

CONFIDENTIAL

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public relations program described above.

In addition to these long-run incentives inherent in a program for a self-supporting economy, there are a number of incentives that could be offered to the Japanese people this year and be made an important part of a public relations program. These incentives, it is believed, could be offered without interfering with the fiscal policies of the economic stabilization program.

First, it would be possible to release to the Japanese people or certain sectors of the economy, as incentive goods, perhaps 200 million out of the 260 million yards of unsold cotton fabric in stock. This stockpile has been in existence for about two years and the chances of selling these fabrics are poor inasmuch as they were manufactured early in the occupation without sufficient regard to postwar market requirements. SCAP has estimated that cotton textile consumption alone will be about 1.6 pounds per capita in fiscal year 1949; the release of an additional 200 million yards would represent a 50 percent increase in cotton consumption. In addition, there are unusually large unsold stocks of such cotton goods as singlets, socks, and shirts that could be released to the Japanese people as incentive goods.

Second, it would be possible to institute somewhat larger tax exemptions for low income wage earners, most of whom are in the group whose taxes are withheld at the source. These tax reductions could soon be more than offset if enforcement of the tax laws affecting the self-assessed groups were improved.

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Third, there appears to be no conflict between a flexible wage policy administered under careful SCAP scrutiny and the stabilization program. The stabilization program might profit from the correction of certain wage inequities that exist today, and such corrections would dispell the misapprehensions held by Japanese workers that the stabilization program has "frozen" their wages permanently.

Fourth, any significant increase in unemployment during 1949 and 1950 could be met with a positive course of action on the part of the Japanese Government in the form of expanded unemployment compensation and public works programs within the framework of the present balanced budget. Even if unemployment should not increase, the Japanese people would undoubtedly react favorably to the announcement that plans are being made for such an eventuality. There would appear to be three possible ways by which these programs could be expanded without upsetting the present balanced budget, although insufficient data are available in Washington to permit a definitive appraisal of the magnitude of costs and results to be anticipated.

1. Occupation costs, which represent 125 billion yen in the 1949-50 budget, might well be reduced even before these programs are expanded. Economies on the part of SCAP could reduce these costs somewhat. Any further reduction in the occupation costs borne by the Japanese -- unless such costs were assumed by the US and paid for out of appropriated funds, a prospect that seems remote in view of the present status of the Department of Army's budget for 1950 -- could come about only from a reduction in the size of the occupation. This is a fundamental problem that cannot be appraised fully in this paper but would appear to be worthy of further study in Washington and Tokyo.
2. It is conceivable that a small part of the counterpart fund might be profitably used for certain public works programs. There are many worth-while public works projects, such as highway construction and reforestation, that could be initiated in Japan without significant capital expenditures. At present, however, not enough is known about how the counterpart fund will be used --

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other than for its announced basic purpose of counteracting inflation -- to do more than suggest the possibility of using a part of the fund for the purpose of combating unemployment.

3. The termination of reparations removals from Japan would appear to release for other purposes the unutilized portion of the 2.7 billion yen appropriated for that program in the 1949-50 budget. It is reported that somewhat over 2 billion yen remain unexpended.

CONFIDENTIAL

STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

DIVISION OF
NORTHEAST ASIAN AFFAIRS

DATE June 28, 1940

JUN 28 1949

DEPARTMENT OF STATE

TO : NA

FROM : FE - Mr. Butterworth

SUBJECT: Letter from Admiral T. Toyoda

acknowledgment dispatched

Would you draft an acknowledgment for the attached and return it to me as I have not yet had a chance to read the enclosure to Mr. Grew's letter.

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Self
Bureau of
FAR EASTERN AFFAIRS
AUG 19 1952
ASSISTANT SECRETARY
Department of State

FE:WWButterworth:mw

FW 89450/6-1549

JOSEPH C. GREW

OFFICE OF
FAR EASTERN AFFAIRS
JUN 20 1949
DIRECTOR
DEPARTMENT OF STATE

MANCHESTER
MASSACHUSETTS

June 15, 1949

Deft
Bureau of
FAR EASTERN AFFAIRS
AUG 19 1952
ASSISTANT SECRETARY
Department of State

This document must be returned to
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Central
MAIL ROOM
894.50/6-1549

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Dear Walt:

The enclosed letter from Admiral T. Toyoda, formerly Japanese Minister for Foreign Affairs, and its enclosure may interest you. As Toyoda, whom I knew very well, has been purged, I suppose that his letter should be handled discreetly.

Best regards,

Sincerely yours,

Joseph C. Grew

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

Enclosures: Letter from Admiral T. Toyoda to Mr. Grew
May 31, 1949.
Copy Resume of Private Opinion, May 2, 1949.
(excerpt)

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E.O. 11652, Sec. 3(E) and 5(D) or (F)
NND 760175
By *[initials]* NARS, Date 6/30/77

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CS 1549

COPY

May 2, 1949

RESUME OF PRIVATE OPINION

.....The sending of Mr. Dodge to Japan is aimed at stabilizing the Japanese economy and alleviating the burden of the American Tax payers. In order to achieve his aim, boosting of industry, particularly increase of export is of imperative necessity. To gain this goal, however, it goes without saying that the enforcement of the Dodge budget only is not sufficient and it is extremely important that the following measures should be undertaken:

- 1) A firm attitude towards Communist movements.
- 2) Tighting of the Labor Standard Law.
- 3) Adjustment of excessive laborers already existing and those to be expected by the Enterprise Reorganization and Reconstruction Plan.
- 4) Un-Employment measures.
- 5) Food problems and expansion of fishing districts.
- 6) Ship building and chartering of ships to increase revenues from invisible trade. (approximately 20% of foreign trade is wasted for freight charges.)
- 7) Release of Reparation problems.
- 8) Authorization of Over-sea detachments of diplomats and civilians.
- 9) Lifting of the purge, particularly for those formally engaged in industry and foreign trade.
- 10) The invitation to Japan of an influential, industrial adviser and a capable adviser, well informed of industrial and economical problems, possessing consolidated political power (this may be made on the burden of Japanese government).

Of the above, the items of critical importance and which must be realized are:

- 1) A stern attitude towards Communist movement and Labor movement.
- 2) The invitation of an adviser possessing consolidated political power and the influential industrial power.
- 3) Food Problem.

It is only when the above three are undertaken in parallel to implementation of Dodge's draft budget, which tackles the matter from financial view point, that the object of U. S. A., the self-support of Japanese economy in the near future can be expected. However, should the implementation of the Dodge budget only be enforced, neglecting other measures, there is great possibility of the program ending in failure and fear of leading Japan into a further chaotic state.

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Although there seems to be some people in the American government, who underestimate the rapid development of Communist movement in Japan and its results, the activity of the Communists is increasing every day. It is no exaggeration to say that those who enjoy the freedom of speech and action today are the Communists. The National Government in China, the country which is most intimately related to our country, is being pushed into the Kwangtung and the Formosan districts, and the dominance of the Communist party in China over a greater part of China is a matter of course. Nothing definitely can be said yet about the future of Japan. However, should the Dodge program end in failure unfortunately, it can be expected that there will be a great confusion of thoughts and with the Japanese manifesting their weak points, Japan will turn Red. Thus unless the prompt, firm and thorough aid from America is extended, there is every fear that Japan will fall into the same fate as China.

The Far Eastern countries are fearing the rehabilitation of Japan. But Japan, which has no resources, is completely powerless, and the fate of Japan is in the hands of others, should the supply of resources be cut. Japan's strong point is her strategically important location and her industrial capacity. Only by effectively and adequately utilizing the above advantages, do I firmly believe that Japan could become the barricade for Communist movements in the Far East, which is being expected from U. S. A., and become the supplier of manufactured goods in the Far East, that is to say, to undertake the important role of acting as a stabilizing factor of peoples of the Far East.

The End



473, 1 chome, Shimo-ochiai,
Shinjuku-ku, Tokyo, Japan.
May 31, 1949.

My dear Mr. Grew:

I received your letter dated April 18 on the 24th of the same month. "Ten years in Japan" has, as expected, proved to be one of last year's best sellers. How widely your book was read by the Japanese of all classes is shown by the fact that it ranked 4th in the number of issues. The book that ranked first was, if my memory is correct, an article written by Dr. Nagai regarding his experience of receiving an atom bomb in Nagasaki.

Although I deeply regret your retirement from the diplomatic service, I sincerely feel grateful to hear directly from you that you are still having various responsibilities and duties and are leading a busy life, particularly to hear that one of the most important jobs you are undertaking at present is to provide a constant and a practical solution for the various problems that Japan is currently facing. Moreover, the efforts you are extending by exchanging opinions with various circles and by so doing deepening the understanding towards Japan is a matter which all the Japanese are feeling grateful for. It is my desire to have your activities known by all your old friends in Japan and to have them join in in toasting for the health of the "best friend of Japan".

Contrary to the position you are enjoying, I have been purged and, regrettable as it may be, I am leading a quite life, a life which they call in Japan farming when fine and reading when raining, as described in my last letter. However, I have occasional chances to meet Mr. Sebald and I herein enclose a resume of the talk with him on the day before his recent return to the States for your personal perusal. I have presented my private opinion in the most frank manner in view of the extremely difficult position which Japan is now placed. Things, I fear, are turning out be as I had expected. As described in the "Bulwark of Asia", the last book written by the late Mr. Vaughn, the general Manager of U.P. in Asia, who unfortunately died through an accident on Jan. 30 this year, current Japan is quite different from the Japan of several years ago, while the Japanese themselves have changed completely-----a fact which I think you are one of those to be most surprised. The Japanese, at present, have lost all hope for the future and have no definite idea of their own. I regretfully have to admit that this trend is stronger amongst the youth. There is no doubt that the overwhelming majority of the Japanese are and will be the most faithful ally of America, and in this respect I can not agree with Mr. Owen Latimore's article "Japan is nobody's ally" published in the April edition of the magazine "The Atlantic". Nevertheless, should mistaken measures and methods be taken towards Japan, no one can guarantee that Japan will not be swept into unexpected directions, because after all nearly eighty million Japanese are confined to four small islands with inadequate food, while on the other hand, communism is infiltrating into China, our neighbor, and other countries in the Far East. Should there be

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a general election in the near future, it is generally agreed that the communist will gain at least a hundred seats. Although Japan is ardently desirous of maintaining peace and neutrality in all times, I do not hesitate in saying that her geographical situation in Asia makes such an absolute impossibility. She will no doubt either have to lean towards America or Russia.

As noted in my resume, I sincerely desire the dispatchment of an influential and broad viewed person having experience in handling industrial and financial problems and who possesses a coordinated and a wide range of political knowledge to be an adviser of the Japanese Government together with his attendants. A great number of experts have been dispatched to Japan hitherto. The opinions and recommendations from such experts certainly suited the individual problems covered within their respective fields, particularly up to the end of 1945 when America was intending to treat Japan in accordance with the lines of the Potsdam Declaration. However, I feel they have become unsuitable since the change in the American policy in 1946. Unless a coordinated adjustment is made, taking into account the influence to be extended in other circles by such opinions and recommendations, it is rather doubtful whether the results of such recommendations were of great value from a view point of the Japanese rehabilitation.

Considering my purged position I think I have gone a little too far. Although the relation between Japan and America resulted in the most regrettable and unfortunate consequence due to the inability on my part, I am still sincerely desiring to see the recovered and further improved relationship between the two countries and the conclusion of an agreement desirable to our mutual interests. I have written this letter motivated by such feelings as the above which I hope you will understand.

Please send my best regards to Mrs. Grew.

Sincerely yours,

T. Toyoda

Grew

W. W. B.
Bureau of
FAR EASTERN AFFAIRS
AUG 19 1952
ASSISTANT SECRETARY
Department of State

June 29, 1949

Dear Joe:

Thank you for your letter of June 15 with its interesting enclosures. You may be sure that in any use of the material we shall be careful to protect Admiral Toyoda as the source.

With warm regards.

Faithfully yours,

W. Walton Butterworth

FEW 874.50/6-1547

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The Honorable
Joseph C. Grew,
Manchester, Massachusetts.

FE:NA:MWBishop/pm

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Burroughs



BURROUGHS ADDING MACHINE COMPANY • DETROIT 32, MICHIGAN

EXPORT DEPARTMENT

June 17, 1949

Mr. Orville J. McDiarmid,
Acting Associate Chief,
Division of Financial Affairs,
Department of State,
Washington, D. C.

Division of Financial Affairs
Letter drafted by Ogm
JUN 20 1949 6/21/49
DEPARTMENT OF STATE

Dear Mr. McDiarmid:

Joseph M. Dodge

see 894.50/12-1448
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I would be grateful if you would inform me whether the recent Dodge Mission to Japan has or intends to publish a report on their recommendations, and if so when it will be available.

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Yours very truly,

894.51A

Edward Littlejohn

Edward Littlejohn

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JUN 23 1949

In reply refer to
FN

My dear Mr. Littlejohn:

Reference is made to your letter of June 17, 1949 inquiring whether the recent Dodge Mission to Japan has or intends to publish a report on their recommendations.

The Dodge Mission does not contemplate publishing a comprehensive report of the character you probably have in mind. As you may know, Mr. Dodge went to Japan as financial adviser to General MacArthur primarily for the purpose of making recommendations respecting the implementation of the stabilization program in Japan which General MacArthur had issued to the Japanese Government on December 17, 1948. Inasmuch as the purpose of the Dodge Mission was primarily that of implementation of established policy rather than to make an economic survey of the Japanese economy, the work of the Mission did not lend itself to presentation in a formal published report. While in Japan Mr. Dodge issued certain press releases summarizing the measures which he considered essential for the successful execution of the stabilization program. I regret that I do not have copies of these releases available here but they may be obtained from General Headquarters, Supreme Commander of the Allied Powers in Tokyo. If you have any specific questions you would care to raise regarding the stabilization program in Japan or other financial and economic matters relating to the occupation, I would be pleased to endeavor to obtain the desired information for you.

Sincerely yours,

o j m
Orville J. McDiarmid
Associate Chief
Division of Financial Affairs

Mr. Edward Littlejohn,
Burroughs Adding Machine Company,
Detroit 32, Michigan.

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6/21/49

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JUN 23 1949 P.M.

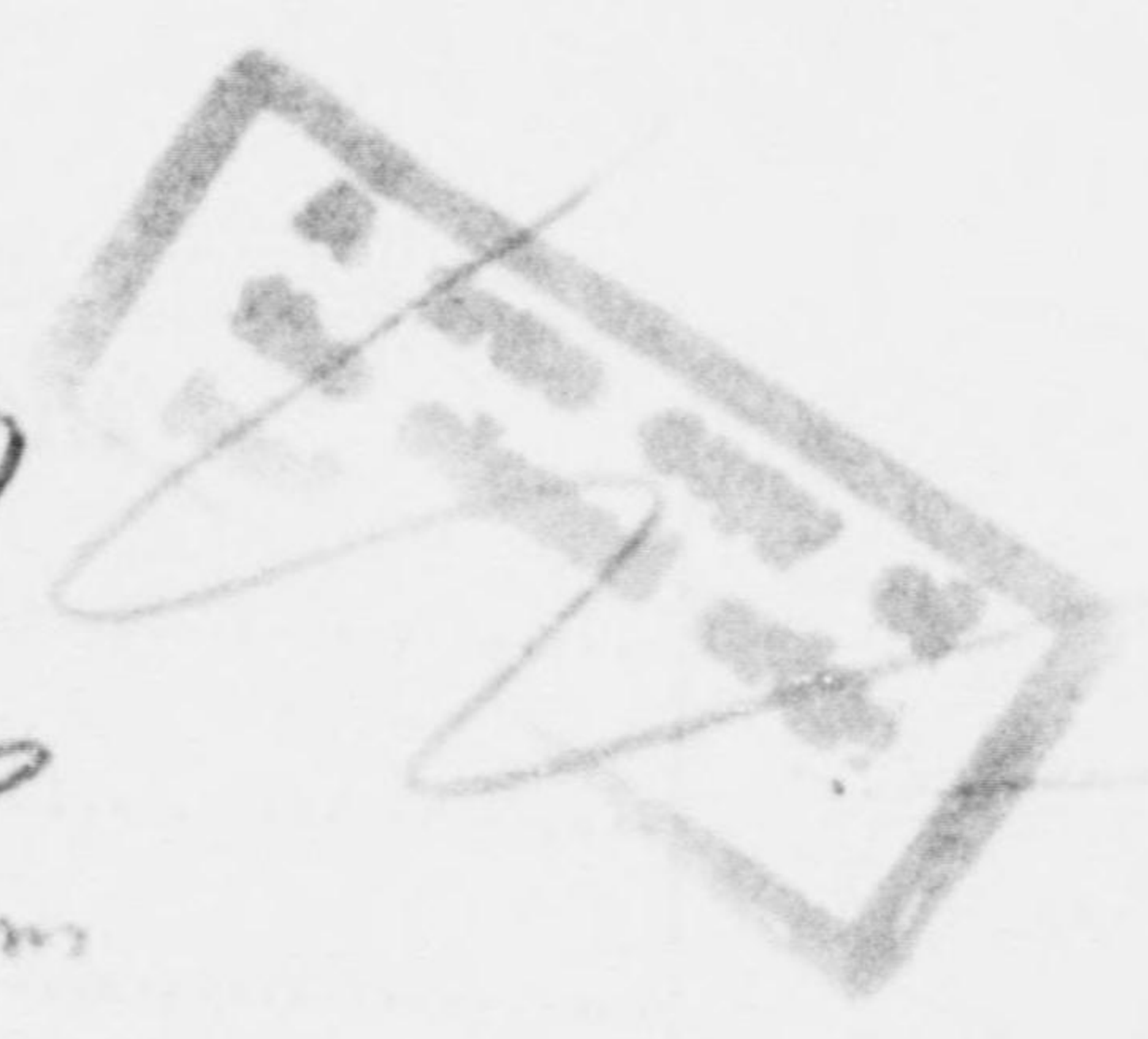
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INCOMING AIRGRAM

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS

DIVISION OF
NORTHEAST ASIAN AFFAIRS

TELEGRAPH BRANCH

Office of
FAR EASTERN AFFAIRS
JUN 28 1949
DEPUTY DIRECTOR
Department of State

Action Assigned to *NA*

JUN 28 1949

Action Taken -----

DEPARTMENT OF STATE

No action

AIRGRAM

5030

Date of Action *June 30, 49*

FROM:

USPOLAD, Tokyo.

Action Office Symbol *NA*

Date of

mailing:

June 28, 1949.

~~CONFIDENTIAL~~
Name of Officer *Wt*

Direction to DC/R *file*

Rec'd:

June 27, 1949 3:11 p.m.

FOR DEPARTMENT USE ONLY

Secretary of State,

Washington.

A-153, June 17, 1949.

(This airgram supplements this Mission's A-145, June 10, 1949, and earlier airgrams in this series. Request distribution be limited to Department for reasons stated in A-21 of January 28, 1949.)

1. William Hunt and Company Closed Office. In Tokyo, as in other cities of Far East such as Shanghai, Hong Kong, Manila, and Bangkok, office of William Hunt and Company, American export house with head office in New York, closed its doors on May 31, 1949. According to statements made to officer of this Mission by Mr. John E. CREIGHTON, President of Company and formerly in charge of its office in Nanking, Hunt decided that Company could no longer afford to maintain at high cost offices in Far East, as well as in Washington, at time when business prospects became increasingly unfavorable. Creighton stated that operating costs for Company at home and abroad during past several years met almost entirely with profits realized in China for Security Banknote Company account, which account, it may be recalled, proved most lucrative to Mr. Martin GOLD during 1942-45 when he represented that concern at Chungking. Gold reportedly in 1945 or 1946 paid about \$3,000,000 for controlling interest in William Hunt and Company but details of deal between Gold and Hunt not known. Creighton stated that Gold, who now resides in Hong Kong, will probably retain Security Banknote Company account in expectation of getting more business from China.

2. Complaint on Japanese Gloves and Mittens. Reference made to this Mission's despatch no. 359, June 4, 1949, "Complaint by Association of Knitted Glove and Mittens Manufacturers Against Japanese Imports."

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Tokyo A-153,
June 17, 1949.

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Purposely omitted was statement made to writer of despatch by Mr. R. D. CLEAVES, Chief, Textiles Division, Economic and Scientific Section (ESS), that prospects for sale of Japanese gloves and mittens to US have become unfavorable owing to establishment April 25, 1949, of Yen 260 to US\$1.00 single exchange rate and abolition of double subsidies formerly given to these products. Previously, glove manufacturers were supplied wool yarn at artificially low rate of about Yen 120 or Yen 150 to the dollar, and assisted in making export at high export ratio of more than Yen 500 to the dollar. Owing to past and present disputes with US Customs regarding such subsidies for Japanese exports, Cleaves most anxious this matter be kept secret. Believed, however, that Department will appreciate having this information as trump card in connection with Association's complaint. In short, abolition of double subsidies best assurance that Japanese will be forced to increase substantially their prices for gloves and mittens offered for export to US.

3. Comment on Action against Shipping Conferences. Reference made to this Mission's despatch no. 383, June 14, 1949, "Operations of Foreign Ocean Freight Shipping Conferences under Investigation in Japan." Herewith some sidelights which could not appropriately be given in subject despatch with only RESTRICTED classification. Appears quite certain that observations made by Mr. Bruce ATCHISON, American lawyer at Tokyo retained by Far Eastern Freight Conference, to effect that action against Conference spearheaded by Anti-Trust and Cartels Division, ESS, without prior consultation with Major General W. F. MARQUAT, Chief, ESS, or with Colonel A. A. MILLER, Chief, Transportation Section, are correct. At any rate, when interviewed on subject by Mr. Carl GABRIELSON, Vice President of American President Lines, General Marquat reportedly stated he knew nothing of summons issued April 16, 1949, by Fair Trade Commission or part played by ESS Anti-Trust and Cartels Division to induce that Commission to undertake action. General Marquat said to have stated to Gabrielson that he considered action, featured by foreign concerns being brought before Japanese court for matter which prewar considered by Japanese as being normal business practice, ill-advised and untimely. He is quoted as expressing opinion that, since similar case now under litigation in US, it would be reasonable and proper for Japanese to await outcome of action in US. General Marquat reportedly also stated to Gabrielson that he would order Anti-Trust and Cartels Division in future to follow strict "hands-off" policy with respect to pending action by Fair Trade Commission. Meanwhile, Mr. E. C. WELSH, Chief, ESS Anti-Trust and Cartels Division, somewhat bemused at present plight of Mr. D. L. M. MACFARLANE, Local Chairman, Far Eastern Freight Conference, who addressed letter some time ago to Colonel Miller asking

Tokyo's A-153,
June 17, 1949.

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him to do everything possible to have Japanese pass law, "same as in US", to legalize shipping conferences. Welsh pointed out that Macfarlane apparently failed to realize that shipping conferences, including contract system, now under fire in US, and that present Marine Transportation Law, which was rushed through recent session of Diet partly to meet requests by shipping companies and shippers involved in present action, contains similar restrictions as found in US 1916 Shipping Act.

4. Peanuts from North China. Colonel Ralph J. MITCHELL, official in ESS Foreign Trade and Commerce Division who is screening offers for trade between Japan and Communist China, June 17 informed officer of this Mission that Chief of Staff, SCAP, had approved ESS proposal purchase 10,000 tons of peanuts at \$2,155,000 from Wingwall Trading Company, Tientsin, represented locally by Mr. M. K. MA. According to Mitchell, approval given on basis that North China normal source of supply for peanuts for Japanese market, and that funds to go into escrow account to permit General Headquarters to screen items purchased for shipment to Communist China or elsewhere.

5. Private Imports Planned on Limited Scale. July 1, 1949 set as deadline for returning imports of certain limited number of commodities to private importers. Present plan would allow manufacturers who have received allocations of raw materials to select importers, who will in effect act as their agents, to import quantity or volume of materials specified in allocation (allocations will be by quantity or by value depending upon commodity in question). In some instances, competitive bids will be allowed upon commodities for which import programs have been approved by General Headquarters, SCAP. Only very minor part of imports will revert to private hands during July-September 1949 period, according present plans, and imports will not return completely "normal channels for about one year after institution of program. Meanwhile, June 25 set as goal for launching program to permit limited Japanese access to foreign exchange (see this Mission's despatch no. 767 of December 7, 1943), although, with final study still held up in Chief of Staff's office, possible that deadline will not be met. Exchange in question is to be used to finance agencies, commercial representatives abroad, et cetera.

6. Negotiations on Trade with Trizonia. Department of Army reply (WX 89928 of June 11, 1949) to SCAP radio regarding trade with Trizonia, Germany (CX 50200 of May 20, 1949) interpreted as meaning JELC holds to idea of open account trading and is opposed to inclusion of concrete trade plan in proposed Trade Arrangement between Trizonia and Japan.

Tokyo's A-153,
June 17, 1949.

- 4 -

Dr. Robert SIEBURTH, representative of Assistant Secretary of Department of Army, will therefore return to Washington (probably next week) with Trade Arrangement containing little more than pious statement of desires of parties to maximize trade, and Financial Arrangement providing for open account in US dollars with annual settlement as of December 31. SCAP officials, strong supporters of trade plan as aid in programming dollar transfers, disappointed in accomplishments of Sieburth's mission, which accomplishments, it is felt, could have been attained by simple exchange of telegrams. However, Dr. Sieburth has acquired detailed knowledge of Japan's foreign trade program; this information should be of value to Department of Army in connection with government-to-government trade contemplated by reference Department of Army telegram.

7. Conclusion of Trade Talks with Finland. Final approval of Finnish Trade and Financial Arrangements expected here next week. Terms of Arrangements will be forwarded with despatch now under preparation.

8. Effect of Single Exchange Rate on Exports. ESS Research and Programs Division's first monthly analysis of exports since single exchange rate of ¥360-US\$1 made effective indicates that appreciable categories of goods sold before establishment of new rate at ratio higher than 360 continued to be sold during May at new rate, with trend continuing through first half June. This development somewhat reassuring since establishment new rate expected to deal hard blow to most exports formerly sold at higher ratio.

9. Applications for Foreign Investment in Japan. According to General Marquat, Chief, ESS, although SCAP's Foreign Investment Board has considered large number of applications for foreign investments in Japan, there have been only few cases involving any appreciable amounts of dollars.

10. Free Port Considered. During current week an ESS committee considered possibility of establishing a freeport in Japan. One point stressed was possibility of securing foreign exchange in payment for bonded warehousing.

11. Plan to Open Tourist Hotels. ESS has sponsored plan for General Headquarters, SCAP, to attempt to secure alternative housing for Army dependents now billeted in Japanese luxury resort hotels so that these hotels may be made available to tourists and become dollar revenue producers.

12. Concern over Use of American Shipping. ESS concerned over recent telegram from Department of Army stating that all goods purchased

Tokyo's A-153,
June 17, 1949.

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under Public Law 820 must be shipped in American flag vessels. General principle of Headquarters, SCAP, has been to utilize cheapest shipping available for given route. Now pointed out that insistence on use of American bottoms will directly increase need for US appropriated funds.

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Tokyo's A-153,
June 17, 1949.

- 5 -

under Public Law 820 must be shipped in American flag vessels. General principle of Headquarters, SCAP, has been to utilize cheapest shipping available for given route. Now pointed out that insistence on use of American bottoms will directly increase need for US appropriated funds.

HUSTON

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INCOMING AIRGRAM

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

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DIVISION OF
NORTHEAST AIRGRAM AFFAIRS

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Office of
FAN EASTERN AFFAIRS
JUL 5 1949
DEPUTY DIRECTOR
Department of State
USPSLAD, Tokyo

JUL - 5 1949

DEPARTMENT OF STATE

FROM:

Date of mailing: June 25, 1949

Rec'd: Jul 1 1949 11:27 AM

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Action Assigned to *NA*

Action Taken *no action*

Secretary of State,

Washington.

A-163, June 24, 1949.

Date of Action *July 6, 49*

Action Office Symbol *NA*

Name of Officer *NA*

Direction to DC/R *file*

(This airgram supplements this Mission's A-153, June 17, 1949, and earlier airgrams in this series. Request distribution be limited to Department for reasons stated in A-21 of January 28, 1949.)

1. Travel Abroad of Japanese Technicians Delayed. Draft memoranda for Japanese Government and for heads of foreign missions in Japan regarding employment abroad of Japanese technicians (see this Mission's despatch no. 355 of June 1, 1949) rejected by Chief of Staff, General Headquarters, SCAP, who reportedly objected to use of word "technician" and to generous definition thereof. According to Chief of Staff, proposed policy would allow Japanese professor of political science, for instance, to go abroad as "technician" and spread pernicious propaganda regarding Occupation. Although pointed out by G-1 Section that General Headquarters, SCAP, retains power to approve or reject applications for travel abroad and that "technicians" whose activities might prejudice aims of Occupation are specifically barred from employment abroad under provisions of proposed policy, Chief of Staff adamantly insists that memoranda contain specific list of categories of "technicians" who will be permitted to leave Japan. Adoption of liberalized policy on employment of Japanese abroad accordingly somewhat delayed. Meanwhile, ECAFE, from Bangkok, continues to press for early announcement of policy statement; this Mission unable to send other than non-committal replies.

2. Foreign Creditors' Yen Deposit Account to be Established. Civil Property Custodian, General Headquarters, SCAP, has drafted

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Tokyo's A-163,
June 24, 1949.

- 2 -

memorandum for Japanese Government requiring that a "Foreign Creditors' Yen Account" be established in favor of non-resident foreigners and of juridical entities with head offices abroad whose representatives or agents have not filed claims for amounts due them. Account made necessary by claims arising from liquidation of various Japanese companies, including companies with head offices abroad liquidated by order of SCAP (this Mission's despatch no. 65 of February 2, 1949). Contemplated that Japanese Government will disburse funds upon claims of beneficiaries or their agents, or upon orders of General Headquarters. Present Yen Custody Account maintained by Bank of Japan considered unsatisfactory for payment to foreign creditors of liquidated firms because prior SCAP approval required for any payments from that account.

3. Sterling Area Trade Review Begun. Semi-annual review of trade position between SCAP and Sterling Area now under way. Preliminary study of Japan's imports indicates that purchases from Sterling Area have been accelerated since last review (this Mission's despatch no. 256 of April 26, 1949, and telegram no. 130 of April 23, 1949), but question of whether trade will balance to satisfaction of Sterling Area authorities must await study of Japan's exports. Indians especially remain apprehensive over possible adverse effect on their foreign exchange position as result their participation in Japan-Sterling Area trade.

4. Negotiation of New Coal Contract with USSR being Finalized. With reference to this Mission's despatch no. 367 dated June 9, 1949, entitled "Negotiation of New Coal Contract with USSR", it may be noted that negotiations in question now reaching final stage, according to statements made June 24 to officer of this Mission by Colonel Ralph J. MITCHELL, official in ESS Foreign Trade and Commerce Division. Soviet Trade Representative haggling over details but said giving in on all essential points covered in draft contract. Colonel Mitchell stated that contract would very likely be amended to provide for constant check up on quality analyses, and understanding that price for coal of substandard quality would be renegotiated downward promptly.

5. Reject CNAC Application for Traffic Stop in Okinawa. General Headquarters, Far East Command, Tokyo, in telegram dated June 21 advised Department of Army, Washington, that CINCFE had disapproved request made here by Chinese Mission on behalf of Chinese National Aviation

CONFIDENTIAL

Tokyo's A-163,
June 24, 1949.

- 3 -

Corporation (CNAC) for bi-weekly traffic stop at Naha, Okinawa, on their route of Hong Kong-Taiwan-Tokyo and return. Telegram referred to another message dated September 16, 1948, regarding previous CNAC application, stating that there was no military or civil requirement for proposed CNAC traffic stop as adequate service now being provided by American carriers. CINCPAC quoted then as disapproving latest CNAC request because (1) U.S. Air Force facilities not readily available at Naha to support additional civil airline operations; (2) present services provided by American air carriers more than adequate; (3) authorization of additional carriers to generate traffic in Okinawa would be inconsistent with US CAB policy to limit number and frequency of civil carriers according to requirements; and (4) authorization of additional carrier to generate traffic in Okinawa would establish precedent whereby other airlines operating through this area might feel they should be granted same privilege.

6. Country of Origin Requirement to be Amended. ESS has pointed out to the Department of Army that SCAPIN 1535 dated February 20, 1947, requires Japanese Government to ensure that articles prepared for export be marked, stamped, branded or labeled in legible English "Made in Occupied Japan." Telegram states that during past year numerous requests received from buyers to exempt goods from marking provisions in cases where goods destined for country whose domestic legislation does not require indication of country of origin. ESS points out that it would appear reasonable to permit such exemptions from marking on exports for which buyer will certify that goods destined for such countries and that buyer does not desire such marking. ESS recommends revision SCAPIN 1535 accordingly, adding that unless contrary advice received from Washington prior to June 30, 1949, proposed revision will be accomplished here.

7. Technical Information for USSR. Under date March 26, 1949, Mr. N. RYNDITCH, Technical Representative of USSR Government, Tokyo, requested Scientific and Technical Division, ESS, to supply (1) complete technical data and working drawings of best and most modern types of Japanese steel tuna clippers, and (2) complete technical data and descriptions of processes and methods of chemical preservation of fishing nets, including drawings of a plant, lists of chemicals and other materials used. Under date June 23, 1949, ESS Division concerned forwarded material requested by Mr. Rynditch.

8. SCAP-Belgian Trade Arrangement. Controversy over SCAP-Belgian Monetary Area Financial Arrangement (see item 5, A-145, June 10, 1949)

CONFIDENTIAL

Tokyo's A-163,
June 24, 1949.

- 4 -

still not settled, with Chief of Staff, General Headquarters, SCAP, having raised detailed questions which were basic to negotiations commenced last February. He has also expressed desire for agreement on formal lists of commodities to be exchanged, omission of which previously conceded by ESS officials to Belgian negotiators.

9. Trade with North China continues to be important subject of discussion in ESS Foreign Trade and Commerce Division (see item 4, A-153, June 17, 1949). Although number of deals under consideration, as of June 24 no contracts involving trade between North China and Japan had been signed.

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DMM/CHE/EGS:lee

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STANDARD FORM NO. 64

SECRET

Office Memorandum • UNITED STATES GOVERNMENT

RM/R.

DATE: July 1, 1949

This Document Must Be Returned to
RM/R
Central
Files

894.50/7-149

TO : FE - Mr. Butterworth

FROM : NA - Mr. Bishop *MB*

SUBJECT: Discussion on Japan Between the Secretary and Ambassador Franks.

With reference to the attached memorandum of conversation between Mr. Bevin and the Secretary, I attach a *draft* memorandum from you to the Secretary transmitting memoranda on the three subjects--reparations, gold and trade-- mentioned by Mr. Bevin.

The first and third memoranda are attached hereto. I understand that the memorandum on gold is being sent to you by Mr. Knapp.

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SECRETCopy 9 of 10 copiesMEMORANDUM OF CONVERSATION

American Embassy - Paris, France

June 14, 1949

Participants: Mr. Bevin
Mr. Barclay

Mr. Acheson
Ambassador Douglas
Mr. Jessup

Copies to: The Secretary
Mr. Jessup
The Department

Subject: JAPAN

FE (motion)
G, S/P, S/S-R
SEE R.

Mr. Bevin called at my office this morning and discussed the question of Japan. He first asked me what my view was regarding the position we should take if Vishinsky again raises the question of considering the Japanese Peace Treaty in the CFM. I told him that we would strongly oppose this and Bevin said that was very definitely his idea. I agreed to give Mr. Bevin a copy of a memorandum which we had prepared as a basis for a possible comment on this subject.

Bevin then said that there were a number of problems connected with Japan with which they were much concerned. He said there was first the reparations problem. Then there was the question of gold stocks; they had hoped they would get some but apparently we were now claiming all for the cost of occupation. Thirdly, there was the question of trade. In general, they would like a little clearer understanding of what we really wanted. He said that he would ask Sir Oliver Franks to take these matters up with me in Washington. I said that would be the best way since I was not prepared to discuss these matters here in Paris.

Dean Acheson

RCJessup:mtb

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INCOMING AIRGRAM

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH
NORTHEAST ASIAN AFFAIRS

JUL 11 1949

Action Assigned to *NA*

Action Taken *Noted*

Date of Action *July 12/49*

Action Office Symbol *54*

Name of Office *Waller Saw*

FROM: USPOLAD, Tokyo

Direction to DC/R *file*

Date of mailing: July 2, 1949

Rec'd: July 11, 1949, 11:17 am

AIRGRAM
DEPARTMENT OF STATE



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FOR DEPARTMENT USE ONLY

Secretary of State,

Washington.

A-173, July 2, 1949.

(This airgram supplements this Mission's A-163, June 24, 1949, and earlier airgrams in this series. Request distribution be limited to Department for reasons stated in A-21 of January 28, 1949.)

1. Sterling Area Trade Position. Results of Japan-Sterling Area trade review indicate that Japan completed trade period (which ended June 30) with a balance of approximately 8,000,000 pounds sterling, even after deduction of debits accruing under old open accounts. Sterling Area's excessive purchases accounted largely by trade between India and Japan; United Kingdom and Colonies also had unfavorable balance, while Australia and South Africa sold more than they purchased. Funds Control Division, Economic and Scientific Section (ESS), General Headquarter, considers 8,000,000 pounds only a reasonable amount for operating capital, and holds that there is no cause for alarm on either side so long as sterling balances do not increase during succeeding period. Sterling Area representatives, in spite of vociferous insistence on impossibility of risking dollar transfers to Japan (this Mission's telegram no. 130 of April 23, 1949, and despatch no. 256 of April 26, 1949) likewise do not appear overly distressed at situation. It may be noted that SCAP has agreed that, except in case of emergency (devaluation of pound sterling may conceivably be considered such an emergency), immediate conversion of sterling balances will not be required. India has given no official indication of desire to withdraw from Arrangement (this Mission's A-1 of May 13, 1949), in spite of intra-area payments problem created by excessive purchases. Meanwhile, it may be noted that three British officials are expected to arrive in Tokyo on July 18 to negotiate new Trade Arrangement, which is expected to include plans for a marked

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JUL 14 1949

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Tokyo's A-173,
July 2, 1949.

- 2 -

expansion in volume of trade. Other problems for discussion will include position of entrepot trade under Arrangement, and ever-present question of traders' disabilities.

2. Proposed Argentine Arrangement Viewed with Misgivings.

SCAP foreign trade experts have voiced to an officer of this Mission certain doubts regarding probability that recently signed Japan-Argentine Trade Arrangement in its present form (report no. 270 of June 10, 1949, from Embassy, Buenos Aires) will receive approval of Chief of Staff, GHQ, SCAP. Provision requiring free dollars for portion of freight charges payable to Argentine carriers regarded with especial apprehension. Although not likely that much of contemplated trade will be carried in Argentine bottoms, high SCAP officials are suspicious of any proposition that may involve dollar outlays.

3. SOVEXPORTFILM Hopes to Acquire Property in Tokyo. Mr. A. A.

GROMOV, Soviet Trade Representative, and Mr. Nikolai I. AGUSEV, his assistant, on June 30 called on officers this Mission regarding application filed by SOVEXPORTFILM (Soviet Export Film Company) for permission to purchase land in Tokyo on which desired to erect small apartment building for two or three families. Mr. Agusev stated he was presently in charge of SOVEXPORTFILM's operations here; that that concern had been licensed by SCAP to import and distribute Soviet films here; and that balance of some 15 million yen had been accumulated. He said further that SOVEXPORTFILM wished to use about 10 million yen for purchase of land. SCAP's Finance Investment Board now considering proposal. Initial decision involves question whether proposed purchase should be considered as action by foreign government or foreign private investor.

4. MFN Treatment for Japan and Japanese Tariff. In connection with discussions on most-favored-nation treatment for Japanese exports now under way in Brussels, The Hague, and London, Major General W. F. MARQUAT, Chief, ESS, stated to officer this Mission that he did not feel that Chief of Staff, GHQ, SCAP, would be prepared to make any "guarantees" on present or future Japanese tariff under the Occupation.

5. Investigation of Far Eastern Freight Conference. Reference made to Department's A-103, June 21, regarding action by Japanese Fair Trade Commission against Far Eastern Freight Conference. Most information desired contained in this Mission's despatch no. 383 of June 14, 1949, entitled "Operations of Foreign Ocean Freight Shipping Conferences under Investigation in Japan." Hearings originally scheduled for May 20 postponed primarily because member companies of Conference stated they needed more time in order obtain views from head offices of companies, practically all in Europe. Hearings thereupon postponed to July 15, but information

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Tokyo's A-173,

July 2, 1949.

- 3 -

obtained July 1 by officer of this Mission from SCAP's Transportation Section indicates preliminary statement from Conference companies now expected to be received by Fair Trade Commission on September 1, with formal hearings likely to commence at end September. These dates by no means final, however. Situation complicated by necessity for promulgation of Marine Transportation Law, which will not go into force until 90 days after promulgation, and also by issuance of Cabinet order containing enforcement regulations for that Law. Transportation Section officials stated they did not know why Law, which was expected to be promulgated on or before June 26, had not yet been promulgated. They added that, so far as they knew, work of drafting enforcement regulations not yet hearing completion. Further information being supplied in second despatch on this subject.

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DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

DEPARTMENT OF STATE INCOMING TELEGRAM

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Action Assigned to NA Control 2245

Action Taken Telegram Rec'd July 7, 1949 11:48 a.m.

to NSPO/AS

Date of Action 7/14/49

FROM : Nanking

Action Office Symbol NA NORTHWEST ASIAN AFFAIRS

TO : Secretary of State

Name of Officer H.H. Mosely

NO : 1455, July 7

Direction to DC/R

JUL - 7 1949

DEPARTMENT OF STATE

CHUNG KUO JIH PAO Nanking June 28 published article entitled "True Picture of US Aid to Japan." Summary translation follows:

xR 894.50 Five year Plan

US imperialists doing more and more to foster revival Japanese Fascist militarism. Examination of funds US imperialists appropriated for aiding revival Japanese plutocrats and outline five-year plan for aiding Japanese Government reveals following:

DEPARTMENT OF STATE JUL 28 1949 DC/L LIAISON OFFICE

(1) US aid included (A) relief fund for occupation area; for fiscal year 1948-1949 expect appropriation US \$387,000,000 for purchase foods and other materials by Japanese Government; (B) Occupation area economic revival funds; for fiscal year 1948-1949, total sum is US \$75,000,000 to be divided along Japan and Southern Korea; (C) revolving fund for purchase of raw material for Jap occupied area; total US \$150,000,000 covers Southern Korea and Ryu Kyus; this fund principally devoted to purchase US cotton; (D) US \$60,000,000 cotton loan, so-called "private loan" which US Army negotiated with US bankers.

(2) Five year plan for reviving Jap economy summarized as follows: by end 1952 Jan production level should read 130 percent of its 1930-1933 level; agricultural production level 105 percent; actual national income 111 percent; imports and exports both 100 percent, labor productivity 90 percent.

In August, Economic Rehabilitation Planning Committee changed the period for carrying out five year plan from 1948-1952 to 1949-1953. According to estimate, this gigantic plan will need 200 to 300 million US dollar revolving fund each year. Execution complete plan requires

at least

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-2- 1455, July 7, from Nanking

at least \$1,630,000 from US.

On surface it appears US imperialists extend loans and formed plan for purpose achieving Japan's economic revival. But to carry out plan, Jap Government already deprived 2,700,000 government employees their right to bargain collectively and strike. Government is ready to pay off approximately 600,000 government employees and increase exploitation of labor. They also form amalgamations within industries. This enables monopolists to pocket everything and put large numbers of medium and small industries into bankruptcy. It is obvious that such measures will bring prosperity to US monopolist controlled-Japanese plutocrats, and unemployment, poverty, hunger to Jap people. To other Asiatic countries this will precipitate dumping of cheap US capital-Japanese made commodities and threat of new invasions.

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SUPREME COMMANDER FOR THE ALLIED POWERS,
TOKYO,

INFO: ARMY CHIEF OF STAFF,

FOR ACTING POLITICAL ADVISER.

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*894.50/7-749
XR 894.50 Five Year Plan*

Nanking's 1455, July 7 repeated for your INFO and

SCAP CI&E SECTION.

(Telegraph Branch: Please repeat Nanking's 1455, July 7,

Control No. 2245.)

re Published article "True Picture of U.S. Aid to Japan"

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(m.u. 31)*

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Corrections made on this original MUST be made on all
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INCOMING AIRGRAM

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

Action Assigned to NAH
Action Taken Noted

DIVISION OF
NORTHEAST ASIAN AFFAIRS
AIRGRAM JUL 14 1949

Office of
Far Eastern Affairs
2158
Department of State

RAF
STWTS
file DC/R

Date of Action July 15/49
~~CONFIDENTIAL~~ Symbol U/E
Name of Officer [Signature]
Direction to DC/R [Signature]

DEPARTMENT OF STATE
FROM: USPOLAD, Tokyo
Date of mailing: July 9, 1949
Rec'd: July 14, 1949 12:32p m

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Secretary of State,
Washington.
A-176, July 8, 1949.

(This airgram supplements this Mission's A-173, July 2, 1949, and earlier airgrams in this series. Request distribution be limited to Department for reasons stated in A-21 of January 28, 1949.)

1. British Discontinue Issuance of Licenses. Citing imbalance of trade revealed by recent Japan-Sterling Area trade review (this Mission's A-173, July 2, 1949), United Kingdom Liaison Mission (UKLM) here has announced that issuance of further licenses for importation of Japanese textiles into United Kingdom and Colonies has been suspended until further notice. In memorandum dated July 1, UKLM pointed out that orders for which payment must be made during succeeding three-month period (for which period Sterling Area Trade Arrangement has been extended by mutual consent) constitute heavy commitments "at a level which His Majesty's Government in the United Kingdom, as one of the participants in the new Trade Arrangement, will not be able to afford next year." Licensing "on an appropriate scale," memorandum continued, will be resumed upon completion of arrangements for new Arrangement.

2. Swiss Offered Little Encouragement for Expanded Trade. Replying to official Swiss expressions of concern over unfavorable balance of trade with Japan (this Mission's A-109, May 6, 1949), Economic and Scientific Section (ESS), General Headquarters, SCAP, has pointed out that, with Japan's acute shortage of foreign exchange, only essentials can be imported, and that, while this condition continues, Switzerland's traditional exports must for most part be considered non-essential here. ESS described self as unable to remedy situation, and invited

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JUL 22 1949

Tokyo's A-176,
July 8, 1949.

- 2 -

Swiss Government to make suggestions. ESS's reply would appear tantamount to telling Swiss that only way to balance trade would be for them to cut down their purchases from Japan.

3. More Exchanges Open but Operations Remain Confused. Opening during past few days of securities exchanges in Kyoto, Kobe, Hiroshima, Fukuoka, and Niigata completes SCAP's immediate plans for putting the Securities and Exchanges Law into operation (this Mission's despatches nos. 324 and 325 of May 20, 1949). Investigations by interested ESS officials indicate, however, that operations are far from smooth and that "bucket-shop" operations persist. Particularly pointed out that delays in reporting stock transactions to clients (attributed by dealers to unfamiliarity with new procedures and to lack of clerical help) give rise to suspicion that dealers are not buying or selling at instant specified by client, but are waiting until close of day's business to formalize transactions at day's high or low. Although widely attributed to new exchange procedures, ESS officials note that confused condition may well be explained by such factors as reported recession in United States, growing labor unrest, and rumors of devaluation of pound sterling.

4. Rerouting of British Airways Considered. United Kingdom Liaison Mission under date June 14, 1949, asked General Headquarters for permission for British Overseas Airways Corporation to route their regularly scheduled air service from Hong Kong to Tokyo via Amoy and thence direct to Kagoshima, Kyushu, and to Tokyo. General Headquarters in memorandum to UKLM dated July 2 stated that Commanding General, Far East Air Forces was conducting study regarding this matter and that UKLM would be advised as soon as study completed.

5. Telegrams Exchanged with Isbrandtsen Company. Reference made to item (5), A-173, July 2, 1949, regarding investigation by Japanese Fair Trade Commission of Far Eastern Freight Conference. Preparation second despatch on this subject being postponed since believed essential points of controversy already reported. However, Department may be interested in telegrams exchanged between Isbrandtsen Company, New York, shipping concern largely responsible for conferences to be subjected to investigation both in United States and in Japan, and General Headquarters, SCAP. Following telegram sent to General MacARTHUR by Isbrandtsen Company received here June 28: "Section 28 Japanese Marine Transportation Bill passed Japanese Diet last session prohibits steamship conference groups use deferred rebate system or similar restrictive exclusive patronage rate practices. Informed conference steamship lines Japan to Red Sea Mediterranean Europe violating this law to detriment our independent American ship operations by use of identical prohibited

CONFIDENTIAL

Tokyo's A-176,
July 8, 1949.

- 3 -

practices. We will appreciate you issue appropriate orders these unlawful monopolistic tactics which contrary Japanese American laws and public interest. Please (advise) action taken." Civil Transportation Section, General Headquarters, July 9 telegraphing following reply which approved July 7 by Chief of Staff: "The following is in reply to your cable of June 27. Whether or not the Far Eastern Freight Conference practices now in effect are in accordance with the Japanese Marine Transportation Law is a question for the Japanese Government to decide. A notice of hearing on this question is scheduled for late September. Interpretations and administration of Japanese law is a responsibility of the Japanese Government and it is the established policy not to interfere in matters which are the responsibility of the Japanese Government."

6. Liberal Sales Policy for Pearls Studied. ESS now investigating possibility adoption more liberalized sales policy for sale of cultured pearls. Heretofore, Department of Army's Central Purchasing Office (CPO) in Tokyo has, in substance, been able to dictate policy sales practices during past four years and is still endeavoring to maintain monopoly on sales of pearls which strictly limited to Occupation personnel. G-4 Section also involved in formulation sales policy because it has in custody large stock of pearls, volume said to be in neighborhood 100,000 strings. Outside sales by CPO in post exchanges practically only other sales permitted are for export; today impossible for tourists, not entitled to buy at post exchanges or Overseas Supply Stores (where pearls are occasionally sold), to purchase pearls in Japan. Japanese pearl producers and dealers believe current practices greatly restrict sale of pearls; obviously they would welcome more liberal sales policy.

7. SCAP Trade Offices Abroad. ESS during past few weeks had held discussions regarding status of SCAP's Trade Office in New York and possibility of opening up additional offices abroad. Mr. P. A. McDERMOTT, ESS Director for Trade and Commerce, of opinion New York office should be sales office whereas ESS Foreign Trade and Commerce Division believes that office can best serve Japan's interests by being trade promotion office. No conclusion reached on that point; meanwhile, thought being given to opening similar offices in India and Pakistan and, in connection with recently concluded Japan-Trizonia agreement, an office in Frankfort.

8. Adoption Private Importing Procedures Delayed. Final details of arrangements for private importing procedures have been delayed and now anticipated several weeks will pass before procedures finalized and foreign exchange control and licensing mechanism set up.

CONFIDENTIAL

Tokyo's A-176,
July 8, 1949.

- 4 -

9. Sentiment in ESS on Sterling Area Trade Arrangement. Preliminary discussions for renewal of Japan-Sterling Area Trade Arrangement have commenced in ESS and, although several officials in executive office of ESS are inclined to be extremely critical of Arrangement, no one has been able thus far to suggest agreement equally as satisfactory, not to mention agreement likely to be considered more satisfactory. Feeling of those in ESS closest to foreign trade situation that, without Sterling Area Arrangement, trade between Japan and that Area during past year would have been appreciably lower. Discussions directed along lines to expand terms of Arrangement along more multilateral lines.

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DMM/CHE/EGS:lee

CONFIDENTIAL

STANDARD FORM NO. 64

CONFIDENTIAL

Office Memorandum • UNITED STATES GOVERNMENT

TO : OEB - Mr. Robert Barnett

DATE: July 14, 1949

FROM : DRF - Cora DuBois *CD*

SUBJECT: Paper on "Public Relations Aspects of the Economic Stabilization Program in Japan"

Herewith 6 copies of the paper you requested on July 13th and a draft memo for Mr. Butterworth to Mr. West.

Enclosure:

As stated above.

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OFD - Mr. Robert Barnett

July 14, 1949

DRF - Cora DuBois

Paper on "Public Relations Aspects of the Economic Stabilization Program
in Japan"

Herewith 6 copies of the paper you requested on July 13th
and a draft memo for Mr. Butterworth to Mr. West.

Enclosure:

As stated above.

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STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

TO : Mr. Robert West, Deputy Assistant Secretary of the Army
FROM : W. W. Butterworth, Department of State, Office of Far Eastern Affairs
SUBJECT: Attached Paper on "Public Relations Aspects of the Economic Stabilization Program in Japan"

DATE: July 14, 1949

Attached is an informal paper prepared at the request of OFD. It is in no way to be construed as policy recommendations but there may be some suggestions of interest to you or to certain officers in SCAP.

Enclosure:

As stated above.

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Mr. Robert West, Deputy Assistant
Secretary of the Army
W. W. Butterworth, Department of State,
Office of Far Eastern Affairs
Attached Paper on "Public Relations Aspects
of the Economic Stabilization Program in Japan"

July 14, 1949

Attached is an informal paper prepared at the request of OFD.
It is in no way to be construed as policy recommendations but there
may be some suggestions of interest to you or to certain officers
in SCAP.

Enclosure:

As stated above.

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DRAFT

Mr. Robert West, Deputy Assistant
Secretary of the Army
W. W. Butterworth, Department of State,
Office of Far Eastern Affairs
Attached Paper on "Public Relations Aspects
of the Economic Stabilization Program in Japan"

July 14, 1949

Attached is an informal paper prepared at the request of OFD.
It is in no way to be construed as policy recommendations but there
may be some suggestions of interest to you or to certain officers
in SCAP.

Enclosure:

As stated above.

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Action Assigned to NA
 Action taken as action

 Date of Action July 25
 Action Office Symbol NA
 Name of Officer Jerry
 Direction to DC/R file

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 DIVISION OF
 NORTHEAST ASIAN AFFAIRS

file 30/P
 OFFICE OF
 ASIAN AFFAIRS
 JUL 25 1949
 DEPARTMENT OF STATE

AIRGRAM JUL 25 1949

DEPARTMENT OF STATE

FROM: USPOLAD, Tokyo

Date of mailing: July 15, 1949

Date Rec'd: July 23, 1949 4:30 p.m.

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FOR DEPARTMENT USE ONLY

Secretary of State,
 Washington.

A-180, July 15, 1949.

(This airgram supplements this Mission's A-176, July 8, 1949, and earlier airgrams in this series. Request distribution be limited to Department for reasons stated in A-21 of January 28, 1949.)

1. Sterling Area Postpones Trade Mission, Demands Waiver of Convertibility: Trade Mission scheduled to arrive from London this week will begin negotiations July 18 for new Sterling Area Trade Arrangement (this Mission's A-173 of July 2, 1949) has been postponed by British pending clarification by SCAP of certain significant points; Minister Eric C. LINDBERGH has discussed points in question with General MacARTHUR, outstanding among them being question of convertibility of sterling held by SCAP. Latest Sterling Area move is in effect announcement to SCAP that Sterling Area will not negotiate new Agreement until SCAP agrees to accept non-convertible sterling in payment. Sterling Area holds that present SCAP Sterling balance (approximately 8 million pounds: see this Mission's A-173) is considerably more than necessary working capital, and that Sterling Area therefore faces possible dollar transfers in spite of SCAP's agreement not to demand conversion before December 31. Sterling Area apparently believes that threat of diminished trade (presented dramatically by recently announced discontinuation of textile import licenses by United Kingdom: this Mission's A-176 of July 9, 1949) will force SCAP to bargain on basis of non-convertibility. SCAP, however, will probably not concede point. Feeling of General Headquarters is that Sterling Area will not cancel Over-all Payments Arrangement, and that trade will therefore continue much as before since Sterling Area needs Japan as much as Japan needs Sterling Area. Result of waiver of convertibility, responsible officials feel, will be only to place burden of policing trade on SCAP, whereas if right of convertibility continues, Sterling Area will keep sharp eye on trade. SCAP

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Tokyo A-180,
July 15, 1949.

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officials also express resentment against fact that Sterling Area, in making demands, is apparently capitalizing on sentiment in Japanese business circles for placing Sterling Area trade on soft-currency basis. Japanese businessmen, not faced with problem of guarding dollar reserves, would of course favor increased Sterling sales, although such sales would not help solve Japan's exchange problem unless accompanied by increased procurement of critical raw materials from Sterling Area.

2. Japanese Unlikely to be Given Control of Foreign Exchange:

Possibility that British may continue to insist on non-convertibility has led to suggestion that Japanese Foreign Exchange Board be permitted, within broad limits, to supervise trade with Sterling Area and guard against accumulation of excessive balances of non-convertible Sterling. Funds Control Division of Economic and Scientific Section (ESS), however, remains uncompromising in position that SCAP must retain tight control over foreign exchange; that Division will therefore probably resist attempts to give Foreign Exchange Board real powers. Rumor that Japanese will regain full control over foreign exchange sometime in August nonetheless persists. Board's most important functions in immediate future likely to be limited to allotting of exchange for limited list of imports. Latter program, originally expected to go into effect on July 1 (this Mission's A-153 of June 17, 1949), remains under consideration.

3. Travel of Technicians Still Delayed; ESS Restive: Liberalized policy regarding employment abroad of Japanese technicians still delayed in G-1 Section (see this Mission's A-163 of June 24, 1949). ESS, meanwhile, has expressed its dissatisfaction with G-1's slowness, and has joined this Mission (in this Mission's capacity as Diplomatic Section) in strong protest against delays and in urgent recommendation for immediate action. Both sections agree that delays in program are "costing Japan both goodwill and foreign exchange."

4. CHQ Opposes Direct Trade Negotiations with Taiwan: Suggestions from American Consulate General, Taipei, that SCAP enter into direct negotiations with Government of Taiwan regarding trade between two areas have been received coldly here. Feeling is that trade must have consent of Chinese Mission in Tokyo as long as that Mission remains representative of recognized Chinese Government. Chinese Mission has recently reaffirmed formally that J. I. SUNG, Assistant General Manager of Taiwan Sugar Corporation, is the sole authorized agent to negotiate direct export of Taiwan sugar to Japan.

5. Reorganization of Ministry of Commerce not Considered Successful: Official of Japanese Ministry of International Trade and Industry has stated in conversation with officer of this Mission that organization of latter

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Japan

Tokyo's A-100,
July 15, 1949.

- 3 -

Ministry from old Ministry of Commerce and Industry and Board of Trade is not considered practical success. Expressed purpose of reorganization, to aid in rationalization of export industries and to streamline administration of export procedures, is hampered by continuing jealousy between old ministry personnel and newcomers from Board of Trade. Suggested that foreign trade procedures in fact even hampered by scattering of foreign trade officials throughout ministry. Fuller report on new organization following by despatch.

6. Abolition of Floor Prices under Consideration: ESS is seriously considering abolition of floor prices on Japanese exports, it being felt that need for such prices disappeared with establishment of exchange rate. Argument in favor of abolition believed overwhelming, provided it is clearly understood that export sales must be at or above domestic prices. Such policy would be likely to bring protests from interests in United States and United Kingdom, but is considered necessary if Japan is to compete on world markets. Japanese sources indicate that, whether or not system is abandoned, floor prices are being circumvented by manufacturers' rebates to exporters. May be pointed out further that Japanese exporters have frequently utilized floor prices to lay blame on SCAP for prices which could not in any case be reduced.

7. Black Market Prices Fall: Reports from various sources indicate that black market food prices have decreased an average estimated to be between 5 and 10 per cent since July, 1948. Increases in prices of several rationed items have brought a significant closing of gap between black market and controlled prices.

8. Foreign Trade Notes: a) Belgian Trade Agreement, minus controversial paragraph allowing slight trade imbalance in Belgium's favor (this Mission's A-145 of June 10, 1949), signed in Tokyo July 9. Texts following by despatch. b) Indian Open Account, estimated as totalling approximately \$750,000 following payment of \$3,000,000 in May, now in process of settlement. c) Textile Division, ESS, has notified Indian Liaison Mission that no silkworm eggs are available for export from Japan. SCAP continues to guard Japanese sericulture from possible incipient competition. d) Guarantee of free entry and egress for ships of both parties, which was deleted from draft Korean Trade Arrangement (this Mission's despatch no. 203 of March 4, 1949), has now been approved in principle by Chief of Staff. Reservations provide that guarantee not to be construed as waiver of claims as to ownership of vessels, or as grounds for preferential treatment with respect to port entry and clearance charges. Five vessels loaned to ANGIK to assist in Korean coastal trade excepted from guarantee; Civil Property Custodian, General Headquarters, unwilling to risk prejudicing position with regard to ownership of those vessels. e) Text of Pakistan Trade Arrangement.

CONFIDENTIAL

Tokyo's A-180,
July 15, 1949.

- 4 -

provisionally signed by representative of ESS in Karachi on April 30, has been sent to Chief of Staff with slight amendments (text will be forwarded when available). Total trade both directions planned at \$50 million level. Arrangement to run one year from July 1, 1949, and payment to be made in Sterling. Principle modification of Karachi draft calls for reduction of contemplated purchases of jute by SCAP. Purchases of cotton goods by Pakistan will total approximately \$18 million, it is planned.

HUSTON

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894.50/7-1549

THE ATTACHED COPY OF A DESPATCH TELEGRAM AIRGRAM
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TOKYO

D-457

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JAN 18 1950

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THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

DC/R
CONTROL COPY

United States Political Adviser
for Japan

Tokyo, July 15, 1949.

No. 457

JUL 29 1949

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JULY 25

ACTION
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CONFIDENTIAL (FOR DEPARTMENT USE ONLY)

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Subject: Forwarding Memorandum of Conversation Regarding
"Current Economic Problems in Japan."

The Chargé d' Affaires ad interim has the honor to enclose, as of possible interest to the Department, a copy of Memorandum of Conversation, "Current Economic Problems in Japan", between Mr. Ormond FREILE, Chief, Industry and Commerce Section, Far Eastern Affairs, CAD, Department of Army, and Mr. David M. MAYNARD, Economic Counselor, of this Mission.

Enclosure: *att.*

Memorandum of Conversation,
dated July 8, 1949.

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DMMaynard:pf

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Enclosure No. 1 to Despatch No. 457,
dated July 15, 1949 from the United
States Political Adviser for Japan,
Tokyo, on the subject "Forwarding
Memorandum of Conversation."

(COPY)

THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

MEMORANDUM OF CONVERSATION

July 8, 1949

SUBJECT: Current Economic Problems in Japan

PARTICIPANTS: Mr. Ormond FREILE,
Chief, Industry and Commerce Section,
Far Eastern Affairs, CAD,
Department of Army

Mr. David M. MAYNARD,
Economic Counselor,
Diplomatic Section

Mr. Freile is shortly departing for the United States and suggested a conference. He stated that he was anxious to know my personal point of view on a number of general and certain specific questions, currently of special interest to the Economic and Scientific Section, General Headquarters.

GENERAL

1. (a) I stated to Mr. Freile that I believed that the general economic situation in Japan is much better than reflected by any of our currently published indices; that the standard of living of the majority of Japanese was much better compared to their standard of living before the war, than was usually admitted by our various Divisions. Mr. Freile stated that he agreed with this entirely and also reiterated the statement that the Japanese people as a whole were much better off than we usually reflected in statistical measures.

(b) Mr. Freile stressed the fact that the great problem of the next year will be to increase sales, or in short, to sell. During the past three years a great deal of effort has been expended on getting the wheels of industry rolling and to increase production. This phase of rehabilitation has been largely successful and we now can produce in many lines much more than we are currently selling.

I agreed

CONFIDENTIAL

Enclosure No. 1
to Tokyo's Despatch No. 457,
July 15, 1949.

- 2 -

I agreed with Mr. Freile in this statement and stressed to him the obvious point that we must send out Japanese salesmen and reflect seriously on adopting a more realistic pricing policy.

(c) Mr. Freile asked my confidential opinion of the present organization of ESS and the economic work in Japan, stating that he was recommending a sharp cut in the ESS Staff, and further stating that he felt a basic reorganization should take place with the present unwieldy ESS Section broken into several parts, as for example, a Financial Section, a Trade Section and an Industrial Section. His idea also included a civilian economic adviser at the Chief of Staff level who would coordinate the various sections concerned with economic problems.

I told him that my thoughts were in the same direction, but went much farther and informed him that I believed that not only segments of ESS but also segments of the Natural Resources Section and other Sections should be brought into a co-equal status under a civilian economic adviser at the Chief of Staff level. In other words, instead of NRS we should have a Division of Agriculture and Forestry and another of Mining and that ESS should be broken up into such divisions as Financial Division, Division of Commerce and a Labor Division, a change which would make the local Divisions roughly correspond with the various department in Washington. I further stated that, as compared to the 2200 persons now concerned in economic activities in General Headquarters, I would like to see a slash of 95% by January 1, 1951. That we should get further away from operating the Japanese economy, and maintain an advisory capacity with certain financial controls. In other words look toward the post peace treaty stage. Mr. Freile replied that he agreed in general, although perhaps not in detail. That there should be a definite overall reorganization and he agreed with my position that such a reorganization should look toward the goal of being absorbed into a normal foreign Mission, that is, an Embassy, sometime in the not too distant future.

2. TRADE ARRANGEMENTS

We both agreed that we did not like bi-lateral trade arrangements in principle, but felt that there had been no other way in 1948 and for that matter in 1949, to get trade started and increase the level of Japanese trade. Although it was easy to be critical, no one either in Tokyo or Washington had been able to suggest any better alternate than the trade arrangements negotiated. We were both convinced that with the sterling area trade would have been appreciably lower during the past year without the sterling area agreement. We further agreed that, although there were very great difficulties to overcome in renegotiating the sterling agreement, (realizing the current position of England vis-a-vis dollar trade and the position of convertibility), that it would be very unfortunate if the sterling

area agreement

CONFIDENTIAL

Enclosure No. 1
to Tokyo's Despatch No. 457,
July 15, 1949.

- 3 -

area agreement could not be renewed. We further agreed that all trade arrangements concluded should look forward to multilateralism and felt that the clauses included in recent arrangements with Argentina and other South American countries made such an expansion possible. ESS has a very important job renegotiation and implementing these trade agreements.

3. FLOOR PRICES

An exchange rate having been set, we both felt that it was no longer necessary to maintain floor prices and both felt that the floor pricing system should be abolished. At the same time it must be stressed to the Japanese Government that they must not permit any justifiable accusations of "dumping", that is, selling for export below domestic prices or below cost. We also agreed that an important job to be done was to convince the Department of Army, Department of State, Department of Commerce and especially the Department of Commerce Regional Officers who daily contact American businessmen that although Japanese competition would be keen it would not constitute "dumping". That under general policies we could not "have our cake and eat it too"--that is, we must either let the Japanese export, or we must go on subsidizing the Japanese economy out of the American taxpayer's pocket.

4. PRIVATE IMPORTING

We both agreed that every effort should be made to speed up agreement on details of the mechanism to permit private importing. We also agreed that one of the most difficult problems in this connection was to get a clarification from the Department of Army as to exactly what they intended to buy for Japan. It appears to be impossible to develop a sound import licensing procedure unless some definite idea as to the Army's purchasing intentions is known.

5. INCENTIVE OR RETENTION PLAN

We both agreed that the plan for the retention of a small percentage foreign exchange by the Japanese exporter was a good thing. It is very essential that Japanese should be allowed to go abroad to sell. We both agreed that it would be sound to advance funds to reputable concerns for this purpose to be paid later by money earned under the retention plan system.

6. MOST FAVORED NATION TREATMENT FOR JAPAN

Mr. Freile had read various papers I have prepared on this subject and stated that he was in substance in agreement that Most Favored Nation treatment for Japan was important. However, he agreed that there were a great many other problems far more important and furthermore indicated that without a crystallization of the policy of the Japanese Government and/or SCAP in reference to Japanese import tariff that any bargaining on a technical level was, at this time, premature and futile.

7. SHIPPING

CONFIDENTIAL

Enclosure No. 1
to Tokyo's Despatch No. 457,
July 15, 1949.

- 4 -

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We both agreed that Japan should have more shipping at its disposal so that more goods to and from Japan could travel on Japanese bottoms. It was pointed out that under the present arrangement an appreciable portion of the appropriations for Japan was merely a hidden subsidy to American shipping.

8. SCAP TRADE OFFICES

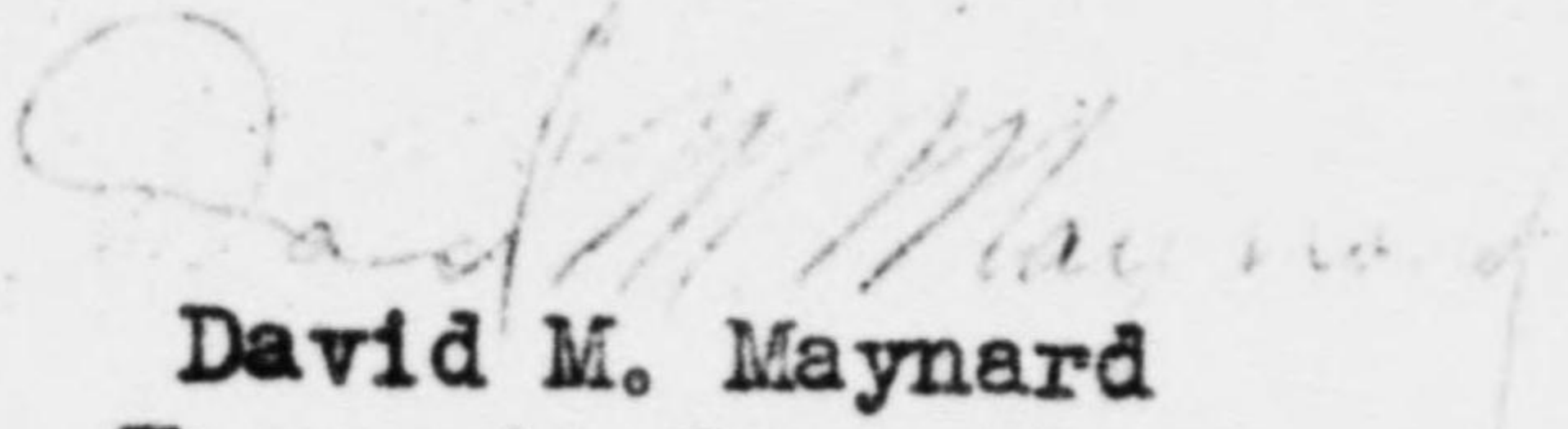
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9. MULTIPLE CURRENCY PROBLEMS IN JAPAN

We were in agreement that there should be a minimum number of currencies in Japan and that an endeavor should be made to work toward the wider use of yen in transactions involving licensed concerns with, of course, the proper controls of exchange accounts of convertible yen strictly maintained. Four currencies are already in use in Japan and we should try to cut this number down instead of adding currencies for specific uses.

10. PEARLS

We agreed that the sale of pearls should be still further unfrozen and that the monopoly or control of the pearl business in Japan by the Army's Central Purchasing Office should be broken.


David M. Maynard
Economic Counselor

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DMMaynard:pf

CONFIDENTIAL



THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

PERSONAL AND
CONFIDENTIAL

July 21, 1949

Dear John:

Returned to Tokyo yesterday from a 10-day trip to Hokkaido. On my return noticed that Maynard's despatch no. 457 of July 15, 1949, transmitting copy of memo of conversation with Freile of DA had been sent out without designation "FOR DEPARTMENT USE ONLY". A reading of this memo will reveal why that designation should go onto it.

Am sending an air-gram to this effect but believe the sending of this note might accomplish matter sooner.

At weekly staff meeting this morning learned of plan to make you head of NA. Congratulations! Please let me know how I can be of greatest help.

Regards to Walt et al. In much haste as my desk is sky high with papers and unanswered telegrams.

Sincerely,

Carl
Carl H. Boehringer,
First Secretary of Mission.

Please take necessary action
JB

CONFIDENTIAL FILE

FW 894.50/7-1549

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Mr. Long
894.50/7-1549



THE FOREIGN SERVICE
OF THE
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DIVISION OF
NORTHEAST ASIAN AFFAIRS

United States Political Adviser
for Japan

JUL 27 1949

Tokyo, July 15, 1949.

DEPARTMENT OF STATE

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No. 457

REC'D
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CONFIDENTIAL (FOR DEPARTMENT USE ONLY)

INFO
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Subject: Forwarding Memorandum of Conversation Regarding
"Current Economic Problems in Japan."

This Document Must Be Returned To
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894.50/7-1549

The Chargé d' Affaires ad interim has the honor to enclose, as of possible interest to the Department, a copy of Memorandum of Conversation, "Current Economic Problems in Japan", between Mr. Ormond FREILE, Chief, Industry and Commerce Section, Far Eastern Affairs, CAD, Department of Army, and Mr. David M. MAYNARD, Economic Counselor, of this Mission.

Enclosure: *att.*

Memorandum of Conversation,
dated July 8, 1949.

Parchment mat to the Department

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DMMaynard:pf

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Files

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ACTION COPY

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

CONFIDENTIAL

Enclosure No. 1 to Despatch No. 457,
dated July 15, 1949 from the United
States Political Adviser for Japan,
Tokyo, on the subject "Forwarding
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(COPY)

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UNITED STATES OF AMERICA

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Department of Army

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Diplomatic Section

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CONFIDENTIAL

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CONFIDENTIAL

Enclosure No. 1
to Tokyo's Despatch No. 457,
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- 3 -

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CONFIDENTIAL

7. SHIPPING

Enclosure No. 1
to Tokyo's Despatch No. 457,
July 15, 1949.

- 4 -

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David M. Maynard
Economic Counselor

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DMMaynard:pf

CONFIDENTIAL

STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

TO : NA - Mr. Bond
FROM : NA - Mr. Reedy *P.R.R.*
SUBJECT: Tokyo's 457 of July 15, 1949

DATE: August 4, 1949

Various economic problems were discussed between Mr. Friele (CAD, Army) and Mr. Maynard of POLAD, as recorded in a memo of conversation forwarded hereunder.

Mr. Freile and Mr. Maynard agreed that present Japanese living standards, compared to pre-war days, are better than is shown by Division reports and statistics. It was also agreed that a surplus of production over sales in many lines necessitates sending out of Japanese salesmen.

Mr. Freile recommended reducing ESS and dividing it into task sections; he also suggested a civilian economic advisor to coordinate these economic sections. Mr. Maynard further mentioned placing segments of ESS, NRS, and other Sections under this advisor, thus making local Divisions correspond roughly with those in Washington.

Mr. Maynard recommended a cut in the number of workers in economic affairs in GHQ by 95% by January 1, 1951, facilitating use of limited advice with certain financial controls rather than complete operation of Japanese economy. Mr. Freile generally agreed.

Both agreed that bilateral agreements had been necessary in lieu of other suggestions; trade agreements should make possible later multilateralism.

Japanese exporters should be allowed to retain a small percentage of foreign exchange, should be allowed to go abroad to sell, being advanced funds for such travel to be repaid under the retention system.

A definite Japanese import tariff policy is necessary before MFN bargaining.

More Japanese goods should be carried in Japanese bottoms.

New York Office should engage in trade promotion, not sales; trade promotion offices should also be opened in Pakistan, India and Germany.

A minimum number of currencies should be used, with use of yen desirable.

The sale of pearls should be unfrozen and Army's Central Purchasing Office monopoly of pearls broken.

NA:Reedy:clh:aw

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FW 894.50/7-1549

INCOMING AIRGRAM

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

file DC/R

OFFICE OF
FAR EASTERN AFFAIRS
JUL 27 1949
DEPARTMENT OF STATE

Action Assigned to NA
Action Taken Classified
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DIVISION OF
NORTHEAST ASIAN AFFAIRS
JUL 27 1949

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Date of Action July 28, 49 DEPARTMENT OF STATE

Action Office Symbol NA AIRGRAM

Name of Officer M. Green

Location to DC/R file

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FROM: USPOLAD, Tokyo

Date of mailing: July 21, 1949

Rec'd: July 26, 1949, 4:10 PM

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894.50/7-2149

FOR DEPARTMENT USE ONLY

Secretary of State,

Washington.

A-184, July 21, 1949.

Urgently request that this Mission's CONFIDENTIAL despatch no. 457 of July 15, 1949, subject: "Forwarding Memorandum of Conversation Regarding 'Current Economic Problems in Japan'", be designated "FOR DEPARTMENT USE ONLY."

HUSTON

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CHBoehringer:pf

AUG 2 1949

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CONFIDENTIAL

INCOMING AIRGRAM

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

JUL 27 1949

DEPARTMENT OF STATE



4537

Action Assigned to *NA*

Action Taken -----

none necessary AIRGRAM

Date of Action -----

Action Office Symbol *NA*

Name of Officer *Henry*

FROM: USPOLAD, Tokyo

CONFIDENTIAL Direction to DC/R *file*

Date of mailing: July 22, 1949

Date Rec'd: July 26, 1949

FOR DEPARTMENT USE ONLY

Secretary of State,

Washington.

A-185, July 22, 1949.

(This airgram supplements this Mission's A-180, July 15, 1949, and preceding airgrams in this series. Request distribution be limited to Department for reasons stated in A-21 of January 28, 1949.)

1. Economic Officer Visits Hokkaido: Economic reporting officer of this Mission visited Hokkaido during period July 9-20, 1949. Much time, however, spent in travelling with railroad trip from Tokyo to Sapporo, capital of Hokkaido, and return alone requiring about 34 hours each way. Travel in Hokkaido, although involving short distances, also time-consuming and difficult to arrange. Although despatch being prepared on visit, Department may be interested in preliminary observations. Hokkaido comparable to Maine, both lying in northeast parts of Japan and United States respectively. Both areas have cool summers and very cold winters. Major occupations similar, including fishing, lumbering, pulp and paper manufacturing. Agriculturally both areas similar, with major crops including potatoes, hay and forage, fruits, grains, vegetables and dairy products; only outstanding difference in this regard is cultivation of rice in Hokkaido. Areas of Maine and Hokkaido also similar, being 33,215 and 34,276 square miles respectively; from population standpoint, however, Hokkaido slightly more than 4,000,000. Industries in both areas

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Tokyo's A-185,
July 22, 1949.

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largely centered in southwest parts thereof. Impression gained that Japanese in Hokkaido much better off than those in Honshu, with food-stuffs generally available in greater variety and at lower prices. Hokkaido retains atmosphere of frontier country; as such it is featured by heavy and wasteful cutting of forests, opening up of new farming lands, mushrooming growth of cities, intense civic and insular pride, and some desire to be treated less as an area for exploitation by Japanese capitalists from Honshu than to have development of island directed by long-resident or Hokkaido-born Japanese. Evidence of latter is given by election recently of Hokkaido-born man to serve as governor of island, this replacing former system whereby governors, usually from other parts of Japan, appointed by Japanese Government. Not much concern apparently felt among Japanese officials there over unemployment or ability of island to absorb Japanese being repatriated from Soviet Union. Both Japanese and Occupation officials, however, outspoken in expressing need for SCAP to permit those officials to take more positive stand against communism. Need for expansion of Japanese fishing areas also raised by Japanese as being of paramount importance to Hokkaido, where export demand for canned marine products, plywood, and lumber (especially Hokkaido's famous white oak) has been much below expectations.

2. British Sending Mission Despite SCAP Position on Convertibility: Although SCAP has remained firm in position that sterling accepted in payment for Japanese exports must be convertible, London has finally decided to send mission to negotiate new Trade Arrangement. Earlier announcement regarding cancellation of mission (this Mission's A-180 of July 15, 1949) thus appears dramatic gesture to pressure SCAP, confronted with possibility of diminished exports, into waiving convertibility. United Kingdom Liaison Mission (UKLM) sources have confidentially indicated to officials of Economic and Scientific Section (ESS), General Headquarters, SCAP, that London had no intention of refusing to bargain or of cutting off trade. British Trade Mission was scheduled to leave London on June 21; talks here aimed at negotiation of new Trade Arrangement will probably begin around August 1. Meanwhile, recent UKLM announcement regarding suspension of issuance of import licenses for textiles (this Mission's A-176 of July 8, 1949) appears to have been received with equanimity by ESS, it being believed that British merchants have already contracted for textile purchases approximately equal in volume to probable sales for

CONFIDENTIAL

Tokyo's A-185,
July 22, 1949.

- 3 -

1949 third quarter had licensing been continued.

3. Trade between Japan and Sweden Under Review: Review of trading position provided for in Japan-Swedish Trade Arrangement (this Mission's despatch no. 715 of November 8, 1948) indicates that Japan bought \$7,018,000 worth of Swedish products, and exported \$5,287,400 worth of goods to Sweden during 1949 first half. Assumed that trade will eventually balance since Sweden issues licenses on basis of balancing individual transactions; adverse balance indicated in above figures largely accounted for by fact that ESS bases statistics on contracts validated. Sweden's exports for 6-month period are somewhat greater than amount planned for entire year, while Japan's exports are only slightly under projected figure. Prospects now that trade during last half of year will lag since Japan's demand for pulp largely filled. Other commodities in trade plan may produce certain limited volume of trade; for example local representative of Swedish firm (SKF) manufacturing ball-bearings stated July 21 to officer of this Mission that, after months of effort to obtain contracts for Japanese purchases of ball-bearings (solely for export products such as bicycles), he had finally been assured that a preliminary contract was in sight, with other business pending. Only hope for brisk trade, however, would appear to require Swedish purchases of rayon yarn and Japanese purchases of Swedish rayon pulp.

4. Other Foreign Trade Notes: (1) Trade Arrangement between Pakistan and Occupied Japan, scheduled to be returned to Karachi for approval this week, remains under discussion in ESS. In addition to modifications in Trade Plan (this Mission's A-180 of July 15, 1949), Arrangement proper has been amended to make it appear less a commitment than a statement of intentions. Discussions continue in ESS as to the feasibility and desirability of opening a Trade Promotion Office in Karachi. (2) Officials from Netherlands Mission in Japan have informed General Headquarters, SCAP, that they have no objection to publication of texts of Trade and Financial Arrangements between Netherlands and Indonesia and Occupied Japan. All SCAP ratified and signed Arrangements thus now considered unclassified. Trade Plans and subsidiary documents, such as conference minutes and letters of interpretation, in general remain confidential.

5. Further Liberalization of Export Procedures: As further step toward liberalization of export procedures, ESS during week announced

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Tokyo's A-185,
July 22, 1949.

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that it would not be necessary in future for foreign traders to use standard contract forms for exports valued at less than \$50,000. For such exports contracts may now be made on forms selected by contracting parties; however, approval by Ministry of International Trade and Industry and validation by General Headquarters, SCAP, still required. Contracts made as part of barter contract and contracts for processing of raw materials will still require special standard contracts. Nonetheless, it is hoped above cited liberalization will eliminate standard form contracts for 85 to 90 per cent of all export deals.

6. No Decision Reached on Elimination of Floor Prices: Although continued discussions held between ESS and Japanese Government officials concerned regarding elimination of all floor prices for exports, no real progress in that direction made during week under review.

7. Japanese Apprehensive over Reduced Occupation Activity: Reliably reported that U.S. Eighth Army, with headquarters in Yokohama, in process of reducing size of its civilian affairs teams (until recently known as military government teams). Feared by Japanese officials, as well as by ESS Price and Distribution Division and ESS Internal Revenue Division, that if surveillance over crop and tax collections is not continued by such teams collections will fall off sharply. ESS has been discussing with appropriate U.S. Army officials possibility of continuing these functions by civilian affairs teams during coming year, even if only to limited extent.

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INCOMING AIRGRAM

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

file DC/R *RAF*



DIVISION OF NORTHEAST ASIAN AFFAIRS

AUG - 8 1949

DEPARTMENT OF STATE

Action Assigned to *NA*
Action Taken *in action rec.*
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FROM:

Date of Action *OSPOLAD, Tokyo*

Action Office Symbol *NA*

Date of Mailing:

July 28, 1949

Rec'd:

Direction to DC/R
Aug. 7, 1949 10:02 a.m.

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Secretary of State,
Washington.

A-189, July 28, 1949.

(This airgram supplements this Mission's A-185, July 22, 1949, and preceding airgrams in this series. Request distribution be limited to Department for reasons stated in A-21 of January 28, 1949.)

1. Cancellation of SCAP Directives to Japanese: Major General E. M. ALMOND, Chief of Staff, GHQ, SCAP, stated few days ago to Chief of this Mission that 40 per cent of all directives to Japanese Government had recently been cancelled as part of program to turn over more and more administrative responsibilities to Japanese Government. Elimination of these directives to be followed by further cancellations, according to General Almond, who added that this general question continued to be under active study in General Headquarters.

2. Contraction in Eighth Army Activities: According to Mr. U. Alexis JOHNSON, Consul General, Yokohama, Eighth Army prefectural teams now being abolished (see item 7, A-185, July 22, 1949), with civil affairs activities being centered in regional offices. Civil Affairs Section of Eighth Army to be abolished by January 1, 1950, and remaining civil affairs functions of Eighth Army to be brought directly under General Headquarters, SCAP. Military personnel in Civil Affairs Teams scheduled to be reduced to minimum with final objective of having Eighth Army devote itself to tactical operations and training.

3. Cleaves to Washington on Glove Complaint: Reference made to our despatch no. 446, July 9, 1949, regarding complaint of Association of Knitted Glove and Mitten Manufacturers against Japanese imports, and previous despatches on same subject. Mr. Richard D. CLEAVES, Chief, Textile Division, Economic and Scientific Section (ESS), GHQ, SCAP, scheduled to arrive Washington 1355 hours July 28 to attend Congressional hearings which

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Tokyo's A-189,
July 28, 1949.

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he has telegraphically requested be postponed until August 1. Despatch containing all pertinent letters and telegrams, not previously sent to Department, being forwarded soonest possible.

4. Japanese Economic "Crisis" being Investigated: Economic Division of this Mission giving high priority to preparation of despatch regarding so-called impending economic "crisis" in Japan, concerning which reports presumably sent to US by correspondents here of American press. Expect send despatch to Department in about two weeks; aim to give cross-section Japanese press comment plus summary of views of several important Occupation and Japanese personalities. Status of Nine Point Economic Stabilization Program and so-called Dodge Plan also to be reported upon.

5. Other Despatches Under Preparation: Subjects of other despatches which Economic Division of this Mission has scheduled for reasonably early transmittal to Department include Japanese trade with Communist China, establishment of Policy Board by Bank of Japan as provided for in Nine Point Program, and Japan-Taiwan trade with special reference to sale of Taiwan sugar to Japan. Already typed is despatch on establishment and functions of new Ministry of International Trade and Industry, for which mimeographed copies of enclosure being awaited. One officer of Economic Division planning devote considerable amount of time attending and reporting upon important SCAP-Sterling Area negotiations which commence next week and likely to continue for two or more weeks.

6. Soviets Again Raise Question of Opening Kobe Office: Mr. A. A. GROMOV, Soviet Trade Representative here, has again raised with General Headquarters question of establishing branch trade office at Kobe. Similar request made about one year ago when General Headquarters rejected proposal (with ESS recommendation) on grounds that Soviet trade in Kobe area did not warrant setting up separate office. Later felt in General Headquarters that such an office would be difficult to control, and that Soviets would undoubtedly use office as focal point for political activity in the Kwansai area.

7. Sterling Area Negotiations to Begin Next Week: Sterling Area Trade Coordinator in Tokyo has officially notified ESS that three-man Trade Mission sent from London; he has requested that talks begin August 1. Mission was evidently despatched without reference to Sterling Area's demand for waiver of convertibility, in view of fact that official reply to that demand has not yet been transmitted. Conclusion therefore is either that Sterling Area not as positive on subject as protests in

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Tokyo would indicate, or that assurances have been given on high level that concessions will be considered by SCAP. Sterling Area Trade coordinator has informed ESS trade officials that Trade Mission is being sent as result of encouraging outcome of conference between General MacArthur and Economic Counsellor of United Kingdom Liaison Mission; interested officials in ESS unable to guess what General may have said. Views on possible outcome of approaching conference becoming less optimistic in view of Sterling Area dollar crisis; believed here that Sterling Area will probably buy about \$100 million worth of Japanese goods, and will sell to total of about \$125 million, thus liquidating large part of SCAP's "excessive" sterling holdings.

8. Six Latin American Trade Arrangements Ratified: Chief of Staff, General Headquarters, SCAP, has approved Trade Arrangements between Occupied Japan and Argentina, Brazil, Chile, Uruguay, Peru, and Mexico, without amendment. ESS officials surprised that no objection made to Argentinian and Chilean Arrangements, both of which give special concessions not common in SCAP-negotiated agreements (former, as Department is aware, gave particular notice to Argentinian shipping and insurance; latter contained commitment to pay free dollars for certain Chilean products). Texts will be forwarded as available.

9. Plans for Private Imports Rejected, Indefinitely Delayed: Plans for limited return of Japanese imports to private merchants, reported earlier (A-153 of June 18, 1949) as being under consideration with July 1 set as target date, have been rejected by Major General W. F. MARQUAT, Chief of ESS, as "too complicated and restrictive." Target date now set, somewhat wishfully, for August 15 in order to cover early autumn wool imports; interested officials admit prospect doubtful, however. While foreign trade officials had been aware of fact that program somewhat complicated and restrictive, believed that it was best possible at moment, and felt that important thing to open private imports in some measure as soon as possible. This Mission agrees difficult to see what General has accomplished by veto.

10. Other Foreign Trade Notes: (1) French have signed contract for purchase of 9200-ton cargo vessel, price \$1,700,000 (this info published, and need not be considered classified). Payment ostensibly under open account, actually barter for potash under special and confidential deal (this Mission's despatches nos. 177 of February 5, 1949,

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and 310 of May 14, 1949). (2) SCAP trade officials drawing up "trade plan" for Ryukyus, in which it is hoped to acquire up to \$7 million from Ryukyuan GARIOA and EROA expenditures. Most interesting deal would involve resale of about \$3 million worth of Burmese rice, for which SCAP could, of course, pay sterling. Sterling Area authorities have agreed that shipments to Ryukyus need not be considered entrepot transactions as result of which Sterling Area must be sold dollars under Overall Payments Arrangement. (3) SCAP's version of Trade Arrangement with Pakistan mailed to Karachi for concurrence. Draft, if approved, will probably be signed in Tokyo and will supplant October, 1948 draft. Texts will be forwarded. (4) Final reconciliation of Netherlands Open Account as of February 28, 1949, by ESS Funds Control Division, shows Japanese purchases at total of \$271,950.37 with sales at \$263,658.26.

11. Question of Setting Up Claims Tribunal: Reference made to telegram no. W 91540 of July 16, 1949, sent to SCAP by Department of Army on treatment of United Nations nationals' property in Japan, transmitting text of proposed policy statement prepared by Department concerning restoration of such property in Japan which provides, inter alia, for establishment by SCAP of inter-Allied Claims Tribunal. Question of setting up Tribunal given mixed response in ESS working level circles. General feeling is that, although it might be wise to permit presentation of claims in near future, any payment should be deferred for several years. Current estimate of total claims which might be filed for property damaged within Japan, and claims for Japanese securities, in magnitude of 117 billion yen. Of this sum, 40 billion yen estimatedly required for restoration property of UN nationals to prewar condition, about 45 billion yen to cover unpaid interest on Japanese Government foreign currency obligations, and about 32 billion to pay foreign currency obligations now due.

12. Work Relief Discussed: Discussion between ESS and Japanese Government continues on various proposals for work relief to meet current unemployment problem arising from rationalization measures. Mr. C. W. HEPLER, Chief, ESS Labor Division, stressing idea that money for work projects should only be approved when unemployment in a given area develops, rather than giving blanket approval for projects.

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INCOMING AIRGRAM

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

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Office of
FAR EASTERN AFFAIRS
15 1949
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Department of State

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DIVISION OF
NORTHEAST ASIAN AFFAIRS

FROM: USPOLAD, Tokyo

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AUG 15 1949

Date of Mailing: August 4, 1949

DEPARTMENT OF STATE Rec'd: Aug. 14, 1949 9:50 a.m.

FOR DEPARTMENT USE ONLY

Secretary of State,

Washington.

A-196, August 4, 1949.

(This airgram supplements this Mission's A-189, July 28, 1949, and preceding airgrams in this series. Request distribution be limited to Department for reasons stated in A-21 of January 28, 1949.)

1. General Weckerling Assigned to Minneapolis: Brigadier General John WECKERLING, since September 1948 Chief of the Ryukyus Military Government Section, Far East Command, Tokyo, leaving Tokyo in few days for reassignment in USA. General Weckerling, Japanese language officer and one-time Assistant Military Attache of Embassy here, stated in confidence to officer of this Mission that he has been assigned for duty with the Fifth Army at Minneapolis and that one of his main jobs will be to "sell" U.S. Army to Minnesota politicians, specific mention being made of H. E. STASSEN, last year's aspirant to GOP presidential nomination. General Weckerling, who has done imaginative and otherwise excellent job here in connection with Ryukyuan affairs, not happy over new assignment where his knowledge of Japanese and Ryukyuan affairs will be of scant use to him in his dealings with Minnesota political figures. On other hand, his assignment out of this Command obviously distinct loss insofar as United States major interests in this area are concerned. General Weckerling concluded that he would very much prefer having been assigned to Ryukyus, "even if I have to live in a wicket hut to replace Colonel Jesse P. GREEN, present Deputy Chief of Staff of

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Tokyo's 1-196,
August 4, 1949.

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Ryukyus Military Government, but with greater authority than is now permitted Colonel Green. General Weckerling leaving by army transport, which stopping at Okinawa. He expects arrive Washington about September 10, when he will call on Mr. John ALLISON, Chief, North-east Asian Affairs. Recommend that Dr. Douglas OLIVER, adviser to Office of Far Eastern Affairs, be notified of General Weckerling's impending arrival.

2. Progress of Deconcentration: Reference Department's 1-119 of July 20, 1949, detailed report now being prepared on deconcentration program. In summary, 13 companies (including electric power generating and distributing companies as one reorganization) have been or will be required to reorganize, while six others will receive or have received orders calling for lesser reforms. General Headquarters, SCAP, in not entirely accurate press release (text following as enclosure to unclassified despatch), announced August 3 that Deconcentration Review Board has completed task; announcement widely played up in Japanese press as indicating deconcentration program at end, although no official action has yet been taken on important cases of Japan Express Company and Japan Power Generation and Transmission Company (together with nine distributing companies; these two cases are included in 13 reorganizations noted above). Press release prepared in Executive Office, Economic and Scientific Section (ESS); reliably reported that acting chairman of Deconcentration Review Board not pleased with release, but details of his objections not yet available. Reports being prepared by both Board and Anti-Trust and Cartels Division, ESS; as previously indicated, this Division also preparing report which will deal with reorganizations on case by case basis.

3. Japan Iron Likely to be Further Broken Down: Japan Iron Manufacturing Company, ordered to split into two companies by Japanese Government's Holding Company Liquidation Commission, may end up as three companies. Company's modern and efficient Hirohata plant, which northern successor company was to be permitted to purchase, recently inspected by Mr. Calvin VARTY, new Industrial Director of ESS, and found to have makings of separate company. Possibilities of modifying reorganization order now being explored.

4. Efforts Made to expand Purchases from Sterling Area: Including undelivered purchases contracted for prior to July 1, 1949, ESS has compiled plan for purchases from Sterling Area to total

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\$143,856,000; have expanded wool, sisal, jute, and wool waste and rag procurement from Sterling Area to limit (in some cases, indicated that contemplated purchases exceed reasonable requirements; this true especially in case of wool), and hope in return that India will make available medium staple raw cotton. Indians have agreed to investigate possibilities but assertedly not optimistic. Sterling Area on its part hopes for expanded Japanese purchases of crude rubber (at expense of Dutch), petroleum, and foodstuffs, latter in coordination with GARIOA. This Mission feels it is mistake to raise issue of GARIOA coordination at this time, in view of pressures likely to arise from food surpluses in United States. More detailed comments following by despatch.

5. ESS Puzzled by Developments in German Trade Negotiations:
ESS trade officials surprised at information from Department of Army that Japan-Trizonia Trade Arrangement has been initialed in Frankfurt. ESS not aware that sufficient agreement had been reached to permit such action. Text reportedly being forwarded to Tokyo from Frankfurt therefore being awaited with considerable interest.

6. American Attacks on ESS Pricing Policy and Trade Procedures:
Major General W. F. MARQUAT, Chief, ESS, at weekly ESS staff conference August 1, 1949, stated that there appeared to be mounting criticism of SCAP's pricing policy for Japanese goods and that American traders seem to be aggravated and vindictive. He stressed that he had, during past four months, asked Department of Army to send high level group to review pricing policy and trade procedures. He indicated that as alternative committee might be appointment of various interests in Tokyo to review this problem. General Marquat further pointed out need for better publicity in United States of fact that Japan must sell goods to American market to live.

7. Remittance of Profits from Foreign Investments: At same meeting, General Marquat again emphasized that policy of permitting withdrawal of profits from foreign investments in Japan must be implemented, he adding that there would be little, if any, foreign investment here until such policy implemented.

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THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

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No. 544

Office of the U. S. Political Adviser
for Japan

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(For Department Use Only)

Tokyo, August 10, 1949.

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Subject: Transmitting Memorandum by Economic Counselor David M. Maynard Entitled "Progressive Decontrol of the Economy of Japan".

The Honorable
The Secretary of State,
Washington, D. C.

Sir:

I have the honor to transmit herewith a copy of a memorandum by Foreign Service Officer David M. MAYNARD, Counselor for Economic Affairs, entitled "Progressive Decontrol of the Economy of Japan". As the Department is aware, Mr. Maynard has been in charge of the Economic Section of this Mission ever since he arrived in Tokyo almost two years ago. As Liaison Officer between this Mission, in its capacity as the Diplomatic Section of General Headquarters, and the Economic and Scientific Section (ESS) of General Headquarters, Mr. Maynard has been in intimate daily contact with the Headquarters offices and personnel responsible for directing the economy of Japan under the Occupation. He has accordingly been in an ideal position to observe all Headquarters operations in the economic field and to formulate mature and well-founded views on the question of Occupation controls and the various stages by which they may most appropriately and profitably be relinquished in the process of returning the economic administration of the country to Japanese hands.

(his views sound false)

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Mr. Maynard believes that Japan has reached a stage in its economic rehabilitation where it should be released from Occupation controls as rapidly as possible; he considers that the thirteen hundred employees presently serving in the Economic and Scientific Section should be reduced by seventy-five per cent by July 1, 1950, and ninety-five per cent by January 1, 1951, ultimately bringing the number of Americans engaged in economic control and reporting to about fifty. He contemplates the gradual transformation of this reduced personnel into what would correspond to the normal complement of an important and strategic Embassy establishment.

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Tokyo's no. 544,
August 10, 1949.

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While Mr. Maynard's memorandum should be considered as representing his own personal views and may have the aspect because of its brevity of over-simplifying a difficult problem, I believe that the Department will find it of exceptional interest because of the particularly advantageous position in which he has been placed for the formulation of his conclusions. The Mission shares his view that a rapid and progressive reduction of personnel is necessary in the economic as well as in other fields of Occupation activities, and hopes that a coordinated plan can be evolved whereby such reductions may take place in the various fields of control with a view to the earliest possible return of the administration of the country to Japanese hands, leaving only an over-all surveillance and general policy control on a high level until such time as a treaty of peace or other international arrangement can be concluded with Japan.

Respectfully yours,

W. J. Sebald
W. J. Sebald

Enclosure: *att.*

Copy of memorandum by FSO
D. M. Maynard entitled
"Progressive Decontrol of
the Economy of Japan" dated
August 5, 1949.

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*one copy of deops. only
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copy retained in NA*
In triplicate to the Department.

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Enclosure to Despatch no. 544 dated August 10, 1949 from the Office of the U. S. Political Adviser for Japan, Tokyo, entitled: "Transmitting Memorandum by Economic Counselor David M. Maynard Entitled 'Progressive Decontrol of the Economy of Japan'".

(Copy)

August 5, 1949.

MEMORANDUM

TO: W. J. Sebald
FROM: David M. Maynard
SUBJECT: Progressive Decontrol of the Economy of Japan.

One of the most important decisions to be faced is the political and economic advisability of the United States continuing to heavily subsidize Japanese economy.

As long as United States appropriates funds for the use of Japan it will be necessary to exercise certain controls of the expenditure of these funds. Mr. DODGE recently states "that Japan is living beyond its means". It is firmly believed that this statement is correct and that a realistic approach to Japanese economy would indicate that Japan, unless it is to remain a permanent drain on the American taxpayer, should seek to establish its economy at a level at which it can be self supporting. If drastic measures are taken and cold and hard facts faced this self-support should be achieved by the end of 1951 at the latest.

Japan has reached the point in the development of rehabilitation where removal of foreign i.e., "occupation" controls of its economy should progress as rapidly as possible. The word "control" here is used to encompass what is sometimes referred to by proponents of those controls as "benevolent guidance". It would normally be to the interest of all concerned to have an early peace treaty. If, however, international complications are such that no treaty can be signed for several years, it is strongly urged that foreign controls be diminished to the irreducible minimum consistent with a disarmed Japan.

In considering the future economic controls in Japan one should not lose sight of the fact that Japan was not a backward agricultural country without modern industries, as for example, we see today in the State of Laos. To the contrary, Japan in 1940 had one of the finest merchant marines in the world, the best railroad system in the Far East, the finest steel mills and cotton mills in Asia. It had highly developed insurance and banking institutions and trading institutions which encircled the globe.

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Japan's rating as an international credit risk was high, as loans were serviced and paid. That this great economic organization played into the hands of an Imperialistic Military group, which attempted to dominate the Far East and finally launched a war, is a tragic commentary, but does not modify the extent of the development of prewar Japan or the ability of the Japanese to finance their own economy.

On the other hand, one must be fully aware that there is, and always will be, schools of thought that will endeavor to prove that Japan must have continuous direction and financial support from America for many decades to come. In many cases proponents are guided semi-consciously by self-interest, and in other cases by those endowed with a missionary complex a fervent zeal strong in their conviction of the superiority of American culture, and their belief that the American way is the answer to all problems.

A new constitution has been presented to the Japanese with the intervention of SCAP. Many laws and decrees have been passed by the Japanese either under direct orders or under the suggestion of GHQ. In general, the tendency has been toward directing Japan, holding up as a model the American economic, social, industrial and legal pattern. In fact, laws have been passed at the suggestion of Sections of GHQ which have given the Japanese people rights and protection only gained after decades of struggle in the United States. In the labor field, for example, rights were given to Japanese labor not only unknown in prewar Japan, but greater than generally given to labor in the United States. Laws against monopolistic practices have been more severe than normally applied in America and the economic purge has put a band of "guilty" without trial on most if not all of the really great industrialists in Japan.

After four years of occupancy it is firmly believed that future policy of the United States should be to withdraw civilian control from Japanese "economy as rapidly as possible. The administration and/or direction by General Headquarters of the operation of the railroads, the building up of the Merchant Marine, the mining of coal, the weaving of cloth, catching of fish, the rationing of foodstuffs, should all revert to the Japanese people, and the occupation civilian advisors should confine themselves to policy and a few strict financial controls. In other words, the concept of occupational functions should change from operating and directing to inspecting, advising, and reporting.

It would not be an error to state that until American direction and administration of Japan's economy is withdrawn, able and competent Japanese will not appear or emerge on the scene to assume full responsibility. A vicious circle is here presented. A high official of the Economic and Scientific Section stated that General Headquarters must supervise tax collections "as the Japanese refuse to assume that responsibility". At the same time Japanese politician of influence states that, "as the Occupation orders or suggests almost all of the present laws including the system of tax collection, that as long as the Occupation is here it is the Occupation's responsibility to carry out the laws".

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In reviewing

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In reviewing the developments of the last two years, definite progress has been made in relinquishing controls, but this progress has been too slow. Japanese government officials and even Cabinet officials still leave detailed decisions to the various sections of General Headquarters, and many individuals in General Headquarters continue to give "advice" in such a manner that it, in practice, constitutes an order to Japanese officials.

There are a number of sections of General Headquarters involved in policies governing Japan's economy and a number interested in the economic and commercial life of Japan. Although the Economic and Scientific Section is by far the largest of the sections of General Headquarters so concerned, the Natural Resources Section, the Civil Communications Section, the Civil Property Custodian, and the Civil Transportation Section, are also constantly involved in the day to day operation of Japan's economy. The total number of personnel assigned to these Sections on July 1, 1949 numbered well over 2,000.

A bureaucracy, no matter what the reason for its origin, nor the place of its existence, feeds and grows on itself like cancer, and is believed that the above sections of General Headquarters have been no exception to this rule. It is not a conscious decision, but an inevitable rule that a large bureaucracy tends to defend and justify its actions and consistently seeks new responsibility to justify additional personnel.

The Economic and Scientific Section, on July 1, 1949, had nearly 1,300 employees, approximately one-half of whom are American citizens and some 50 of whom receive a salary of \$10,000 per year. This Section governs or touches at some point the entire economic and commercial life of Japan, and as a whole is staffed with able and hard working persons. However, looking forward to a Japan of 1955, it is believed that Japan would be healthier and stronger if this Section were slashed 75% by July 1, 1950, and 95% by January 1, 1951. Such a suggestion is a drastic one and will meet with strong resistance and arguments which on the surface seem plausible and logical but in most cases arise from self-justification.

Attempts in the past two years to cut personnel have not been very successful. Some months ago General MARQUAT, Chief of the Economic and Scientific Section requested a study to show a possible reduction of personnel but in fact nearly every division in the Section came to the conclusion that additional personnel were required.

If, however, a reduction in the controls of Japanese economy is envisioned, it is essential and imperative to force a parallel cut in Occupation personnel.

It is suggested that a target be adopted for decontrol so that such decontrol can be done in an orderly fashion, placing 6, 12 and 18 months as three levels when civilian employees in the economic branches of GHQ be cut respectively, 50, 75 and 95%. This program would roughly mean that by January 1, 1951, the number of Americans engaged in the economic controls and reporting in Japan would not exceed 50.

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Due to the contract status of the civilian employees of the Army and considering the geographical problems involved in shipping of families and effects, such an "operation" as indicated above, takes strong and early action if it is not to cause undue hardships and injustice to individuals, and it should be realized that in many cases, Congressional and Union pressure will be brought to bear.

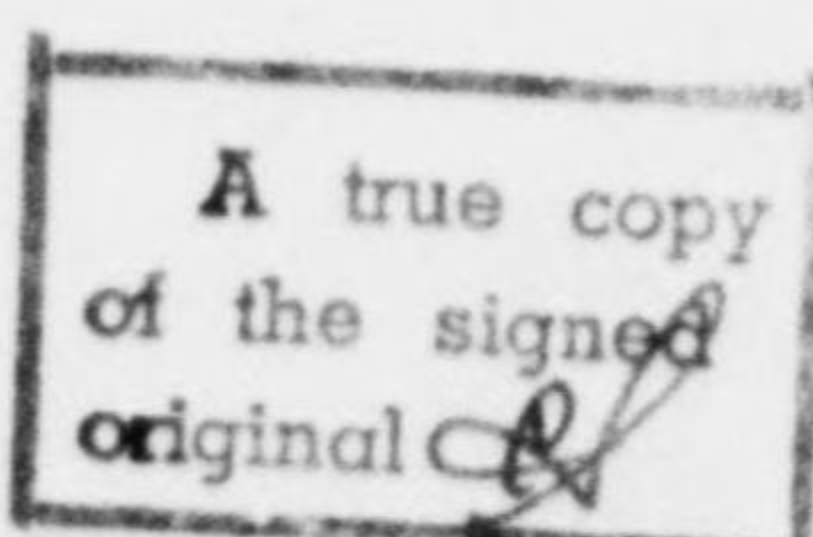
In looking forward to a Japan which is not a ward of the United States, but an independent nation and friendly nation, the time has come to drastically curtail foreign control of Japanese economy.

By 1951 it is predicated that if the peace treaty has not been signed, the State Department will assume primary responsibility for the civilian government in Japan. It should then be recommended that advising the "Commissioner" or Ambassador, would be an Economic Minister assisted by an Economic Counsellor, who in turn would be serviced by a number of Attachés. These would be a Commercial Attaché, Civil Communications and Transportation Attaché, Mining Attaché, Agricultural Attaché, Labor Attaché, Petroleum Attaché, Treasury Attaché and such others as may be deemed necessary. For example, the Treasury Attaché would take over the reporting on Japan's finance and control of any specific interests of American appropriated funds, absorbing such work as is now done by the Funds Control Division, the Internal Revenue Division, the Finance Division and certain functions of the Foreign Liquidation Commissioner's Office. The Mining Attaché would take over the reporting and advisory functions now carried on within the Natural Resources Section, as the Commercial Attaché would absorb the residue of the responsibilities of the Foreign Trade Division and a considerable amount that it now carried on under the Trade Service Division, Textile Division and Research Programs Division. Likewise, the Labor Attaché would report, for example, on items of interest to the Department of Labor in Washington, give advices to the Japanese, absorbing that work now carried on by the Labor Division, and the Agricultural Attaché would cover many problems now of concern to the Natural Resources Section and would work closely on a reporting schedule of value to the Department of Agriculture. The general field now involving the Civil Communication Section and the Civil Transportation Section might be assigned to a Communications Attaché.

In short the organization in 1951 would consist of a relatively small group of officers reporting to a Commissioner or Ambassador through an Economic Minister. Their functions would be to advise (on request), to inspect, and to report on the various segments of Japanese economy.

Gradually this group might be further reduced so that eventually it will consist of a "normal" complement of an important and strategic Embassy.

/s/ David M. Maynard
Economic Counselor



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(For Department Use Only)

Enclosure to Despatch no. 544 dated August 10, 1949 from the Office of the U. S. Political Adviser for Japan, Tokyo, entitled: "Transmitting Memorandum by Economic Counselor David M. Maynard Entitled 'Progressive Decontrol of the Economy of Japan'".

CIVISION OF
NORTHEAST ASIAN AFFAIRS

AUG 10 1949

DEPARTMENT OF STATE (Copy)

August 5, 1949.

MEMORANDUM

TO: W. J. Sebald

FROM: David M. Maynard

SUBJECT: Progressive Decontrol of the Economy of Japan.

One of the most important decisions to be faced is the political and economic advisability of the United States continuing to heavily subsidize Japanese economy.

As long as United States appropriates funds for the use of Japan it will be necessary to exercise certain controls of the expenditure of these funds. Mr. DODGE recently states "that Japan is living beyond its means". It is firmly believed that this statement is correct and that a realistic approach to Japanese economy would indicate that Japan, unless it is to remain a permanent drain on the American taxpayer, should seek to establish its economy at a level at which it can be self supporting. If drastic measures are taken and cold and hard facts faced this self-support should be achieved by the end of 1951 at the latest.

Japan has reached the point in the development of rehabilitation where removal of foreign i.e., "occupation" controls of its economy should progress as rapidly as possible. The word "control" here is used to encompass what is sometimes referred to by proponents of those controls as "benevolent guidance". It would normally be to the interest of all concerned to have an early peace treaty. If, however, international complications are such that no treaty can be signed for several years, it is strongly urged that foreign controls be diminished to the irreducible minimum consistent with a disarmed Japan.

In considering the future economic controls in Japan one should not lose sight of the fact that Japan was not a backward agricultural country without modern industries, as for example, we see today in the State of Laos. To the contrary, Japan in 1940 had one of the finest merchant marines in the world, the best railroad system in the Far East, the finest steel mills and cotton mills in Asia. It had highly developed insurance and banking institutions and trading institutions which encircled the globe.

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Japan's rating as an international credit risk was high, as loans were serviced and paid. That this great economic organization played into the hands of an Imperialistic Military group, which attempted to dominate the Far East and finally launched a war, is a tragic commentary, but does not modify the extent of the development of prewar Japan or the ability of the Japanese to finance their own economy.

On the other hand, one must be fully aware that there is, and always will be, schools of thought that will endeavor to prove that Japan must have continuous direction and financial support from America for many decades to come. In many cases proponents are guided semi-consciously by self-interest, and in other cases by those endowed with a missionary complex a fervent zeal strong in their conviction of the superiority of American culture, and their belief that the American way is the answer to all problems.

A new constitution has been presented to the Japanese with the intervention of SCAP. Many laws and decrees have been passed by the Japanese either under direct orders or under the suggestion of GHQ. In general, the tendency has been toward directing Japan, holding up as a model the American economic, social, industrial and legal pattern. In fact, laws have been passed at the suggestion of Sections of GHQ which have given the Japanese people rights and protection only gained after decades of struggle in the United States. In the labor field, for example, rights were given to Japanese labor not only unknown in prewar Japan, but greater than generally given to labor in the United States. Laws against monopolistic practices have been more severe than normally applied in America and the economic purge has put a band of "guilty" without trial on most if not all of the really great industrialists in Japan.

After four years of occupancy it is firmly believed that future policy of the United States should be to withdraw civilian control from Japanese economy as rapidly as possible. The administration and/or direction by General Headquarters of the operation of the railroads, the building up of the Merchant Marine, the mining of coal, the weaving of cloth, catching of fish, the rationing of foodstuffs, should all revert to the Japanese people, and the occupation civilian advisors should confine themselves to policy and a few strict financial controls. In other words, the concept of occupational functions should change from operating and directing to inspecting, advising, and reporting.

It would not be an error to state that until American direction and administration of Japan's economy is withdrawn, able and competent Japanese will not appear or emerge on the scene to assume full responsibility. A vicious circle is here presented. A high official of the Economic and Scientific Section stated that General Headquarters must supervise tax collections "as the Japanese refuse to assume that responsibility". At the same time Japanese politician of influence states that, "as the Occupation orders or suggests almost all of the present laws including the system of tax collection, that as long as the Occupation is here it is the Occupation's responsibility to carry out the laws".

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In reviewing

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SECRET (For Dept. Use Only)

In reviewing the developments of the last two years, definite progress has been made in relinquishing controls, but this progress has been too slow. Japanese government officials and even Cabinet officials still leave detailed decisions to the various sections of General Headquarters, and many individuals in General Headquarters continue to give "advice" in such a manner that it, in practice, constitutes an order to Japanese officials.

There are a number of sections of General Headquarters involved in policies governing Japan's economy and a number interested in the economic and commercial life of Japan. Although the Economic and Scientific Section is by far the largest of the sections of General Headquarters so concerned, the Natural Resources Section, the Civil Communications Section, the Civil Property Custodian, and the Civil Transportation Section, are also constantly involved in the day to day operation of Japan's economy. The total number of personnel assigned to these Sections on July 1, 1949 numbered well over 2,000.

A bureaucracy, no matter what the reason for its origin, nor the place of its existence, feeds and grows on itself like cancer, and is believed that the above sections of General Headquarters have been no exception to this rule. It is not a conscious decision, but an inevitable rule that a large bureaucracy tends to defend and justify its actions and consistently seeks new responsibility to justify additional personnel.

The Economic and Scientific Section, on July 1, 1949, had nearly 1,300 employees, approximately one-half of whom are American citizens and some 50 of whom receive a salary of \$10,000 per year. This Section governs or touches at some point the entire economic and commercial life of Japan, and as a whole is staffed with able and hard working persons. However, looking forward to a Japan of 1955, it is believed that Japan would be healthier and stronger if this Section were slashed 75% by July 1, 1950, and 95% by January 1, 1951. Such a suggestion is a drastic one and will meet with strong resistance and arguments which on the surface seem plausible and logical but in most cases arise from self-justification.

Attempts in the past two years to cut personnel have not been very successful. Some months ago General MARQUAT, Chief of the Economic and Scientific Section requested a study to show a possible reduction of personnel but in fact nearly every division in the Section came to the conclusion that additional personnel were required.

If, however, a reduction in the controls of Japanese economy is envisioned, it is essential and imperative to force a parallel out in Occupation personnel.

It is suggested that a target be adopted for decontrol so that such decontrol can be done in an orderly fashion, placing 6, 12 and 18 months as three levels when civilian employees in the economic branches of GHQ be cut respectively, 50, 75 and 95%. This program would roughly mean that by January 1, 1951, the number of Americans engaged in the economic controls and reporting in Japan would not exceed 50.

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Due to the contract status of the civilian employees of the Army and considering the geographical problems involved in shipping of families and effects, such an "operation" as indicated above, takes strong and early action if it is not to cause undue hardships and injustice to individuals, and it should be realized that in many cases, Congressional and Union pressure will be brought to bear.

In looking forward to a Japan which is not a ward of the United States, but an independent nation and friendly nation, the time has come to drastically curtail foreign control of Japanese economy.

By 1951 it is predicated that if the peace treaty has not been signed, the State Department will assume primary responsibility for the civilian government in Japan. It should then be recommended that advising the "Commissioner" or Ambassador, would be an Economic Minister assisted by an Economic Counsellor, who in turn would be serviced by a number of Attachés. These would be a Commercial Attaché, Civil Communications and Transportation Attaché, Mining Attaché, Agricultural Attaché, Labor Attaché, Petroleum Attaché, Treasury Attaché and such others as may be deemed necessary. For example, the Treasury Attaché would take over the reporting on Japan's finance and control of any specific interests of American appropriated funds, absorbing such work as is now done by the Funds Control Division, the Internal Revenue Division, the Finance Division and certain functions of the Foreign Liquidation Commissioner's Office. The Mining Attaché would take over the reporting and advisory functions now carried on within the Natural Resources Section, as the Commercial Attaché would absorb the residue of the responsibilities of the Foreign Trade Division and a considerable amount that it now carried on under the Trade Service Division, Textile Division and Research Programs Division. Likewise, the Labor Attaché would report, for example, on items of interest to the Department of Labor in Washington, give advices to the Japanese, absorbing that work now carried on by the Labor Division, and the Agricultural Attaché would cover many problems now of concern to the Natural Resources Section and would work closely on a reporting schedule of value to the Department of Agriculture. The general field now involving the Civil Communication Section and the Civil Transportation Section might be assigned to a Communications Attaché.

In short the organization in 1951 would consist of a relatively small group of officers reporting to a Commissioner or Ambassador through an Economic Minister. Their functions would be to advise (on request), to inspect, and to report on the various segments of Japanese economy.

Gradually this group might be further reduced so that eventually it will consist of a "normal" complement of an important and strategic Embassy.

/s/ David M. Maynard
Economic Counselor

A true copy
of the signed
original

STANDARD FORM NO. 64

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~~EE/SMA~~
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SECRET

Office Memorandum • UNITED STATES GOVERNMENT

TO : NA - ~~Mr. Bond~~ ^{Green} *Despatch with reading* *toto mg.* FAR EASTERN
DATE: August 24, 1949
Department of State

FROM : NA - Mr. Reedy

SUBJECT: Tokyo's No. 544 of August 10, 1949

Mr. Sebald forwards a copy of a report by FSO David M. Maynard, Counselor for Economic Affairs, entitled "Progressive Decontrol of the Economy of Japan". Mr. Sebald places great emphasis on Mr. Maynard's competence in view of his experience in Japan. According to this report the following situation exists:

Japan has been non-self-supporting since the end of the war. If the American public is to be relieved of the strain, Japan must support herself; this can possibly be done by the end of 1951.

Since no peace treaty is in sight, economic controls should be relaxed to permit fullest utilization of Japanese productive abilities.

In many cases Americans still assume an attitude favoring continuing control over Japan.

Much of the present Japanese Government has been set up and is operating under orders or strong advice from GHQ. The changes brought by democratization and reform have not come by effort of the people; they were given by GHQ. The U.S. position should now become that of inspecting, advising, and reporting.

Competent Japanese leaders will not become effective until they are allowed sufficient responsibility. It is recommended that ESS be cut 75 per cent by July 1, 1950, and 95 per cent by January 1, 1951, despite the troubles it will cause.

To accomplish this, it is asked that a gradual program for reductions be adopted so that the number in economic controls and reporting by January 1, 1951, will be no more than fifty. This must be carefully planned to prevent unnecessary hardship to ESS personnel.

It is recommended that (presuming State Department responsibility for civil government by 1951) the Commissioner or Ambassador be advised by an Economic Minister who would be aided by attachés in the various economic fields. Their function would be that of advising, inspecting, and reporting. Later this staff may be reduced to that of an Embassy.

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INCOMING AIRGRAM

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

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Action Assigned to NA NORTH EAST ASIAN AFFAIRS
Action Taken No action nec. AUG 22 1949

file DC/R

DEPARTMENT OF STATE

3855 Office of
FOR EASTERN AFFAIRS
22 1949
DIRECTOR
Department of State

Date of Action ----- AIRGRAM

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ACTION: FE
INFO:
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Action Office Symbol 2A

Name of Officer Jenny

Direction to DC/R File

FROM: USPOLAD, Tokyo

Date of mailing: August 15, 1949

Rec'd: Aug 21, 1949
4:07 p.m.

CONFIDENTIAL

FOR DEPARTMENT USE ONLY

Secretary of State,

Washington.

A-202, August 12, 1949.

(This airgram supplements this Mission's A-196, August 4, 1949, and preceding airgrams in this series. Request distribution be limited to Department for reasons stated in A-21 of January 28, 1949.)

1. Pricing of Exports and Trade Procedures Under Review:
At weekly staff meeting August 9, 1949, of Economic and Scientific Section (ESS), Major General W. F. MARQUAT, Chief, ESS, stated he believed pressure from American business interests critical of SCAP's pricing of exports and trade procedures had temporarily been eased. He referred to telegram received here few days ago regarding Congressional hearings on Japanese imports into United States of knitted gloves and mittens, at which Mr. R. D. CLEAVES, Chief, ESS Textile Division, had reportedly given clear and concise statement of SCAP's pricing policy and had apparently induced Association of Knitted Glove and Mitten Manufacturers to adopt more reasonable attitude towards Japanese imports. In response to telegram from Department of Army, ESS on August 11 replied to effect that new knit glove contracts to be executed here will reflect manufacturers' cost of production but that no new validations of contracts will be processed until Cleaves returns to Japan, which expected about 10 days. General Marquat went on to say he had

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Tokyo's A-202,
August 12, 1949.

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General MacARTHUR, and that they had agreed there was now no need for two committees to work on this problem as proposed several weeks ago, one to be comprised of ESS officials working with foreign, and possibly also Japanese, business interests, the other to be sent from Washington. He said that plans for setting up local committees were being shelved, while single committee, comprised of ESS officials and certain foreign businessmen working with Dr. W. B. TAYLOR, Dean of Claremont College, Claremont, California, (here for one month on temporary assignment by Department of Army) would study questions, presumably in expectation of discussing matters with Department of Army and other officials expected to arrive soon with Under Secretary of Army-designate VOORHEES. Commenting on complaints leveled by American interests against SCAP's export pricing policy, General Marquat stated that they inevitably referred only low dollar equivalent of wages paid to Japanese workers but ignored much lower efficiency of Japanese workers. He added that actual cost of production was important thing, not average wage expressed in US dollars. General Marquat concluded by stating that General MacArthur had suggested that, in studying pricing policy and trade procedures, ESS should adopt business-like approach and resist pressure groups.

2. Warns Against Lifting Price Controls Too Quickly: At same ESS staff meeting, General Marquat, directing his remarks primarily to Mr. F. L. WHITTINGTON, Chief, ESS Price and Distribution Division, commented on recent lifting by Japanese Price Board of controls over numerous commodities. (Press release issued by General Headquarters August 8 reported Whittington as announcing that controls on 7,537 items would be lifted by August 15 on grounds that commodities now in ample supply or that they have little direct impact on cost of living.) General Marquat stated that Japanese "going too fast" in efforts to decontrol, that while "we've always been in favor of lifting controls as fast as we can," decontrol must be carried out only after due consideration given to all factors. He concluded by pointing out that prices on articles previously decontrolled have not declined, despite alleged ample domestic supplies, but in some cases have even eased upward, specific mention being made of fresh vegetables, decontrolled about four months ago.

3. Fewer SCAPINS to be Issued by ESS: Referring to policy adopted by General Headquarters to turn greater degree of control of Japan's economy over to Japanese, General Marquat at August 9 meeting strongly emphasized necessity for ESS division chiefs to make certain that further SCAPINS to Japanese Government be held to absolute

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minimum, and that chiefs concerned be prepared fully to justify need to him for new SCAPINs. Elaborating, General Marquat stated his admonition included various instructions, directives, et cetera, which ESS officials have used in past to relay instructions to Japanese authorities.

4. Further SCAP Purchases of Taiwan Sugar: Referring to Department of Army (FACA) telegram of August 6, reporting that ECA and Department of State officials had proposed to Department of Army that SCAP be urged to buy all or major portion of 600,000 tons of Taiwan sugar, owing to desperate economic situation in Taiwan, General Marquat at August 9 meeting stated that, following discussion with General MacArthur, SCAP would be prepared to buy sugar but "only if it is good business." General Marquat added that General Headquarters has been receiving similar telegrams asking that SCAP's dollar funds be used to afford relief in other areas, sometimes without reference to price or to Occupied Japan's obligations elsewhere. ESS reply on above cited telegram has not yet been transmitted to Washington so far as now known.

5. Statements on Foreign Investments being Prepared: At same August 9 meeting, General Marquat referred to much-noted question of foreign investments in Japan, adding that "problem must be solved if we want dollars invested here." He referred to a preliminary statement prepared by Mr. Clark S. GREGORY, Executive Secretary, ESS Foreign Investment Board, and urgently asked other ESS officials to devote attention to problem. Mr. W. K. LeCOUNT, Chief, ESS Finance Division, stated that he was preparing paper on subject which would be completed soon. This Mission will endeavor to secure copies of these two and any other ESS statements on this subject for reference to Department.

6. Export Trade Prospects Not Favorable: At August 9 meeting, General Marquat stated that General MacArthur was "encouraged" by trade returns for first three months of current Japanese fiscal year commencing April 1, 1949. General Marquat added that if trend for exports continues, it might be possible for Japan to reach goal of \$500,000,000 for FY 1949-50. Mr. Frank E. PICKELIE, Chief, ESS Foreign Trade and Commerce Division, commented to effect that exports during April-June 1949 period represented goods covered by old contracts, and that trade outlook was not nearly so favorable as suggested owing to falling off or cancellation of new contracts. General

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Marquat remarked that, if export outlook so unfavorable, ESS should give thought to cutting back on buying of imports for industrial use and meanwhile should attempt to "sell harder."

7. Sterling Area Trade Negotiations Slow: SCAP and Sterling Area trade negotiators still involved in discussions of Japanese imports from Sterling Area. With SCAP import program stretched to extreme, but without inclusion of possible relief and rehabilitation imports from Sterling Area, it appears that Japan will buy no more than \$130 to \$140 million worth of goods from Area, and that Sterling Area, to cut down on SCAP sterling holdings, will buy only about \$100 million worth in return. India has stated that no medium staple cotton will be available during coming year. Trade Plan being held up pending receipt of information from London, information which trade mission, after a glance at last year's program, should automatically have brought with it; poor briefing of mission indicates that London may have been serious in announcing earlier cancellation of mission, and that mission may in fact have been despatched on very short notice, London having decided to press for higher Japanese purchases rather than for non-convertibility. General Marquat assertedly continues to look upon aforementioned cancellation as designed to make record look good; no one in British mission here, he believes, seriously wanted to make an issue of convertibility question.

8. Effect of British Textile Embargo Debated: Japanese press plays up disastrous effects on Japan's exports of recent British announcement discontinuing issuance of import licenses for textiles. ESS officials, however, believe that heavy textile purchases in second quarter 1949 may have been in part due to suspicion on part of merchants that such an embargo could be expected, and that Sterling Area purchases will in long run maintain high level; in any case, July purchases by Sterling Area, same officials state, may be considered depressed only by comparison with abnormally large purchases of preceding months. Sharp decline in Japanese exports would thus appear to be more directly connected with reported recession in United States than with Sterling Area's economy measures.

9. Announcement of Agencies Abroad Creates Stir: Due apparently to leak in Ministry of International Trade and Industry (MITI), the Mainichi Shimbun last week came out with announcement that Japanese banks, but not insurance companies, have been authorized by SCAP to establish agencies abroad. ESS besieged with requests for details, as well as for explanation of apparent discrimination against insurance companies, while foreign missions apparently annoyed at SCAP's "unilateral action" in opening bank branches abroad. Actual situation

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simply that ESS approved MITI memorandum outlining program for establishment of agencies abroad by export houses; step is logical one in line with recent SCAPIN allowing exporters to retain portion of foreign exchange, and applies only to trading companies.

10. General Marquat Objects to Number of Fingers in Import Plan: It now appears that General Marquat's principal objection to program for limited private imports revolved around number of agencies to be consulted before import could be consummated. Foreign trade officials admit that ridiculous number of bureaucrats must indeed be consulted, but hold that, pending thorough reorientation of controls, steps should be taken to open up private import trade, even on minor scale. August 15 target date for implementation of program will clearly not be met; no one willing to commit himself on possible new target date.

11. Deconcentration Report not to be Circulated: General Marquat has stated that report prepared by Deconcentration Review Board will not be reproduced, and only one copy will go to Washington. Reason for secrecy unclear, although, in view of frequent acrimonious exchanges in past, considered possible that report may contain unkind references to Anti-Trust and Cartels Section of ESS. Anti-Trust and Cartels Section meanwhile is preparing own report, while this Mission continues to prepare report in response to Department's A-119.

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STANDARD FORM NO. 64

CONFIDENTIAL

Office Memorandum • UNITED STATES GOVERNMENT

TO : NA - Mr. Bond
 FROM : NA - R. Fearey *RAF*
 SUBJECT: Clearance of Attached

DATE: August 15, 1949

In the attached airgram POLAD is asked to bring to the attention of the responsible SCAP officials for comment certain questions arising out of an Oriental Economist article reporting a trend towards concentration of production in efficient plants which, the Oriental Economist suggests, may come to conflict with the deconcentration program. It is my belief that the airgram would not serve a useful purpose and should not go out.

My reasons for so feeling are stated in part in the immediately underlying copy of a letter which Mr. Butterworth sent to Mr. Dodge last April. In this letter Mr. Butterworth expressed full approval of measures being initiated by the Dodge Mission to terminate conditions under which scarce materials were being allocated to an excessive number of plants, with resulting waste and high average costs of production. Such a state of affairs was clearly an impediment to production and trade revival. It is specifically stated in the letter that prevention of the development of "excessive concentrations of economic power" should not stand in the way of the concentration of production in the minimum number of plants required to meet the demand.

In addition to this factor, NSC 13/3, as stated in another attached memorandum of last April, makes SCAP the watchdog of the deconcentration and other reform programs. If there is any conflict between concentration for efficient production and deconcentration in the interests of a competitive economy, SCAP's staff may be expected to be aware of it and to ensure that necessary measures are taken by the Fair Trade Commission under the Anti-Monopoly Law. It is hard to see, moreover, how the two could seriously conflict, as the "concentration" in question does not refer to the combination of plants under a single control but rather the allocation of raw materials to a few efficient plants rather than to any plant which can claim to be engaged in an industry using a particular raw material. This concentration of raw materials allocations makes it harder for new concerns to get a start, but the deconcentration program is not an "infant industry" (plant) protection program. If it were it would constitute an extremely serious obstacle to economic revival.

Thirdly, although we should not normally obstruct requests for information from SCAP, there is danger that the attached airgram would be misinterpreted by SCAP as encouragement for the

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Mr. Bond	
Mr. Fearey	<i>RAF</i>
Mr. [unclear]	
Mr. [unclear]	

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thought that production should again be dispersed among an excessive number of plants each operating at a small fraction of capacity.

I am afraid it would be impossible to re-write the airgram to remove these difficulties, unless POLAD were requested to report purely on its own, without taking the matter up with ESS, a questionable procedure. If you wish I could talk with Barnett, who apparently has not seen the airgram, and see what can be done.

*State Dept.
Northwest Asian
Affairs Office
From Fearey*

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In reply refer to
NA

Dear Mr. Keefe:

In Mr. Bond's absence I am returning herewith copy of "Japan--Summary of Basic Economic Information", which you forwarded to this Department for clearance, together with a memorandum of August 16 from Mr. Warren S. Hunsberger, Acting Chief of the Division of Research for the Far East, containing comments and suggestions on the paper for your consideration.

Sincerely yours,

Robert A. Fearey
Division of Northeast Asian Affairs

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Enclosures:

- 1. Copy of Japan survey.
- 2. Memorandum from Mr. Hunsberger.

Mr. H. Douglas Keefe,
Foreign Service Operations Staff,
Room 3857,
Department of Commerce.

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8/18/49

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INCOMING AIRGRAM

RAT file DC/R

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

DIVISION OF
NORTHEAST ASIAN AFFAIRS

Office of
FAR EASTERN AFFAIRS
AUG 29 1949
DIRECTOR
Department of State

Action Assigned to
Action Taken *NA*

AUG 29 1949
DEPARTMENT OF STATE

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Date of Action

Action Office Symbol *2-11*

Name of Officer *2-11*

Direction to DC/R *2-11*

FROM: USPOLAD, Tokyo

Date of mailing: August 22, 1949

Rec'd: Aug. 28, 1949 9:19 a.m.

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FOR DEPARTMENT USE ONLY

Secretary of State,

Washington.

A-206, August 19, 1949.

(This airgram supplements this Mission's A-202, August 12, 1949, and preceding airgrams in this series. Request distribution be limited to Department for reasons stated in A-21 of January 28, 1949.)

1. Dodge Letter to Finance Minister Held Up: At weekly staff meeting August 15 of Economic and Scientific Section (ESS), attended by officer of this Mission, Major General W. F. MARQUAT, Chief, ESS, stated that General MacARTHUR had received original of letter sent by Mr. Joseph M. DODGE, here last spring as financial adviser to SCAP, addressed to Finance Minister IKEDA Hayato. General Marquat stated he and General MacArthur had agreed that this letter, which assertedly stressed need for strict Japanese adherence to Nine Point Economic Stabilization Program and which also contained statements aimed to allay Japanese fears concerning severity American economic recession, should be revised and sent to Minister Ikeda as GHQ communication. Apparently referring to statement in Dodge letter regarding shortage of credit, General Marquat wryly commented to effect that "there is no shortage of credit in Japan, but an excess of people waiting to be taken care of."

2. Question of Issuance of 1,000 Yen Notes: At same meeting, General Marquat stated that question of issuance of 1,000 Yen notes had been referred to ESC by Japanese authorities concerned. He

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August 19, 1949.

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evinced scant enthusiasm for proposal which, he said, if adopted, would probably have unfavorable psychological reaction tending to weaken stand against inflation. Present highest note in circulation is for 100 yen.

3. Plans for VOORHEES' Visit: At August 15 staff meeting, General Marquat instructed ESS division chiefs to prepare briefs of their activities and problems for Voorhees, Under Secretary of Army, due here soon. He asked that these briefs be factual, that they contain no personal viewpoints, and that they be without benefit of "Utopian philosophy." Additionally, ESS preparing statement of achievements under Nine Point Program since last such statement prepared just prior departure Dodge Mission last spring.

4. Returns from Tourist Traffic: At same staff meeting, General Marquat referred to memorandum prepared by Mr. M. H. HALFF, Executive Officer, ESS, regarding invisible exports derived from Japan's small but expanding tourist traffic. Total receipts for July 1949 estimated at \$150,000 (quipped General Marquat: "Invisible, indeed!"), highest monthly total thus far recorded since January 1948 when travel receipts first recorded. General Marquat added that study of value primarily because it pointed to potentialities of tourist traffic as source for dollars. Meanwhile, it may be noted that Halff, who has done much work on problem of inducing General Headquarters, especially G-1 Section, to adopt liberalized policies designed to encourage increased tourism in Japan, has been named by General Marquat as SCAP representative to attend meetings of ECAFE ad-hoc Sub-Committee on Travel to be held October 12-17 at Singapore.

5. Proposed Travel of Japanese to Bangkok ECAFE Meeting: In response to ECAFE invitation to have SCAP representatives attend meeting August 29 of Sub-Committee on Iron and Steel at Bangkok, ESS and Natural Resources Section have proposed sending two Japanese nationals unaccompanied by American personnel. Both ESS and NRS stated they presently unable spare personnel for this purpose. ESS now awaiting word from Bangkok as to whether or not political and other considerations make it inadvisable send Japanese alone to meeting. One of Japanese is official in Ministry of International Trade and Industry, the other professor of Economic Geology in Tokyo University.

6. "Export Bazaars" Running out of Textiles: At August 15 ESS staff meeting it was reported that so-called "export bazaars" (despatch no. 516, August 2, 1949) were running short of textiles, hitherto

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leading item sold for dollars at bazaars under ESS auspices; also that Japanese officials of Textile Kodan responsible for supplying textiles were "dragging their feet", apparently scheming to divert textiles from this purpose to domestic market. Kodan not anxious to move its stocks freely, since large-scale liquidation of such stocks would force Kodan out of business. General Marquat commented: "We've got to get these textiles into the export bazaars, even if we have to drive the Kodan out of business. These textile sales provide a legal source for dollars and we need dollars badly in view of export slump."

7. SCAP Purchases of Taiwan Sugar: Reference item (4), A-202, concerning Department of Army telegram of August 6 urging that SCAP purchase all or major part of 800,000 tons of Taiwan sugar. Under date August 16, ESS replied to effect that Japan's programmed sugar requirement for 1949-50 fiscal year amounts to 320,000 metric tons of which 200,000 tons expected to be purchased from Taiwan on barter basis. Near completion of current 50,000-ton contract (our despatch no. 514, August 2, 1949), ESS contemplates initiating negotiations for procurement additional 50,000 tons. Emphasized that presently not practicable to attempt firm arrangements for larger quantities. Added, however, that Japan's sugar import requirements will be reviewed periodically and in light of exports efforts will be made to alleviate Taiwan's economic plight by increasing sugar procurement.

8. Department's Views on Japanese Technicians Discussed: Department's view regarding travel of Japanese technicians (Dept's. air mail instruction no. 164, July 14, 1949) have been discussed with officials of ESS and G-1 Sections, GHQ, SCAP. While it is felt that caution should be exercised at first with view selection politically and morally acceptable candidates, both Sections concur in Department's views, and point to administration of foreign exchange retention program (our despatch no. 430, July 5, 1949), which is administered almost exclusively by Japanese, as ideal goal. These Sections agree that technicians should but rarely be denied permission to go abroad on grounds of contributing to possible competition with Japanese industries and, noting that such competition is inevitable, point out that proviso in SCAPIN 2035 was specifically aimed at protecting sericulture. They agree, finally, that currency other than dollars or sterling will be considered for payment when those currencies not available.

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Tokyo's A-206,
August 19, 1949.

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9. Circular on Foreign Business and Investment Activities:

SCAP Circular no. 2 of January 14, 1949 (our despatch no. 48, January 24, 1949) is now in process of revision. Proposed amendments, which are undergoing lengthy staff processing, would apply only to portion of Circular covering business activities. Distinction between foreign nationals resident in Japan on or before September 2, 1945, and those subsequently admitted is to be abolished, while license must be obtained from Japanese Government, with concurrence of SCAP, to engage in banking, insurance, transportation, public utilities, professional services, the dissemination of education, informational, or cultural materials from abroad, or other businesses which may be designated by SCAP. Proposal has concurrence of this Mission, and is considered step forward because it abolishes artificial distinction between permanent residents and recent entrants, and places more responsibility on Japanese Government. All businesses other than those listed will not require license, while would-be businessmen will no longer be required to prove that their activities will further Japan's economic rehabilitation or otherwise advance SCAP objectives. Significant also is fact that recipients of foreign exchange will no longer have to be licensed.

10. Sterling Area Talks Continue to Lag: Complete information not yet having been received from London, negotiations toward new trade arrangement with Sterling Area continue to lag. Conferences between SCAP and Sterling Area trade coordinators indicate that undelivered Sterling Area purchases already contracted for total considerably higher figure (possibly as large as \$50,000,000) than had been expected. This will of course result in diminished Sterling Area purchases under new arrangement; \$100,000,000 is still considered likely figure for such purchases, with additional \$26,000,000 in undelivered purchases under old contracts. Total of \$100,000,000 includes approximately \$14,000,000 under GARIOA and EROA coordination, chiefly for procurement of tropical products; it is possible that procurement of foodstuffs and petroleum may add \$35,000,000. ESS foreign trade officials conclude that chief lesson thus far derived from conference is that Japan must look toward new markets, especially in Latin America; generous program for GARIOA procurement in Latin America is being prepared in anticipation of arrival of Under Secretary of Army Voorhees.

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INCOMING AIRGRAM

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

DIVISION OF
NORTHEAST ASIAN AFFAIRS

SEP - 6 1949

528

DEPARTMENT OF STATE

AIRGRAM



Action Assigned to *NA*

Action Taken -----

no action necessary

Date of Action -----

Action Office Symbol *27*

Name of Officer *Ferry*

Direction to DC/R *file*

Z
ACTION:FE
INFO:
DC/R
E
ITP
OFD
OLI

FROM: USPOLAD, Tokyo

Date of mailing: August 29, 1949

Rec'd: September 3, 1949
4:19 P.M.

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FOR DEPARTMENT USE ONLY

Secretary of State,

Washington.

A-212, August 26, 1949.

(This airgram supplements this Mission's A-206, August 19, 1949, and earlier airgrams in this series. Request distribution be limited to Department for reasons stated in A-21 of January 28, 1949.)

1. Reorganization of ESS: Question of reorganization of Economic and Scientific Section (ESS), General Headquarters, brought up at recent ESS weekly staff meetings by Major General W. F. MARQUAT, Chief, ESS. At August 22 meeting, General Marquat indicated that reorganization, latest of four or five within past 12-15 months, was being put into effect as from that date. Principal change involves appointment Mr. Calvin O. VERITY, in ESS for several months as adviser on production and utilities, as deputy chief replacing Lt. Col. E. H. RYDER who named executive officer under Verity. Appointment civilian for second most important ESS post considered forward step in general movement to have ESS contract operations and personnel with new emphasis being placed on surveillance of Japanese economic operations rather than detailed planning and actual operation of Japan's economy. Twenty per cent slash in American personnel of ESS now called for, with still further cuts expected before end 1949. According 1949 Who's Who in America, Verity learned iron and steel business from bottom up; he appears to be top-flight executive not interested in

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

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Tokyo's A-212,
August 26, 1949.

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3. Bottlenecks Preventing Maximized Exports: At same staff meeting, General Marquat devoted considerable attention to impending arrival of Under Secretary of Army VOORHEES. Referring to Nine Point Economic Stabilization Program, he said only point not carried out successfully involved maximizing exports. General Marquat went on to say that ESS division chiefs must be prepared discuss in detail with Voorhees group bottlenecks preventing maximized exports and come up with recommendations to cope with situation of decreased, rather than expanded exports.

5. Importance of Coal Decontrol Stressed: General Marquat, at same meeting, referred to impending decontrol of coal, now in adequate supply, as one of most important decisions in economic field to be made by General Headquarters. He said that Japanese performance after coal decontrolled would be carefully watched as giving good indication as to their possible performance when other items decontrolled and when other economic measures relaxed. General Marquat stated that coal mining operators, which he termed "new Zaibatsu," were inflation-minded and intent upon raising prices by devious methods. He said that notice of coal decontrol to Japanese Govt, which now being drafted in ESS, must make point absolutely clear to Japanese that any attempt on their part to "rig-market" would be countered immediately by reapplication control measures.

4. Issuance of 1,000 Yen Notes Decided Upon: Re item (2), A-206, August 19, 1949, General Marquat at same meeting stated that decision now reached in General Headquarters to permit Japanese Govt to issue new 1,000 yen notes, despite continued opposition to proposal by ESS Finance Division. Proponents of plan said issuance larger denomination notes would enable banks to dismiss 20 per cent of their employees, owing to decreased need for counting notes, and personnel reduction in turn might result in lower commercial interest rates. General Marquat said, however, that Japanese authorities would be asked to prepare way for issuance of new notes in order allay public fears that currency conversion imminent and to correct inflationary trend in public mind. Question of issuance of new notes discreetly discussed August 26 by officer this Mission with responsible official of Bank of Tokyo, reference being made by officer to recent press item containing denial by Finance Minister regarding plan for issuing new notes. Bank of Tokyo official stated that problem counting notes in banks very serious; that present 100 yen note comparable to prewar 50 sen or one yen note in buying power; that issuance 1,000 yen note, which would be welcomed

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Tokyo's A-212,
August 26, 1949.

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both by banks and general public, would have no marked inflationary effect at this time when commodity prices showing tendency to level off.

5. Interest Rate for Counterpart Fund Loans: At August 22 meeting, General Marquat referred to discussions with Japanese authorities regarding interest rate to be charged for loans made to Japanese industries, et cetera, from U. S. Counterpart Fund. He said that Japanese had asked for 5 per cent per annum rate, but ESS is to recommend to Department of Army rate of 7.5 per cent in recognition of current private commercial interest rates about 12-14 per cent. General Marquat added that when Japanese banks lower their rates to 7.5 per cent, ESS might be willing to recommend adoption 5 per cent rate for Counterpart Fund loans.

6. Hong Kong Firm Offers Taiwan Sugar: Re item (7), A-206, concerning SCAP purchases of Taiwan sugar, Dept may be interested to note that ESS under date August 19 received offer from the Agent here for Hong Kong Govt, transmitted on behalf of Jardine Matheson & Co., Ltd., Hong Kong, for 5,000 metric tons of Taiwan sugar at \$115.00 per ton, c.i.f. Japanese port. Under date August 24, ESS informed Hong Kong Govt Agent that this offer "cannot be given favorable consideration at present time as all sugar requirements have been met."

7. American-Japanese Arbitration Committee: Re item (5), A-117, May 13, 1949, on this subject, Mr. Bruce AITCHISON, American lawyer, Tokyo, August 23 informed meeting of board of governors, American Chamber of Commerce in Japan, that arrangements for establishment of American-Japanese arbitration committee practically completed. Aitchison, who stated that he had devoted more than three weeks of his own time to negotiations with various Japanese organizations, preparation of documents, and correspondence with American Arbitration Commission, New York, said he would make full details of new committee available for transmittal to Department prior to public announcement here and in New York.

8. Franklin and Bryan Permitted to Practice Law Here: August 25 representative Japanese Attorney General's office called at this Mission stating that Judges Cornell S. FRANKLIN and Robert T. BRYAN, well-known in Shanghai's American community, had been granted licenses July 12, 1949, to practice law in Japan. Representative from Attorney

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Tokyo's A-212,
August 26, 1949.

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General's office requested, since impossible send mail to Shanghai, Mission inform Judges Franklin and Bryan of foregoing in telegram to AMCONGEN, Shanghai. In view of outstanding position held by Judges Franklin and Bryan among Americans in China, and belief their presence in Japan would benefit local American business community, this Mission agreed to send telegram as suggested.

9. MITI Reportedly Favors Return of Trade Associations: Japanese Ministry of International Trade and Industry (MITI), ESS Foreign Trade and Commerce officials state, have informally proposed that system akin to prewar foreign trade associations be established after abolition of floor prices. MITI argues that some control will be required to assure that dumping does not take place, and that best control would be that exercised by organized exporters, subject of course to control by Ministry. MITI proposes to circumvent ESS Anti-Trust and Cartels Division by introducing from floor of Diet bill legalizing export control associations; in that event, however, Government Section of GHQ, SCAP, would be final approving authority, and ESS would be consulted at discretion of that Section. MITI hopes to put forth strong plea of urgent necessity to convince Government Section that bill should not be vetoed. MITI will probably not undertake program, however, unless it has support of ESS Foreign Trade and Commerce Division, which support may not be forthcoming despite some disposition by that Division to favor plan. This Mission believes that, although many official controls should be abolished as rapidly as possible, it may be unwise to sanction return to control by private associations in preference to Japanese Govt supervision in form of foreign exchange or customs controls.

10. Sterling Area Picture Dark: Survey of carry-overs (undelivered portions of old contracts) indicates unexpectedly high totals for undelivered Japanese sales to Sterling Area. Most pessimistic ESS officials therefore hold that new procurement, aside from that necessary to liquidate SCAP's sterling balances, will be as low as \$25,000,000. ESS officials have therefore come up with interesting proposal, not yet submitted to Sterling Area negotiators, that Japan invest excess sterling balances in Sterling Area shipping interests. Meanwhile, Area negotiators continue to wait for word from London. Opinions in General Headquarters vary as to cause for delay: more cynical view is that Japan, faced with falling imports,

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Tokyo's A-212,
August 26, 1949.

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may be forced into making concessions to Sterling Area demands for larger purchases; other view is that London is too busy preparing for Washington talks on other subjects to worry about Japan.

11. Japanese Suggest Stockpiling of Goods in Excess of Import Program: MITI has made public its views that barter arrangements should be considered even when proposed imports would be in excess of quantities authorized on import program. Theory is that it would be better to have stocks of imported iron ore or pulp than stocks of domestically-made binoculars or toys. ESS, however, assertedly fears that such arrangements would lead to loss of dollars on items that might eventually be sold to U. S., or that dumping might even ensue. Barter arrangements with U. S. particularly are regarded with suspicion, it being possible for exporter to make profit by sending raw materials to Japan even though goods received in return must be sold below cost.

12. Draft Trade Arrangement with Germany Awaits Approval: Revised draft of Trade Arrangement between Trizone Germany and Occupied Japan (our despatch no. 566 of August 19, 1949) being forwarded to Chief of Staff, GRR, SCAP, for approval. New text makes clear that Trade Plan in no way constitutes commitment to buy goods in quantities specified, and lowers total contemplated Japanese purchases from \$12,000,000 to \$7,933,000, to be in line with SCAP-authorized import program and with plans attached to other trade arrangements. Contemplated purchases of manufactures from Germany drastically reduced (iron and steel products almost eliminated), while proposed purchases of potash raised from \$900,000 to \$5,000,000, subject to Washington approval regarding use of appropriated funds. When approved, draft will be airmailed to Washington for transmittal to Trizone governors.

13. Other Foreign Trade Notes: (1) Commodity experts of ESS Foreign Trade and Commerce Division have been ordered to maximize purchases from Belgian Monetary Area since such purchases continue to lag far behind sales. (2) ESS Textile Division has proposed that trade mission be despatched to Middle East with view to expanded dollar sales. Textile sales to Middle East have hitherto been made largely in sterling, through entrepots; feeling now is that, since Sterling Area cannot purchase enough for own needs, entrepot trade, especially through Aden, should be stopped and dollar sales to Middle East maximized. Proposed trade mission would visit Egypt, Turkey, Iran, Iraq, Saudi Arabia, Ethiopia, and Afghanistan.

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DEPARTMENT OF STATE
ASSISTANT SECRETARY

8/31/49

GTI - Mr. Jernegan:

For action.

JEU
JEU

DIVISION OF GREEK, TURKISH,
AND IRANIAN AFFAIRS
DEPARTMENT OF STATE

AUG 31 1949

~~JDJ~~
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Jeanyne:

Would you please draft
reply to the attached?

Have we ever determined
what the Iranians have
requested or answered
their request.

FW 894.50/8-2-849

Anal.	<i>[Signature]</i>	DSEA PEP Unit	<i>GCM</i>
Rev.			
Out.			
Dist.			

Would you please draft reply to
the attached? Have we ever
determined what the Iranians
have requested, or answered
their request?

GCM

NEA
 Department of State
 3003 MASSACHUSETTS AVENUE
 WASHINGTON, D. C.
 AUG 30 1949
 George C. McGhee
 Assistant Secretary

Eagles Mere, Pa.
 August 28th 1949.

894.50/8-2849

Dear Mr. McGhee,

Mr. Aram telephoned me yesterday your kind message, and I hasten today that I too am looking forward to the pleasure of a frank conversation and our horizon with you in the near future.

Much has happened since we last met and there are trends which need to be checked if we are to reach the perfect understanding which we both desire.

Anal. *W*
 Ser. *W*
 Oct. *W*

Meanwhile, to supplement
 195000

OSI FILED
 SEP 14 1949

894.50/8-2849

3003 MASSACHUSETTS AVENUE
WASHINGTON, D. C.

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note I wrote to the Secretary of State
on July 29th, I would like
again to urge upon you the ad-
visability of placating public
opinion in Iran by extending
to my country a larger measure
of economic and military as-
sistance.

In this connection, I have
noted in the press that the
State Department has under
consideration "a comprehensive
program for the economic de-
velopment of the Near East"