problems of international trade arises from the creation of an increasing domestic price level which progressively and seriously interferes with the expansion of foreign trade.

The preference of workers for the shadow of a high money wage rate over the substance of an actually improving real purchasing power, the prevalence in business and industry of uneconomic production and extravagant and non-productive government expenditures all combine to contribute to a progressively less competitive price level in world markets.

These and other problems which face Japan and many other nations are not mere statistical crises appearing only in government reports. They are not mere abstractions to be answered by intellectual argument; they are not mere figures to be easily straightened out by the efforts of some government board or official. They are serious fundamental problems that directly affect the daily lives of everyone and to which everyone must contribute a part of the answer.

The intelligence, the industry and the patriotism of the people of Japan are its greatest hope.

The stabilization program announced by General MacArthur in December was aimed at insuring Japan an opportunity to meet its world trade problem. World events have proved the stabilization program even more necessary than it may have seemed at the earlier time. The fact that the stabilization program has actually been in effect is both constructive and fortunate for Japan because external events would have forced its adoption under even less favorable circumstances.

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 FRANCIS O. WILCOX, CHIEF OF STAFF

401459

DIVISION OF

United States Senate
 COMMITTEE ON FOREIGN RELATIONS

DEPARTMENT OF STATE

Reply drafted 12-19-49

December 12th, 1949

Office of
 FAR EASTERN AFFAIRS
 DEC 15 1949
 DIRECTOR
 Department of State

to NA-Doherty
 for action
 DEC 14 1949
 Jm Haseltine
 DEPARTMENT OF STATE

RECEIVED
 DEC 13 1949
 DEPT. OF STATE
 DC/R

Secretary of State
 Department of State
 Washington 25, D. C.

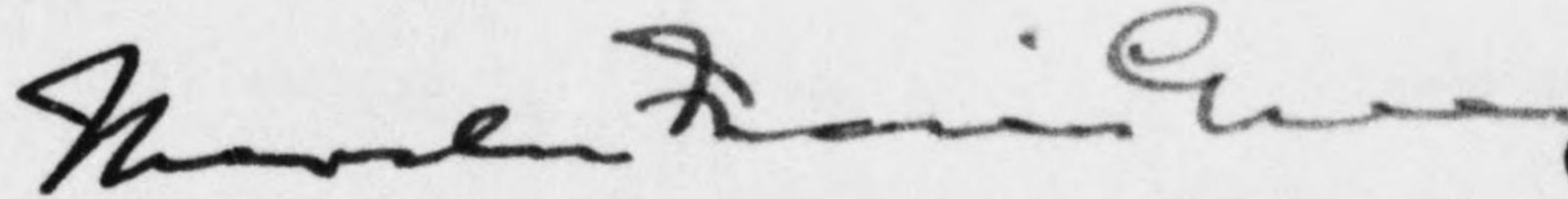
Dear Mr. Secretary:

I would appreciate your forwarding the information as to the amount of gold and silver stocks in ounces now in Japan and the amount purchased by Japan since hostilities ceased.

Also, I would like to have any information available as to proposed provisions in any peace treaty recommended by the Department of State providing for the disposal of gold and silver held by Japan.

I would appreciate having this information at an early date.

Yours very truly,



Theodore Francis Green

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 JAN 5 1950

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ACTION

DEC 23 1949

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 Control (Japan)

DEC 23 1949

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In reply refer to
NA

My dear Senator Green:

*XR
894.515*

The Department has received your letter of December 12, 1949 in which you request information regarding gold and silver stocks in Japan.

Attached is a tabulation showing the amounts of these metals in stocks in Japan as of June 30, 1949 and the amounts set aside for reasons noted in the tabulation. I am informed that Japan has purchased no gold or silver since hostilities ceased.

No decision has yet been reached by the Department covering any possible disposition of such gold and silver by a treaty of peace.

Sincerely yours,

For the Secretary of State:

Jack K. McFall
Assistant Secretary

Enclosure:

Tabulation of gold and silver stocks in Japan.

Mr. Tolson	
Mr. E.A. Tamm	
Mr. Clegg	
Mr. Glavin	
Mr. Ladd	
Mr. Nichols	
Mr. Rosen	
Mr. Tracy	
Mr. Carson	
Mr. Egan	
Mr. Gurnea	
Mr. Harbo	
Mr. Hendon	
Mr. Pennington	
Mr. Quinn	
Mr. Nease	
Miss Gandy	

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The Honorable
Theodore F. Green,
United States Senate.

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**GOLD AND SILVER STOCKS IN JAPAN
AS OF JUNE 30, 1949**
(Based on Data Submitted by the Supreme
Commander for the Allied Powers)

	<u>Fine Weight in Troy Ounces</u>
<u>GOLD</u>	
Total gold in custody	6,241,061
Less:	
Owned by non-Japanese interests <u>a/</u>	2,340,857
Subject to restitution claims <u>b/</u>	153,271
Total Japanese-owned gold	3,746,933
Less:	
Source of credit for Occupied Japan Export-Import Revolving Fund <u>c/</u>	3,044,582
Unencumbered balance	702,351
 <u>SILVER</u>	
Total silver in custody	70,605,357
Less:	
Owned by non-Japanese interests <u>a/</u>	214,037
Subject to restitution claims <u>b/</u>	5,348,736
Total Japanese-owned silver	65,042,584
Less:	
Source of credit for Occupied Japan Export-Import Revolving Fund <u>c/</u>	50,213,187
Unencumbered balance	14,829,397

a/ Held for non-Japanese interests on account of commercial transactions before the occupation of Japan.

b/ Subject to restitution as property looted from areas occupied by the Japanese during the war.

c/ Being used as source of credit for loans advanced by United States banks to the Occupied Japan Export-Import Revolving Fund.

401562

INCOMING AIRGRAM

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

AIRGRAM

file DC/R
2306
NSH
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4008
FE

FROM: USPOLAD, Tokyo.

Date of mailing: December 16, 1949.

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OFFICE dated: Dec. 20, 1949 10:20 am
FINANCIAL DEVELOPMENT POLICY
MN
DEC 22 1949
DEPARTMENT OF STATE

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Secretary of State,
Washington.

A-360, December 13, 1949.

Following news item released December 13, 1949, by Public Information Office, General Headquarters, (U.S.) Far East Command, Tokyo, under heading "Counterpart Fund Loans for Small Business:"

"A plan to make Counterpart Fund loans available to small businesses is now under consideration by the Japanese Ministry of Finance and the Bank of Japan, SCAP officials announced today.

"The Economic and Scientific Section has asked that a plan be presented by the Minister of Finance making use of Counterpart Funds for these small loans up to 1,500,000,000 yen over the next 15 months.

"Simplified procedures for application and the review of cases will be established. It is expected that the loans will be made through regular banking channels with the banks participating to the extent of 20 to 30 per cent of the individual loans."

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file
DIVISION OF FINANCIAL AFFAIRS
to FE for action
DEC 22 1949
MN/Dasselton
DEPARTMENT OF STATE

894.51/12-1349

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FILED

DEC 29 1949

DEPARTMENT OF STATE
COMMUNICATIONS SECTION
LIAISON OFFICE
12-21-49
GR