GHQ/SCAP Records(RG 331)
Description of contents

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Oyabun-Kobun System: Hoarded Goods

(3) Date: Oct. 1947 - Mar. 1949

(4) Subject:

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(7) Film no. Sheet no.

17 March 1949

MEMORANDUM FOR THE RECORD

SUBJECT: Japan Silk Company Scandal

On 10 March the Tokyo District Procurator's Office in coordination with the Tokyo Metropolitan Police Bureau raided the Japan Silk Company and impounded their books and records. This company produces silk thread and within three years has increased its capital from 195,000 yen to over 30,000,000 yen. The president, NAKAZAWA, Hisashi was arrested on 10 March.

Assistant Chief, Tokyo District Procurator BABA reported that on 18 March NISHIMURA, Governor of Saitama will be arrested on the suspicion of having received a bribe of 610,000 yen. Further, HIRATA, Saburo, Chief, Live Stock Bureau, Agriculture & Forestry Ministry will also be arrested on the charge of receiving a house worth 1,500,000 yen. Both parties received this money from the president of the Japan Silk Company.

The procurators and the police have closely coordinated their activities in investigating this case, and have adjusted their investigation to the new code of criminal procedure.

M. Matsukata

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oyabun

GENERAL HEADQUARTERS
SUPREME COMMANDER FOR THE ALLIED POWERS
Government Section

14 June 1948

2

G.S. File

MEMORANDUM FOR RECORD:

Subject: Gunma Coffee Case

1. On 17 February 1946, the Shibukawa police uncovered 93 tons, 540 kilograms of coffee beans, formerly belonging to the ex-Japanese Army. This was turned over to the Gunma prefectural government. During the months of July and August 1947, 65 tons of this coffee were sold for 2,784,128 Yen, at ceiling price. In return for the sale of this coffee at ceiling price, the Gunma prefectural government received 14,858,000 Yen as gifts from the various recipients of the coffee. Besides this, they received 57 tons of salt and two houses (92 tsubo), in Tokyo.

2. A conference was held in the Supreme Procurator's office on ~~16 July,~~ 11 June at which time it was concluded that the following officials should be indicted on the charge of violating Price Control Law 118, 3 March 1946 (Article 33 and 35):

Kitano, Shigeo, governor of Gunma prefecture
~~Tajieda, Senzuke, vice-governor~~
Isozaki, Hiroyuki, Economic Section Head
Ishikawa, Kaoru, Administrative Head
Takizawa, Kakuzo, Chief, Foods Branch
Moro, Motoyuki, Clerk, Foods Branch

At the conference it was concluded that the governor would be notified that the above named persons would be indicted and in the case that the governor resigned and the money was turned over to the national government, the procurators would not indict any of the above named persons. The reasons given for this conclusion were as follows:

(a) Although the money was not turned over to the national government, the prefectural government had intended to use it for welfare purposes, such as flood relief and damage incurred by the recent hail storm.

(b) None of the money had been used for personal gain.

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(c) The prefectural assembly and public opinion in Gunma prefecture is opposed to the indictment of the governor.

3. The Supreme Procurator's office requested Government Section's opinion on the conclusion drawn at the procurators' conference. Colonel Hays stated that in his opinion the procurators had no alternative but to indict and prosecute the guilty members of the prefectural government. Further, that in the case they did not indict and prosecute the governor, they were failing to carry out their duty.

MAKOTO MATSUKATA
Executive Group

It is important that the trial of this case be expedited in view of attacks made against governors by ESS, NRS & other staff sections which is imperilling entire decentralization program

C.L.K.

FILE UNDER: **OYABUN - KOBUN SYSTEM**

I N D E X S H E E T

DATE: **20 March, 1948**

FROM: **G-2** TO: **G.S.**

SUBJECT: **COMMUNIST CAMPAIGN FOR EXPOSURE OF "HIDDEN GOODS"**

DOCUMENT FILED UNDER: CLASSIFIED FILE:

COMMUNIST

CM/CLK/TH/MM/ev

Investigation of hoarded goods

Govt. Sec. CPC 1 Mar 48

2 1. It is recommended the Economic Stabilization Board be contacted through ESS regarding looted property in hoarded goods as the Economic Inspectors have been very active in uncovering hoarded goods.

2. CPC will be informed by check sheet regarding all investigations in which any hoarded goods mentioned in Note No. 1 are uncovered.

3. Negotiations have been made with the procurator's office to admit DAC and Army investigators attached to CPC to warehouses where hoarded goods have been impounded by procurators.

- C. W. - - - - - - - -

G.S. Files

PHT:0413 [illegible]:grb

Investigation of Hoarded Goods

CPC/PP GS 24 FEB 1948

1 1. Reference is made to conference with Mr. H. Matsumata, GS, 6 Feb 48, regarding hoarded goods.

2. CPC hasdefinite interest in the current investigations being conducted by the GS to seek out hoarded goods of all kinds, since many of the materials involved may be looted property. Previous looted property investigations have shown that any of the following commodities, if found in Japan, may be partly or wholly looted:

Tin
Lead
Rubber
Nickel
Precious metals and gems
Coins
Cinchona bark
Quinine and quinine derivatives
Raw wool
Other raw materials not indigenous to Japan

3. It is therefore requested that CPC be informed by check note regarding all investigations in which any of the above items are uncovered.

4. It is further requested that DAC and Army investigators attached to CPC be admitted to warehouses where hoarded goods have been located for the purpose of determining whether any of the property is looted.

5. Upon completion of investigation by CPC, that section will inform GS as to the amount and kind of looted property found and of the action taken with regard to said property. CPC agrees that property, if impounded as looted, will not be moved from its location until the legal case in which said property is involved has been completed. CPC further agrees to exercise due care in order that its investigations do not unduly interfere or delay the prosecution of cases by the Procurator's Office.

P.E.P.

18090

CONFIDENTIAL

DP

Hoarded Goods WPW/~~JCG~~/mc

ESS GS 20 January 1948

1 1. Because the unavailability of quantities of former Japanese Army and Navy stocks and other hoarded goods is a serious impediment to the rehabilitation of Japanese industry, ESS is formulating a program for the discovery and redistribution of hoarded goods and excess inventories.

2. It is understood that GS, through its supervision of the Procurators' offices, receives information on cases of illegal disposition for hoarding of such stocks from time to time.

3. Request that ESS be kept informed of the results of investigations and prosecutions in connection with hoarded goods so that full coordination on this program may be achieved.

Govt. Section file

CS/GLK/YKH/ZK

2 From: GS To: ESS Date: 22 Jan. 1948

1. In connection with its responsibility for supervision of the administration of Japanese courts and judiciary, Government Section has no regularly established system of investigating the existence of hoarded goods. Pursuant to the provisions of SCAPIN 53 of 24 Sept. 1945, the Japanese Government is required to account for all ex-military supplies and equipment in such form that its disposition may be traced to the ultimate consumer. G-4 has been designated as the staff agency responsible for collecting such reports.

2. Pursuant to Government Section's responsibility relative to the National Diet, however, this Section does have contact with the Diet Committee for the Investigation of Concealed and Hoarded Goods and is taking steps to insure that it receives from that Committee copies of all committee minutes as well as any reports the committee may make. Government Section will furnish ESS copies of these materials as received.

3. In connection with this subject, there is attached for your information a copy of a Censorship transcript which deals with the disposal of a quantity of hoarded textiles. There is also forwarded herewith a copy of the only report received to date from the above-mentioned Diet committee.

2 Incls.
CIE transcript: Blackmarketing
Kato Committee Report

C. W.

CONFIDENTIAL

Oyabun-Kobun

(5)

SUPPLEMENTARY REPORT ON THE PROGRESS OF THE SPECIAL COMMITTEE FOR INVESTIGATION OF CONCEALED AND HOARDED GOODS IN THE HOUSE OF REPRESENTATIVES.

Part I - Introduction:

Our economy has met with great difficulty since the surrender. Two problems have been critical--the shortage of food and a shortage of raw materials which rocks the foundation of our industries.

It is, therefore, up to the Government and upon the National Diet to adopt policies and sponsor programs which will speed up the stabilization of Japan's economy. It will be necessary for some time to depend partly on food imports to maintain a reasonable and healthful diet in Japan. Importations thus far have exceeded Japanese exports by several hundred million dollars. Since such imports on credit cannot continue indefinitely it becomes obvious that Japanese industrial production must be greatly increased to provide foreign exchange sufficient for the purchase of foodstuffs abroad.

It is the purpose of this report to suggest an immediate method by which Japanese industrial production can be increased, by which the progress of inflation can be retarded, and by which export revenues can be released for meeting the deficit in the nation's food account.

The method proposed is the immediate mobilization of all goods and materials which were held in stock at the time of the surrender, especially those publicly owned goods which were illegally diverted into private hands. At a conservative estimate the value of such goods--some of which have been diverted into the black-market and some of which are still in concealment --exceeds Yen 50,000,000,000; former Finance Minister Tanzan Ishibashi testified in August this year before your Committee that in November 1946 he received from GHQ a list of goods amounting to more than Yen 100,000,000,000 in value which had been handed over to Japanese authorities by GHQ for general distribution. No satisfactory report on the disposal of that vast hoard has ever been made.

Under Occupation directives it is the duty of the Japanese Government to discover the kind, quantities and price of such goods and materials; and it is the concomitant duty of the Government to channel into production all such goods which could contribute to the stabilization of the economy.

It is significant, however, that no clear legal means is now in existence for dealing with the cases that have arisen out of such extremely lawless acts as were committed under the cover of post-war confusion. The Committee earnestly believes it will serve the interests of the Japanese people to review ineffectual legal measures taken since the surrender for the recovery of these public properties and to suggest measures which would enable the Government to deal effectively with the problem.

In any investigation of hoarded goods it should be recognized that tremendous opposition will be encountered and has in fact been encountered repeatedly by the Diet's Special Committee on Hoarded and Concealed Goods. Among the general public there are those who fear a thorough-going exposure of concealed and hoarded goods because they themselves are often dependent on the blackmarket and they fear their own sources of supply may be cut off. There are others who collaborated with the extreme militarists during the war; in the chaos following the surrender those who had close relations with munitions factories were able to seize war goods in their possession and by the sale of these goods have since become extremely wealthy. In some cases these nouveau riche have run for seats in the Diet or have financed the election of their personal spokesman, thus gaining power in the political field. They wear a mask of democracy but in reality they swagger on the blackmarkets and are prolonged confusion of the national economy. There are other officials in the central and local government who have been corrupted by the illegal possessors of war goods and who fear to collaborate in exposing these frauds lest they themselves be implicated. The opposition to a fearless and honest exposure of postwar frauds extends to all levels of society and government. It is, therefore, obvious that the rights and interests of the Japanese public as a whole can be protected only by the active intervention and assistance of Allied Occupation authorities.

Part II - Background:

Following Japan's message accepting the Potsdam Declaration, the Allied Forces transmitted a message containing instructions that the Emperor should issue cease fire orders to all units under the command of the Japanese Army and Navy and should direct all such units to surrender their arms and follow all orders issued by Allied commanders.

On August 14, 1945, the Japanese Cabinet, headed by Admiral Suzuki, met hurriedly and agreed upon the hasty disposal of all war goods possessed by the Army and Navy. In an effort to bridge the gap which developed at the time of the surrender between the people on one hand and the military forces on the other, it was decided to curry favor by distributing war goods and materials to government organs, public organizations, private factories and to private persons. In accordance with this decision, Army and Navy authorities instructed individual units to distribute as quickly as possible whatever war goods were then in their custody. In doing this the Suzuki Cabinet wilfully misinterpreted the purport of the Allied instructions; the Cabinet deliberately chose to understand that only arms and ammunitions should be handed over to the Allies and that all other war goods could be disposed of freely.

On August 15, 1945, the Japanese Army issued to each army unit Secret Instruction No. 363 in which the Cabinet decision of the previous day was implemented. In Paragraph 1 this Instruction said:

> "As a principle, war goods, materials and facilities for producing war goods should not be disposed of free of charge, but in the case of deliveries to local governments, etc., those goods can be delivered free of charge. In other cases where goods are sold it is not necessary that payment be made at once." (See Abstract in Appendix B).

The Secret Instruction dated August 15 was delivered to subordinate commanders August 16 together with instructions that on the 17th and 18th all papers and documents of a military nature were to be burned or otherwise destroyed, but that papers and documents of a financial nature relating to such matters as war contracts and property rights were to be preserved. It is doubtful whether this order was carried out strictly along the lines laid down; subsequent investigation had disclosed that many documents which could establish the legal title to war goods are no longer in existence.

On August 20, 1945, at Manila the Japanese Mission which arrived to negotiate for the formal surrender in Tokyo Bay, were handed General Instruction No. 1. This order formally instructed the Higashikuni Government to keep in good condition all war goods and materials then in Japanese possession, including arms, munitions, explosives, equipment and other stocks of war goods. This order also made it clear that the Allied forces would not permit the dissipation of Japanese property and constituted a specific

cancellation of the August 14 Cabinet order.

Nevertheless it was not until August 28, 1945, that the Higashikuni Cabinet formally rescinded its previous order. During this thirteen day period from August 15 to 28, substantial quantities of public property were removed from government store houses, numerous illegal transactions transferring title to such property were consummated, and numerous records were altered or destroyed. Even after the order of August 14 was rescinded, the Nigashikuni Cabinet did not make any real efforts whatever to reclaim the goods thus illegally disposed of. Unknown numbers of private individuals were left in possession of vast quantities of goods obtained originally with public revenues without having made any compensating payment to the public treasury. The goods thus diverted from their proper channels and the individuals thus enriched have remained throughout the Occupation as a cancer threatening the economy of this country.

On January 11, 1946, SCAP sent the Japanese Government a memorandum inviting its attention to the illegal disposal of war equipment and supplies which took place between August 14 and September 2, 1945. The memorandum pointed out explicitly that the disposal of war goods after the surrender was not in accordance with the spirit of the Potsdam Declaration and ordered the Government to present a complete list of the goods released, a copy of the orders authorizing this diversion of property and a list of those responsible for issuance of the orders. The Government, from the records of the former War Ministry and Admiralty, presented the information requested in the GHQ memorandum.

The first concrete effort by the Japanese Government to recover property looted and illegally disposed of during the chaotic period following surrender was taken by the Shidehara Cabinet on February 17, 1946. At that time the Cabinet issued the "Emergency Decree for Disposal of Hoarded Goods No. 88," an order which had the effect of law. Under this Act, all those possessing certain stipulated goods were required to submit before March 10, 1946, three copies of a report listing such goods. These reports were to be submitted through prefectural offices to the Minister of Commerce and Industry. Possessors of such goods were ordered not to dispose of or move the property prior to April 20, 1946. To give effect to this order, it was

provided in Article VII:

> "The Minister concerned, or the Governor, can demand all necessary information concerning 'goods under investigation' and 'designated goods' from those concerned. Further, he can send officials to factories, workshops, stores, warehouses and other places for inspection with instructions to examine the condition of the business, the goods in question or the company's books and records. In this case the officials concerned must bear their identification cards."

Following the April 1946 elections and during the negotiations which led to the formation of the Yoshida Cabinet on May 22, 1946, a contract was concluded on May 16, 1946, between the Chief of the Investigation Bureau of the Home Ministry and a group of private businessmen calling themselves "The Arms Disposition Commission." No legal foundation for this contract existed.

The so-called Commission was formed by Mr. Takashi Komatsu as chairman of a group representing five Zaibatsu companies. The Commission was so formulated as to mislead the general public into believing it was an official government organization. Although the date of the contract is May 16, 1946, it appears from Paper No. 1 attached to it that negotiations for its conclusion had started in November 1945. At that time it was estimated that the Government would be able to recover 1,288,720 tons of public property valued at Yen 1,289,600,000. During the time this Commission functioned, it actually recovered 835,102 tons of material on which it realized Yen 957,700,000. It is worth noting that GHQ in November 1946 estimated the total value of recoverable goods at Yen 100,000,000,000, but the total value of recoverable property at the time the Arms Disposition Commission was organized was estimated at only a little more than Yen 1,000,000,000. These facts lead to a presumption that there exists serious cases of irregularity and dishonesty in this entire transaction.

On November 15, 1946, according to his own subsequent testimony, Mr. Tanzan Ishibashi as Minister of Finance received from Allied authorities a list of so-called "special goods," which consisted of miscellaneous supplies and materials seized by Occupation forces immediately after the surrender and subsequently turned over to the Japanese Government for the use of the general public and for use in industrial production. Mr. Ishibashi testified before your Committee in August 1946 that he had no record whatever

of the manner in which these goods were disposed of although it was estimated they were valued at approximately Yen 100,000,000,000. He further testified that he had no knowledge of the revenue derived from the sale of these goods. This would seem to constitute prima facie evidence of the negligent and irresponsible manner in which the Government handled billions of Yen worth of public property. There is a natural presumption that widespread fraud existed in the distribution of these commodities.

In a belated effort to regularize disposal of war goods and to stimulate Japan's flagging economy, a joint Ministerial Ordinance was issued January 25, 1947, by the Ministries of Commerce and Industry, and Agriculture and Forestry. This ordinance was entitled "Regulations for Filing Inventories on Stocked Materials for Designated Production." It was less an effort to uncover illegal transfers of war goods than an attempt by the Government to channel hoarded goods into production. It provided that owners of designated commodities in excess of stipulated amounts would file within thirty days a report on the quantities of such commodities in their possession and could dispose of such excess stocks only to authorized private manufacturers or government agencies.

As a result of the proclamation in February 1946 of the Decree concerning the disposal of hoarded goods, it was assumed that theoretically no such stocks were still in existence. This assumption, however, was challenged in February 1946 by Mr. Koichi Seko, Undersecretary for the Home Ministry. As a result of investigations which he made during his term of office, he was convinced that large quantities of hoarded goods were still flowing into the blackmarket and impeding economic recovery. Following the reorganization of the Yoshida Cabinet, Mr. Seko resigned from the Home Ministry. He then approached Finance Minister Ishibashi who was concurrently Chairman of the Economic Stabilization Board and urged that further steps be taken to expose hoards of concealed goods. As a result of his suggestions, the Yoshida Cabinet agreed on February 14, 1947, on the appointment of an investigating committee within the ESB. The Cabinet announced the creation of a Committee composed of a chairman, a vice-chairman, members and some specialists. Mr. Ishibashi as Chairman of the Committee on February 24, 1947, appointed Mr. Seko a temporary member and vice-chairman.

It should be pointed out that this Committee was brought into being on the basis of an informal Cabinet agreement and without the legal foundation it might possess upon creation by Cabinet decree or ordinance. The dubious legal status of the Committee was described later by Mr. Koichiro Kunichio, head of the Inspection Department of the Economic Stabilization Board, during testimony before the Committee for Public Order and Local Administration of the House of Representatives. Mr. Koichiro Kunishio told the Committee in substance:

> The Committee for the Disposal of Hoarded Goods was organized February 14, 1947, in accordance with a Cabinet decision. The Committee was never legally authorized, however, at that time, or later. Furthermore, it had no legal authority to expose goods or seize concealed goods. In effect the Committee was only an investigating organ. The responsibility for the actual exposure of concealed goods was in the hands of ESB officials in cooperation with the Ministries concerned.
>
> The Committee's first meeting was held on February 24, 1947, at the Premier's house, but neither at that time nor subsequently was any formal resolution adopted to make the work of the Committee effective.

Mr. Seko held office as Vice-chairman of the Committee from February 24 until April 11, 1947. During that period numerous reports of hoarded goods were received and numerous attempts were made to investigate these reports. Since Mr. Seko had never received a written grant of authority, he took it upon himself to issue arbitrarily "Seko Instructions for Exposure." Altogether 144 of these orders were issued. Mr. Seko in a report of his activities made the following statement:

> "Before I adopted the system of issuing instructions on hoarded goods in my name, I took the following steps. I picked up information which I thought creditable from many informants. Then I asked the informant to go to the Police Bureau and explain to the Anti-crime Section the nature of the case. This Police Section, when it thought necessary, gave the informant a sealed letter asking the cooperation of the police in the area where the hoarded goods were concealed.
>
> "Every time I issued an instruction I made an investigation beforehand. As I was afraid these orders might be abused, they were issued only in the name of the bearer and the term of validity was fixed. I made certain that no exposure could take place without the cooperation and certification of local police. Further, I tried to get the cooperation of lawyers in order to prevent the abuse of any civil rights.
>
> "However, I was not successful in obtaining the cooperation of local police and other local officials. Instead, I encountered active resistance and non-cooperation. As a result I gave up these efforts and called upon the public prosecutors for assistance.

"Among the abuses which occurred, despite my efforts, were cases of forged orders which were actually used by brokers to swindle the owners of concealed goods.

"My efforts were wholly unsuccessful and at the beginning of April most of the informants lost confidence in Japanese authorities and began to ask for the cooperation of Allied Occupation authorities."

In the weeks that followed, there were persistent whispers which accused Mr. Seko, among others, of shady dealings in connection with the disposition of hoarded supplies. Rumors circulated that vast sums of money were passing from hand to hand in deals which involved powerful brokers and their stooges in the bureaucracy and that huge stockpiles were disappearing mysteriously a few days before authorities were dispatched to investigate tip-offs on hidden goods. These rumors culminated on July 10, 1947, when in a public statement made by Mr. Seko before the Liberal Diet Club, he charged openly that there were billions of yen in hoarded goods concealed throughout Japan and urged that the Diet itself form an investigating committee to examine the whole problem. He even intimated that members of the Cabinet were involved. Following various denials and counter charges, on July 15 Mr. Koichiro Kunishio, then serving as Director of the Supervision Bureau of the ESB, and Hideo Nakayama, Director of the Police Bureau of the Home Ministry, declared in testimony before the House Committee for Public Order that the Seko Committee met only once while Mr. Seko was Vice-chairman and asserted that only 95 cases were investigated and that hidden goods were found in only 5 instances. These two witnesses testified that since the dissolution of the Seko Committee on April 11, 1947, the Economic Statilization Board, operating independently, had investigated 282 cases and discovered concealed materials at 145 places.

In view of the widespread publicity given Mr. Seko's charges and in view of the fact that unnamed Cabinet members were said to be involved in the scandal, the Cabinet felt obliged to take note of the case and the Diet itself considered the affair so serious that it was decided to create a committee for the investigation of the realities of this problem.

Part III - Special Committee Concerning Concealed and Hoarded Goods:

The House Special Committee for the Investigation of Concealed and Hoarded Goods was created July 25, 1947, and held its first meeting the

following day. Creation of the Committee was without precedent in Japanese legislative history. The Special Committee to investigate Hoarded and Concealed Goods is the first committee of investigation ever appointed by the Japanese Diet. From the outset, therefore, this Committee had to pave its way onward in the face of numerous difficulties.

The public is certainly entitled to believe that the Committee is morally responsible for investigating postwar frauds and the illegal concealment of goods. Actually, however, the Committee lacks authority to carry out this responsibility. The Committee is very strongly of the opinion that it cannot be expected to assume responsibility unless it has first been granted adequate authority. If the new Constitution is to be an effective instrument, the legislative branch must necessarily define its authority clearly and operate within the limitations thus set forth.

At the very beginning of the investigation it became clear that there existed conflicting opinions on the Committee's proper function. At the Committee's second session, a lively debate took place when Kyuichi Tokuda suggested the investigation of Prince Higashikuni for his part in ordering the armed forces to surrender military supplies in their possession to civilians without compensation. This gave rise to a hot dispute. A member of the Democratic Party, Tetsuzo Kojima, vigorously opposed this suggestion and declared that the primary mission of the Committee is to channel hoarded goods into regular routes and not call the Government to account. On the other hand, there were those who believed the Committee could not possibly fulfill its proper function unless it investigated the part played by Government bureaucrats in the concealment of hoarded goods. In this connection, the Nippon Times on July 27 reported:

> "The case is a battle between party politicians and bureaucrats for profits accruing from hoarded stockpiles. Observers are of the opinion that the case came to a head when party politicians attempted to get a lion's share of the huge profits which bureaucrats were garnering out of the sale of hoarded supplies. The two groups came into frontal collision and the bureaucrats did all in their power to prevent the execution of Mr. Seko's drive for unearthing hoarded caches."

Between July 25 and October 15, 1947, the Special Committee held 21 meetings during which it was in session 51 hours. Two sub-committee meetings were also held. In addition 17 Committee members made 6 field trips on which they travelled 1,450 kilometers. All trips were taken at their own expense since no public funds have ever been appropriated for use of the Committee. On these trips they investigated:

1. The Naval Arsenal, Samukawa Machi, Kanegawa Prefecture
2. Tochigi Prefecture
3. Iwate Prefecture
4. Toyojoze, Shizuoka Prefecture
5. Tokyo Metropolitan area
   (a) Shimura Itabashi-ku, Ishida Alloy Works
   (b) Suburb of Tashikawa--former Hitachi Aviation Factory
   (c) Chuo Ward--Warehouses of Textile Control Association

During the course of the investigation this Committee has been convinced beyond any doubt that,

Firstly, vast quantities of goods formerly owned by the Japanese Army and Navy were disposed of to local authorities, businessmen and brokers and that the blackmarkets have been flooded with these goods to the detriment of honest industrialists.

Secondly, the Committee is convinced that all attempts to channel these goods into legitimate production channels have been frustrated by a combination of fraud and legal barriers. Mr. Seko during his investigation could not obtain the collaboration of local authorities. It seems fairly clear that in many cases understandings exist between the holders of goods and local authorities; frequently local authorities appear to have connived in legalizing the transfer of such property to private individuals.

Thirdly, the Committee is convinced that present decrees and ordinances are too limited in scope; many articles on which the Government has a legitimate claim are not included on the list of hoarded goods and thus are free from investigation.

Fourthly, the Committee has received evidence showing that existing authority is scattered and ineffectual; at present authority to investigate

hoarded goods is divided among the Ministry of Commerce and Industry, Ministry of Agriculture and Forestry and the Economic Stabilization Board. Internal bureaucratic friction prevents united action.

Fifthly, the Committee has been handicapped by the failure of the Diet to approve a Cabinet proposal which would give greater authority to the economic inspectors.

Sixthly, the Committee is distressed at the failure of responsible officials to have kept adequate records on the disposal of war goods under Allied direction. On August 13, 1947, former Finance Minister Tanzan Ishibashi testified before the Kato Committee:

> "I am sure that it was in the accounts of November 15, 1946, that GHQ transferred Yen 100,000,000,000, more or less, worth of goods to the Japanese Government. Of course, these were goods which GHQ had taken over from the old Japanese Army and Navy and then returned to the Japanese Government; but included among the goods were building materials and machinery amounting to several ten billion yen. The Government has received papers pertaining to this matter. I want to know their whereabouts. If a hundred billion yen worth of goods have been turned over to the Japanese Government, just where have they been turned over?
>
> "I brought this matter up in a Cabinet meeting and investigated it. I had the Home Minister and other personnel report to me and had them investigate the case. But no such papers were found among the Government office data.
>
> "Only about twenty or thirty million yen worth of material seemed to have passed through the hands of the Home Ministry and nobody knows where a hundred billion yen worth of stuff has gone to.
>
> "I demanded that the whereabouts of these goods be uncovered, and after obtaining copies of the documents from GHQ, I instructed the President of the War Reconstruction Board to make copies of them. You can get the data if you ask Mr. Mikishi Abe, President of the War Reconstruction Board."

The Diet has been disappointed in its inability to obtain documents and other relevant information from the executive branch of the Government in the course of this investigation. Various ministerial officials have appeared before the Committee to apologize for their failure to produce information which is essential to the inquiry. The Committee has submitted formal requests to the executive agencies for 19 reports covering various phases of the inquiry. Thus far only a trickle of this material has been made available to the Committee.

In response to repeated, though unofficial, recommendations that the Government take drastic measures for the exposure of postwar frauds, the Cabinet on September 14 appointed a committee of 20 members, half of whom were public officials and the other half private citizens. This Committee exists merely in an advisory capacity to the Government and has been of no assistance to the investigation conducted by the legislative branch.

Part IV--Conclusions and Recommendations:

During the first three months of its investigation, the Kato Committee has reached the following conclusions:

1. The Suzuki Cabinet on August 14, 1945, acted in bad faith and did irreparable harm by ordering the secret disposal of Government property. The legality of that order is still in question and should be resolved by the courts or by the Diet itself. Other postwar Cabinets have not taken effective measures to recover the assets thus dissipated.
2. The disposal of war materials after the surrender was tainted with favoritism and shady deals. Private individuals have profited fabulously and have nourished the blackmarket.
3. Local government and police officials have both actively and passively interfered with investigations of hoarded and concealed goods and in some cases have conspired with holders of concealed goods to legalize fraudulent transactions. Even the so-called "special goods" returned to the Japanese Government by Allied authorities have been improperly distributed and no accounting has ever been rendered.
4. Some hoarders believe the Allied Occupation is nearly over so they withhold information on their concealed goods in the hope of escaping detection entirely. It is even possible that the secret disposal of military goods may have included arms and munitions which may still be in concealment.
5. Present legislation for uncovering concealed goods is very inadequate.

6. There should be no assumption or imposition of responsibility on either the legislative or the executive branch unless it is accompanied by a grant of adequate authority to fulfill the obligation thus incurred.

7. A clear definition should be made between the responsibilities of the executive and legislative branches. The National Diet in any investigation which it may undertake should confine itself to a purely investigatory function. The responsibility for enforcing the laws should be placed squarely on the executive ministries. The legislative branches should not hesitate to investigate the conduct of any executive agency or individual and by placing responsibility for all derelictions in duty should contrive recommendations for amending existing law in such a way as to make it more workable and less subject to perversion or corruption.

GENERAL HEADQUARTERS
SUPREME COMMANDER FOR THE ALLIED POWERS

CHECK SHEET

DHN/DB/JWG/JFS/ms

(Do not remove from attached sheets)

File No.:

Subject: **Coverage of findings of Hoarded Goods Committee**

Note No.: 1

From: CIE To: GS Date: 31 December 1947

1. Herewith media reports covering the presentation of the findings of the Hoarded Goods Committee to Speaker Matsuoka in the House of Representatives of the Diet, 20 December 1947. The use of media to publicize this event was requested informally of Civil Information and Education Section by Government Section.

a. Press

Asahi	21 Dec 47	35	sq. in.
Mainichi	" " "	80	" "
Yomiuri	" " "	107	" "
Jiji	" " "	51	" "
Tokyo	" " "	17	" "
Nihon Keizai	" " "	15	" "
Tokyo Times	" " "	44	" "
Tokyo Mimpo	" " "	48	" "
Dai Ichi	" " "	38	" "
Shin Yukan	" " "	52	" "
Shin Hochi	" " "	180	" "
Sekai Nippo	" " "	3	" "
Jimmin	23 Dec 47	14	" "
Total Newspaper Coverage		684	sq. in.

b. Newsreels

Excellent coverage was given by the three major newsreel companies, Nippon, Shinsekai, and Riken, consisting of shots of actual uncovering of hoarded goods in various areas, followed by presentation of the report, Matsuoka's acceptance speech, and a statement from Chairman Kato.

c. Radio

A recording of the entire proceedings was made and edited. It was broadcast at 1900 hours (the peak listening time), 21 Dec 47, on the "Weekly Review" program over the entire network of the Broadcasting Corporation of Japan.

DHN

- D. H. N. - - - - - - - - - -

GENERAL HEADQUARTERS
SUPREME COMMANDER FOR THE ALLIED POWERS

CHECK SHEET

DRN/DB/JWG/JFS/ms

(Do not remove from attached sheets)

File No.: Subject: **Coverage of findings of Hoarded Goods Committee**

Note No.: 1 | From: CIE | To: GS | Date: 31 December 1947

1. Herewith media reports covering the presentation of the findings of the Hoarded Goods Committee to Speaker Matsuoka in the House of Representatives of the Diet, 20 December 1947. The use of media to publicize this event was requested informally of Civil Information and Education Section by Government Section.

a. Press

Asahi	21 Dec 47	35 sq. in.
Mainichi	" " "	80 " "
Yomiuri	" " "	107 " "
Jiji	" " "	51 " "
Tokyo	" " "	17 " "
Nihon Keizai	" " "	15 " "
Tokyo Times	" " "	44 " "
Tokyo Mimpo	" " "	48 " "
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DRN

---------- D. R. N. ----------

FILE UNDER: Oyabun - Kobun -

INDEX SHEET

DATE: 17 Dec 47

FROM: Oppler TO: C/GS

SUBJECT: Memo -
for Administration of Justice by Japanese Courts
- Ozu - Sekine - Kikunami

DOCUMENT FILED UNDER: CLASSIFIED FILE:

Memos for the Record

Copy #4

SECRET
GENERAL HEADQUARTERS
SUPREME COMMANDER FOR THE ALLIED POWERS
Government Section

12 December 1947

GS Files

Ogata-san

SPECIAL PROGRESS REPORT

Current Influences in Politics:

1. Recent investigations by the Procurator General have lent substance to previous persistent rumors and reports that great quantities of goods dispersed by the Japanese Government at the termination of the war have since been a main source of large-scale blackmarket transactions, the proceeds of which have contributed to the creation of a "new yen" clique, the exercise of sinister influences on political parties, the corruption of public officials, and the strengthening of the system of bossism which for many years has infested Japanese political economy and social life.

2. Both during and after the elections of 1946 and 1947 there were numerous unofficial reports that large sums of money had been received and used by major political parties and candidates. This money was reputed to come from clandestine sources such as large-scale blackmarketeers and 'new yen' rich always ready to pay with money for political influence, favors, or protection, and usually involved was some prominent political manipulator or broker, always of questionable background and reputation, sometimes an actual purger. Recognizing the behind-the-scenes influence of such undesirables on Japanese political life as a standing threat to the progress toward democracy which the Japanese under SCAP leadership have already achieved, the Japanese authorities with SCAP encouragement enacted various anti-fraud provisions in their election laws, and measures designed to prevent the continued exercise of influence by purgees over public officials. But these measures proved insufficient. Powerful political bosses and brokers evidently well supplied with funds continued their behind-the-scenes manipulations. The political house was being cleaned but the dark corners and recesses were not being reached.

3. Reports continued to reach this Headquarters of large-scale transactions for political purposes which were not reflected in the official reports which political parties and candidates are required to file under Japanese law. Figuring in these reported transactions were such prominent political figures as Tatsuo ICHIKAWA, former Minister of Finance; Ichiro HATOYAMA, former president of the Liberal Party; Jiro HOSHIJIMA, former Minister of Commerce and Industry; Koichi KIDO, former Vice Minister of Home Affairs and now a member of the House of Representatives; Saburo HOTA, member of the House of Representatives; Kanzaburo ZENJI, political boss without official position but reputed financial patron of, and advisor to, the Liberal Party; Nikino HIRANO, former Minister of Agriculture, and Ryozaemon KUHARA, former Minister of Commerce and Industry. Some direct

efforts were made by the government to uncover these many transactions but they proved futile, and no major prosecutions took place under the election laws. Nor was the government able to prove association of public officials with purges with sufficient definiteness to warrant prosecution under the anti-purges influence ordinance.

4. Most of the persons named are former members of the leading political party before the war (Seiyukai). Hatoyama, before he joined the IRAS in 1942, was for many years the second man in the party under his brother-in-law, Kaisaburo Suzuki, who was also president of the ultranationalistic Kokuhonsha (an affiliate of the Black Dragon and Dark Ocean Societies). Hatoyama was also a member of the Kokuhonsha. Matsuoka Yoraoka, who succeeded Suzuki in the Kokuhonsha and who, after a career in the Justice Ministry and police bureaucracy, became president of Nippon University but after the surrender was ousted from that position as a result of protests from the students, is another old political associate of Hatoyama and Sato's political boss. But the real life-long backer and supporter of Hatoyama is Tsuji, the Rose Tweed of Japanese politics, an old colleague of the late Toyama (of Genyosha and Black Dragon Society fame) who, after a number of years' experience in Japanese ultranationalistic political activities in China and Formosa, established himself in Japan as leader of gangster and strong-arm groups which, among other nefarious activities, swung into action at election time to deliver the vote to the Tammany Hall of Tokyo. Another close associate of these persons is former Commerce and Industry Minister, Jiro HORIKIRI, now member of the House of Representatives. Horikiri is the man who, according to the testimony of a war criminal suspect, put Hatoyama's name up for membership in the IRAS, and when the latter expressed qualms about it, advised him to let the matter stand. Ohara, another political figure, war criminal suspect and profiteering contractor, is another old associate of Hatoyama and Ishibashi. Sato, although fairly new in the high councils of the Liberal Party, has a background of fraud in business as well as the academic career which has been featured in recent press articles. Although not one of the former Seiyukai members, Hirano is an ultranationalist in his own right, having been leader of the Kodokai, an "Imperial Way" association with a thoroughly Fascistic charter and mission sponsored by high Army and Navy officers. Somewhere in the background of all this cabal is former Prime Minister, Higashikuni, who is known to have attended meetings of the Black Dragon Society in the 1920's, and who was the highest responsible person in government in August 1945 when the Japanese executed the plan to disperse the vast wartime stockpiles of government supplies which became the principal source of blackmarket operations and provided a financial war chest for the corrupters of politics and government. With access to this huge war chest, these persons have been able to maintain power and to exercise influence, dealing on the one side with political parties, Diet members and government officials and on the other with contractors, blackmarketeers, gamblers, gangsters, and the racketeering associations of various kinds which prey on legitimate business with relative impunity.

5. A direct attack on some of these sources of financial power was made through (1) the SCAP order to the Japanese Government directing that only legal ceiling prices be recognized in government contracts, (2) the repeal or amendment of tax laws under which trade associations and other non-governmental bodies have been authorized to collect taxes from their members, only a fraction of which ever reached the public treasury, (3) the repeal of ordinances which appointed associations as the agencies to issue licenses to members (such as street stall keepers), without which they could neither acquire a site nor conduct business, (4) enactment of a law under which Diet investigating and other government agencies may put witnesses under oath and the giving of false testimony in official investigations is punishable.

Hoarded Goods

6. While these measures are tremendously helpful, they do not remove the biggest source of financial power, namely, the blackmarket in goods diverted from legitimate channels. Hoarded goods as a main source of finance for corrupt politics originated in a decision of the Japanese Government coincident with the surrender to dispose of its stockpiles of Army and Navy supplies before the Occupation troops arrived by dispersing them to local governments, control associations, etc. On 14 August 1945 the Cabinet, then headed by Suzuki, met to accept the Potsdam Declaration. Toward the end of this meeting the Cabinet adopted a resolution offered by the Army to release for civilian consumption the huge stockpiles of equipment, materials, and food then held by the Army and Navy, for the stated purpose of contributing "to the stabilization of the nation's living, the securing of popular confidence, and the positive prevention of alienation between the Forces and the civilians." Execution of the plan was entrusted to the Army and Navy. The following morning the Suzuki Cabinet resigned, to be followed by the Higashikuni Cabinet. The Cabinet's decision of 14 August was implemented by secret Army Orders dated 17 and 23 August and secret Navy Orders dated 15 August.

7. On 20 August, 1945, General Instruction No. 1 of the Supreme Commander for the Allied Powers was issued to the Japanese Government. This Order made it clear that the Japanese Armed Forces were to preserve intact not only arms and munitions but all other supplies of the Japanese Armed Forces. Yet the Japanese Cabinet's decision of 14 August was not rescinded until 28 August. Implementing orders were issued by the War and Navy Ministers on 28 August and 29 August respectively. By that time, however, it has been estimated by Japanese sources that approximately 80 percent of the supplies formerly held by the Army and Navy had been dispersed. Those which had not been disposed of were turned over to the Occupation Forces shortly after the arrival of the troops.

8. On 24 September 1945, GHQ, SCAP instructed the Japanese Government to turn over on demand to the Commanders of the Allied Occupation Troops all equipment, supplies and property of the Japanese Armed Forces; informed that government that equipment and supplies not essentially for war or warlike purposes, including scrap iron from destroyed implements of war, would be re-

turned to the Japanese Government for the purpose of civilian relief and the restoration of the Japanese economy; designated the Home Ministry as the agency of the Japanese Government to handle the supplies, and directed that Ministry to "maintain records of all property so received and account for this property in such form that the disposition of all supplies, materials and equipment may be traced to the ultimate consumer." and that such records "be made available on call to the Supreme Commander for the Allied Powers, the United States Commpetional Forces Commanders." [Memo AG 402.5 (24 Sept. 45) GB-SCAPIN 52, originated by G-1].

9. On 16 October 1945, in a memorandum concerning the disposition of materials and supplies to be returned to the Japanese Government, [Memo AG 388.3 (16 Oct. 45) GC-SCAPIN 252] GHQ, SCAP instructed the Japanese Government to keep "detail records....which will clearly indicate not only the disposition of all items turned over to the Imperial Japanese Government but also disposition of funds which accrue from the sale of any of these items" (para. 4) and to "take the necessary steps to provide adequate protection and maintenance for all stocks of supplies, materials and equipment received under the provisions of this program until final disposition of such stocks is made." (para. 5). The materials and goods returned to the Japanese Government under this program have been estimated to have had a value of one hundred billion yen.

10. On 12 January 1946 GHQ, SCAP in a Memorandum to the Japanese Government [File AG 388.3 (11 Jan 46) GC] stated that evidence had come to the attention of General Headquarters that a large-scale attempt had been made to dispose of the supplies and equipment of the Japanese Armed Forces between the dates of 14 August 1945 and 2 September 1945 and that such actions were "not considered to fall within the spirit of the Potsdam Declaration." This memorandum directed the Japanese Government to furnish:

a. A complete list of equipment, supplies and materials transferred between 14 August and 2 September 1945 and its present location.

b. Copies of pertinent orders issued between those dates.

c. Names of Japanese officials responsible for these actions.

The Japanese Government was instructed to forward a preliminary report within ten days from receipt of the Memorandum and a final complete report on or before 10 February 1947.

11. Replying to the above in a memorandum dated 25 January 1946 [G.I.O 391 (1-1)], the Japanese Government stated that it would do its best to furnish the desired final report, including information on unauthorized disposal, but stated that the time authorized was insufficient, pleading that the previous hasty scattering of supplies had made rigid control and accurate statistical accounting difficult. The preliminary report listed equipment and materials on hand at the termination of the war, amounts sold after 14 August 1945 and

the balance turned over to the Occupation Forces. It is noteworthy that equipment such as trucks, cars, tents, steel and lumber were actually turned over to the Allied Forces in substantial quantities, while the more readily concealable or movable materials such as fuel, clothing, cloth, leather, fibers, yarns and foods were reported to have been entirely sold or otherwise disposed of to prefectural offices, control associations, control companies, etc. The report named the Minister and Vice-Minister of War and the Minister and Vice-Minister of the Navy and a number of Navy Bureau and Department Chiefs as the persons responsible for the promulgation of the orders under which the goods were dispersed. Following this interim report the Japanese Government has submitted to GHQ, SCAP a number of additional reports but since they relay in fragmentary form data derived from the various local agencies and have not been consolidated into one comprehensive report, analysis of the overall situation is not available in GHQ.

12. This inability of the Japanese Government to render a complete accounting is not surprising in view of the methods which that Government from the very beginning has employed in handling the former stockpiles of its Armed Forces, methods characterized by hasty dispersal to local entities, quasi-public bodies and private concerns and by loose delegation of responsibility all along the line. One of the most questionable transactions in this entire affair was the sale under conditions which lend to a strong presumption of irregularity and fraud, to a syndicate of five Zaibatsu companies, of all the arms and other war materials returned by the Allied Forces to the Japanese Government in November 1945. The agreement of sale, concluded on 16 May 1946 (following negotiations begun in November 1945) was between the Chief of the Investigation Bureau of the Home Ministry, for the government, and a so-called "Arms Disposal Commission" headed by Takeshi, KOHATSU, which was so constituted as to appear like an official government body. There was no open bidding, no contract price, no advance payment, not even payment on delivery, provided for. Instead, the "Commission" would pay the government the net proceeds of sales of the materials--after deducting its expenses. The Board of Audit's preliminary audit of the accounts of this Commission so far received through the Home Ministry indicates vast discrepancies between the amounts of goods reported sold and on hand and those believed to have been turned over by the Allied Forces.

Diet Investigation:

13. This so-called Hoarded Goods Affair, after simmering for months in newspaper and other reports, finally broke into open scandal in July 1947 when Koichi SEKO, himself under suspicion of having been instrumental in the illegal diversion of large quantities of hoarded goods while he was Vice-Chairman (under Tsunao ISHIBASHI) of the ESB committee to investigate such hoarded goods, openly charged that there were still billions of yen in goods concealed throughout Japan and that even present Cabinet members were involved in the scandal. Following these accusations the Diet formed a special inter-party committee under the chairmanship of Kanju KATO, Social Democrat, to investigate the affair.

In an interim report to the Speaker of the House of Representatives, the Chairman and Directors of the House Investigating Committee found as follows:

(1) That vast quantities of goods formerly owned by the Japanese Army and Navy were disposed of to local authorities, business-men and brokers, and that the black markets have been flooded with these goods to the detriment of honest business.

(2) All attempts to channel these goods into legitimate channels had been frustrated by a combination of fraud and technical legal barriers, the local authorities proving particularly uncooperative.

(3) Existing legislation empowering the government to investigate hoarded goods is insufficiently broad.

(4) The authority to investigate is scattered and ineffectual being divided among the Ministry of Commerce and Industry, the Ministry of Agriculture and Forestry, and the ESB.

(5) Insufficient investigative authority granted economic inspectors.

(6) Failure on the part of responsible officials to keep adequate records. This applies specifically to the war goods which were returned to the Japanese by the Allied Forces.

14. In this interim report, the Committee reached the following conclusions:

(1) The Suzuki Cabinet's resolution of 14 August 1945 authorizing the secret disposal of government property was an act of bad faith; the Higashikuni Cabinet did nothing to rescind this decision but instead actively carried it out until 28 August (eight days after it had received General Instruction Number 1 which made it clear that the equipment and supplies of the Japanese Armed Forces were to be held intact); subsequently no effective measures were taken to recover the assets thus dissipated.

(2) The disposal of war materials after the surrender was tainted with favoritism and shady deals.

(3) Local government and police officials have interfered with investigations initiated by the government and have conspired to legalize fraudulent transactions; even the 'special goods' returned to the Japanese Government by the Allied Forces have been improperly distributed and no accounting has ever been rendered.

(4) Goods still in concealment, possibly including arms and munitions, are held on the theory that the holders may escape detection until after the Occupation.

(5) Legislation for uncovering hoarded goods is inadequate.

(6) Whatever agency assumes the task of uncovering goods still hidden should be granted adequate authority.

(7) The Diet should confine itself to making the necessary legislative investigations and providing the legislative basis, but the executive branch of the government should enforce the laws.

Based on these conclusions, the Speaker and the House Investigating Committee sponsored a formal resolution which was approved by the House of Representatives by a ~~viva voce~~ vote on 11 December 1947. This resolution provides for the establishment of a Non-Partisan Special Committee on Irregular Property Transactions, with sweeping powers to subpena persons and records, take sworn testimony and employ a chief counsel and staff to assist the Committee. An appropriation of ¥250,000 is made in the resolution to meet the expenses of the Committee.

According to the Speaker of the House of Representatives, the passage of the resolution has stunned certain Zaibatsu business interests and leading politicians, both Diet members and lobbyists, associated in furthering the activities of these business interests. The Speaker expects to appoint the new Committee when the Diet reconvenes on January 21, 1948, after consultation with representatives of all the major political parties, and he has stated that he will try to appoint a committee which will not serve party interests and will be above suspicion in the hope that the era of corruption in government-business relationships can be ended and the guilty brought to justice by the procurators. Meanwhile, he expects to give to the press and the radio within the next week or ten days the interim report referred to above of the present Committee, many of the members of which will be reappointed to the new Non-Partisan Special Committee.

15. The progress of the Diet Investigating Committee's work has been closely watched by the Government Section and encouragement has been given to it to do a thorough and effective job. But the time necessarily required for an investigation of this kind and for the resulting recommendations to be translated first into legislation and then into effective action dictated a simultaneous attack from other sources, for any delay in bringing to account the persons responsible for these operations would allow them not only to conceal or destroy the evidence of their past deeds, but actually enable them to dispose of goods still hidden, and acquire more money with which to continue their power and influence. If the Japanese Government could promptly investigate reported cases and prosecute a number of the ringleaders under existing laws, it was believed that the influence of corrupt politicians would at once be curtailed because (1) a major source of their financial strength would be dried up and (2) the arrest and prosecution of a number of big political figures who heretofore have acted as if they were above the law would deter their initators and followers from continuing their operations in cynical defiance of the law and public morality.

Procurator General's Special Campaign

16. With this in mind, the Minister of Justice in August 1947 instructed the Procurator General to undertake a vigorous, systematic and aggressive campaign to investigate all known hoarded goods cases of any importance and to bring swiftly to justice all persons involved irrespective of influence or position. A special plan prepared by the Procurator General calling for the assignment of special personnel, facilities and funds for this task was approved by the Government Section with the concurrence of the Economic and Scientific Section. The Government Section has given advice and encouragement to the Procurator General, but the full responsibility for the prosecution of the task has been left in his hands. The campaign is well under way and significant results have already been realized. A number of important persons have been arrested, others are under active investigation and large quantities of hoarded goods have been uncovered and impounded. It has been reported that this drive by the Procurator General has so impressed the persons involved that in a number of cases holders of substantial amounts of hoarded goods not yet under investigation have voluntarily offered to return such goods to the authorities at ceiling prices which represent but a fraction of current black market quotations.

17. These developments are, indeed, encouraging. But in terms of the overall objective of extirpating from the Japanese body politic the cancerous growth of corrupt and sinister influences, the actual net results of two months of intensified efforts by the Procurator General are not such as to presage the swift and complete success of the operation. True, the four Diet candidates who swindled millions of yen from hundreds of associations of farmers and miners for non-existent army uniforms have been arrested, but the man Tsuji, to whom these swindlers gave two and one half million yen for political purposes, is not. Hatoyama, enjoying possession of a new house in Tokyo paid for with money contributed, at Tsuji's behest, by these same swindlers, still evades justice. The Diet member, Hara, principal negotiator in the second biggest swindle, is under active investigation and may soon be arrested, but Liberal Party Secretary Ohno, who received at least one million yen of the proceeds (which he never included in the Party's official reports) appears to be immune. Saito, the man who, exceeding his authority, issued the orders releasing to blackmarketeers the very property his committee was created to protect, appears to have committed no crime under Japanese law. Nor has Yamaoka, Saito's boss and reputed beneficiary of released hoarded goods. Ishibashi, chairman of the same committee, appears to be equally untouchable. The members of the Cabinet which decided to bury army and navy supplies beyond the reach of the Allied Forces have not been brought to account, nor has Higashikuni, responsible for the actual dispersal after his government had received the SCAP's specific instructions to preserve all property of the Japanese armed forces, been brought into the case. To date, the drive has netted actual or probable prosecution of persons who at most can be regarded as only tools or perhaps lieutenants of the real bosses. For one reason or another the Procurator's net has caught only small and medium-size fish, the big ones are still at large.

18. Such a situation can be explained by one or a number of the following circumstances:

a. The normally slow pace of Japanese bureaucratic procedures and the cumbersome trial procedure of the Japanese courts

b. The low quality of procuratorial and judicial personnel

c. Defective legal prohibition against fraud, malfeasance and misfeasance

d. Lack of a real will to reach the heart of the scandal and destroy the inner core of corruption.

Conclusions:

19. It is believed that the Minister of Justice and the Procurator General are honest and sincere in their efforts, and are not deliberately protecting the guilty. It is not certain, however, that their subordinates are equally zealous or able. Japanese laws applicable to the kinds of crimes involved in these cases are defective. A long tradition of privileged treatment for the powerful and influential, contrasted with rigid enforcement against the small and friendless, renders these laws even less effective than they would be if energetically and impartially administered.

20. One aspect of these scandals which this report has not emphasized but which newspaper stories both in Japan and abroad have featured in sensational terms is the "Black Curtain" or "Hidden Government," a conspirational organization of secret ultranationalistic elements bound together by the feudalistic Japanese ties of Oyabun and Kobun (master and follower), arranged and articulated in neat hierarchical layers descending from some one mysterious super-boss down to the last follower in the ward gangs, which secretly dominates and controls the visible government at all levels and which is prepared to take over open control when the Occupation is ended. It can be categorically stated that no such organization exists. But that here and there groups of persons with such backgrounds and such sympathies do exist, and that among the ultranationalists and the corrupt political bosses there exist bonds of mutual support, old association, and sympathy, and that in some cases the two elements are actually one and the same--this is not a reporter's pipe dream. These groups are nuclei of resistance to Occupation objectives. It is not far-fetched to say that some of the recent crimes against Occupation personnel may be laid at the door of organized gangs headed by bosses who are inspired by sinister political leaders hostile to Occupation objectives. Unless eradicated now, they may some day coalesce into something like the organization pictured in the news stories and then their return to power would no longer be a remote possibility but a real threat. Their removal is essential to the successful completion of the Occupation. If the Japanese government is unable to cope with them, there are ample grounds for direct intervention by the SCAP for violations of Occupation policies and specific directives of the SCAP and of Japanese laws and ordinances issued thereunder.

HOARDED GOODS AND OTHER MATTERS
INVOLVING OFFICIAL GROUPS

SEKO ARMY UNIFORM CASE

By far the most notorious and, from the point of view of the personalities implicated and political forces represented, important case is the Seko Army Uniform Case in which it is reported that twenty million yen were collected from three hundred and forty-five Agricultural and Mining Associations throughout Japan for the purchase of some six hundred thousand army uniforms. The uniforms were never delivered and most of the money was eventually refunded but a considerable portion disappeared. Four unsuccessful candidates for the House of Representatives, Ikutaro Nakasone, Gaku Shiotsuki, Bunroku Fujikawa and Yoshiyuki Hazama, were arrested in October 1947 and charged with fraud amounting to ¥6,450,000, the amount received from the Associations which was not returned. Nakasone gave two and a half million yen to Kaoku Tsuji, the Liberal Party "wire-puller", with ultra-nationalist and underworld backgrounds. Under questioning Tsuji has listed numerous contributions made by him to campaign funds for individual Diet candidates and to the Liberal Party itself (for the Liberal Party Headquarters Building Fund and to meetings and parties held by the Liberal Party). A contractor by the name of Naito received about six hundred thousand yen from two of the four persons arrested and used this money to build a house for Ichiro Hatoyama. When questioned about this in October 1947, Hatoyama claimed that he did not know the real source of these funds but thought that Tsuji was paying for the house out of his own pocket. So far the Procurator has not found sufficient ground to prosecute either Hatoyama or Tsuji.

The part Koichi Seko played in this scandal is not creditable. While Vice-chairman of the ESB Committee to investigate hoarded goods of which Tansan Ishibashi was chairman, Seko issued a number of "Seko Instructions For Exposure" which were used as orders for the release of hoarded goods. The first of these orders promised the release of army uniforms to the agricultural associations of Akita if the rice collection quota for that Ken was met. Other orders followed. Since the release of goods under these orders has been questioned it has been alleged that so-called brokers forged these orders and used the forgeries to extract money from the associations for uniforms which were never delivered. The Diet investigating committee in its interim report of October 1947 concluded that the Seko Orders had no legal validity or justification, and the Public Procurator's Office believes that Seko had no authority to issue such orders, yet Procurator has stated that there is not sufficient legal basis for prosecuting Seko, this notwithstanding the fact that the orders, both real and forged, through which the money was extorted from the associations and through which some goods were actually released into black market channels invariably found their way into the hands of "brokers" politically connected with Tsuji, Hatoyama, Ishibashi and Seko. This clique is the surviving nucleus of the old Seiyukai, the president of which was Kisaburo Suzuki, brother-in-law of Hatoyama and president of the ultra-nationalistic Kokuhonsha, affiliate of the Black Dragon and the Dark Ocean Societies.

SEKO CALICO CASE

The other case in which Seko is directly involved is the Calico Case. Others involved in this case are Susumu Hara, member of the House of Representatives, Jiro Hoshijima, former Minister of Commerce, and Ogawa, president of the Kokusai Sangyo K.K., a subsidiary of the Yasuda Bank, and advisor to the All-Japan Repatriates Society. Ogawa was interested in obtaining the release of calico. Hara acted as negotiator. Hoshijima and Seko reached an accord to authorize the release of the goods. Seko issued three orders to release the hoarded calico to the parties involved, with full knowledge that the material would not be sold in government channels. The Liberal Party is reported to have received a donation of one million yen out of the proceeds from the sale of this material. The Tokyo District Procurator's Office took this case over from the Metropolitan Police in December 1947 and as a result of its investigation is preparing to arrest Hara. In the report which the Metropolitan Police turned over to the Procurators, there is a chart on which Hara's name is connected by lines to four circles and in the circles are the names of Hoshijima, Seko, Hatoyama and ex-prime minister, Yoshida. The relationships signified by this chart are under study by the Procurator's Office.

OSAKA ARSENAL CASE

The third important case is that of the Osaka Arsenal which, according to investigation so far completed, involves the bribery of local officials and representatives of the Ministries of Finance, Commerce and Industry, and Agriculture and Forestry and the Osaka Railway Bureau. The materials concerned here consist of textiles, metals, lumber and oils which were turned over to the local authorities in August of 1945 for distribution to civilian consumption channels but which have been finding their way into the black market. Also involved is the "Arms Disposal Commission" a body with an official-sounding name but actually a syndicate of five Zaibatsu firms headed by Takeshi Komatsu which in May, 1946 received a contract from the Chief of the Investigation Bureau of the Home Ministry to dispose of destroyed arms and "accessories". The manager of the Osaka Arsenal has been arrested and large quantities of goods have been impounded by the procurator. The investigation is still under way.

FUKUI CASE

This case concerns the illegal diversion into black market channels of vast quantities of silk derived from thread allotted to weavers over a period of years. Of 5 million tan silk allotted in 1946 alone, 4 million tan, valued at 220 million yen (at legal ceiling prices) went into the black market. The basic responsibility appears to be in the Ministry of Commerce and Industry. A Mr. Sho Kato, president of the Rayon Industry Association of Fukui Ken, Ichiro Sakai, also prominent in the rayon and silk industry have been arrested.

Some difficulty has been experienced in completing the necessary investigations in this case because the Military Governor of Fukui Ken has intervened on behalf of the suspects on the ground that they are needed to revive the rayon industry in his ken, also that there was no black market in that province.

The incident was reported to 8th Army MIS and the Procurator's Office was told by Government Section to proceed with his investigation. The cases will be tried in Tokyo.

Besides the principals, this case involves representatives of the Ministry of Commerce and Industry, the Ministry of Finance, the Ministry of Agriculture and officials of the provincial government.

KYOTO CASE

In Kyoto the Procurator has sealed twenty-six warehouses pending completion of his investigation of misappropriation and illegal disposal of former army stockpiles by the Increased Production Association, members of the prefectural government and the Iino Industrial Company of Maizuru. The director and secretary of the Association and officials of the prefectural Commerce Section have been arrested.

HOKKAIDO STARCH INCIDENT

This case involves the illegal disposal of starch valued at 10 million yen. The president and the general manager of the Hokkaido Grape Sugar Company and three other persons have been arrested. Evidence already uncovered points to:

bribery of the police chief of Obihiro

implication of former Commerce and Industry Minister Hoshijima through receipts of carload of grape sweetening

bribery of Tanaka, governor of Hokkaido

The procurators are studying the case to determine under what charges these persons can be prosecuted.

KOBE CASE

In Kobe the procurator has impounded an estimated two hundred million yen of lumber, machinery, tools, metals and other goods at the Kawanishi Airplane Factory pending completion of his investigation.

TOCHIGI CASE

In Tochigi the records have been seized in order to complete an investigation of the illegal disposal of an estimated five hundred million yen of naval medical supplies by prefectural officials to black marketeers.

TOKYO CASE

In Tokyo, where the supplies of the Japanese Armed Forces which GHQ returned to the Japanese Government were not handed to the Home Ministry representatives but were kept under control of the Tokyo-Kanagawa Military Government team and distributed to the Japanese upon clearance of applications by

the Tokyo Prefectural authorities, arrests have been made of prefectural officials who disposed of government goods to black market dealers. Here again there was interference by a number of the local MG team but that was overcome.

KURE CASE

Investigations have also been started at the Kure Naval Base and at the Maizuru ex-naval base. The Second Demobilisation Bureau is reportedly involved in the latter.

OTHERS

In Tokyo, Kanishiro Kamei, former member of the House of Representatives has been arrested on the charge of extorting six million yen from the District Farm Association.

In Osaka a certain Shinji Hayashi, armed with introductions from Tanzan Ishibashi to various banks in the Osaka area, passed a number of rubber checks ostensibly for the purpose of developing some mines, but the procurator has found no evidence that any of the proceeds ever were used for mining. Tied up in this affair is a society called Shiunso of which the so-called owner is Tetsuma Hashimoto, a protegee of Fusanosuke Kuhara, ex-minister of Commerce and Industry under Kisaburo Suzuki when the latter was prime minister. Hayashi, the man who cashed the bad checks, is an intimate friend of Hashimoto and the procurators are interested in this case from the point of view of corrupt politics.

TAB "B" To Special Progress Report dated 12 December 1947

SECRET

PERSONS IMPLICATED IN CORRUPT POLITICS, HOARDED GOODS CASES AND BLACK MARKETS

Ichiro HATOYAMA, purged ex-president of the Liberal Party, is believed to be still taking an active (although behind-the-scenes) part in Japanese politics. During the 1946 campaign, large sums of money were reported to have been paid to him as contributions to the Liberal Party which never appeared in the Party's official reports; and there were reports that he met periodically with Kaoku TSUJI (Liberal Party boss), Etsujiro UEHARA (then State Minister) and Banboku OHNO, secretary-general of the Liberal Party. Kaoku TSUJI in listing contributions made by him to candidates in the 1947 election, has stated that he contributed to candidates on the recommendation of HATOYAMA.

The contractor who built a house in Tokyo for HATOYAMA has admitted receiving ¥600,000 from two of the four Diet candidates charged with fraud in the Seko Military Uniform Case. Since HATOYAMA claims he did not know the real sources of the money but thought TSUJI was paying for the house, the Procurators' office has not made a case against him.

HATOYAMA is a brother-in-law of the late Kisaburo SUZUKI, who succeeded General Giichi TANAKA as president of the Seiyukai in 1928, and served in both the TANAKA and SUZUKI cabinets. He was a member of the Ultra-Nationalistic society Kokuhonsha while SUZUKI was president. In his background are previous scandals involving the receipt and expenditure of political slush funds.

Tanzan ISHIBASHI, purged former Minister of Finance, was chairman of the Hoarded Goods Investigation Committee of the Economic Stabilization Board during February 1947 when Koichi SEKO, as vice-chairman, started the exposure of hoarded goods. When questioned by the Diet Investigating Committee about the disposition of the "special" goods returned to the Japanese Government by the Allied Forces, ISHIBASHI admitted that he had no knowledge of the amounts received and how they were diposed of. At present he is under investigation as a probably accomplice to HAYASHI in the Rubber Check incident. It was on ISHIBASHI's recommendation that HAYASHI was able to pass a great number of checks in the Kansai district. It is also alleged that he is connected with the Ultra Nationalistic organization, Shiunso.

Rikizo HIRANO, ex-Minister of Agriculture in the Katoyama Cabinet, presently under investigation by the Procurators' office for having violated construction regulations, is also being re-screened by the Central Screening Committee for the article published in the magazine Kodo (Imperial Way) of which he is editor. He was born in 1898 in Gifu Prefecture, and graduated from the Colonization University and Waseda University. He has long been associated with the Socialist movement in Japan and with the Labor Farmer Party movement. Although in many circles he is considered a Liberal from his association with the Labor movement, he has always applied the Ultra-Nationalist point of view to all his activities. Just prior to his resignation from the Cabinet, it is alleged that he planned to leave the Social

SECRET

Democratic Party, and in cooperation with Banboku OHNO of the Liberal Party, had planned to form a new Right Wing Party. The future of HIRANO will depend largely on the decision of the Screening Committee.

Jiro HOSHIJIMA is presently under investigation by the procurators for having a carload of grape sweetening shipped to him from Hokkaido. HOSHIJIMA was Minister of Commerce and Industry in the YOSHIDA cabinet and was elected to the Diet in 1946. He has long been a member of the Seiyukai. He was appointed Parliamentary Councillor in the War Ministry in the TANAKA cabinet. HOSHIJIMA is also implicated in the case of Susumu HARA, Liberal Party member of the House of Representatives. It is alleged that HARA conferred with SEKO and HOSHIJIMA, and as a result of this consultation, the first SEKO order was issued by SEKO.

FUSANOSUKE KUHARA, an extreme Ultra-Nationalist, was recently released by IPS as a War Crimes suspect. KUHARA has long been associated with the Seiyukai. He was subject to court martial in connection with the 2.26 incident for having furnished five million yen to TANAKA, president of the Seiyukai Party just prior to the incident. He was acquitted on 15 December 1936. He has long been an advocate of the Single Party system and took an active part in establishing the IRAA.

KUHARA's name appears in connection with the Rubber Check incident and the Shiunso incident. It is alleged that HAYASHI, who on the recommendation of ISHIBASHI, passed rubber checks for the purpose of developing some mines, was ordered by KUHARA (long associated with the mining industry), to do this. In Japanese political circles, KUHARA is openly recognized as one of the more active purgees in the field of Japanese politics today.

Banboku OHNO, known to be a boss of the underworld, is today secretary-general of the Liberal Party. Since 1913 he has been a lobbyist and active member of Seiyukai, predecessor to the present Liberal Party. Today, it is because of OHNO that it was necessary for ASHIDA to move to the Democratic Party. OHNO's seniority over ASHIDA would place ASHIDA in a secondary position in the Liberal Party, and therefore ASHIDA, with the consent of HATOYAMA, formed the Democratic Party. As a friend of Tanzan ISHIBASHI, OHNO strongly supported the retention of Tanzan ISHIBASHI as Minister of Finance in the YOSHIDA cabinet.

Mannosuke YAMAOKA, a purgee, the boss of Koichi SEKO, has long been a member of the Seiyukai Party. When the SEKO affair broke out into the open, it is believed that through his influence it was made possible to start further investigation into the hoarded goods by the Diet committee. As a member of the Kokuhonsha, he has long been known as an extreme Ultra-Nationalist being the close friend of Mitsuru TOYAMA, adviser and sponsor of the Black Dragon Society. He is considered as the able successor to Kisaburo SUZUKI. During the war, as president of Nippon University in Tokyo, he arranged for SEKO to be appointed director of Osaka College, and acting-president and chief director of Osaka Science and Engineering University.

Koichi SEKO, a Liberal Party member of the House of Representatives, was vice-chairman of the Hoarded Goods Investigation Committee, Economic

Stabilization Board, and concurrently vice-Minister of Home Affairs during the YOSHIDA cabinet. It was during this time that he issued the so-called Seko Orders, instructing various prefectural government police chiefs and individuals to release hoarded goods to the parties designated on his orders. SEKO is a new-comer to Japanese political work, having been elected to the House of Representatives in 1946 on the Liberal Party ticket. Previous to that, he was a lawyer, a businessman, and scholar. In 1944 he was appointed director of Osaka College, and acting-president and chief director of Osaka Science and Engineering University. The question as to whether or not SEKO had the jurisdiction to issue the Seko Orders has been thoroughly studied by the Procurators' office, and the decision as to whether SEKO may be charged with any violation of law will have to be delayed until the full investigation of all Seko cases is completed.

Karoku TSUJI is allegedly a member of the Black Dragon Society, and all during his long years in Japanese political life has never been active on the surface. As a personal secretary to Kisaburo SUZUKI of the Seiyukai Party, and Kokuhonsha, an Ultra-Nationalistic organization, he has long been an advisor for the Ultra-Nationalistic movement in Japan. Today, as one of the oldest men in Japanese political circles, he has vast influence over members of the Liberal Party, Democratic Party, and Right Wing Social Democratic Party. The attached list of contributions by TSUJI to various people were made possible from the SEKO scandal. NAKOSONE, presently indicted on the charge of fraud in the Seko Uniform case, gave TSUJI two and one-half million yen.

TSUJI is a very close friend of HATOYAMA, purged ex-president of the Liberal Party, and with his background of long experience in China, he is today still working for the same goal as Mitsuru TOYAMA, chief advisor of the Black Dragon Society (Asia for the Asiatics).

SECRET

Contribution by TSUJI, Kazuka from the ¥2,500,000 received in Seko case.

Name	Amount	Position
OZEKI, Giichi	110,000	
OKADA, Soshi	20,000	H.C.
NISHIDA, Togen	10,000	
TAKAHARA, Masataka	30,000	
KURAISHI, Tadao	200,000	H.R. (L)
UDA, Kunei	20,000	
MIYAKE, Noriyoshi	10,000	
KIMURA, Kohei	30,000	H.R. (L)
ISHIDA, Sakon	10,000	
GAZENBO for L.P. parties	170,000	
KATSURA	200,000	
OKAMURA, Goicho	100,000	
ISOZAKI, Teijo	20,000	H.R. (L)
WATANABE, Jiko	20,000	
MIURA, Takanosuke	30,000	H.R. (L)
KAWANO, Ichiro	20,000	
NAKANO, Torakichi	20,000	H.R. (L)
BANDO, Motaro	30,000	H.R. (D)
TACHIBANA, Fujimatsu	20,000	
HARA, Tamashige	80,000	
NAKAJIMA, Shosuke	30,000	
MORI, Shigeru	10,000	
MATSUBA, Takeshi	10,000	
ASABA, Ippei	40,000	
OZAWA, Saegi	20,000	H.R. (D)
OTSUKA, Keizo	20,000	
KATO, Mutsunosuke	20,000	
ASAOKA, Nobue	330,000	H.C. (L)
YAMAMOTO, Kisuke	20,000	
SUGITA, Keiko	30,000	
SUZUKI, Yagoro	20,000	H.R. (D)
YAMAGUCHI, Kyukichi	10,000	
YANO, Shinya	20,000	
SHIRAISHI, Kintaro	20,000	
TAKAGI, Matsukichi	50,000	
INOUE, Takeuchi	10,000	
TAKATANAGI, Taiju		
MORI, Kimio	20,000	
SAKUMA, Tokutaro	30,000	
KAWEKO, Hikiso	80,000	
SHIMOZAWA, Hideo	200,000	
L.P. Building Fund	200,000	

SECRET

GENERAL HEADQUARTERS
SUPREME COMMANDER FOR THE ALLIED POWERS
Government Section

4 December 1947

MEMORANDUM FOR THE RECORD:

SUBJECT: Oyabun-Kobun System; OZU Case.

1. On 1 December 1947, two conferences were held in Government Section on the above-captioned subject. In the first of these conferences, Mr. Fukui, the Procurator General, and Mr. Kunimune, Chief of the Criminal Affairs Bureau of the Ministry of Justice, met with Dr. Oppler, Mr. Matsukata and the undersigned. Dr. Oppler presented Mr. Fukui with the Saturday Evening Post Article on OZU, entitled "Tokyo's Al Capone", by Darrell Berrigan and suggested that the Procurator at the trial of OZU emphasize that in the Sekine case the Military Occupation Court levied the highest possible penalty under the law, in view of the nature of Sekine's crime and his criminal background. Mr. Fukui stated that the OZU case had not been tried as yet because investigations were still being carried out to establish adequate proof for the additional charges of intimidation through threat of force and for blackmarketing, these crimes carrying penalties of 10 years penal servitude and 75,000 yen fine. The case has already been presented against four of OZU's Kobuns and is now at trial in the Tokyo District Court. Mr. Fukui said that he would request the procurator in charge of preparing the case to present more detailed information.

2. In the afternoon of the 1st of December, Mr. Takeuchi, Procurator, held a conference with Dr. Oppler, Mr. Matsukata and the undersigned, in order to present more detailed information on this matter. According to Takeuchi, on 22 November 1947, five of OZU's Kobuns were held on trial in the Tokyo District Court on the charge of intimidation causing another to deliver property, punishable by penal servitude not exceeding 10 years under Article 249 of the Criminal Code. The names of the criminal are; Yoshiwara, Toshijiro; Kaneko, Tsutomo; Sanno, Mitsutoshi; Otsuki, Gengo; Okado, Takeji. It appeared that the named criminals threatened Kawase, Namekichi, President of the Shinsei-Kan Moving Picture Theatre, telling him that the OZU Gumi had decided to back a Sumo Wrestling Match for the benefit of the Repatriation and War Sufferers Association. Kawase was ordered to buy 10,000 tickets at 20 yen each and was assaulted and threatened with the closing of his theatre if he did not comply. OZU was present at one time when Kawase was called to the headquarters of the OZU Gumi, and OZU told Kawase that he had better pay the 200,000 yen. Kawase donated 20,000 yen through a frozen account in the Yasuda Bank but the money was never paid to the Repatriation and War Sufferers Association.

A second count for blackmarketing will be referred to the Court on 6 December 1947 involving OZU and four of his Kobuns: Matsui,

85.

Okado; Yamaochi and Kaneko. It appears that 365 barrels of Shoyu Sauce were sold to one Yamada, Osanosuke of the Handa Sangyo KK in Handa City, Aichi Prefecture, between 7 October 1946 and 22 October 1946. The price received was 844,000 yen, or 800,000 yen over the ceiling price. This is only one of a number of items so sold, and OZU will have to take the responsibility since he had guaranteed the sale and so is responsible under the Price Control Law. Further, in November and December 1946, barrels of the Shoyu Sauce were sold to unnamed people for a total of 1,120,000 yen. In addition, in September 1947, Matsui sold 120 pairs of tabi socks to unnamed Japanese for 18,000 yen, this being 17,000 yen over the ceiling price. Matsui is also charged with intimidation by violence, through which he procured 5,000 yen, and for selling second-hand kimonos to one Yamanouchi from 22 September 1947 to 26 September 1947, for a total of 1,021,000 yen. Mr. Takeuchi remarked that OZU had disclosed great arrogance and was refusing to answer any questions or to sign any statements so that the procurators are proceeding on the basis of circumstantial evidence rather than an admission of guilt.

Howard Meyers
HOWARD MEYERS
Courts & Law Division

Keep following this up.

SECRET

GENERAL HEADQUARTERS
SUPREME COMMANDER FOR THE ALLIED POWERS
Government Section

1 December 1947

MEMORANDUM

I. The Procurator General Mr. Fukui and Mr. TAKEUCHI have just returned from an inspection tour of Kyoto, Osaka, Kobe, and Takamatsu (Shikoku). A conference of the Chief District Procurators was called in Takamatsu and Osaka. Here, the details on the investigation of hoarded goods were thoroughly discussed, and complete cooperation was promised by all those attending.

1. There has been ample evidence that the police are doing a good job in cooperating with the procurators.

2. An investigation is being conducted in Kobe of the Kawanishi Airplane Factory, where approximately ¥ 200,000,000 worth of goods, lumber, machine tools, and various metals have been frozen by the Procurators' Office.

3. In kyoto, twenty-six warehouses were sealed by the procurators in an investigation of the Increase Production Association and Local Government.

4. An investigation of the Maezuru ex-Naval Base in connection with the Second Demobilization Bureau is presently being conducted.

5. An investigation has been started of the Kure Naval Base by the Hiroshima Procurators' Office.

6. The Main investigation of the Osaka Arsenal case will be started in about ten days. An arrest was made of the manager of the Osaka Kaiko.

7. Newspaper reporters in an interview with the Chief Procurator in Osaka expressed the opinion that it was rather late to be starting an investigation after two years, but after convincing them that it was not too late, the general opinion was that they were very pleased to see this investigation being conducted in such a thorough manner.

8. The procurators are working on a case in Osaka involving HAYASHI, Shinji. This man has drawn from various banks in the Osaka region

SECRET

approximately ¥ 200,000,000. This incident ties in a society by the name of SHIUNSO. The so-called owner of this society is HASHIMOTO, Tetsuma, a Koyabun of Kuhara, TUSANOSUKE, ex-Communication Minister under SUZUKI, Kisaburo. HAYASHI is an intimate friend of HASHIMOTO, and the procurators have been interested in this case from the point that it seems to have a logical connection with the Black Curtain politics.

An interesting point in this investigation is that HAYASHI was given an introduction to the various banks by ex-Finance Minister ISHIBASHI. It was through this introduction that he was able to cash these various rubber checks for the purpose of developing some mines, but as yet the procurators have had no proof that any money was used for mining purposes.

Among the people arrested in connection with this case are the following:

a. IMAI, Shuichi. IMAI's son is presently the head of the Disbursing Section of the Finance Ministry.

b. YOKOIE, Osamu. This man is a very good friend of TANIGAWA, head of the Criminal Investigation Section of the Home Ministry.

II. Tokyo District Procurators' Office reported the arrest of KAMEI, Kanichiro, former member of the House of Representatives, Social Democratic Party, on the charge of extortion of ¥ 6,000,000 from the District Farm Association. A full report on this case will be submitted to this section on 6 December, 1947.

III. KANO, Shumpei, Judge from the Tokyo District Court, in charge of the Seko Military Uniform case, reported the first hearings on the case will be held sometime in the middle of January. The reason for the delay being the report consists of 10,000 pages, and under the present situation, it would be impossible to open the case at an earlier date. He asked for an opinion from Government Section regarding the request for release on bail by the lawyers of the four defendants. It was stated to him that Government Section had no intention of interfering with the jurisdiction of the Japanese courts, and that this matter was for the court to decide, but that GHQ was very interested in the speedy prosecution of this case, as it effected a great number of people and was the first step in uprooting the roots of corrupt government practices.

OYABUN - KOBUN SYSTEM:

CHRONOLOGICAL CHART

1. Approximately 15 July 1947, Sullivan, CIE, approached GS with request for consideration of a CIE informational program attacking Oyabun - Kobun System. Sullivan gave copies of summary of information from CIS/PSD files, entitled: "The Oyabun (Boss) System." Present at conference were: Lt. Col. Darnell, Messrs. Swope, Tilton, Rizzo, Hauge, Hussey and Meyers (Meyers has copy of this summary of information. Due to GS field trips, conference on informational program was delayed).

2. 8 September 1947, conference held in Studio 5, Radio Tokyo Building, on informational program. Present were: CIE - Mr. Sullivan, Miss Weed, Mr$.Baker, Lt. Passin, Mr. Ogita, Mr. Matsumoto; CIS/PSD - Mr. Eaton, Mr. Fitz; ESS/LA - Mr. Collett, Mr. Amos; GS - Miss Gordon, Major Bieber, Mr. Campbell, Mr. Scott, Meyers.

CIE people described the Oyabun - Kobun System, as did ESS/LA and CIS/PSD representatives. Question was method of approach of informational program, and decision was that this must wait upon an action program to be decided upon first by the concerned staff sections (Meyers has penciled notes on this meeting).

3. 9 September 1947, Meyers reported to Division Chief Meeting in GS. Present were: Messrs. Kades, Hays, Oppler, Swope, Hussey, Marcum, Tilton, Scott and Hauge. Decisions were: (1) GS will support Japanese Government's desire for abolition of Street - Stall Associations, and restriction of license fees to governmental agencies only; (2) GS will back CIS/PSD in attack on gangster and gambling organizations in order to wipe them out. Meyers to find out what PSD wants done and how GS can help; (3) Meyers to contact ESS/CCC regarding their position on the Gumis (Construction Group) and offer ESS the help of GS, proposing that all concerned Staff Sections coordinate action (Meyers has memo on this meeting).

4. 10 September 1947, Meyers drafted Check Sheets (1) to CIE, Analysis and Research Branch, requesting all information available in the files on the subject; (2) to CIS, Attn, Mr. Wheeler, requesting all information available in the files on Oyabun - Kobun System, its political, social, economic and historic background, its various manifestations in all aspects of Japanese life.

5. 11 September 1947, Matsukata, GS, prepared interim report on background of Oyabun System, based on his own knowledge and information (See report to Dr. Oppler).

6. 11 September 1947, ESS/Controls Coordinating Committee meeting held in Imperial Hotel. Oyabun - Kobun question had been placed on agenda, and after Meyers made brief statement sketching background of System, GS position as outlined in Paragraph 3, was stated. Sub-committee appointed, with Meyers as Chairman, and Meyers given discretion to request membership on committee of

representatives of CIE and CIS/PSD(neither Section being represented on ESS/CCC). Mr. Sullivan, CIE, and Mr. Eaton, CIS/PSD, were contacted by phone and accepted membership on committee (See Memo for Record dated 12 September 1947, and Minutes of ESS/CCC).

7. 12 September 1947, first meeting of Oyabun - Kobun Sub-committee in GS Conference Room. Present were the following: ESS/Anti-Trust and Cartels: Mr. Ortman, Mr. Rose; CIE: Mr. Sullivan, Lt. Passin; ESS/Industry; Mr. Ries, Mr. Stanek; ESS/Finance: Mr. Barron; ESS/Labor: Mr. Collett; ESS/Textile: Capt. Rathofer; Legal Section: Mr. Carrington; 8th Army Procurement: Lt. Col. Fregose; General Procurement Agency: Maj. Johnson; CIS/PSD: Mr. Shupak, Mr. Fritz; ESS/CCC Secretariat: Miss Jackson; GS: Maj. Bieber, Mr. Matsukata, Meyers (See Stenotype mimeographed record of meeting).

8. 19 September 1947, Press statement by Mr. Kades on "The Constitution or the Dark Curtain."

9. 19 September 1917, second meeting Sub-committee held in GS Conference Room. Present were those who attended previously (except Major Johnson) and the following: ESS/Price Control: Lt. Col. Waldron; NRS: Mr. Cooper, Mr. Yoe; CIS/PSD: Mr. Eaton. At this meeting, the Sections stated what they intended to do and Sub-committee declared self-dissolved.

10. 25 September 1947, Meyers reported to ESS/CCC, by means of mimeographed report.

FILE UNDER: Ryukyus —

INDEX SHEET

DATE: 25 Nov '49

FROM: Kades TO: —

SUBJECT: Memorandum for the Chief, GS

Proposed Disposal of Hoarded Goods

DOCUMENT FILED UNDER: CLASSIFIED FILE:

Memos for C/GS

GENERAL HEADQUARTERS
SUPREME COMMANDER FOR THE ALLIED POWERS
Government Section

25 November 1947

MEMORANDUM FOR THE RECORD:

SUBJECT: Preliminary Oyabun Conference.

A few days prior to 12 September Mr. John Sullivan of Civil Information and Education Section held a brief conference with representatives of several Japanese Ministries to discuss the possibility of conducting an information program designed to deglamorize the Oyabun System. No recommendation was offered as the result of the conference but interest in the proposal was expressed. It was suggested during the meeting that no unanimous opinion on the Oyabun System exists: some people believe it is a good system with bad features; others express the opinion that it is a bad system with good features.

O. I. HAUGE
Chief, Public Projects Division

GOVT SEC

CONFIDENTIAL

Prosecutor
H. G. Comm

GENERAL HEADQUARTERS
SUPREME COMMANDER FOR THE ALLIED POWERS
Government Section

7 November 1947

MEMORANDUM for Record:

SUBJECT: Progress Report - Hoarded Goods.

1. Procurator General's Hoarded Goods Investigation Committee.

a. The budget for the Hoarded Goods Investigation Committee was handed to the Ministry of Finance on 5 November 1947. The following changes were made:

(1) Instead of increasing the number of Procurators by 200 the Procurator General made the decision to increase the number of assistants from 1,000 to 1,556. To date the Procurators have used the system of having five assistants. The Procurator General has revised this system so that one Procurator will have ten assistants.

(2) The proposal for using wireless communication has been dropped due to the fact that a year and a half would be necessary to install such apparatus.

(3) The budget did not include anything regarding the railroad passes as a decision has not been made between the Ministry of Transportation and the Justice Ministry on how to handle this affair.

b. Chief Procurator of the Supreme Court, Mr. Osabe, left for Fukui on 5 November 1947 to determine the exact situation in Fukui regarding the relation of the military government and the Procurator's Office in Fukui. This was necessary before any further investigation could be carried out on the Fukui case as the Procurators assigned to this case had refused to continue this investigation under such conditions.

c. Mr. Takeuchi, of the Supreme Procurator's Office, left for Osaka on 5 November 1947 to take charge of the Osaka Arsenal Investigation. This case evolves around the Arms Disposal Committee in Osaka and was picked by the Committee as one of the important cases. On 8 November 1947 the Asahi newspaper will print a story on this case. The Procurators were approached by the Asahi Newspaper Executive Council to investigate this case. On agreement with the Asahi the Procurators asked that this story be withheld until the 8th of November in order that they could impound all necessary documents before it was published in the newspaper. The Asahi newspaper had realized that the Communist Party was planning to use this case to cause political confusion and therefore they had asked the cooperation of the Procurators Office in order that this would not happen.

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CONFIDENTIAL

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2. Seko Case.

a. The so-called military uniform case.

(1) Ikutaro Nakasone, Gaku Shiotsuki, Sukeyuki Hazama and Bunroku Fujikawa, were arrested during the latter part of October on the charges of fraud.

(2) No evidence has been uncovered regarding Hatoyama. Under the present laws it would be impossible to bring any charges against Hatoyama for building his house with extorted money as he refuses to acknowledge any knowledge of the source of funds used in building his house.

b. Tsuji Karoku.

(1) Tsuji received 2,500,000 yen from the four people presently under arrest. He has submitted a detailed list of 43 contributions he made. Thirty contributions were to campaign funds for candidates and present members of the House of Representatives and the House of Councillors. He further contributed 200,000 yen to the building fund of the Liberal Party Headquarters, 350,000 yen to meetings and parties held by the Liberal Party.

c. Seko Order No. 1.

(1) Seko issued his first order promising the release of Japanese army uniforms and blankets to the Agricultural Association of Akita if they met their 100% rice quota. The Supreme Court and the Supreme Procurator's Office held a meeting on 4 November 1947 to determine whether Seko could be charged with issuing a fraudulent document or on any other charge. Under the present Criminal Code it was determined that Seko had not violated any article of the Criminal Code.

d. Seko Calico Case.

(1) Hara Susumu, a member of the House of Representatives, is at present under investigation for receiving advance payment for calico he promised to have released to the All Japanese Repatriates' Association. This case is still in the hands of the metropolitan police and will be turned over to the Procurator's Office in a few days. The Liberal Party has held an Executive Committee meeting to decide whether Hara should be ousted from the party. The final decision was delayed until the completion of the investigation.

3. The interim report on the progress of the Special Committee for Investigation of Concealed and Hoarded Goods in the House of Representatives has been received and more will be written regarding this report within a few days.

4. On 3 November 1947 Mr. Sato, Chairman of the Board of Audit, and two other members held a meeting with Mr. Rizzo and the undersigned to discuss the auditing of the accounts relative to the Arms Disposal Committee. Mr. Sato reported that the investigation had already been started and would be completed by the end of November.

M. Matsukata
National Government Division

NOTED: C.L.K.

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GENERAL HEADQUARTERS
SUPREME COMMANDER FOR THE ALLIED POWERS
Government Section

28 October 1947

MEMORANDUM for Record

SUBJECT: October Report on Hoarded Goods.

1. Mr. TAKUCHI, procurator from the Supreme Procurator Office, reported the following:

a. The Procurator General wished to express his thanks for Colonel Kades excellent speech to the procurators. The speech was given to all procurators in English, but it was being translated into Japanese for them.

b. Further investigation regarding Captain Vaughan and Lt. Colonel Highland of Fukui Military Government in abstructing the procurator's offices investigation of the Fukui silk case will be reported after a complete investigation is carried out.

c. On Saturday, 1 November 1947, a meeting is to be held in the Justice Ministry regarding the budget for the hoarding goods program.

d. On Monday, 27 October 1947, all the information available in the House of Representatives Committee for hoarded goods was turned over to the procurator's office. The procurator started an investigation on hoarded shirt material in Tachikawa from a lead obtained by this information. This investigation resulted in the uncovering of white shirt material.

e. The procurator in charge of investigating the SEKO case was asked to report to the undersigned at 1300 hours, Tuesday, 28 October 1947, in order to present summary of this investigation today.

M. MATSUKATA
National Government Division

HQ B

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GENERAL HEADQUARTERS
SUPREME COMMANDER FOR THE ALLIED POWERS
Government Section

28 October 1947

MEMORANDUM FOR THE RECORD

SUBJECT: Oyabun-Kobun System; Hoarded Goods Investigation; Power of Economic Inspectors to Search and Inspect Without a Warrant.

1. On 24 October 1947, a conference was held in Government Section between Mr. Suzuki, Minister of Justice, Mr. Rizzo, Mr. Matsukata, Mr. Oka and the undersigned on the above-captioned subject. The basic question was the ability of economic inspectors, the special investigators concerned with the Hoarded Goods Investigations, to inspect records and premises and search the same without the issuance of a warrant of search, seizure or inspection before-hand by a judge.

2. The undersigned stated that the following provisions of law apply to this question:

a. Constitution, Article 33. "No person shall be apprehended except upon warrant issued by a competent judicial officer which specifies the offense with which the person is charged, unless he is apprehended, the offense being committed."

b. Constitution, Article 35. "The right of all persons to be secure in their homes, papers and effects against entries, searches and seizures shall not be impaired except upon warrant issued for adequate cause and particularly describing the place to be searched and things to be seized, or except as provided by Article 33.

Each search or seizure shall be made upon separate warrant issued by a competent judicial officer".

c. Bill for the Temporary Adjustment of the Code of Criminal Procedure, Article 7. "...a public procurator or a judicial police officer may not search, seize or inspect without the warrant of a judge. However, this shall not apply in cases in which they arrest a criminal in flagrante delicto or in which they execute a warrant of arrest or detention ..."

The undersigned stated that the terms of the articles cited did not indicate clearly that the requirement for issuance of a search warrant was limited to searches, seizures and inspections in homes, and to papers and effects in those homes; that Mr. Blakemore and the undersigned have been in favor of a constitutional amendment to clarify this point, inasmuch as the police and law enforcement officials would

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be unnecessarily hampered otherwise in carrying out their duties. However, it was the opinion of Mr. Kades that a constitutional amendment was not necessary. The undersigned stated that whatever decisions were made would ultimately be passed upon by the Supreme Court, unless the constitution were amended to remove the doubt.

The undersigned suggested that the Ministry of Justice draft a law to give the investigators engaged in the Hoarded Goods Investigations the power to seize, search and inspect premises other than dwellings. It would be necessary, in drafting such legislation to draw a careful and distinct line of demarkation between that portion of a building which is used for a shop or for business and that part which comprises the sleeping quarters. The undersigned stated that he believed that the law should indicate that only the sleeping quarters would fall within the protection of the constitutional requirements for issuance of a warrant; however, that in any occasion of doubt as to this line of demarkation the line should be drawn in favor of the constitutional requirements for issuance of a warrant of a judge beforehand.

3. Mr. Suzuki stated that he agreed that it would be advisable to draft specific legislation to cover these powers of seizure and investigation required for the inspectors engaged in the Hoarded Goods Investigations; that such legislation must be written with extreme care. When this legislation is in final draft form, it will be submitted to this Section.

Howard Meyers
HOWARD MEYERS,
Courts & Law Division

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GENERAL HEADQUARTERS
SUPREME COMMANDER FOR THE ALLIED POWERS
Government Section

27 October 1947

MEMORANDUM FOR THE RECORD:

SUBJECT: Oyabun-Kobun System; Hoarded Goods Investigation;
A. Bill for Partial Amendment of the Diet Law. - Art. 106
B. Bill for Partial Amendment of the Local Autonomy Law, Art. 100.

The attached drafts of amendments to the Diet Law and Local Autonomy Law were drafted by the undersigned in order to provide adequate powers of investigation in the Diet and in local assemblies, with respect to matters of legislation or of questions within the scope of legislative bodies. The undersigned submitted background material and other reference data to the Diet in order to stimulate the Diet's revision of these laws, but the drafts received from the Diet were inadequate.

A. Bill for Partial Amendment of the Diet Law - Art. 106.

1. The proposed amendments provide for the following:

a. Any person may be summoned as a witness by the Diet or any sub-committee thereof, to give testimony or to produce papers on any matter under inquiry. Wilful failure to appear, or to produce the required papers, or to answer questions after having appeared, if these questions are pertinent to the question under inquiry, are punishable by imprisonment for not less than one month or more than one year, or by fine not more than ten thousand yen, or both.

b. Witnesses are privileged to refuse to testify inthe following cases:

(1) If the witness is the spouse, a blood relation within the fourth degree, or a relation by affinity within the third degree of relationship of a person who is being investigated. The same applies if the witness has been in any of such relationships to the person being investigated.

(2) If the person being investigated is the guardian, supervisor of guardianship or curator of the witness; or if the witness stands in these relationships to the person being investigated.

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(3) If the witness is, or was, a doctor, dentist, pharmacist, druggest, mid-wife, advocate, counsel, patent agent, notary public or functionary of religion or worship, then the witness may refuse evidence in respect to facts of which he has obtained knowledge in the course of his professional duties--unless his client waives this privilege.

(4) If a witness believes he will incriminate himself or a person to whom he stands in the relationships enumerated in (1) above, then he may refuse to testify.

Note: In the cases of items (1) through (4) above, the witness who refuses to give testimony must give prima facie evidence of the reason why he refused to do so; but in the case of item (4) above, a declaration or oath to the effect that the possibility of self incrimination really exists may be substituted for such prima facie evidence. Should the witness refuse to or be unable to furnish prima facie evidence or omit to give an oath instead, he must furnish the evidence demanded.

(5) If the witness is or was a public functionary (other than a member of the Diet who is not a Cabinet Minister) and either the witness or the public office to which he belongs or belonged declares that the information requested relates to official secrets, he may be examined only upon consent of the head of the Ministry or Agency of the Government of which he is or was an employee. Refusal of consent by the head of the Ministry or Agency of the Government must be accompanied by explanation of the reasons for such refusal. If these reasons are unacceptable, the Diet or the committee of the Diet which has summoned the witness, may request a Cabinet statement that such testimony would adversely affect vital national interests. Unless this statement is issued by the Cabinet within ten days after the request, the witness must testify. The purpose of this provision is to provide a strong compulsion to testify, since the government official called as witness will refuse to testify only if the matter has been decided upon the highest level and the Cabinet is willing to risk a vote of non-confidence with possible overthrow of the Cabinet. Thus, only on matters of crucial political import will testimony be refused, if at all.

2. In order to insure truthful testimony, once the witness appears and answers questions, it has been provided that the Head of the respective House, the Chairman of the particular Committee which calls a witness, or any member of the Legislature or of a Committee of the Legislature may administer oaths to witnesses in any matter under examination. If a witness, after the oath has been administered, has given false testimony he will be punished with penal servitude for not less than three months nor more than ten years. Punishment may be mitigated or remitted for this offense if the

Witness made a statement confessing his false testimony prior to the conclusion of the trial or investigation and prior to the discovery of the commission of this crime.

3. All cases save one of violations of these provisions must be referred to the Public Procurators Office for indictment, and trial must take place in the District Court of the area in which the offense is committed. The one exception is the case of confession of false testimony made by a witness before conclusion of the deliberation or investigation of the House of Committee before which he was called, and before discovery of the fact that the testimony was false. In this case, a majority vote of the House or Houses, before whom or before whose Committees the testimony was taken, may decide not to refer such matter to the Public Procurators for prosecution.

With this one exception, it was believed advisable by the undersigned to have the cases of crimes of this type tried before a court, rather than by the Legislature, as in the United States, on the basis of the probability of a more objective trial.

4. The undersigned has discussed this matter with Mr. Kades, Dr. Oppler, Dr. Williams, Mr. Marcum and Mr. Blakemore of this Section and the attached draft represents the concensus of these individuals. The draft will be presented to the Diet.

B. Bill for Partial Amendment of the Local Autonomy Law - Art. 100.

1. The proposed amendments give the assemblies of ordinary local public bodies the same powers as described for the Diet in part "A" of this Memorandum, with the following exceptions:

a. False testimony is punishable by penal servitude for not less than three months nor more than five years. Wilful failure of a witness to appear or produce papers required, or to answer pertinent questions is punishable by imprisonment for not less than one month nor more than six months, or fine not more than five thousand yen, or both. Thus, these penalties are one-half as severe as those provided for commission of such crimes before the Diet. The reason for this is the far greater necessity for insuring prompt and truthful testimony before the Diet, which is concerned with questions of much greater importance for thewelfare of the Japanese people.

b. With respect to privilege of a witness to refuse to testify or produce papers, if any person is in possession of information or documents as a result of a joint undertaking of a department or agency of any ordinary local public body and a Ministry or Agency of the National Government, or as a result of any undertaking of any Ministry or agency of the National Government, the assembly of the local public body must request in writing the consent of the Head of the National Government Ministry or Agency to disclosure of the facts. If a statement in writing that disclosure of such facts will be contrary to the public interest is not forthcoming in twenty-one days from the date of request, then

testimony must be given or papers produced regarding such facts.

The reason for this special privilege against testifying is the need to protect operations of the National Government carried on with or without the aid of local agencies. For instance, an investigation of local conditions may be made, premature disclosal of which would seriously prejudice attainment of the objectives sought. In this case, the Head of the National Government Ministry or Agency concerned has the right to refuse disclosure of the facts. If the matter is regarded seriously by the local assembly, it can be brought up in the Diet, where the provisions discussed in Part A, Paragraph 1, b (5) of this Memorandum will make it easier for the legislature to obtain the information on a national level.

2. The undersigned has discussed this matter with Mr. Tilton, Mr. Porter, and Dr. Oppler, and the attached draft represents their ideas as well as the undersigned's. The draft will be presented to the Diet as part of the other amendments to this law.

Howard Meyers

HOWARD MEYERS
Courts & Law Division

Bill For Partial Amendment of the Diet Law (Draft)

Article 106-2. The President of the House of Councillors, the Speaker of the House of Representatives, a chairman of any joint committee established by a joint or concurrent resolution of both Houses, a chairman of any committee of either or both Houses of the Diet may administer oaths to witnesses in any case or matter under their examination.

Any member of either House may administer oaths to witnesses in any matter pending in either House, of which he is a member, or pending in any committee of which he is a member.

Article 106-3. When a witness sworn in compliance with the provisions of Article 106-2 has given false testimony, he shall be punished with penal servitude for not less than three months nor more than ten years.

When the person who has committed the crime provided for in the preceding paragraph makes a confession prior to the conclusion of the deliberation or investigation of the House or committee before which he has appeared, and prior to discovery of the commission of the crime, his punishment can either be mitigated or remitted.

Article 106-4. Every person who has been summoned as a witness by the authority of either House to give testimony or to produce papers upon any matter under inquiry before either House, or any joint committee established by a joint or concurrent resolution of both Houses, or any committee of either House, and who wilfully fails to appear, or to produce the required papers, or who having appeared refuses to answer any question pertinent to the question under inquiry, shall be punished by

imprisonment for not less than one month nor more than one year, or fine not more than ten thousand yen, or both.

Article 106-5. The provisions of the following articles of the Code of Criminal Procedure shall apply regarding privilege of witnesses to refuse to testify to any fact, or produce any paper as required under the provisions of Articles 106-3 and 106-4 of this Law: Articles 186, 187, 188, 189. Provided further that if, in respect to facts of which a person who is, or was, a public functionary (other than a member of the Diet who is not a Cabinet Minister) has obtained knowledge, either such person himself, or the public office to which he belongs or belonged, declares that they relate to official secrets, he may be examined only upon the consent of the Head of the Ministry or Agency of the Government of which he is or was an employee. A refusal of such consent by the Head of Ministry or Agency must be accompanied by an explanation of the reasons therefore. If these reasons are acceptable to the Diet or Committee thereof, the witness need not testify. In event these reasons are unacceptable, the Diet, or committee thereof which has summoned the witness, may further request a Cabinet statement to the effect that such testimony or production of such papers would adversely affect vital national interests. Unless such a statement is issued within ten days of the request, the witness must testify as previously required.

The provisions of this Article shall apply notwithstanding the provisions of any other Article of this law.

Article 106-6. The House or committee thereof which has required testimony must refer for prosecution all cases of violations of the

provisions of Articles 106-3 and 106-4 of this law to the Chief Procurator of the District Public Procurator's Office of the area in which such violations occur. Provided, however, that in the case of a confession of false testimony made prior to conclusion of the deliberation or investigation of the House or committee thereof before which the witness appeared and prior to discovery of the Commission of the crime, the House before whom such testimony was taken, or the House of the Committee before whom such testimony was taken, or both Houses of the Diet in the case of testimony taken before a joint committee of both Houses, upon a majority vote in open session may decide not to refer such case to the District Public Procurators Office for prosecution.

Article 106-7. Resolutions of either or both Houses providing for inquiries and investigations shall contain a limit of cost of such inquiries and investigations, which limit shall not be exceeded except by vote of the House which authorized the original amount.

Partial Amendment of the Local Autonomy Law. (Draft)

Article 100, paragraph 2 shall be deleted.

After Article 100, paragraph 1, the following shall be added:

Article 100-2. The Presiding Officer of the assembly of an ordinary local public body, or chairman of any committee established by a resolution of such assembly may administer oaths to witnesses in any case or matter under the examination of, concerning the affairs of, within the scope of powers of, and within the area of jurisdiction of such ordinary local public body.

Any member of the assembly of an ordinary local public body may administer oaths to witnesses in any matter pending in the assembly of such local public body of which he is a member, or pending in any committee of such assembly of which he is a member, if the matter is one concerning which the presiding officer of the assembly of such ordinary local public body may administer oaths.

Article 100-3. When a witness sworn in compliance with the provisions of Article 100-2 has given false testimony, he shall be punished with penal servitude for not less than three months nor more than five years.

When the person who has committed the crime provided for in the preceding paragraph makes a confession prior to the conclusion of the deliberation of the assembly of the ordinary local public body or committee of such assembly before which he has appeared, and prior to discovery of the commission of the crime, his punishment can either be mitigated or remitted

Article 100-4. Every person who has been summoned as a witness by the authority of the assembly of an ordinary local public body

to give testimony or to produce papers upon any matter under inquiry before such assembly or any committee thereof, and who wilfully fails to appear, or to produce the required papers, or who having appeared refused to answer any question pertinent to the question under inquiry, shall be punished by imprisonment for not less than one month nor more than six months, or fine not more than five thousand yen, or both.

Article 100-5. The provisions of the following articles of the Code of Criminal Procedure shall apply regarding privilege of witnesses to refuse to testify to any fact or produce any paper, as required under the provisions of Articles 100-3 and 100-4 of this law: Articles 186, 187, 188, 189. Provided further that if any person has obtained knowledge or is in possession of any papers as a result of a joint undertaking of a department or agency of any ordinary local public body and a Ministry or Agency of the National Government, or as a result of any undertaking of any Ministry or Agency of the National Government, the assembly of the ordinary local public body must request in writing the consent of the Head of such National Government Ministry or Agency to disclosure of such facts. If the Head of such Ministry or Agency of the National Government does not declare in writing within twenty-one days from the date this request was made that disclosure of such facts will be contrary to the public interest, then testimony must be given or papers produced regarding such facts.

The provisions of this Article shall apply notwithstanding the provisions of other articles of this law or other laws.

Article 100-6. The Assembly of the ordinary local public body, or committee thereof which has required testimony, must refer for pro-

secution all cases of violations of the provisions of Articles 100-3 and 100-4 of this law to the Chief Procurator of the District Procurator's Office of the area in which such violations occur. Provided, however, that in the case of a confession of false testimony made prior to conclusion of the deliberation or investigation of the Assembly of the ordinary local public body or committee of such assembly before which the witness appeared and prior to discovery of the commission of the crime, the assembly of the ordinary local public body, upon a majority vote in open session, may decide not to refer such case to the District Procurator's Office for prosecution.

Article 100-7. Resolutions of an assembly of an ordinary local public body providing for inquiries and investigations shall contain a limit of cost of such inquiries and investigations, which limit shall not be exceeded except by vote of the assembly which authorized the original amount.

GENERAL HEADQUARTERS
SUPREME COMMANDER FOR THE ALLIED POWERS
Government Section

17 October 1947

MEMORANDUM for Record,

SUBJECT: Hoarded Goods Committee (First Meeting)

Members of the Hoarded Goods Committee held a conference in the Government Section at 1400 on 17 October 1947, attended by the following:

Lt. Col. H. W. Ebel, G-4
I. C. Hill, ESS/PC&R
Wm. E. Bradford, ESS/FT
Celin Kaber, ESS/FT
Wm. G. Fritz, PSC/CIS
A. P. Gerardi, 8th Army Procurement Div.
E. G. Leigh, CPC/GIPI
J. T. Stapleton, CPC/FP
John M. Capron, ESS/CCC
Capt. Nash, ESS/Ind
Makoto Matsukata, Govt. Sec.

In the absence of Mr. Swope, the meeting was presided over by Mr. Matsukata. The meeting opened with the presentation by each member present of his story on hoarded goods in relation to his particular office.

Mr. Gerardi of 8th Army Procurement stated that one of the basic faulty practices was that in many instances the Ordinance did not include items they considered critical--for example, cork and paper. Another observation was that after they had located hoarded goods necessary for construction, oftentimes they would be placed on Procurement Demand but by the time the Procurement Demand came through the regular channels, the supplies would disappear. His office has a very direct and important interest in hoarded goods but until they had a representative at meetings of the Hoarded Goods Committee, they did not know about the issuance of SCAP directives.

Mr. Fritz, PSC/CIS, said his office hadn't had any investigation on hoarded goods. This was an entirely new subject.

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Col. Ebel, G-4, informed the Committee that G-4 was interested primarily in hoarded goods which were formerly property of the Japanese Army and Navy. Mr. Matsukata recounted the making of a Cabinet decision on 18 August 1945, before the Occupation, which advised the Army and Navy to dispose of everything but arms and ordered the selling of all Army and Navy materials or materials owned by control associations. Col. Ebel expressed the opinion that the Home Ministry were really sincere in trying to straighten things out but that the prefectural officials were the offenders.

Mr. Hill, ESS/PC&R, quoted figures indicating that there was a sharp decrease in the yen value of hoarded goods recovered the first eight months of this year and the first eight months of last year, which might be accounted for by exhaustion of commodities rather than a letdown of effort. He concurred with Col. Ebel in his condemnation of the prefectural authorities who would issue back-dated orders to a holder authorizing the possession of certain goods.

Mr. Bradford, ESS/FT, stated that the interest of Foreign Trade Division is to minimize imports and maximize exports and they were interested in hoarded goods--principally textiles--from the point of view of available materials for export or of materials for domestic use.

Mr. Leigh, CPC/GIPI, advised that the most important type of hoarded goods under their observation was precious metals and stones. He is convinced many precious metals and stones are not reported and commented on the non-compliance of the Japanese government with the regulations. He stated there were no grounds for expecting much cooperation in asking the Japanese to take materials out of their economy and giving it to the Occupation. He did not think there was a chance of establishing more stringent controls now because at this late stage of the Occupation it is desired to shift emphasis to rehabilitation economy.

Mr. Stapleton, CPC/FP, declared that their definite interest is looted property. They have no figures as to how much there is, but are interested in investigations concerning it.

Mr. Capron, ESS/CCC, had no special interest but was seeking information about the methods used.

Capt. Nash, ESS/Ind, reported that his Division was paralled to Foreign Trade and they would like to find out if they were able to get the materials and when they could get them.

A general discussion then ensured on the hoarded goods problem. There is a distinction between hoarded goods which formerly belonged to the Army and Navy which were considered to have been surrendered to SCAP for distribution to the eleven nations. Former Army and Navy material is not available for export. Clothing, for instance, would go right back to the Japanese. Plain material might be required by Occupation Forces. In answer to Mr. Matsukata's question as to why everything couldn't be sent through one channel, Col. Ebel asserted that Eighth Army is the one channel. Eighth Army is the agency which picks them up and allots them. There was related the case at Nagano where silk and ivory was held for a year for disposition orders. Eventually, the Occupation authorities got the materials, and CPC got the ivory as looted property. Mr. Stapleton informed the Committee that CPC was turning back to SCAP all this ivory which is to be converted into carvings by the Japanese and sold for money. The money will then be put back into the vaults in place of the ivory and the dollar value would be kept intact.

Mr. Capron briefly described the activities of ESB, the basic Ordinance and the policy law under which they have operated for the last year. Stock piles in excess of a certain defined amount is required to be sold to any person holding an allocation certificate. There are eight regions. The field inspectors have no direct powers but have coordinating powers with local officials. Laws issued according to policy instruction are put into effect.

Mr. Bradford brought up the fact that there was no way of checking material accumulated by manufacturers because of inaccurate bills of material made out in the allocation period. Hoarded goods were acquired in excess of requirements allocations and even a 10% overage, for instance, would eventually mean a large accumulation of material. Mr. Capron stated that there is a hole in the regulation as it now stands. It was decided that Mr. Capron and Mr. Matsukata would get together and make a study of the channels which exist today.

Col. Ebel outlined the operations of Eighth Army. They find a warehouse on their own, the people report the goods, Eighth Army gets representatives of the Home Ministry to sign receipts and use warehouse inventories, and they then distribute it just like any other stock or sell it through regular channels. In the case of silk, they have run into much confusion and conflict between instructions from the Silk Section of ESS and the Textile Bureau of the Home Ministry. SCAPIN 53 issued December 5, 1946, sets forth what the Japanese will do with stuff returned to them.

The dissolution of the Army Disposal Committee was next considered. There seems to be a general area of confusion because it might be harmful if they were allowed to dissolve too quickly. The Research Bureau had reported to Col. Ebel that the Committee had handled the job and were rid of about everything now except ferrous scrap which at the present time hardly pays for itself. It was brought out that the five companies represented on the Committee are also the largest purchasers so they can afford to conduct it on a non-profit basis. This fact is highly subject to attack. Mr. Capron stated we would like to have inventories and that it would probably take about three months for a dissolution of the Committee.

With respect to the Materials Utilization Committee, Mr. Matsukata put the Government Section on record as recommending that the Ordinance establishing the Committee be withdrawn. Mr. Capron stated that the establishment of the Committee had been approved under some pressure and because of the fact that the powers were to be investigatory only. The administrative functions it hopes to take over in spite of the Ordinance would make it a dangerous organization.

The Diet Committee on Hoarded Goods was then discussed. The Diet Committee on Hoarded Goods have held up to date about twenty-six sessions and have found nothing. They claim the Ministry of Justice, the Home Ministry, and the Ministry of Commerce and Industry are not cooperative. Mr. Hill and Mr. Stapleton both expressed great faith in the Home Ministry. One of the difficulties in the Diet investigation in Japan is that a man cannot be forced to take an oath in the Diet. The whole hoarded goods picture is so involved in politics that it is impossible for the Diet Committee to get anywhere. Mr. Matsukata stated that the Government Section felt the procurators offices should be the proper authorities to handle the matter as it has now been made a criminal offense to hoard goods.

Mr. Capron said that ESB should be responsible for delegating the operating functions to the appropriate Ministry and to hold that Ministry responsible for doing its segment of the job instead of shifting responsibility to a group such as the Sangyo Fukko Kodan, a quasi-governmental agency.

The clarification of the duties of the Economic Inspectors was the last item on the agenda. According to the opinion of Courts and Law Division of the Government Section, the Economic Inspectors, having no definite position under existing laws, would properly come under the police system at the present time.

Mr. Hill of ESS/PC&R stated that the study of Economic Inspectors was to be discussed at a meeting on Monday, October 20, in conjunction with the Police Reorganization Program.

The meeting adjourned.

M. MATSUKATA
National Government Division

GENERAL HEADQUARTERS
SUPREME COMMANDER FOR THE ALLIED POWERS
Government Section

16 October 1947

MEMORANDUM FOR THE RECORD

SUBJECT: Oyabun-Kobun System.

1. A conference was held in Government Section on 3 October 1947 to discuss certain aspects of a coordinated publicity program concerning the above-captioned subject. The following persons were present: Mr. Sullivan and Lt. Passin, CI&E; Mr. Fritz and Mr. Shupak, CIS/PSD; Mr. Collett, ESS/LA; Mr. Orton, ESS/AC; Mr. Meyers, G. S.

2. Through the efforts of Lt. Passin of CI&E, the Asahi Shimbun will conduct a public opinion research program in order to determine attitudes of Japanese on the Oyabun-Kobun System. The survey will be made simultaneously in Tokyo, Osaka, and Northern Kyushu, and will take approximately ten days. The people who will be examined will be divided into three types: a cross-section of the population of three major cities; the Kobun (with reference to Tekiya, Gurentai and Kashimoto, the situation in the coal mines and in the construction business); and 150 Oyabuns. Questions will be asked concerning reactions to the system, how they became part of the system, what are the reasons for attitude toward Oyabuns, what are the attitudes toward trade unions, degree of loyalty and discipline of the Kobun, for what political parties Kobuns voted in the last national election, freedom to leave the system, benefits received from the system, etc.

3. The participants in the conference decided upon the following:

a. To plan a press statement from the CinC, if possible, and a series of press statements to be made by ranking officials of the sections concerned.

b. To send Mr. Sullivan, CI&E, a skeleton outline of what will be attempted and the probable date of completion.

c. To hold bi-weekly meetings on Friday afternoons at 2:00 o'clock in the Government Section conference room.

d. To request Government Section for its opinion on the advisability of giving publicity to various legislation drafted in aid of the program, before such legislation was promulgated by the Diet.

Howard Meyers
HOWARD MEYERS
Courts and Law Division

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GENERAL HEADQUARTERS
SUPREME COMMANDER FOR THE ALLIED POWERS
Government Section

Govt. Section File

16 October, 1947

MEMORANDUM TO: National Government Division
Courts and Law Division
Special Projects Division
Public Service Qualifications Division
Local Government Division
Political Parties Division

SUBJECT: Operation Cyclone.

1. The following assignments to divisions are made:

(a) National Government Division--Approval of transfers of Japanese Government Section Chiefs and higher, review of Military Government team reports and liaison with other staff sections including chairmanship of the CIC Recorded Goods Committee.

(b) Courts and Law Division--Handling all legislation required for mounting of the operation.

(c) Special Projects Division--Deglorifying the cyclone.

(d) Public Service Qualifications Division--Dissolution of ultranationalist societies and purging invisible leadership.

(e) Local Government Division--Prohibition against local public entities delegating to private organizations power to assess, levy or collect taxes, issue licenses, or perform other governmental functions.

(f) Political Parties Division--Survey of political parties' contributions and enforcement of [illegible] 535 relating to reports; development of a who's who file on political party members showing previous affiliations, present associations, and connections with cyclone; effective sanctions against receipt from illegal sources by political parties of campaign funds; list of members of Imperium.

2. Wherever possible written interdivisional memoranda will be dispensed with and coordination will be effected informally and expeditiously.

3. In addition to his other duties, Major Rimes will be in charge of the operation.

Chas L. Kades
Deputy Chief

CONFIDENTIAL

GENERAL HEADQUARTERS
SUPREME COMMANDER FOR THE ALLIED POWERS
Government Section

16 October 1947

Govt Sec

MEMORANDUM:

SUBJECT : Elimination of Feudal Politics.

1. Seko Case:

Chief Procurator Manichi Tanaka, of the Tokyo-to District Procurator's Office, has caused the arrest of four leading politicians, all unsuccessful Liberal candidates of the party at the last Diet election, (Bunroku Fujikawa, Manabu Shiotsuki, Ikutaro Nakasone, and S. Hazama) who have been charged with fraud amounting to 4,150,000 yen extorted from 345 agricultural and mining associations throughout Japan. This case is the so-called Seko Affair which involves so-called brokers throughout Japan and the collection by "brokers" of advance payment for Japanese Army uniforms which were not produced. At the time of the fraud Kochi Seko, presently a Liberal Party member of the Diet, was Vice Chairman of the Hoarded Goods Disposal Committee in the Economic Stabilization Board (the Chairman being Tanzan Ishibashi) and concurrently Vice Minister of Home Affairs. In this capacity he was alleged to have issued authority for the release of the uniforms.

The procurators have determined, however, that the document used in this case was a forgery of many similar certificates issued by Seko in the so-called uncovering of hoarded goods. At the present time the procurators have taken to the Supreme Court the question of whether Seko was within his limits of jurisdiction in issuing such certificates. Further investigation by the procurators has revealed the granting of 2,500,000 yen to Karoku Tsuji, one of the most influential friends of the Black Dragon leader, Toyama. Tsuji is well known as a great political power in Japan. Moreover, the procurators have determined that Hatoyama's contractor, Naito, received about 600,000 yen from two of the four arrested parsons to build a house for Hatoyama who for many years has been a close associate of the sinister Tsuji.

The so-called Dark Curtain is composed of the secret, ultra-nationalistic core of the leading political party previous to the war (Seiyukai). International Military Tribunal files show the attendance of Prince Higashi-kuni at a Black Dragon Society meeting in the 1920's. It is not only coincidental that Hatoyama's sister is the wife of Keisaburo Suzuki, President of the ultra-nationalistic society, Kokuhonsha, and for many years leader of the Seiyukai.

Kokuhonsha was established in 1924 as an auxiliary society to the Black Dragon Society and the Dark Ocean Society. Further, Kanosuke Yamaoka, a purgee who is known to have succeeded Keisaburo Suzuki, is another important

CONFIDENTIAL

Memo, subj: "Elimination of Feudal Politics", dtd 16 Oct 47.

member of the Katoyama-Tsuji group. Katoyama's influence is carried to all three major parties in Japan. Further, Ichiro Kono, a strong underling of Katoyama, and a purged Diet member, is known to tie the connections between the Dark Curtain and the underworld, namely, the controlled street stall vendors (Tekiya), gamblers (Bakuto), and gangsters (Gurentai). These groups have managed to control black market on a very large scale.

2. The Hoarded Goods Problem:

The hoarded goods problem originated with the Cabinet decision made on 18 August 1945 at which Prime Minister Higashi-kuni presided. It was on this Cabinet decision that plans were laid to dispose by burial and similar clandestine hiding of all goods in possession of the Army, Navy and other governmental and control agencies. Although this decision was repealed on 28 August 1945, in actuality the plan had been carried out successfully before the Supreme Commander landed at Atsugi.

Since the surrender, there have been only three sources of substantial income readily available: (1) hoarded goods; (2) contracting; and (3) black-market disposal of goods derived from various sources. The hoarded goods and the contracting have been so closely related that it is safe to consider them as one problem. With the beginning of the Occupation it became impossible for secret, ultra-nationalistic groups to finance their activities without these hoarded goods because their previous source of revenue (Cabinet funds) was no longer available to them. Consequently, these groups planned and have since been attempting to effect the disposal of these hoarded goods in the black market. Funds derived from these sources have been used to finance corrupt elements in the newly organized political parties and societies.

3. Conclusions:

The hoarded goods cases are revealing the great political power exercised even today in Japan by a fairly small group of behind-the-scenes political manipulators, who in the past were ring-leaders in sabotaging the nascent parliamentarian democracy in Japan and turning the country over to the ultra-nationalists and militarists.

The current rebirth of democratic tendencies in Japan can and will be sabotaged by this same group and their numerous allies and servants if this political power is not taken from them once and for all, and thereby they can make a mockery of the Occupation and its democratic reforms within a short while after the Peace Treaty.

Since, in the exercise of this power the sinews of war of these hitherto invisible governors consist of a large cache of capital in the form of hoarded goods and a huge income derived from large black market activities, and the various forms of tribute exacted from Japanese businessmen, any effort to eliminate from Japanese political and economic life this truly evil influence must have as its first point of attack the immobilization

and removal of these economic sources of power. Therefore, the current attack on this group by the Procurator General's vigorous investigation and prosecution of hoarded goods cases and all persons, however powerful, involved in them, is clearly entitled to the full support of the Supreme Commander as a campaign which will not only rid Japanese political life of the influence of corrupt bossism but also encourage the emergence and the growth of a democratic movement really representative of the people.

In this way, and this way only, can the blueprint of democracy be transformed into a structure of representative government. The enforcement of the laws of the land against this predatory and privileged clique of entrenched political power is the third step indispensable to the elimination of feudal politics. The first two steps, (a) the purge, and (b) the making of local executives (in office since before the Occupation) ineligible to succeed themselves, have made it possible to mount this mopping up operation through the regularly constituted Japanese authorities.

4. Progress to Date:

a. Finance Minister Kurusu has been instructed to prepare for submission to the Diet an amendment to the Finance Laws which will repeal the provision under which private agencies such as commercial associations are authorized to collect taxes on behalf of the national government.

b. There is under preparation an amendment to the Local Autonomy Law which will prevent prefectural and local governments from delegating tax collection functions to private associations within their areas of jurisdiction.

c. The Procurator General, having been informed of the serious concern with which GHQ views the present situation, has presented a comprehensive acceptable plan for the complete investigation and vigorous prosecution of hoarded goods cases in the quickest possible time.

d. To facilitate investigations and to enable the prosecution of perjury in connection with official investigations, legislation is being prepared for introduction in the Diet which will make it a crime to falsify documents or statements submitted to governmental agencies in the course of official investigations.

GENERAL HEADQUARTERS
SUPREME COMMANDER FOR THE ALLIED POWERS
Government Section

2 October 1947

MEMORANDUM FOR THE RECORD

SUBJECT: Oyabun-Kobun System.

1. A conference was held in Government Section on 1 October 1947 to discuss revision of pertinent laws in order to give legislative committees coercive power to insure receipt of accurate information during the course of investigations. Mr. Nakano of Crim. Affairs Bureau, Ministry of Justice and Mr. Fujiyama, CLO, represented the Japanese Government. Major Bieber and the undersigned represented Government Section.

2. It was agreed that the suggestion previously made by the undersigned--to the effect that Article 169 of the Criminal Code should be amended to apply to every person who knowingly made a false statement before the national or any local legislature--should not be adopted. Instead, the undersigned suggested that the Diet Law should be amended, in either Article 106 or by an additional provision added to the Supplemental Provisions, to give the Diet or any committee or sub-committee of the Diet power to administer an oath to witnesses in connection with legislative matters and investigation of any matter within the competence and jurisdiction of the Diet; that reference should be made to Article 169 in connection with the administration of the oath. A similar provision should be added to Article 100 of the Local Autonomy Law to apply to all local assemblies.

3. Mr. Nakano agreed that this was by far the better method of accomplishing the stated purpose. It was agreed that Major Bieber would contact Mr. Hayashi or Mr. Suzuki of the Ministry of Home Affairs and that the undersigned would inform Mr. Matsunaga, Chairman of the Diet Judicial Affairs Committee, of the fact that Mr. Nakano would contact these gentlemen in order to draft appropriate legislation to be submitted to the Diet at this present session.

Howard Meyers

HOWARD MEYERS
Courts and Law Division

X?

CONFIDENTIAL

Oyabun - Kobun Gp

NOTICE OF MEETING

CONTROLS COORDINATING COMMITTEE

TIME: 1400 Hours, Thursday, 18 September 1947

PLACE: Imperial Hotel, Private Dining Room

AGENDA:

1. Additional problems connected with control associations on the ESB list.
2. Report on Kodan salaries.
3. Problem of small business and ESB.
4. Progress report on Sub-Committee considering oyabun-kobun problem.
5. Report of Sub-Committee on Export Commodity Law.
6. Report of Sub-Committee on organizations and associations.
   a. 31 December 1947 deadline for closing of associations presently on ESB month-to-month list.
   b. Report on possibility of paying higher salaries to specialists collecting statistics.

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Summary of Minutes
11 September 1947

1. Approval of minutes of 4 September. Page 1

2. Report of Sub-Committee on organizations and associations: a. Schedule for closing remaining control associations on ESB list by 31 December, proposed by Anti-Trust & Cartels Division, objected to by Textile Division, and matter was referred to Sub-Committee for decision. Page 1

b. Natural Resources Section stated Japan Pulp & Paper Co., which seems not to be a control association, is on ESB list and NRS desires its continuance. Matter to be resolved between Anti-Trust & Cartels Division and NRS. Page 1

c. Continuing statistics-gathering functions of control associations to be closed and establishing such functions in governmental agency using former association employees presents problem of paying these employees higher than government salaries to attract them for such temporary work. Agreed that Sub-Committee should ask Japanese Government to work out solution and report back. Page 2

3. Oyabun-kobun system explained by Government Section representative, who stated that Government Section plans attack on it and will back campaigns of other sections. Sub-Committee appointed to study and coordinate plans proposed by different sections. Page 4

4. Recommended that advance payments to manufacturers be continued for a short period, after which manufacturers of goods for Occupation should obtain loans from commercial banks. Sub-Committee to continue work. Page 5

5. On Kodan financing, ESB is working on provisions for Articles of Incorporation of Kodan Laws and implementing ordinance. Page 6

6. Sub-Committee considering Export Commodity Law reached agreement as to instructions to Japanese. Licensing provision, however, to be discussed further with Japanese. Page 6

7. Control organizations on ESB list may now have indication from SCAP, through Liquidation Branch of Finance Division, that loans by banks to these organizations will be recognized after the closing of such organizations. Page 6

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Controls Coordinating Committee Meeting
11 September 1947
Imperial Hotel
Minutes

1. As there were no corrections or additions to the minutes of 4 September, they were approved as written.

2. a. Mr. Ries reported for the Sub-Committee on organizations and associations, which at a meeting on 9 September discussed the question of the schedule for closing the remaining control associations. Mr. Rose had informed the Sub-Committee of a conference he had with certain officials of the Japanese Government at which it was agreed that the remaining control associations should be speedily closed, and a tentative deadline was given as 31 December of this year. At the same time the Japanese Government proposed to submit detailed plans for such closing on 20 September. The Sub-Committee discussed this question at length and it was felt that the Anti-Trust & Cartels Division should have informed the divisions and sections in charge of the various control associations beforehand of such rather far-reaching decision. Capt. Rathofer protested against the unilateral action of Anti-Trust & Cartels Division, and it was decided to inform the Controls Coordinating Committee of this dissenting voice concurred in by other divisions and sections and to ask discussion of this question in principle.

Mr. Rose stated that the Chief of the Production Bureau of ESB had indicated that the Japanese Government was making preparation to take over the statistics-gathering functions of the control associations and in the light of past experience Mr. Rose had asked specifically what he was doing. It was stated the ESB has a substantial sum of money with which to take action and it was decided that plans could be submitted by 20 September and that 31 December should be the target date for closing all associations on the ESB list. Mr. Rose indicated, however, that the door would always be open for the continued operation of whatever associations could be justified.

The Committee decided the question should be brought before the Sub-Committee again on Tuesday and all people interested in this subject should try to come to general agreement.

b. The Executive Chairman called attention to the attachment "Proposed Changes in the ESB Schedule of Organizations Being Continued Temporarily Under the Provisions of the Temporary Demand & Supply Adjustment Act," circulated at the request of the Controls Branch, Anti-Trust & Cartels Division, which requests that if any division or staff section has any objection to the proposed changes that it immediately contact Controls Branch, telephone 26-6562.

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Mr. Ortman said it is a general rule that organizations on the ESB list will not be designated as closed institutions as long as they remain on the ESB list. However, in some cases where an organization is about to be removed from the ESB list and it is agreed by all operating sections that rather than wait for formal removal from the list it should be closed immediately, action is taken.

Mr. Hickie wanted to know how these organizations get on the list and mentioned the Japan Pulp & Paper Co. formed in January which according to information received by Natural Resources Section is not a control association. Mr. Ortman explained that on 1 April when it was decided that all control organizations could not be dissolved at that time it was agreed to make up a list of all associations necessary to the Japanese economy, the dissolution of which would be postponed. It was prepared almost completely by suggestions from the interested staff sections and from the Ministries and was approved by the staff sections involved and made effective approximately the middle of June. Since then there have been additions and deletions to the list made with the concurrence of the staff sections concerned.

In view of the fact that a Check Sheet was written on the subject by Natural Resources Section and sent to the Committee but the matter was under Anti-Trust & Cartels Division jurisdiction, the Check Sheet was forwarded to AC for action.

3. Mr. Ries said the statistical functions of the control associations appear to be the most important work of the associations to be closed. In a controlled economy such as this, statistics are the basis for the allocation and distribution system and the collection of statistics should not remain in private hands. The question arises as to the closing of the control associations and the development of a fairly complete governmental structure to take over the collection of statistics. Research & Statistics Division is charged with the mission of developing this statistical structure, and the Sub-Committee discussed the various points which at present make it very difficult. One is that bureaus of the government cannot pay adequate salaries to the new employees engaged to take over the gathering of statistical data. These people will be for the most part former employees of the control associations trained in the collection of statistics and were paid higher wages than the government is able to pay.

Mr. Fitzgerald thought the most promising procedure would be to handle the associations one by one as they come up on the date list and to exert all possible effort to see that the government is in a position to take over when an association is dissolved. The major stumbling block is the personnel situation within the government. Mr. Fitzgerald asked if the same exception could be applied to this situation as he understood was applied to the Kodan employees who previously served in

control organizations. The Executive Chairman said this matter had been discussed before rather indirectly and asked for a report by the Kodan salary Sub-Committee. Mr. Mazo said there was no interim report on Kodan salaries and the final report is due 15 September. He recommended that this question should be considered separately, as it may arise again in other issues.

Mr. Collett asked if these would be employees of regular government bureaus, which would be categorically governed by the rules for regular government employees. Mr. Rose said there were two functions to be taken over: (1) the allocations functions and the necessary documentation and (2) the regular reporting of industrial activities in various segments and areas. In a period of control both the statistical reporting and the allocations controls are significant. Allocations control can be wiped out as soon as a period of balance is reached. Statistical control may continue in part. Anything over the basic needs of the government could be put on a temporary basis and handled similarly to the Kodan program with a special salary scale. The money ESB has is primarily for the operating divisions for an emergency program of which statistics collection is a part.

The Executive Chairman asked if the Committee wished to set up some special machinery to attract persons for temporary duty with the government. Mr. Collett thought there would be a law problem. Mr. Mazo said the ramifications of the Japanese regular pay provisions are extremely complicated. The pay procedures even for regular employees appear to be set but there is no kind of position classification and it may be possible without any ordinance for the Japanese Government to peg pay for the statistics gathering employees to one of the existing salary grades without establishing any new principles if the Japanese Government agrees within itself as to what it wants to do.

The Executive Chairman asked if the Committee would be agreeable to authorizing the Sub-Committee to request from the Japanese Government plans to handle the pay of specialists required in the statistical aspects of allocation and other emergency functions in the ESB program. Mr. Mazo asked if these people are to be taken over subject to any kind of purge or minimum requirements that would not allow their being retained in the government. Mr. Ries said that generally they are not officials of the associations but are the clerks and administrative employees. It was agreed that the Sub-Committee on organizations and associations will contact the appropriate Japanese agency on the salary question and report back at the next meeting of the Committee. Mr. Ross said he assumed the Committee was aware that General Marquat has already issued a memorandum to the Minister of Commerce & Industry telling him to make arrangements to take over necessary personnel of control associations. It might be important to know what steps the Minister of Commerce & Industry has taken as a result of this memorandum.

3. Mr. Meyers of Government Section brought up the problem of the oyabun-kobun system, which is regarded by Government Section as perhaps the major obstacle to the democratization of Japan. It is essentially a system outside of rather than in the government based on the feudal relationship of lord and vassal, thus permitting a curtain government. Based on extra-legal loyalties and obligations, it is difficult for the occupation to reach. The oyabun-kobun system has two different aspects--rural and urban. In rural areas it is an extension of the family system where allegiance to the head of the house is extended to the head family in the village--the head of such family becoming the oyabun. The kobun, or allegiance-owing group, are the retainers or tenants. It was a relationship involving obligation, gratitude and complete respect for the ideas and policies of the oyabun on the part of the kobun. In the rural rice-producing areas the oyabun to a great extent control the distribution of rice. It is the belief of Government Section that the land reform system and the stress of the economic crisis is breaking up this landlord-tenant relationship in the rural areas.

In the urban areas the oyabun-kobun system becomes a boss system and the boss has quasi-governmental powers. Associations run by bosses are authorized to collect a street stall tax and to issue permits to operate as agents of the municipalities, notably in Yokohama and Tokyo. The tax assessed has no relationship to what is collected. In addition, there are the gamblers associations and the gangster groups which require a payoff for protection and are large operators in the blackmarket. Government Section's information indicates that every political party has its oyabun which can deliver votes, cause riots and produce money to back the political party. Even the police have oyabun.

Mr. Meyers said it appeared that independently of each other Civil Intelligence Section, Civil Information & Eduction, Government Section and various divisions of Economic & Scientific Section have started to attack the oyabun-kobun system along the lines most connected with their own particular problems. Quite independently they have succeeded in alarming the Japanese Government as to what SCAP's plans might be against particular oyabun. Government Section intends to act against the oyabun system primarily along political lines by not permitting the Japanese Government to allow any quasi-official agency of any kind to collect taxes. Registration of oyabun may also be required and a requirement may be established that banks not open accounts unless there are fingerprints and a signature for each account, thus preventing oyabun from having a number of different accounts in the names of kobun. Government Section is also going to see what it can do about cleaning out political parties in the Ministries and will back the plans of both ESS and CIS. Mr. Meyers emphasized the need for speed and coordinated action.

Mr. Rose proposed a Sub-Committee for the reason that Controls Branch of Anti-Trust & Cartels Division has decided the oyabun-kobun is the right hand of control associations and until eliminated will perpetuate the associations regardless of legal steps of dissolution. Mr. Collett said Labor Division also considers this one of its most difficult and important problems. Oyabun in certain industries in Japan control well over three million workers and are active particularly in the construction field besides being probably the basis for the large-scale blackmarket. Mr. Ries said Industrial Division is interested in it from the point of view of the gumi, or gangs, which have done much to hinder the progress of the rehabilitation of Japan as far as construction and coal mining are concerned. Mr. Goodhue said Finance Division is primarily interested in the taxation angle because it knows many of the taxes are collected through organizations of the oyabun-kobun character. Mr. Stanek added that they control about 80 seats in the Diet. Lt. Col. Fregosi said that 8th Army Military Government will be glad to cooperate in the elimination of the labor boss type of gumi and recommended that SCAP issue instructions along these lines to 8th Army.

The Committee approved the formation of a Sub-Committee to study the oyabun-kobun system and make recommendations to the CCC. The Executive Chairman appointed Mr. Meyers as chairman, and representatives of Industrial, Anti-Trust & Cartels, Finance, Labor, Textile and Price Control & Rationing Divisions, Legal Section, Civil Transportation Section and 8th Army to serve on the Sub-Committee and suggested the addition of other individuals who might be of help be left to the discretion of the chairman of the Sub-Committee.

4. The financing of contracts let by the Special Procurement Board was next considered. Mr. Goodhue stated in general Finance Division feels that the manufacturers of goods for the Occupation Forces should be financed by ordinary commercial banks. They can in many cases obtain funds from their banks by drawing bills or promissory notes and taking them to the bank with a copy of the contract from the Special Procurement Board. However, many of these manufacturers have very low credit standings. Because many of them have not been in business very long and Finance Division is afraid the banks will not be willing to make loans to them, it was recommended that advance payments be continued for about three months under the supervision of 8th Army Procurement, during which time 8th Army and Finance Division feel the advance payment system can gradually be eliminated. After discussion Mr. Rose agreed in principle to the plan suggested by Mr. Goodhue. There were no further objections to the plan, and it was decided to leave it in the hands of Mr. Goodhue's Sub-Committee to work it out with the Bank of Japan and interested staff sections.

5. With reference to Kodan financing Miss Jackson reported that the ESB was still working on provisions for the Articles of Incorporation of the Kodan laws and an ordinance implementing such laws. A final draft embodying the Committee's suggestions will be issued shortly.

6. Miss Jackson reported in the place of Mr. Bradford on the Export Commodity Law. The Sub-Committee, composed of representatives of Anti-Trust & Cartels, Textile and Foreign Trade Divisions and the Controls Coordinating Committee had reached certain agreement as to what the Japanese were to be told as to the Export Commodity Law. A meeting was held and one matter was left undecided--a licensing provision which is to be discussed further with the Japanese.

7. Mr. Burns reported on the agreement with the ESB as to financing of control organizations on the ESB list. A conference held at the Bank of Japan with bankers and the ESB resulted in a procedure by which those control organizations on the ESB list requiring financing may have an indication from SCAP through Liquidation Branch, Finance Division, that such financing will be recognized after the closing of the organizations. The bank will not have to wait until after liquidation for the return of its money. The banks have been reluctant to make any loans to the organizations on the ESB list. That problem has now been solved and each loan the banks wish to make to the organizations is sent through the ESB to Liquidation Branch, which takes it up with the interested staff section or division.

T. K. Wright
Executive Chairman
Controls Coordinating Committee, Ex. Chairman

The following persons were present:

Mr. T. K. Wright	Controls Coordinating Committee
Miss E. V. Jackson	Anti-Trust & Cartels Division
Mr. M. J. Rose	Anti-Trust & Cartels Division
Mr. C. Becker	Anti-Trust & Cartels Division
Mr. D. Ortman	Finance Division
Mr. E. J. Burns	Finance Division
Mr. F. W. Goodhue	Foreign Trade Division
Mr. W. E. Bradford	Requirements Committee
Mr. Q. Adams	Industrial Division
Mr. H. Ries	Industrial Division
Mr. E. F. Stanek	Industrial Division
Mr. H. M. Cleland	Labor Division
Mr. B. Mazo	Labor Division
Mr. S. D. Collett	Research & Statistics Division
Miss D. Carlton	Research & Statistics Division
Mr. J. S. Fitzgerald	Research & Statistics Division
Mr. E. Ross	Scientific & Technical Division
Mr. O. E. Burton	Textile Division
Capt. A. A. Rathofer	Civil Property Custodian
Mr. C. O. Dudley	Civil Transportation Section
Mr. P. E. Richers	General Procurement Agent
Maj. J. L. Johnson	General Accounting Section
Capt. R. C. Melson	General Accounting Section
Mr. F. Gallagher	Government Section
Mr. H. Meyers	Legal Section
Mr. E. J. Carrington	Natural Resources Section
Mr. G. W. Uderitz	Natural Resources Section
Mr. J. J. Collins	Natural Resources Section
Mr. P. Hickie	Public Health & Welfare Section
Mr. S. F. Ascher	8th Army, Procurement
Lt. Col. A. Fregosi	8th Army, Procurement
Mr. A. P. Gerardi	

PROPOSED CHANGES IN THE E.S.B. SCHEDULE OF ORGANIZATIONS BEING CONTINUED TEMPORARILY UNDER THE PROVISIONS OF THE TEMPORARY DEMAND AND SUPPLY ADJUSTMENT ACT.

Deletions:

(English)	(Japanese)
Japan Textile Co., Ltd.	Nihon Orimono K.K.
Japan Hemp Fabric Co., Ltd.	Nihon Asa Orimono K.K.
Japan Clothing Goods Co., Ltd.	Nihon Iryo Seihin K. K.
Japan Knitted Goods Co., Ltd.	Nihon Meriyasu Seihin K. K.
Japan Tabi (Japanese Sock) Co., Ltd.	Nihon Tabi K. K.
Japan Sewing Thread Co., Ltd.	Nihon Nuiito K. K.
Japan Hat & Cap Co., Ltd.	Nihon Boshi K. K.
Japan Beddings Commercial Assn.	Zen Nihon Shingu Shyogyo Kumiai
Japan Mosquito Net Wholesales Assn.	Nihon Kaya Oroshi Shogyo Kumiai
Japan Hand Knitting Yarn Commercial Assn	Nihon Teami Ito Shogyo Kumiai
Japan Textile Sundries Wholesale Cooperative Assn.	Nihon Seni Zappin Oroshi Kyodo Kumiai

All Prefectural Textile Distribution Companies.

(Any Division or Staff Section having information relating to or an interest in any of the above organizations is requested to bring this information to the attention to the Controls Branch, Anti-Trust and Cartels Division, ESS (Tel. 26-6665), as soon as possible).

FILE UNDER: Ogaburu - Kobaru System

INDEX SHEET

DATE: 17 Sept 47

FROM: H. Meyers TO: —

SUBJECT: N/R -

Ogaburu - Kobaru System: Case of
OZU, Kinosuke

DOCUMENT FILED UNDER: CLASSIFIED FILE:

Memos for the Record

Government Section

17 September 1947

MEMORANDUM FOR THE RECORD

SUBJECT: Oyabun-Kobun System; Seko Case.

1. Mr. Kades stated to Messrs Oppler, Matsukata and Meyers that Dr. Williams (Legislative Division) had been instructed to inform the Diet that SCAP (Government Section) was definitely interested in a thorough investigation of their case by the House of Councillors and House of Representatives; that continuing reports were to be furnished of progress made and transcripts of hearings made and to be made.

2. On 17 September 1947, Dr. Williams stated that he would call in the Chairman of the House Investigating Committee and inform him of our interest in the case.

EDWARD MEYERS
Courts and Law Division

Government Section

16 September 1947

MEMORANDUM FOR THE DEPUTY CHIEF, GOVERNMENT SECTION

SUBJECT: Oyabun System

1. An interview with a preminent political leader before and during the war, in Osaka, who at present is engaged in private business, regarding the Oyabun System brought out the following points:

a. The Oyabun System which permeated the former Seiyu-Kai and the Minseito still is very much in existence in Liberal, Democratic and Social-Democratic parties.

b. The Seko Case that brought up a Diet investigation is at the present time being quieted down by one Yamaoka Mamosuke of Nihon Daigaku (Japan University), a purgee. Yamaoka is the known Oyabun of Seko and one that was instrumental in financing members of the Liberal Party in this past election. He stated that if clean politics was to be required by SCAP, the Seko Case is one Case that should be looked into in great detail. Yamaoka has always been one of the sources for financial support for the Sei-Yukai.

2. Arrangements were made to meet with the above individual sometime after the 26th of September, at which time the results of a case study of the Oyabun System in relation to the present political situation would be discussed in detail.

M. MATSUKATA
National Government Div.

Note: Translation of brief outline on the political history on the Oyabun as given to me is being prepared.

GENERAL HEADQUARTERS
SUPREME COMMANDER FOR THE ALLIED POWERS
Civil Intelligence Section, G-2
PUBLIC SAFETY DIVISION

APO 500
15 September 1947

TO: CHIEF, Public Safety Division, CIS, G-2

THRU: CHIEF, Police Branch

SUBJECT: Investigation of the Oyabun (Boss) System

I. GENERAL

As a consequence of the police contributions investigation, conducted by Investigators of the Police Branch of this Division, during March 1947, investigation was instituted by the same Branch to determine to what extent the Oyabun (Boss) System exists in Japan today; its organization, method of operation, police connection, and effect upon the Economic Political and Social structure of a Nation under a Democratic Form of Government. The following report is made as a result of extensive investigation by Investogator H. Shupak and other Investigators of this Branch. This report is a compilation of information gathered from May 1947 to 26 July 1947, and does not include conclusions and recommendations.

1. Extent: The Oyabun, or Boss System, delves into every walk of Japanese life from the night soil collector up, and into, the Japanese Government.

2. Types: There are three (3) principal types of Oyabun Systems which are of main interest to this office, namely:

(1) KASHIMOTO (Gambling)
(2) TEKIYA (Street Stall)
(3) GURENTAI (Gangster)

They are most powerful and exert the most influence and pressure of the Oyabuns in Japan today.

3. Historical Brief: Some three hundred (300) years ago during the Tokugawa Era, gambling cliques were formed under a leader called an Oyabun (Boss). This Oyabun controlled all the gambling houses in a designated area, exacted tribute and acted in the capacity of a citizens' strong-arm squad to counteract the terrorist activities of the Tokugawa Police, who, at that time, served the Tokugawa Lords, and not the people. This group was known by the name of KASHIMOTO and the title was handed down from father to son, or kept within the family circle.

Later, two (2) other groups were formed under Oyabuns called the TEKIYA and the GURENTAI. These groups illegally gained control over merchants and shop-keepers, exacted tribute in return for the privilege of operating and for "protection" against interference with the successful operation of their business.

III. KASHIMOTO (Gambling) Oyabun.

1. Organization and Method of Operation.

a. Quiet Type: Each Oyabun has his own district which he controls and is accepted by the community as part of Japanese custom. His Kobuns (henchmen) exact monthly tribute and/or protection money from the gambling houses which the Oyabun divides among his Kobuns and families. They also operate gambling houses and/or restaurants, themselves. In certain districts of Tokyo-To there are what is known as Higher Oyabuns who lord it over two (2) or three (3) other Oyabuns. Each Oyabun has from three (3) to five (5) Kobuns under him, and often more.

b. Violent Type: This type usually acts as an intermediary, negotiates and arbitrates controversies involving Oyabuns which are inadvisable for the police to know about; such as, gambling debts, gambling grudges, spheres of influence, etc., for which a lucrative sum is collected.

2. Strength.

a. In Tokyo-To there are approximately fifty-seven (57) gambling Oyabuns and three thousand (3,000) gambling Kobuns. There has been no increase in the number of gambling Oyabuns in Tokyo-To since prior to the war. However, the number of Kobuns has increased considerably due mainly to the economic situation as it exists today, and the lack of employment.

b. In Osaka-To there are approximately twenty-one (21) gambling Oyabuns and nine hundred and twenty-one (921) Kobuns.

c. In Kobe City there are approximately twenty-three (23) gambling Oyabuns and two thousand eight hundred and fifty-three (2,853) Kobuns.

d. In Kyoto there are approximately sixteen (16) gambling Oyabuns and six hundred and fifty-seven (657) Kobuns.

3. Persons Involved:

a. Some of the Oyabun groups are composed of civil engineering and building workers, or night soil men. Each group has from ten (10) to two hundred (200) members. With the exception of a few, most of them have a definite occupation other than gambling.

b. The Oyabuns who operate under the guise of legitimate public works contractors, exact tribute from gambling houses and restaurants in various quarters under their influence. The rents and tributes from these establishments comprise their major means of livelihood.

c. Some of the Oyabuns make extra money by running Sumo wrestling matches or other shows in conjunction with street vendors.

d. The third (3rd) boss SAKAMBE (real name, SHOJIRO MATSUYAMA) in Osaka has assets amounting to over three million yen (¥3,000,000). His followers keep a restaurant in IKOMA area, Nara Prefecture. SOIKUMA (real name, KUMAKICHI, NAGATA) also in Osaka, is rumored to be worth five million yen (¥5,000,000). His mistress also operates a restaurant. Both have accumulated their fortune by collecting the rents from their gambling establishments.

4. Police Record.

a. Out of the twenty-one (21) Kashimoto Oyabuns in Osaka, only three (3) have no police record. All the others, (18), have previous convictions of murder, assault or intimidation connected with gambling. Likewise, most of their followers have previous offenses of the same nature, and this is typical throughout Japan.

5. Influence.

a. Area: The "SAKAMB-gumi" group in Osaka, for instance, reigns widely over all Kinki and Kyshu districts in addition to Osaka Prefecture.

b. Political:

(1) The political ambitions of the Kashimoto Oyabuns in Tokyo is unknown at present.

(2) In Osaka, SAKAMBE, mentioned above, has been active as a lobbyist affiliated with TOKONAMI belonging to the SEIYUKAI party. (New Liberals). He supported the Liberals in the recent election and kept in close touch with two hundred (200) followers, and 9sworn brothers (KANEFIRO SAKAMOTO) and six (6) others. He further entered into friendly relations with other bosses for the same cause. He supported BUNZO AKAMA, Osaka Prefectural Governorship Candidate, and FUKUZO NAKAYAMA, Liberal Party, candidate for the House of Representatives.

(3) DOIKUMA (KUMAKICHI NAGATA), heretofore mentioned, electioneered for TORAMATSU KONISHI (Boss of TORA-RAY-AGHI-gumi Co.), an unattached candidate for the House of Representatives.

(4) The KANSAI-KYODAI-KAI Association, supported TATSUJI YOSHIDA of the Socialist Party (Member of Association) in IMABARI Municipal Election, but was defeated. In addition, the Association supported Socialists candidates in the Prefectural and National elections.

(5) Comment: Because of the influence that the Bosses have among their people, and custom for chivalry, faithfulness and keeping of secrets, every political party is trying hard to win them over.

6. Collections.

a. Rents: Correct figures are not available, but it can be said that each group received from ten (10) to three hundred thousand yen (¥300,000) per month.

7. Other Fields of Endeavor.

a. Since the cessation of hostilities, many gambling oyabuns have extended their field of practice into other fields of illegal operation, such as practiced by the Tekiya and Gurentai organizations. Examples of these are SEKINE-Gumi and Ginza Shinohara in Tokyo.

III. TAKIYA OYABUN SYSTEM or ROTEN DOCYO KUMIAI.

1. Organization: Street-Stall Tradesmen's Cooperative Union. This particular organization applies mainly to the Tokyo area. The name "TAKIYA" is practically extinct, however, the system itself is much in force and is operating as Merchants' Associations, Cooperative Unions, Groups and Societies throughout Japan today.

2. Former President: Kinosuke Ozu (also Otsu)
No. 853, 1-chome,
Tsunohazu-machi,
Shizuoka-Fu

3. Strength:

a. General: The Tekiya Oyabun System is well organized in Tokyo with a central Headquarters controlling all Branches. It has been in operation for many years, but did not reach its present strength and influence until after the cessation of hostilities.

(1) Number: According to present statistics there are two hundred (200) Oyabuns (Bosses), seven thousand (7,000) Kobuns and twenty-two thousand five hundred and fifty-seven (22,557) followers in the Tokyo area.

4. Method of Operation.

a. Membership: The Tekiya has full control of the licensing and the privilege of opening stree-stalls in Tokyo. Each Oyabun is answerable to the central office who makes final decisions as to licenses, fees and shops. All monies collected are turned into the Branch offices where a certain percentage is retained and the remainder turned over to the Central Headquarters.

b. Registration: There are approximately forty-five thousand (45,000) stalls registered with the Central Organization in Tokyo. Of these, eighty-eight percent (88%) are under the control of Oyabuns. The remaining twelve percent (12%), although free from paying tribute to local Oyabuns, do pay all taxes and fees to the organization.

c. Fees: The following fees are average and paid by all stall-keepers for the privilege of doing business in Tokyo:

30 Yen - Membership Fee
5 Yen - Monthly dues to Central Ass'n.
2 Yen - Monthly dues to Branch office.
1.50 Yen - Daily paper expense.
50 Sen - Daily cleaning of stalls.
2-3 Yen - Daily Government Tax

d. Requirements: All persons desiring to open a business stall must first receive permission from the Central Headquarters where they must join and obtain a license. More information concerning this will be dealt with in subsequent paragraphs.

e. Licensing:

(1) Procedure: All stall vendors are sent to the Tokyo Street-Stall Tradesmen's Cooperative Union (Central Headquarters) where after joining, they are presented with two (2) license blanks to fill out. These blanks are then sent to the local police station where the stamp of approval is given by the Chief. (This procedure makes joining compulsory and saves the police the task of handling the paper work). It is not possible to procure a license through other means. Application and license blanks are kept at the Cooperative Branch office only.

(2) Assignment of Stalls: The stalls are assigned by the Branch office of the Central Headquarters. The area covered by the Branch office usually conforms to the area covered by the local police station.

(3) Police Relationship: The privilege of issuing the licenses is condoned by the police who also assign the areas that are to be utilized by the Tekiya.

2. Regulations Governing:

(1) Prior to the war there were no Ordinances or regulations governing street stalls.

(2) On 28 September 1946, the Metropolitan Police Board of Tokyo-To issued an order stipulating the regulation of street stalls by the district police chiefs, and is as follows:

"M.P.B. ORDINANCE NO. 10

"Stall-keeper control regulation, Article 1. In this regulation, the stall-keeper business means the business in which persons engage in work of selling, repairing or processing articles (including food and drink) at places the public people easy to pass through. The street-stalls can not be placed outside the quarter designated by Chief of Police Station.

"Article 3. Those who desire to commence business of street stall must be authorized by the chief of police station concerned (hereafter it is called the competent chief of police station) under whose jurisdiction the stall is set up in business. (In case of mobile stall, the permission must be obtained by the chief of police station under who jurisdiction the living houses of stall keepers locate.

"They are not admitted to ask for permission to open business at more than two designated quarters for standing street stall.

"Article 4. The street stalls are divided into two kinds, that is the standing street stalls and the mobile street stalls and one person (including family) can not open for two business at one time.

"Article 5. The standing stall keeper cannot open for business outside the quarter designated for the standing stalls. However, in case there is much room to open business at the quarter designated for the standing street stalls and any permission is obtained from the chief of the competent police the rule is not applicable.

'Article 7. No person other than those and their families who got permission can engage in business.

'Article 8. The following items must be observed while on business:

1. It is required to keep a membership certificate for guild and besides it is required to hand a shop sign which states address, name, shop name and authorized number on the shop front.

2. It is required not to deal with the controlled goods for distribution.

3. It is required to indicate the selling prices.

4. It is required to observe the controlling prices if there is any.

5. It is required to observe the items indicated by the Superintendent General and the Chief of competent police station.

'Article 9. The chief of police station if necessary from viewpoint of controlling can limit the kinds of goods and restrict the selling of them or make the stallers suspend business for a definite period or rescind the permission.

'Article 10. In case any person who got permission for business went out of business or died, it is required that the fact should be reported to the Chief of competent police station by the person questioned or his family.

'Article 11. Any person who engages in business must organize a guild and be under the control of the guild.

'Article 12. It is required to lay down a rule and get the permission of Superintendent General in case the guild is organized. The same is said in case the rule is to be changed. The following items must be fixed in accordance with the guild rule.

1. The method of selecting officers, term of office and power.

2. Items concerning income and outgo of expenses.

3. Items concerning the setting up of branch office.

4. How to dispose of the violators.

"Article 13. The guild can not impose burden on the member beside expenses regulated by the rule. However, in case the guild is going to impose rent, electric fee or fee for using facilities or other special burden, the permission of chief of competent police station is required.

"Article 14. The growth of any kind of power at the designated quarter is not recognized entirely.

"Article 15. In case it is necessary from viewpoint of controlling, the change of guild rule or the re-election of officers may be made.

"Supplementary rule.

"This rule is put into force from the day of promulgation. The No. II Provisional street stall business control regulation issued by the MPB in February 1946 is abolished.

"Those who are engaging in business at present and who got permission of the chief of police station at the time of the promulgation of this rule are admitted the continuance of validity until October 31, 1946.

"M.P.B. ORDINANCE NO. 18

"A part of regulation concerning the controlling of stall keeper business which is issued by the MPB in September 1946 and the issuance number of which is No. 19 shall be revised as follows and put into force on and from January 1, 1947.

December 24, 1946
Superintendent General
Mikio Sumiki

"Article 7. No other person can engage in business than those who are authorized."

(3) In January 1945 an order was issued by the MPB to district police chiefs that independent stall vendors, unions or associations would have to join a central organization covering all of Tokyo-To;

(4) Reasons given for this order were that by centralizing control over all stall keepers, the police, through the medium of the organization, would have better control over black-market activities, control of price levels, and would eliminate sectional strife and friction between independent Oyabuns and unions. For example: the Ginza Cooperative Honest Businessmen's Association, an independent Oyabun free-stallkeepers association, was compelled to join the Central Organization against protest. This order was issued by the Economic Section, MPB, more than a year ago.

g. Taxation:

(1) Authority to Collect: Relative to the authority of the Tekiya Organization to collect taxes in the Name of the Japanese Government, Tokyo-To Finance Regulation #1, issued 15 March 1943, states that associations which are authorized by the Governor can collect taxes and shall receive a commission of 2 percent.

(2) Government Tax: The 2-3 Yen which is collected daily from the stalls as tax for the Government, is turned over to the Central Headquarters which in turn, pays the Government once a year in a lump sum. This year the tax amounted to three million (¥3,000,000) yen. In the early part of May of this year, the Central Headquarters was asked to raise the amount to six million (¥6,000,000) yen. No Government employee or official assists in this collection.

h. Accountability of Funds and Audit of Books: The Tekiya Organization accounts to no one for its funds except to its own heads. Likewise, no audit of this organization's books is made by either the Municipal, Prefectural or the National Government.

i. Amount of Taxes and Fees Collected: The annual income of all street-stall associations in the Tokyo area can be estimated at approximately sixty-million Yen (¥60,000,000).

5. Influence.

a. Social:

(1) Public Opinion: Public opinion is definitely against this system, but it has had no recourse up to the present time because of the fear of bodily harm or violence by the Kobuns or 'henchmen' of the Oyabuns.

The following letter submitted to the Allied Occupation Forces by a Japanese citizen is a typical example of what the average Japanese citizen thinks, knows and would be willing to say or write if he did not fear some sort of a reprisal.

"Railway Dormitory
Funakoshi-cho, Aki-gun,
Hiroshima Prefecture
24 May 1947

"To: Section in charge of Public Peace
General Headquarters for Allied Forces

"Subject: "Yakuza" or Rightist Vagrant Groups.

"You have already been acquainted with the recent press, I understand, that the chief of Police Department of Gaoka Prefecture was threatened with life or death, be it true or not, because he was responsible for exercising a strict control on a black market.

"In this connection, I would like to call your attention to the fact that "Yakuza" or Rightist Vagrant Groups are still playing an important role against a wholesome progress of Japanese Democracy and peace of general public, the groups being decisively detrimental as, or rather more so that, the old "Tonari-Gumi" system might have been to democratization of Japan.

" 'Yakuza' is originally a gamblers' group, whose existence has become markedly noted since the latter part of Tokugawa Era. For instance, the names of Jirocho Shimizu, Chuji Kunisada, etc. have often been treated in popular stories or cinema as heroes who, according to folk legends, assisted the weak and poor against the strong oppressor. Although idealized in the legend, they were in fact vagrants who usually lived on gambling and blackmailing, organizing a group under a boss who had a respective sphere of influence or "nawa-bari."

"In the present days they have control over busy quarters of cities and towns, where any street vender who wants to have his stall on the roadside or anyone who wants to run a restaurant, bar, cabaret or the like which is usually called "Mizu Shobai" (Gay Trade) in Japanese is required to obtain their understanding or approval by way of commission or "Teramon" paid.

"They have their influence penetrated into the political world, too. At one time a certain prefectural assembly was completely succumbed under their influence by threat of, for instance "Kokusui Kai" (National Party). Groups representative of this kind besides "Kokusui Kai" were "Kokuryu Kai" (Black Dragon Party) of Mr. Mitsuru Toyama, which were dissolved by order of GHQ sometime ago.

"However, their influence has not subsided by mere dissolution of these parties, for smaller parties hidden from the public eyes are still in existence everywhere in Japan, behind the systematic black market, behind local political transactions, ever threatening peaceful life or activities of good citizens. Police officers have become powerless before them, and tax officers are forced to modify their righteous tax program or often bribed helplessly by threat under the pressure of such influence. These are no exaggeration in the present day of Japan. The question of the chief of Police Department of Osaka Prefecture mentioned above in the first paragraph is but one example of many such instances, where, in most cases, resistance to such an influence is proved to be futile.

"If you once study the subject matter carefully, you will find how deeply they are rooted in the social system of Japanese life, how they are combined with the fascist element of the political power, and how stubborn and extensive their influence is. It is utterly impossible to expect for the Japanese authorities to remedy it under such situations, and yet there will be no true Democracy for Japanese without eliminating that influence.

"In order to establish peace-loving Japan in its real sense, therefore, I would like to entreat here on behalf of Japanese people that the GHQ purge directive be extended to such groups as mentioned above, strictly punishing and removing those who try to establish such influence, although it will accompany much difficulty in defining the groups as they are mostly private or secret ones unlike "Kokurya Kai" and "Genyosha."

Yours respectfully,

/s/ Takayuki Yokoro"

b. Persons Involved; For the greater part, approximately forty percent (40%) of the organization's members have police records and are either ex-convicts, or pimps, and to a measure, ex-soldiers.

c. Property Infringement; Another main objection to the Tekiya Oyabun System has been their illegal possession of property without due process of law. A typical example of this is the Ozu-gumi case, which is presently being tried in both the Civil and Criminal Courts of Tokyo-To. In August 1945, the Ozu-gumi illegally obtained possession of a market lot at Shinjuku District and built shops and open-air markets on the lot. This action was challenged by the rightful owners, but to no avail due to the mishandling of the case by authorities. The case has been held in abeyance since the above date. This is only one case of many in Japan. In Osaka and Kobe the illegal possession of property was effectively handled by the police with the aid of the local Military Government Unit. Full possession of property was returned to the rightful owners within a short period of time. In Osaka this was accomplished by a Military Government order to the Governor. In Kobe, the Military Government ordered the police department to establish an Illegal Seizure Bureau to handle all complaints and then inserted an article in the local newspaper directing all complaints to this special bureau. A time limit was set for all offenders to vacate.

c. Economic;

(1) The Tekiya System;

(a) Controls blackmarket activities;

(b) Controls the price of everyday commodities;

(c) Controls the flow of goods through regular channels;

(d) Controls the opening and operation of private enterprises;

(e) Performs local government functions;

1. Issuance of licenses,

2. Collection of taxes.

(f) Establishes shops and buildings on private property without the consent and permission of the lawful owners.

e. Political;

(1) Voting. The Tekiya System has definite control of voting power and influence over other voters, by the mere fact of its huge membership.

(2) Ambitions. The political ambitions of one of Tokyo's outstanding Tekiya leaders was recently brought to light when KINOSUKE OZU, age 51, previously mentioned, was a candidate for the Diet on a Liberal Party ticket, and was defeated only by a very small margin. Previously, Ozu was rejected by other political parties because of his evil reputation and character. It is rumored that Ozu has contributed large sums of money to support of the Liberal Party. It is also rumored that Ozu bought votes during his recent campaign for election but there is no evidence to substantiate this at the present time.

IV. TEKIYA INVESTIGATION AT OSAKA, KYOTO AND KOBE.

1. Osaka Tekiya Organization.

a. The strength of the Tekiya Oyabun Organization in Osaka consists of fifteen (15) Oyabuns and five hundred and twenty-nine (529) Kobuns. As a result of effective control, the influence of the Tekiya Organization has been greatly diminished. There are only approximately one hundred (100) road stalls left in Osaka. These are controlled by a Merchants Association and no difficulties have arisen with this organization.