

DCR

DEPARTMENT OF STATE

Memorandum of Conversation

DATE: July 27, 1948

SUBJECT: Economic Aspects of the Japanese Occupation.

PARTICIPANTS: Messrs. W. R. Herrod, Pres., International Gen. Elec. Co.,/J. E. Fullum, V-Pres., IT&T, R. F. Loree, Chairman of Bd. of Council, G. H. Michler, Std. of N.J., Arthur B. Foye, Haskins & Sell (Dir. FE-Amer. Council, Commerce & Ind.), members of Nat'l. For'n. Tr. Council, and Messrs. Saltzman, Claxton, Butterworth, Parke, Lewis, Allison & Hilliard (State), Mr. Pollard and Maj. Archer (Army).

COPIES TO:

O - Mr. Saltzman ✓
 Mr. Lewis
 OE - Mr. Whitman & Mr. Parke
 FE - Mr. Butterworth
 NA - Mr. Allison

IR - Mr. Vernon
 EP - Mr. Smith
 CAD - Mr. Pollard

894.50/7-2748

At their request the above members of the National Foreign Trade Council came in on July 26 to discuss with Mr. Saltzman various aspects of our economic policy in Japan, particularly those bearing on the question of whether or not American industrial concerns desire to resume possession of their pre-war interests in Japan or make new investments there.

Mr. Herrod opened the discussion by noting that he had just returned from a visit to Japan and the Far East and had that morning discussed his observations with Mr. Draper who had suggested that the group also sit down with Mr. Saltzman. He stated that his company does not consider that the economic climate is yet propitious for the resumption of participation in Japanese industry for the following reasons:

1. The law and regulations which give effect to our policy of decentralization are too vague with the result that the formulation of policy, as well as its administration, is left to individuals with consequent uncertainty on the part of businessmen and corporations as to the conditions under which they will be expected to operate in Japan. In reply to a question Mr. Herrod remarked that although this uncertainty was perhaps the more important side of the picture, at the present time the law itself should, in his opinion, be changed so as not to make geographical location the principle criterion for the decentralization of a particular Japanese concern.

2. We should stop the "purge" of industrialists now. Some of the best managerial brains among the Japanese had been removed from positions where their talents could be most effective and there was among them a wide-spread feeling that it would do no good for them to appeal their cases since the Board of Appeals would not see fit to reinstate any of those purged. Mr. Herrod sighted the cases of 8 or 9 purges from the Board of Directors of the company in which General Electric was interested, stating that they were not thinking of making any appeal. In Mr. Herrod's opinion many industrialists had been unjustly removed from their positions and should be reinstated. He made it quite clear that he was not advocating that the purge of military or political figures should be stopped.

CS/V

894.50/7-2748
2195

- 2 -

3. The sincerity of the U.S. policy of allowing the Japanese to run their own affairs is questionable. We are really asking the Japanese to take the responsibility for initiating and carrying out policies which we by one means or another force them to adopt. This Mr. Herrod considers unfair and unwise.

4. Inflation is cutting down the value of U.S. interests in Japanese concerns. Mr. Herrod feels that some plan of compensation should be worked out so that the interests of U.S. firms would not suffer depreciation in this manner.

5. The labor situation is not satisfactory. Japanese management has not learned how to deal with organized labor. Furthermore, the policy of maintaining full employment in plants regardless of their production is wasteful and uneconomic.

Mr. Fullam of the IT&T indorsed Mr. Herrod's remarks generally but said that his company, which owned a 30% interest in certain Japanese concerns, had applied for the return of its property and was ready to get underway when this return had been effectuated. He pointed out, however, one further difficulty facing U.S. firms who wished to get back into the Japanese picture: Most such firms had written off their Japanese interests over the past years and had thereby obtained a U.S. tax reduction. If they were to resume their interests in Japan they would be liable for heavy tax payments to the U.S. Government.

Mr. Loree also strongly indorsed the statements of Mr. Herrod and Mr. Fullam and added that he felt it was very important that a statement be made at a very high level (he mentioned the President) to the effect that it was the primary U.S. policy to rebuild Japanese industry. The principal object of such a statement would be to reassure the Japanese industrialists and to give them the confidence in the future which they need in order to go ahead. Mr. Butterworth questioned whether another such statement need be made, pointing out that each time one had been issued there had been very adverse reactions from other Far Eastern countries such as China and the Philippines. Mr. Butterworth felt that what was needed was actions on our part, not statements.

Another criticism voiced by both Mr. Herrod and Mr. Loree was that we had too many military government personnel in Japan with a result that they were constantly interfering with the actions of the Japanese and thereby inhibiting the growth of the Japanese self-independence. Mr. Pollard pointed out the dilemma which faces our military government people in attempting to reach a compromise between letting the Japanese have as much freedom and responsibility as possible yet retaining sufficient control to insure that the objectives of the occupation are carried out.

Mr. Saltzman thanked the visitors for their remarks and suggestions and assured them that many of the problems which they had brought up had been and would continue to be the subject of careful consideration by the State Department.

O:GWLewis:mds

DEC 11 1950
APR 11 1951
M.P.
J.H.W.

STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

TO : A-S Mr. Wisner

DATE: February 3, 1948

FROM : A-S Mr. Rudlin *WR*

SUBJECT: Proposed Cable to SCAP on the Purge Program in Japan.

As you know, FE has for some time past been anxious to obtain further information from Tokyo in order to make a more accurate appraisal of the purge program than is possible with the data now available here. Mr. Butterworth has mentioned his desire to send such a cable on several occasions, the last being during the discussion in ~~your~~ ^{his} office with General Fox last Friday, January 30. I have come to the end of my tether with the Army Department in this matter and I suggest that you mention it to Mr. Gray when you talk with him next. There is no problem of substance, only of the r.p.m. of the wheels of God. The facts are as follows.

A-S received from FE a proposed draft cable from SCAP on the purge program on December 2, 1947, at which time we were in the middle of negotiations with the Army Department concerning the Zaibatsu Program. Not wishing to confuse the two issues we withheld the draft from the Army Department for a few days. On December 9 Mr. Gray proposed for our concurrence a cable requesting SCAP's opinion as to the advisability of an immediate public announcement that the economic purge was complete. Over our non-concurrence, this cable was sent 'personal' by Mr. Draper who presumably rejected the points made in your letter to Mr. Gray of December 12 pointing out the desirability of obtaining the information asked for in our draft, which we had sent him in the meantime. We saw the problem not as a simple completion of the purge but as one calling for study and perhaps further constructive measures, including possible restoration of certain purgees. SCAP replied that such announcement had already been made and denied Mr. Draper's implication that there had been some misunderstanding.

On 1 January 1948 you again wrote to Mr. Gray urging the dispatch of the original State draft. Since that time Mr. Fearey of NA and I have met with CAD personnel, to whom our cable had been referred by Mr. Gray's office for a "recommendation". CAD had no changes to suggest except that the cable be made into an AG letter. We agreed to this and for the last two weeks I have been able to discover little beyond the fact that the letter is in CAD when I call Colonel Dupuy of Mr. Draper's office and that it is out of CAD whenever I call Mr. Pollard of that Division. The latest news is that it has left the Economics Branch of CAD and may or may not still be in some other part of that Division, collecting desultory clearances.

I believe that the letter might eventually get out if you could induce Mr. Gray to resume an interest in what is after all the enclosure to a piece of correspondence addressed by you to him.

Done

3533
4270

STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

TO : O - Mr. Claxton

DATE:

August 3, 1948

FROM : OE - Mr. Whitman *OPW*

SUBJECT: WARX 85777 - apportionment of funds for rehabilitation in Japan, Korea and the Ryukyus

OE is in favor of the immediate allotment from the total appropriation of \$1,300,000,000 of \$75 million for rehabilitation in the Far East. It also agrees with the decision to speed up the commitment of funds in order to exhilarate the rehabilitation process. In the case of Korea, however, considerable care must be taken to make the expenditure of funds part of an integrated plan which takes account of all of the urgent Korean requirements. In particular, Korean requirements for expansion in power, fertilizer and fishery needs to be re-examined in light of the present situation in Korea and the over-all availability of funds.

OE is in general agreement with the apportionment of the \$75 million from the GARIOA appropriation for fiscal year 1949 set forth in the subject radio. It is felt, however, that the share allotted to the Ryukyus should be further examined. Whereas Japan is apportioned roughly 35% and Korea 33% of the amounts requested from Congress by the Department of the Army for rehabilitation purposes, the share allotted to the Ryukyus is only about 15% of the budget request. This amounts to only \$2.4 million for the Ryukyus as compared with a budget request of about \$16 million. It seems extremely doubtful if any worthwhile rehabilitation can be accomplished with this small amount of funds. It is very possible that the Ryukyus problem simply cannot be met from the total funds on hand. If so, the Department should consider the consequences for our policy objectives.

OE is in complete agreement with the positions of subject radio which request the theater to furnish an over-all trade program to be used as a future plan on appropriation requirements for economic recovery.

The cable does not answer two important issues. First, it does not solve the question of general apportionment of money for Korea from the GARIOA funds. As previously indicated to you, this needs to be tied down as quickly as possible.

Secondly,

449642
894,500 / 8-348
2282

- 2 -

Secondly, it does not indicate where the rehabilitation funds will come from. Since the original GARIOA program was \$1,250,000,000 it is clear that \$75 million calls for a \$25 million reduction. Informal information from the Department of the Army indicates that they have in mind spending a total of \$100 million for Far East reconstruction. The \$50 million reduction from the original GARIOA program would come in large part from the German appropriation (\$40 million). It is understood the Army hopes to make this up from the ECA. Army "spokesmen" also state that the current harvest in Germany will enable some reduction in United States financial food shipments. It is not clear whether ECA is aware of this part of the Army program and it should be further considered by the Department and ECA before final action is taken.

OE:RHWhitman:emh

~~TOP SECRET~~

DEPARTMENT OF STATE

THE UNDER SECRETARY

S/P

August 10, 1948

~~WCB~~
HMB
JMA
RM/R
Central
Files
Dell
894.50/811048

This Document Must Be Returned to

FE Mr. Butterworth:

You may be interested in the attached copy of comment by Mr. Fahey of the National Security Resources Board which he forwarded to Admiral Souers along with his clearance at the Consultant level of the NSC paper on Japan.

Attachment:

Copy of letter to Admiral Souers from Mr. Fahey, July 29, 1948.

S/P:MBishop:mhw

OFFICE OF FAR EASTERN AFFAIRS
AUG 10 1948
DIRECTOR
DEPARTMENT OF STATE

BC/R
7
Rev
Cat

OCT 2 1966

TOP SECRET FILE
894.50/811048

DECLASSIFIED
E.O. 11652, Sec. 2(a) and 5(D) or (E)
FOI 77-217
By [Signature] Date 8/16/77

~~TOP SECRET~~
DOWNGRADED TO SECRET
Authority: State letter of 1-14-71
By [Signature] Date 6-30-77

~~TOP SECRET~~

COPY...1...OF...3...COPIES

COPY:S/P:mhw

July 29, 1948

Admiral Sidney W. Souers
Executive Secretary
National Security Council
Washington, D.C.

Dear Admiral Souers:

I am in general agreement with the revisions of the staff on NSC 13 as attached to your memorandum of 23 July.

I do, however, have some comments on paragraph IV, 5, which are advanced as suggestions concerned with implementation and thus entail no amendment to the policy as drafted.

The Army, as the Administrative Agent of the U.S. in Japan, is faced with a problem of considerable magnitude in promoting Japanese economic recovery. Omitting, for the present the reparations problem, economic recovery in Japan depends to a considerable degree on the reestablishing of Japanese trade in Pacific far eastern areas. Recent returnees from commercial and trade cities in the far east make it clear that many in that part of the world are most reluctant to see Japan reestablish her erstwhile trading position.

Without a market for Japanese goods in the far east, the economic recovery of Japan is most difficult--if not impossible. If we want a Japan ultimately aligned with U.S. interests, we must either help them toward recovery, including the reestablishment of their markets, or we must be prepared to bear the cost as a continuing drain against the U.S. and its resources.

One means of helping Japanese recovery and of attempting to dispel aversion to the buying of Japanese products might be developed by the Army, the Economic Cooperation Administration, and the State Department, in close concert, somewhat as follows:

a. Devise a series of quid pro quo arrangements for the acquisition of ECA requirements for western Europe from far eastern areas on the basis that these far eastern areas will receive an equal or substantial amount of Japanese goods;

b. Through an announcement by the President or Secretary of State; by the State Department on a diplomatic level, or through the Far Eastern Commission:

~~TOP SECRET~~

~~TOP SECRET~~

-2-

Admiral Sidney W. Souers

July 29, 1948

(1) Stress the advantages to the whole Pacific area of the reestablishment of international trade to all concerned;

(2) Call attention to the fact that Japan is completely disarmed and cut off from materials in kinds and in quantities that would again make her a military threat;

(3) Announce in conjunction with (1) and (2) above, the ECA acquisitions suggested in paragraph a above.

Yours truly,

DANIEL COX FAHEY, JR.
Planning Officer

~~TOP SECRET~~



THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

ACTION
is assigned to

DFD

No. 259

AMERICAN LEGATION
Wellington, New Zealand, August 11, 1948

CONFIDENTIAL

Subject: Views of New Zealand Minister of Finance
on Economic Policy for Japan.

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

Sir:

I have the honor to enclose a newspaper report
(from the Southern Cross, Wellington, July 27, 1948) of
an address made on July 26 to the Political Science
Society of Victoria University College, Wellington, by
Mr. WALTER NASH, Minister of Finance.

Mr. Nash's remarks covered a world-wide scope.
The following points may be of interest:

(1) Mr. Nash repeated his earlier praise
of the ERP as "without parallel in history"
and considered it vital to Britain's economic
recovery. He expressed the view, however, that
American aid could not be stopped without throw-
ing the U.S. economy out of gear and bringing
unemployment.

(2) Referring to the Philippines, Malaya
and the Netherlands East Indies, Mr. Nash
questioned the morality and ethics of any
section of people which had a high standard of
living, improving its standard at the expense
of the resources of a country with a lower
standard.

(3) Discussing the problem of displaced
persons and refugees in Europe, Mr. Nash believed
that New Zealand should do more toward the solution
of the problem by relaxing its bars on immigration.

(4) Discussing Japan, Mr. Nash was quoted
as saying: "I don't think we can solve our
problems until we get Japan back into production.
Japan, with an annual birthrate of 900,000, the
third highest in the world, could not exist
permanently in its present space if peace was
to be kept."

CONFIDENTIAL

Since
AUG 31 1948

ACTION
OFD
COPIES
TO:

POS - enc

*FE
ITP*

*OLA
EUR*

DC/R

7R

*at Com - enc
Tow - enc
7RB - enc*

DOE - ITP Unit
Ancl.
Rev.
Dist.

1948 AUG 23 PM 3

FACILITIES BRANCH

894.50/8-1148

CS/A

894.50/8-1148

FILED

CONFIDENTIAL

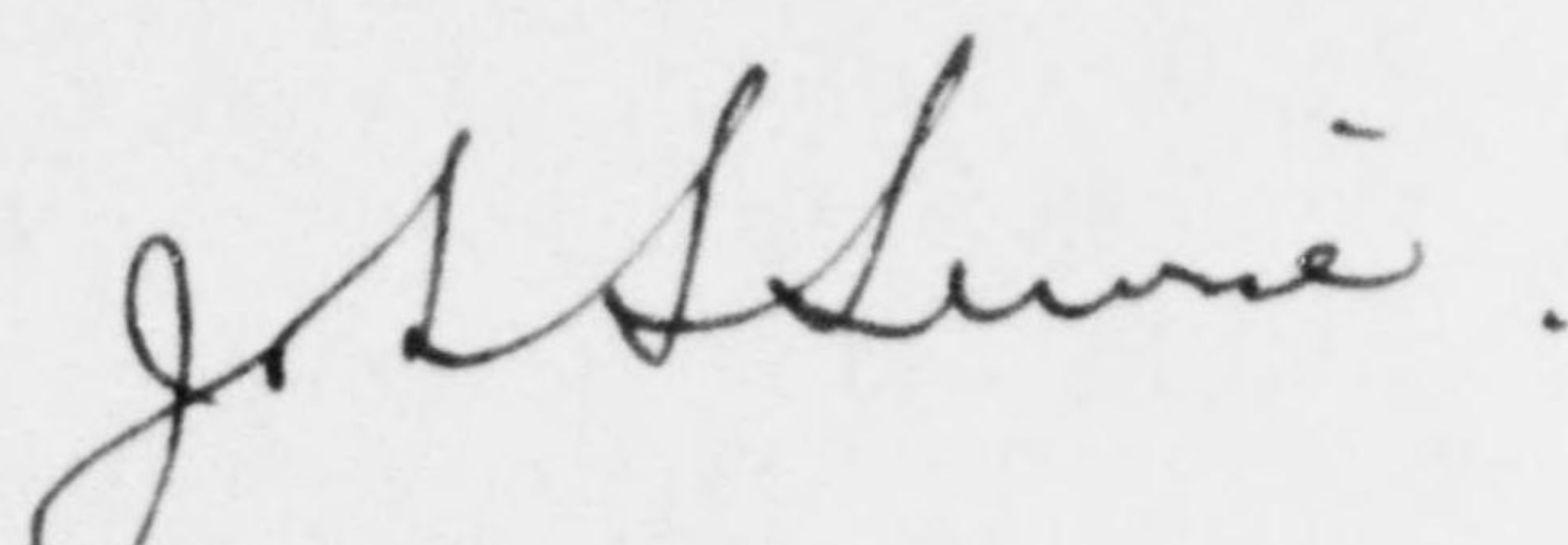
Wellington, New Zealand
Despatch No. 259
August 11, 1948

- 2 -

Since New Zealand has generally been critical of American views regarding the level of economic recovery to be permitted to Japan, the Legation has attempted to clarify Mr. Nash's remarks on this subject. Mr. G. H. Datson, a secretary of Mr. Nash (who acknowledged that he had prepared the material for Mr. Nash's address) informed the First Secretary of this Legation that Mr. Nash spoke from notes instead of a prepared text; that he was correctly, though incompletely reported; and that Mr. Nash had in mind the expansion of textiles and other consumer industries rather than any increase in steel or other heavy industrial production. Regarding Mr. Nash's second point, Mr. Datson states that Mr. Nash was referring to the necessity of permitting foreign trade outlets and reasonable Japanese immigration after Japan had been democratized and divested of the possibility of economic or political expansion.

The Japan desk officer of the Ministry of External Affairs has informed the First Secretary that Mr. Nash's address was not referred to the Ministry. He understood that Mr. Nash was speaking only in very general terms and referring to long-term developments rather than the immediate future. He insisted that it would be incorrect to attach any important significance to Mr. Nash's statements as indicating any change in the official views of the New Zealand Government regarding Japan.

Respectfully yours,
For the Minister:



John S. Service
First Secretary of Legation

Enclosure: *AD KAM*, 1 with orig.
1. Five copies of news clipping from
the Southern Cross, July 27, 1948.

File No. 711/800
John S. Service:des ✓
Original and Hectograph to Department

CONFIDENTIAL

CONFIDENTIAL

Enclosure No. 1 to despatch No. 259, dated August 11, 1948, from the American Legation, Wellington, New Zealand, on the subject: Views of New Zealand Minister of Finance on Economic Policy for Japan.

(From the Southern Cross, Wellington, July 27, 1948)

Mr. Nash Surveys World Problems

"Immediately, I can't see war coming; but I have seen from my own experience wars come out of incidents of the moment, which have come from something which has been built up," said the Minister of Finance, Mr. Nash, speaking on problems of world peace at Victoria University College last night.

He took his audience—members of the Political Science Society—on a conducted economic tour of the world, explaining the problems being faced at present by a number of nations.

The engines of war had made an "awful mess" of Europe, physically and economically, said Mr. Nash, and he did not foresee the damage being repaired within a generation.

Quoting figures to show the productive state of countries at present, he pointed out that a hungry people which was not getting enough to eat was a dangerous one.

"I don't think we can solve our problems till we get Japan back into production," he said. Japan with an annual birthrate of 900,000, the third highest in the world, could not exist permanently in its present space if peace was to be kept.

EASTERN PROBLEMS

Referring to the Philippines, Malaya and the Netherlands East Indies, Mr. Nash said he questioned the morality and the ethics of any section of people which had a high standard of living, improving its standard at the expense of the resources of a country with a lower living standard.

It was unchallengeable, however, that Britain and Holland have done much to increase the productive capacity of these countries.

Indonesians were trying to get out of difficulties which they had been under for a long time. By a great change in procedure, countries such as Pakistan and Burma had been allowed to become self-governing, a progressive step.

"We will have to come to realise that there is no inherently superior people," remarked the speaker.

The European Recovery Programme was without parallel in history, said Mr. Nash. Under it, 22,000,000,000 dollars would be virtually given away to help European countries.

"I do not think that Britain's economy could have recovered without the programme," he said. It was the greatest recovery plan in history.

He could not see the aid being stopped suddenly without throwing U.S. economy out of gear. If there was a sudden decision to stop sending goods, and production slowed, there would be a danger of unemployment.

STANDARD OF LIVING

"The standard of living of a country is determined exclusively by its resources. This is not confined to physical resources," he said.

Mr. Nash said he did not think that the contribution made to democracy by the people of Britain from 1939 to 1945 was fully realised by others. The American loan of just under £1,000,000,000 had all been spent. The Marshall Plan would not prevent the depletion of reserves.

Britain's contribution to world progress had been greater than that of any other country, and it would be disastrous to the world if her prestige was lost by conflict with other entities.

Only a minor contribution to Britain was New Zealand's policy of selling her goods at a lower price than could be obtained elsewhere, and buying imports at a higher price than would have to be paid to other sources.

One problem which would have to be solved was that of the 1,000,000 refugees in Europe who had nowhere to go. New Zealand, Australia, Canada and the United States were examples of countries which could do much toward the solution by admitting some of them as settlers. "We have got to work out what we are going to do about it," he said.

NOTE OF HOPE

Mr. Nash ended his address on a note of hope. World organisations

were showing more promise of success, and there was more freedom, with higher living standards today than ever before. Though 10 per cent. less production had to satisfy 10 per cent. more people than in 1939, he considered that distribution was better.

Sometimes United Nations appeared hopelessly ineffective, but he thought that the organisation was now showing more promise than the League of Nations.

"In spite of difficulties ahead and disintegration in Britain, Europe and the East, it is a period which every person with anything in him can look forward to with some pleasure as a frightful and difficult job to do. If we do it, we will have achieved something great. If we don't, we will be in a bigger mess than ever before," concluded Mr. Nash.



THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

UNITED STATES POLITICAL ADVISER FOR JAPAN

ACTION
is assigned to



No. 548

UNCLASSIFIED

Tokyo, August 21, 1948.

DIVISION OF
NORTHEAST ASIAN AFFAIRS

SEP 10 1948
DEPARTMENT OF STATE

Subject: Transmittal of "Report on Japanese Economic Conditions."

RECEIVED
DEPARTMENT OF STATE
5
1948 SEP 10 PM 4 38
FACILITATION BRANCH
THE HONORABLE
THE SECRETARY OF STATE,
WASHINGTON.

RECEIVED
DEPARTMENT OF STATE
18
1948 SEP 10 AM 10 49

894.50/8-2148

Sir:

I have the honor to enclose five copies of a study by the Economic Stabilization Board, a semi-independent agency of the Japanese Government under the direct supervision of the Prime Minister, dated May 23, 1948 entitled "Report on Japanese Economic Conditions", together with editorials commenting thereon (which appeared as translations in the Nippon Times) from the Yomiuri Shimbun of May 24 and the Mainichi Shimbun of May 25. Yomiuri, it will be noted, is highly critical of the study, refusing to dignify it with the title "White Paper", and considers it superficial, complacent, and overly tolerant of the Government's failures. Mainichi, on the other hand, receives the report as a "Second White Paper" in succession to that of July 1947, and, although fearful of a possible "austerity pattern" for the nation, is generally pleased with the Board's efforts.

This Mission feels that the Yomiuri's criticisms are justified. The study is of some value as a summary of economic conditions for the fiscal year 1947; as a "White Paper" outlining future prospects, however, it has little to offer beyond the general proposition that increased production is needed. There is moreover a general air of complacency in the report that may be interpreted either as a lack of awareness of the problems involved or as an attempt to minimize the ineffectiveness of the Government's program. Satisfaction over coal production, for instance, is hardly warranted, since planned production was attained for only one month during the period under review, and since the goal itself was far below requirements. The analysis of inflation and business distress likewise fails to go far enough, while the discussion of rationing clearly attempts to gloss over the failures of the program. It is also to be noted that the report makes no mention of strikes and slowdowns as a factor hindering production; likewise, though it is pointed out that the purchasing power of labor in general has risen, the problem of the underpaid government worker is gingerly avoided. It would appear that in general the writers of the report were impelled by a desire not to offend

anyone

ACTION
COPIES
TO:

ITP
POS
OFD
WFAA
OLA
XCR

Fr

Com-enc
Tax-enc
Treas-enc
FRB-enc
Labor

DCE - ITP Unit

UNCLASSIFIED

CS/A

FILED

894.50/8-2148
OCT 8 1948

Tokyo's No. 548
August 21, 1948

UNCLASSIFIED

-2-

anyone in or out of the government.

Coal and Power

Preferential treatment of coal miners, according to the report, led to production rises in the latter half of 1947, and the year's goal was ultimately 97.7 per cent met, total production representing a 30 per cent rise over 1946. In spite of priorities for industrial uses, however, industry received only one-third its normal pre-war tonnage. Production of high-grade coal was limited.

Production of electric power was 85 per cent above the 1930-1934 level but interruptions due to drought, accidents, and typhoon damage reduced its effectiveness. Though mining and manufacturing production rose 21 per cent in 1947, industrial use of electric power rose only 4 per cent. An increase of only 5 per cent in power production is expected in 1948, not enough to meet increasing demands.

Manufacturing

Industrial production in fiscal 1947 reached 35.8 per cent of the 1930-1934 level, an increase of 20 per cent over 1946, the report continues. No significant general rise has taken place since the autumn of 1946, however. Steel production, falling off after an August peak of 47,000 tons, totalled 569,727 tons, considerably short of the goal of 675,000 tons. Pig iron production rose steadily through the year.

Cement production fell short of the year's goal, in large part because of shortages of coal. The chemical fertilizer industry suffered from shortages of sulphuric acid and electricity, while the textile industries were hampered by a lack of raw materials and, especially in the case of cotton, by erratic imports. The machine industry, hitherto dependent on stock piles, will decline, according to the Board, unless production of raw materials increases.

In general, industrial production has not shown increases commensurate with those in coal output because of delays in getting the coal to factories, because of transportation bottle-necks, and because of shortages of electric power and raw materials.

Agriculture, Forestry, and Fishing

Although supplies of fertilizer were deficient, a bumper rice crop and a successful collection program brought some improvement in the food situation. Reclamation fell short of plans; timber and charcoal production, on the other hand, exceeded goals, though distribution was poor. Marine production suffered from a shortage of boats and from Allied restrictions on fisheries areas.

Transportation

Rail transport, the Board feels, constituted a major bottle-neck to economic recovery. Only 85 per cent of the planned tonnage was carried in 1947, and considerable difficulty is expected in meeting this year's goal, 16 per cent above that of 1947. Marine transport,

on the

UNCLASSIFIED

Tokyo's No. 548
August 21, 1948

UNCLASSIFIED

-3-

on the other hand, reached the 1947 goal, and may be used to supplement the railroads, which face an increasing demand in 1948. Faced with a shortage of ocean-going vessels and with potential shipping charges of 200 million yen in 1948, the Board emphasizes that Japan must build and charter more vessels.

Foreign Trade

Imports in 1947 were only 25 per cent of the two billion dollars believed necessary to support the Japanese at 1930-1934 standards, while exports were only 10 per cent of that goal. Exports went increasingly to East Asia, while imports continued to come predominantly from the United States. Barter has been used to overcome the currency problem thus created, and must be relied on increasingly in the future, the Board feels. Trade conditions may also be helped by foreign credits and by simplified trading procedures, especially by the establishment of a single exchange rate.

Imports to combat "disease and unrest" accounted for 68 per cent of the total. Commodities for industrial use, including petroleum and pig iron, were proportionately more important than in 1946, while imports for export use, especially cotton, constituted a smaller proportion of the total.

Inflation and Cost of Living

In the first half of 1947, black-market prices and effective prices (average prices of all purchases, both black-market and official) rose rapidly, official prices only slightly; in the latter half of the year, a reverse trend took place, indicating that proportionately less was being bought on the black-market. Roughly speaking, official, black-market, and effective prices of consumer goods have increased 84 times, 360 times, and 200 times respectively over 1937 levels; official and black-market prices of capital goods have increased 70 times and 370 times respectively. There is, according to the Board, little prospect of increased production of consumer goods in 1948.

Public Finance

The general account for fiscal 1947 was balanced; the special account, however, showed a deficit of 66.5 billion yen, chiefly in the railway and communications accounts and in the foodstuffs control account, in the latter case because of early rice deliveries. The Bank of Japan took up a total of 58.5 billion yen in government bonds, thus producing an increased volume of bank notes. Total note circulation increased by 103 billion yen, due partly to rising demands for industrial credit, and reached a total of 219 billion yen by the end of 1947.

Considerable injustice resulted from excessive taxation of earned incomes. In the future, the enclosed study notes, some way must be found to tax "incomes that are difficult to catch".

Local finance was characterized by extreme inflexibility and by dependence on the central government in emergencies.

Savings

UNCLASSIFIED

Tokyo's No. 548
August 21, 1948

UNCLASSIFIED

-4-

Savings and Industrial Finance

Total savings were not sufficient to cover demands for industrial credit in 1947; it will therefore be necessary, the Economic Stabilization Board feels, to maintain close surveillance over loans in 1948 to prevent undue expansion of credit and note circulation. Some tightening is likewise needed in the allocation of credit.

An indication of the difficulty of obtaining credit is seen in the fact that the Reconstruction Finance Bank, chartered to advance loans to concerns unable to borrow through normal channels, financed 32 per cent of total credits to industrial enterprises.

Business Conditions

Enterprises are widely confronted with deficits arising from material shortages, high wages, and poor distribution, and are further handicapped by the difficulty of obtaining credit. Over-employment, according to the Board, has been exaggerated as a cause of industrial distress. Relief measures include the weeding out of inefficient enterprises and the removal of uncertainties caused by reparations and deconcentration programs.

Wages and Living Costs

Real wages for the period January-March 1948 were 20 per cent higher than for the corresponding period in 1947. Due chiefly to increased consumption, however, deficit household spending remained the rule.

Wages and expenditures in urban areas were at the time of the report respectively 30 per cent and 40 per cent of pre-war levels, taxes accounting for 10 per cent of the average laborer's expenditures. Unless consumption increases, household finances should improve in 1948, according to the Board. Rationing of staple goods has been as promised since August 1947; rationing of fresh foods and household necessities has been less successful.

Labor

In spite of an increase of 6.6 million in the population and 1.4 million in the labor force since the surrender, unemployment is low, according to the report, due to some over-employment in industry, to absorption of population gains in agriculture, and to thriving black-market activities. Union membership increased by a million during the year. Regional wage disputes have been on the increase since July 1947.

Reconstruction

The budget has been balanced, the report concludes, only at the expense of important public works, particularly reforestation, flood control, and highway repair. Housing construction has for the most

part

UNCLASSIFIED

Tokyo's No. 548
August 21, 1948

UNCLASSIFIED

-5-

part favored high-priority workers.

Respectfully yours,

*att
TAC
H-10-13
PC*

W. J. Sebald.
W. J. Sebald.

Enclosures:

see with orig

1. Five copies of above mentioned economic study.
2. Five copies of the Yomiuri editorial.
3. Five Copies of the Mainichi editorial.

*Encls. in
Bulky File*

Original and hectograph to Department.

850
EGSeidensticker, Jr.:mis

UNCLASSIFIED

GR

FOR DEPARTMENTAL USE ONLY

UNITED STATES

REPARATIONS AND RESTITUTION DELEGATION
TOKYO, JAPAN

27 August 1948

ACTION
is assigned to

[Signature]

~~FD~~

DC/R

No. 11

RESTRICTED

Subject: Transmittal of two bulletins on Japanese economy

DIVISION OF
NORTH ASIAN AFFAIRS
SEP - 3 1948

DEPARTMENT OF STATE

The Honorable
The Secretary of State,
Washington

Sir:

I have the honor to transmit six (6) copies each of the two following reports:

- 1) "Outline of Japanese Economy Rehabilitation Plan (1st Draft)" prepared by the Japanese Economic Stabilization Board, dated May 17, 1948; and
- 2) "Economic Conditions in Japan," dated 5 August 1948.

Respectfully yours,

Charles L. Hodge
Charles L. Hodge
Chief

FEB 23 1949

FILED

894.50/8-2748

A/SS

RECEIVED
DEPARTMENT OF STATE

1948 SEP 2 PM 4 05

DC/M
FACILITIES BRANCH

Enclosures:

- 1. "Outline of Japanese Economy Rehabilitation Plan (1st Draft)" - 6 copies
- 2. "Economic Conditions in Japan" - 6 copies

Copies to:
USPOLAD, Tokyo
Departmental Distribution:
OE, A-S, EP, FE

copy detached for Dept control

CLHodge:egp

*XP
740.00119 P.W.*

*213-13
Ches. sheet made*

894.50/8-2748



THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA
UNITED STATES POLITICAL ADVISER FOR JAPAN

ACTION
is assigned to

FE

No. 564

memo to IAD 10/1/48
Tokyo, August 28, 1948. WSH:ae

RESTRICTED

Subject: Transmittal of Report Entitled "Economic Conditions in Japan".

The Acting Political Adviser has the honor to enclose five copies of a report dated 5 August 1948 compiled by the Economic and Scientific Section of this Headquarters and entitled "Economic Conditions in Japan". The report covers the month of June, 1948.

Production in June, the report states, totalled more than fifty per cent of the 1930-1934 level for the second month in succession, a reflection chiefly of increased coal output. Textile production, however, lagged behind and constituted a major depressing element. Prices rose sharply, but, the report states, the rise was a result of a shortage of staple foods on the official market and of the substitution of sugar for cereals in ration, and is not to be interpreted as a drastic change from the preceding period of relative price stability. Wages continued to rise with rising prices.

The report notes some improvement in government finance, though deficit spending and increased currency will be necessary for some time to come. Finally, it is pointed out that bottlenecks in foreign trade rather than inflation constitute the major obstacle to Japan's economic recovery.

894.50/3-2848

A/EJH

ACTUS
FE
COPIES
300

ITP
FR
OAFD

OLA

Enclosure: att. att. 1 with orig

Five copies of Report on
"Economic Conditions in Japan"
dated 5 August 1948.

DC/R
Com (em)

Tar (em) 850

Treas (em)

FAB (em)

DEPARTMENT OF STATE

1948 SEP 3 PM 1 15

DC/M
FACILITIES BRANCH

RESTRICTED

DC/M ITP Unit	
Asst.	SS
Secy.	EM
Ext. Affairs	Shut. Mad.
Dist.	

DC/L
LIAISON

1948 SEP 3 AM 8 55

RECEIVED
18
DEPARTMENT OF STATE

894.50/1

RESTRICTED

RESTRICTED

Enclosure to Despatch No.
564 dated August 28, 1948
from the Office of the
Political Adviser for Japan,
Tokyo, on the subject, Trans-
mittal of Report Entitled
"Economic Conditions in Japan".

ECONOMIC CONDITIONS

IN JAPAN

5 August 1948

RESEARCH AND PROGRAMS DIVISION
ECONOMIC AND SCIENTIFIC SECTION

RESTRICTED

RESTRICTED

ECONOMIC CONDITIONS IN JAPAN

5 August 1948

SUMMARY

In June for the second successive month since the end of hostilities the index of industrial production registered in excess of 50 per cent of the 1930-34 base level. The June index of 52.7 was almost 30 per cent above the 1947 annual average of 40.9 and reflects the relatively favorable advances in industrial activity which have developed during the first half of 1948 primarily as a consequence of a substantial improvement in the coal supply. The improved coal supply gave a direct stimulating effect to the main coal consuming industries.

The continuing low level of activity in the important textile industries is the major depressing element in the overall level of production. This is evident from the fact that in June the mining index registered 101.6 per cent of the base level, manufacturing other than textiles 70.6 per cent, and the textile group only 21.9 per cent.

A ten month period from August 1947 to May 1948 of relative stability in the price level during which the Tokyo index of effective consumer prices advanced about 4 per cent per month was interrupted in June by a sharp advance of 15 per cent over the May level. However, the June rise resulted primarily from decreases in the proportion of staple foods purchased in the official markets and from unusually heavy substitution of sugar for cereals in the ration. For these reasons the behavior of the price level in June probably does not mark an end to the period of relative stability but only an interruption. On the other hand, during the summer months the entire structure of official prices is being revised upward to conform with current cost conditions, and this will doubtless bring about an accelerated rate of increase in effective prices in the coming months above that prevailing since last summer.

Under severe pressures from depressed consumption standards and rising costs of living for wage and salary earners, wage rates have continued to advance, constituting the principal factor forcing the upward adjustment of official price ceilings.

Some improvements have been achieved in the government's financial position notably in the increased collection of income taxes. The general account budget for the current fiscal year as now planned is in balance. However inevitable requirements for funds to operate essential government enterprises and to expand private business activity, plus the inability to tap savings from the public at large will continue for some time to cause both an increase in the national debt and in the currency issue.

RESTRICTED

RESTRICTED

Although imports, especially of industrial raw materials, have been expanding, and industrial production has increased sharply during the first half of 1948, exports have not yet shown an increase above 1947 levels. However it can be anticipated that in the near future these increases in imports and in production will be reflected in an expansion of exports. Among the bottlenecks which continue to harass Japanese trade are the continuing market difficulties encountered by textile products, the acute world shortage of foreign exchange, and the limited supplies of goods and materials available in world markets for trade with Japan. These trade bottlenecks overshadow inflation and other internal uncertainties, both real and alleged, as the greatest obstacle to Japan's economic recovery.

RESTRICTED

RESTRICTED

INDUSTRIAL PRODUCTIONLevel of Production

The industrial production index for June 1948 reached a new postwar high of 52.7. The new level was 0.9 index points above the previous high attained in May. June was the fifth consecutive month of advance after the seasonal December to January decline. The advances from April through June were particularly encouraging in that they were made in spite of the poorest coal production records since November of 1947. The index numbers for June and those for the previous five months follow.

MONTHLY 1948 INDICES OF PRODUCTION 1930-1934 = 100

	June	May	April	March	February	January
<u>Industrial Production</u>	<u>52.7</u>	<u>51.8</u>	<u>49.8</u>	<u>49.3</u>	<u>45.5</u>	<u>42.5</u>
<u>Mining</u>	<u>101.6</u>	<u>97.0</u>	<u>94.6</u>	<u>105.3</u>	<u>100.3</u>	<u>102.8</u>
Coal Mining	107.3	101.4	99.1	110.5	106.0	109.9
Other Mining	82.7	82.4	79.8	88.5	81.4	79.8
<u>Manufacturing</u>	<u>45.2</u>	<u>44.8</u>	<u>42.9</u>	<u>40.7</u>	<u>37.1</u>	<u>33.2</u>
Raw Silk	15.8	17.9	17.5	17.2	15.1	10.7
Cotton Yarn and Cloth	26.3	26.9	27.5	25.3	23.6	20.7
Other Textiles	28.3	29.5	28.5	26.4	25.8	19.8
Machinery	64.4	59.3	57.5	56.4	52.1	49.5
Metals	56.5	58.5	55.2	50.6	44.2	37.7
Chemicals	73.8	74.5	69.7	60.3	51.7	46.5
Food, Beverages and Tobacco	53.7	42.5	38.6	44.0	37.8	38.4
Building Materials	119.9	124.1	113.9	106.6	103.3	102.2
Others	64.0	60.6	60.9	58.3	48.4	41.2

In recent months the steady development in the manufacturing groups has contrasted with a decline in mining output. In an economy short of raw materials, particularly of coal, this decline in mining output is of a critical nature.

Compared with levels obtaining one year ago, however, mining shows fair progress; textiles show little or no improvement; while the progress in manufacturing other than textiles is substantial.

RESTRICTED

RESTRICTED

INDICES OF PRODUCTION 1930-1934 = 100

	June 1948	June 1947
<u>Industrial Production</u>	<u>52.7</u>	<u>42.3</u>
<u>Mining</u>	<u>101.6</u>	<u>81.4</u>
Coal Mining	107.3	81.9
Other Mining	82.7	79.8
<u>Manufacturing</u>	<u>45.2</u>	<u>36.3</u>
Raw Silk	15.8	15.5
Cotton Yarn and Cloth	26.3	27.1
Other Textiles	28.3	30.4
Machinery	64.4	42.7
Metals	56.5	38.4
Chemicals	73.8	47.2
Food, Beverages and Tobacco	53.7	41.4
Building Materials	119.9	107.5
Others	64.0	47.2

While, in general, the June levels may be regarded as satisfactory, in that overall levels continued to improve, the recent declines in coal and other mining must be regarded as serious since the manufacturing levels in other industries probably cannot be maintained if the mining situation does not improve. In fact, the April-June levels in metals, machinery, and chemicals resulted in part from the relatively satisfactory December through March mining record. The other significant factor has been the seasonal improvement in the electric power supply.

It is important to note that the three textile groups, which weighed very heavily in the 1930-1934 base period, now stand well below the levels of activity for other segments of the index. In fact, the June level for mining was 101.6, for manufacturing other than textiles, 70.6, and for textile 21.9. In May the levels were 95.7, 67.4, and 23.3 respectively for these consolidated groups. It is clear, then, that the marked depression of the index is due, primarily, to the continued depression of the very important textile segments thereof.

Iron and Steel

The index of pig iron production for June was 58.5 while that for steel was 54.0. In May the levels were 57.0 and 56.3 respectively. April levels were 53.3 and 53.7 and March levels were 43.0 and 49.6. For all practical purposes the April-May-June levels may be considered together and represent the highest postwar levels yet obtained. The improvement in pig iron production has been due in part to the opening of the blast furnaces at Kawasaki and Kamaishi. In steel, improvements have been made in both open-hearth and electric furnace production.

RESTRICTED

RESTRICTED

With respect to pig iron, the April-May-June levels of this year were almost double the April-May-June levels of a year ago. The improvement over a year ago has been entirely the result of increases in production from other than electric furnaces. Electric furnace production for April, May and June this year has been about 20 percent below April, May and June of last year.

For open-hearth steel, the June 1948 record was even better when compared with June of 1947. Open-hearth steel production for June 1948 was 82,610 metric tons as compared with 37,913 metric tons in June of 1947. For electric furnaces June 1948 production was 50,875 metric tons compared with 48,148 metric tons in 1947.

While coal and coke consumption figures for the month of June are not yet available, the May data when compared with May of a year ago shows a marked improvement in blast furnace efficiency. In May of 1947 roughly 4.1 tons of coal and 1.9 tons of coke were required for each ton of pig, while in May of 1948 only 3.0 tons of coal and 1.5 tons of coke were required. By prewar standards these rates are still inefficient, but the improvement has been great indeed.

Part of the recent improvement in pig iron production has been due to the reopening of Nihon Kokan's Kawasaki blast furnaces which produced 7,713 metric tons in April and 10,741 metric tons in May. The Kawasaki furnace is the first important furnace not owned by the Japan Iron and Steel Company to operate in the postwar period, and its operation depends in part upon imported coal. In May the Kamaishi works of the latter company resumed operation for the first time in the postwar period and produced 2,667 metric tons of pig iron, utilizing both Hokkaido and imported coal. The following table shows the source of pig iron production from January through June in metric tons.

PIG IRON PRODUCTION
Metric Tons

Month of 1948	Total	<u>Japan Iron and Steel Co.</u>			<u>Nihon Kokan</u>	Charcoal Furnaces	Electric Furnaces	
		<u>Yawata</u>	<u>Wanishi</u>	<u>Kamaishi</u>	<u>Kawasaki</u>			
Jan	36,996	28,821	4,519	-	-	-	3,656	
Feb	36,878	28,838	4,237	-	-	-	3,803	
Mar	44,795	33,919	5,277	-	-	409	5,190	
Apr	56,584	34,659	5,355	-	7,713	306	8,551	
May	59,478	27,365	5,391	2,667	10,741	424	12,990	
Jun	62,902	26,808	8,945	6,551	9,031	273	324	10,970

RESTRICTED

In the table above it is interesting to note the marked decline in May and June production of pig iron at Yawata. This decline resulted from the fact that anticipated ore imports from China did not arrive. It should be noted that part of the Yawata production and all of that at Nihon Seiko at Muroran is remelted pig.

Machinery

The June index for the machinery group stood at the postwar peak of 64.4 as compared with 59.3 for May and with 42.7 in June of 1947. Production of industrial rolling stock, small cars, electric cars, three-wheeled cars, motorcycles and scooters, sewing machines, and freight cars were at postwar peaks, while truck chassis and several other items were not much below their postwar peaks. The sub-group of the index, machinery not elsewhere classified, which includes the production of machine tools, mining equipment, and spinning and weaving equipment, was steady with an index of 45.0 for the period March through June.

Prospects for further increases in the immediate future are good due to increases in iron and steel production noted above.

Textiles

Previous reference has been made to the fact that the overall textile index for June was 21.9 as compared with an index of 70.6 for manufacturing other than textiles. The textile industries have been plagued by a number of problems including shortages of raw materials, inadequate maintenance during the war and problems of markets and credits.

While the May 1948 overall textile index of 23.3 was a postwar peak, only one (cotton cloth) of the seven textiles within the index was at its respective peak during that month. The raw silk peak was reached in March of 1947, cotton yarn in June of 1947, wool yarn in May of 1947, spun silk yarn in June of 1946, woolen woven goods in May of 1946 and rayon woven goods in April of 1947. The "spotty" nature of the textiles production advance is evident in the above dates.

The initial basic textile problem in the postwar period has been the shortages of various raw materials. The low level of wool is evident in the following raw wool stock figures which are given in millions of pounds as of selected dates: 28 February 1946, 51.1; 30 June 1946, 43.0; 31 December 1946, 17.7; 30 June 1947, 9.1; 31 December 1947, 3.5; 31 March 1948, 2.0. Although about 2.0 million pounds of raw wool came into Japan in May, deliveries to the mills were not sufficient to raise production very much. The Japanese woolen industry continues to be on a hand-to-mouth, month-to-month basis.

Although the cotton stock situation has not deteriorated to the extent of that for wool, it became necessary to plan May-June production roughly at the April levels so as to "stretch" the foreseeable supply of cotton. While many of the problems of financing immediate cotton imports have now been eased, the full solution still rests upon the ability of Japan to sell its finished textile products abroad.

RESTRICTED

Building Materials

As related to base periods, the building materials production index of 119.9 for June must be regarded as very satisfactory. The better than base period production is due primarily to the continuing high level of lumber production which reached a new postwar high of 148.5 in May. This more than offset the decline in cement production for the month. Cement production in April had reached its postwar high and the fall in May, while sharp, still left cement production at a fair level of 46.0. In June the index moved upward again to 53.8. Sheet glass production for May recovered to 62.2 after four previous months of declines, but fell back again to 55.6 in June.

Nail production (an item not included in the index) was again disappointing in June, being only 2,203 tons as compared with 3,165 tons for May -- 1,656 for the average month of 1947 and compared with 11,476 tons per month in 1937.

Coal

Coal production in June, as in March, April and May, was disappointing. Traditionally December and March are the peak months of Japanese coal production, with March about 4 per cent higher than December. This year, March was 3 per cent below December. A study of seasonal coal production patterns based upon monthly production from April 1941 through February 1948, excluding the very abnormal data period from July 1945 through April 1946, reveals a very interesting seasonal pattern in Japanese coal production. The following table presents the results of that study in terms of index numbers and in terms of the percentage of the annual production represented by each month's production.

SEASONAL CHARACTERISTICS OF JAPANESE COAL PRODUCTION

Month	Index for the Month	per cent of Year's Production
Apr	97.7	8.14
May	100.0	8.33
Jun	93.0	7.75
Jul	93.5	7.79
Aug	90.4	7.53
Sep	93.0	7.75
Oct	96.1	8.01
Nov	100.4	8.37
Dec	111.5	9.29
Jan	105.8	8.82
Feb	102.6	8.55
Mar	116.0	9.67
Year	100.0	100.0

RESTRICTED

RESTRICTED

Utilizing the index numbers above and the December 1947 production of 2,959 thousand metric tons as a base, 1948 monthly production should have resulted as follows as contrasted with actual production.

<u>Month</u>	<u>Estimated</u>	<u>Actual</u>
Jan	2,808	2,857
Feb	2,722	2,754
Mar	3,080	2,869
Apr	2,592	2,575
May	2,654	2,629
Jun	2,752	2,789
Jul	2,767	2,712

It is evident from these data that coal production is currently following seasonal pattern lines, rather than either expanding according to the E.S.B. schedule or developing along lines which will insure the objective of 36 million metric tons for the year. When consideration is given to seasonal patterns, a 2,959 thousand metric ton production for December would produce an annual production of 31.9 million metric tons. Thus far, in the 1948-1949 coal year, considering seasonal patterns, coal production has been at the rate of 32.0 million tons per year. The following table shows the E.S.B. schedule, the seasonal normal based on an annual production of 36.0 million tons and the 1948 April, May and June actual production. It is evident that by all standards -- the E.S.B. schedule, the seasonal normal, and the projection based upon last December's production -- coal production for April and for May have both been low. June alone may be considered as satisfactory at 2,789 as compared with a normal of 2,790 based on 36 million tons per year.

COAL PRODUCTION
Thousand Metric Tons

<u>Month</u>	<u>E.S.B. Schedule</u>	<u>Computed Seven Year Average Normal</u>	<u>1948-1949 Fiscal Year Actual</u>	<u>Shortage to Date Based upon Normal</u>
Apr	2,827	2,930	2,573 ⁵	
May	2,897	3,000	2,629	355
Jun	2,887	2,790	2,789	726
Jul	2,784	2,804	2,712	727
Aug	2,685	2,711		819
Sep	2,784	2,790		
Oct	3,069	2,884		
Nov	3,020	3,013		
Dec	3,213	3,344		
Jan	3,153	3,175		
Feb	3,115	3,078		
Mar	3,576	3,481		
Year	36,000	36,000		

RESTRICTED

Much has been written, heretofore, about the coal production problem of Japan centering in the 44 large mines, mines which at some time in the past produced at a rate of over 300,000 tons per year. Prewar these mines produced 76 per cent of Japan's coal, but in May of 1948 (the last month for which individual mine data are available) they produced only 55.9 per cent of Japan's coal. From the first quarter to the last quarter of the coal production year 1947-1948, average monthly production in the 44 large mines increased 28 per cent, while in all other mines the increase was 42 per cent.

The need for concentrating efforts to expand production on the large mines can be demonstrated best, perhaps, by contrasting current with past or potential production. If the 44 large mines were to produce at their average 1939-1944 rate, the potential coal production increase would be 1,540,000 tons per month over the current rate. If the 44 mines could but average 75 per cent of their 1939-1944 rate, production would be increased by 640,000 tons monthly over the current rate. If only the wartime big six mines (Miike, Yubari, Tagawa, Mitsubishi-Bibai, Sunagawa, and Onoura) could be brought back up to their 1939-1944 average, the monthly increase over the current production would be 545,000 tons. In contrast, if all mines in Japan except the 44 large ones were brought up to their 1939-1944 level, and if an equal allowance were assumed for new mines and for mines reopened, the potential coal production increase would be only 310,000 tons over the current rate.

Other Mining

Although the June data are not yet available for other mining, the April and May records were disappointing when compared with March. As is true of coal, mining of other ores and minerals follows a seasonal pattern of decline from March peaks into the summer months. The declines this year, however, were very sharp for some minerals. Lead, for example, fell from 641 metric tons in March to 506 metric tons for April, the April figure being lower than any month since August of 1947. For zinc, the April production of 2,524 metric tons was only slightly better than production in April of 1947 when 2,510 metric tons were produced. Copper production has not been satisfactory at any time in the postwar period, particularly when consideration is given to the fact that prewar Japan was the world's fifth largest producer of copper. In fact, it should be noted that Japan was producing copper at better than present rates even before 1900.

RESTRICTED

FOREIGN TRADEGeneral Review

The estimated value of imports for the first five months of 1948 was \$282.6 million and of exports was \$62.9 million. If the rates for the first five months of the year were continued throughout the year, imports would run to \$678 million and exports to \$151 million. As related to 1947, imports were up while exports declined as is shown herewith.

JAPANESE MERCHANDISE TRADE
Millions of Dollars

Item	1948 Rate ^{1/}	1947	1948 ⁶	1930-1934 Average ^{2/}
Total Merchandise Trade	\$ 829	\$ 700	\$ 408	\$ 3,885
Imports	678	526	305	1,950
Exports	151	174	103	1,935
Balance	- 527	- 352	- 202	- 15
Ratio of Exports to Imports	22.3	33.1	33.8	99.2

^{1/} At rates of first five months

^{2/} At present prices

In terms of comparable price levels the total trade of Japan for the first five months of 1948 has been roughly 21 per cent of the base period 1930-1934 levels. Imports, however, have been roughly 35 per cent while exports have been but 8 per cent. Japan's export trade for the first five months of 1948 has not advanced as anticipated and the ratio of exports to imports has fallen to 22 as compared with 33 for 1947, with 64 for 1946 and with 99 in the 1930-1934 base period.

It is anticipated, however, that export volume for the remainder of 1948 will increase. There are pending and completed export contracts for textiles totaling over \$65 million resulting in part from modifications in the Commodity Credit Corporation cotton agreements and in part from the policy change making textiles available for 100 per cent sterling. Further, there are pending and completed contracts for steel products estimated at \$15 million for delivery this year. Further also, substantial increase in imports of industrial raw materials should make more goods available for export. Finally, the current discussions with representatives of the Sterling Area together with pending discussions with trade missions from the Netherlands East Indies, Siam and Pakistan should result in increased trade. Currently it is estimated that trade with the Sterling Area will increase threefold as the result of the reciprocal trade arrangement.

RESTRICTED

RESTRICTED

In the first five months of 1948 Japanese exports equalled only 48 per cent of the value of imported raw materials and less than 23 per cent of total imports. Thus, for this year exports have been insufficient to pay for industrial raw material imports to say nothing of paying for the foodstuffs required by Japan.

In 1947, 92 per cent of all imports were from the United States, with 6 per cent from Asia and the remaining 2 per cent from Europe, Africa and Latin America. Imports from the United States for the first five months of 1948 have been 70 per cent of all imports. In the same period 13 per cent of the imports were from Asia and the remaining 17 per cent from Europe, Africa and Latin America. The most important shift in the direction of trade has been due to the purchase of Cuban and Mexican sugar as a substitute for wheat previously (in 1947) shipped from the United States. The relative and real increase of imports from Asia is, however, an encouraging development.

The \$174 million in exports for 1947 was distributed as follows: to Asia, \$115 million or 66 per cent; to Europe, \$25 million or 14.3 per cent; to the United States, \$20 million or 11.6 per cent; to all other areas, \$14 million or 8.1 per cent. For the first five months of 1948 exports to Asia were 76 per cent of the total, those to the United States, 16 per cent — with 8 per cent to Europe, Africa and Latin America.

Principal Commodities

In 1946 and again in 1947 foods were the most important import items, totaling \$295 million or 56 per cent of the import total for the latter year. For the first five months of 1948 industrial raw materials replaced foods as the leading import category, with \$130.3 million or 46 per cent of the total. Foods at \$121.7 million were almost as important. The shift in importance does not mean a decline in food imports, however, but rather a greater increase of industrial raw material imports. The following table presents the import data by category and principal commodity for 1947 and for the first five months of 1948. In addition a five-month average for 1947 is presented so as to facilitate comparisons with the first five months of 1948.

RESTRICTED

JAPANESE IMPORTS
Millions of Dollars

	1947		1948
	Year	Five-month Average	Five Months
<u>TOTAL</u>	<u>526.3</u>	<u>219.3</u>	<u>282.6</u>
<u>Foods</u>	<u>295.2</u>	<u>123.0</u>	<u>121.7</u>
Wheat and Flour	231.8	96.6	51.7
Peas and Beans and Bean Flour	26.1	10.9	18.7
Canned Goods and Other Manufactured Foods	26.2	10.9	15.8
Sugar	9.7	4.0	32.6
Meats, Fish and Dairy Products	1.4	0.6	2.9
<u>Industrial Raw Materials</u>	<u>204.8</u>	<u>85.3</u>	<u>130.3</u>
Raw Cotton	70.0	29.2	67.3
Fertilizer Materials	67.2	28.0	14.8
Petroleum	38.0	15.8	14.3
Salt	12.1	5.0	9.1
Rubber - Crude and Scrap	6.0	2.5	5.0
Oils, Fats and Waxes	3.2	1.3	0.8
Nonmetallic Minerals	2.3	1.0	0.9
Dyes and Pigments	1.0	0.4	1.5
Pulp	1.1	0.5	0.3
Raw Wool and Other Fibers	1.8	0.7	2.4
Iron Ore	0.3	0.1	4.0
Coal	0.3	0.1	3.3
Drugs and Chemicals	1.2	0.5	0.6
All Other	0.3	0.1	6.0
<u>Textile Manufactures except Bags</u>	<u>6.1</u>	<u>2.5</u>	<u>8.0</u>
Textiles and Clothing	6.1	2.5	8.0
<u>All Other Products</u>	<u>20.2</u>	<u>8.3</u>	<u>22.6</u>
Machinery	7.2	3.0	0.2
Fiber Products	5.0	2.1	10.9
Miscellaneous Drugs	4.5	1.9	1.1
Other	3.5	1.5	10.4

For the first five months of 1948 as compared with the five-month averages for 1947, the increase in raw cotton imports was the dominant element. For the former period imports were \$67.3 million as compared with \$29.2 million for the latter.

RESTRICTED

RESTRICTED

The imports of fertilizers and fertilizer materials of \$14.8 million for the first five months of 1948 were well below the \$28.0 million 1947 five-month average. Of particular significance is the fact that in the first five months of 1948 iron ore valued at \$4.0 million and high-grade coal valued at \$3.3 million were imported. Last year only \$0.3 million of each were imported.

In foods the most significant shift in imports involved the use of sugar (from Cuba and Mexico) and beans and bean flour (from the United States) in lieu of United States wheat.

In exports cotton yarn and fabric dominate in 1948 as they did in 1947 but not to the same degree. In 1947 cotton yarn and fabric were almost 60 per cent of all exports while in the first five months of 1948 they were roughly 35 per cent. It should be pointed out that excepting for cotton yarn and fabric the total 1948 export volume for the first five months was above the rates for 1947 even though there were increases and decreases for individual commodities.

JAPANESE EXPORTS
Millions of Dollars

	1947		1948
	Year	Five-month Average	Five Months
<u>TOTAL</u>	<u>174.3</u>	<u>72.6</u>	<u>62.9</u>
<u>Foods</u>	<u>4.3</u>	<u>1.8</u>	<u>3.0</u>
<u>Industrial Raw Materials</u>	<u>30.0</u>	<u>12.5</u>	<u>13.9</u>
Raw Silk	10.8	4.5	4.7
Coal	8.1	3.4	3.8
Metals	4.8	2.0	2.2
Fertilizers and Materials	2.5	1.0	0.9
Other	3.8	1.6	2.3
<u>Textile Manufactures</u>	<u>120.3</u>	<u>50.1</u>	<u>32.6</u>
Cotton Fabric	85.4	35.6	21.0
Cotton Yarn	17.7	7.4	1.5
Rayon Yarn and Fabric	6.0	2.5	3.9
Silk Fabric	6.4	2.7	3.3
Wool Yarn and Fabric	3.1	1.3	1.9
Clothing and Other	1.7	0.7	1.0
<u>All Other Products</u>	<u>19.7</u>	<u>8.2</u>	<u>13.4</u>
Machinery	7.1	3.0	2.6
Lumber	5.6	2.3	1.3
Drugs and Chemicals	2.1	0.9	0.7
Pottery, Clay and Glass	1.1	0.5	1.7
Other	3.8	1.6	7.1

RESTRICTED

Foreign Trade Problems

It is obvious that, from the point of view of reviving normal Japanese foreign trade, cotton imports and cotton textile exports represent the most important single development to date. However, even in this field there are evidences of marked weaknesses in the foreign trade patterns. At the inception of the Occupation, raw cotton on hand was valued at \$36 million. To 30 April 1948 commitments for additional raw cotton were \$210 million and deliveries were \$208 million. Raw cotton stocks on hand on 30 April were valued at about \$38 million. Thus raw cotton valued at \$208 million had been put in process. Firm export sales through 30 April were \$169 million, a figure far short of that required to liquidate the commitments of \$210 million. However, May and June sales should remove the disparity, and as of 30 June there should probably be enough cotton sales to liquidate this indebtedness. The cycle, nevertheless, has been longer than initially anticipated. In spite of the world shortage of textiles, the revolving fund principles to date, therefore, have not created surpluses which might be utilized to finance expanded purchases abroad.

Two main bottlenecks to trade expansion, particularly of cotton textile exports, are the world dollar shortages -- aggravated by the decline of the silk market -- and the world food shortages. The American silk market, which formerly furnished the dollars with which Japan bought American cotton to sustain the foreign trade cycle, has given no indication of revival to anything like the old levels. In prewar years Japan financed the major part of her cotton textile business through the sale of raw silk to the United States as is evident below.

Year	U. S. RAW COTTON TO JAPAN Millions of Yen	JAPANESE RAW SILK TO U. S. Millions of Yen
1930	177	399
1931	154	342
1932	321	360
1933	382	356
1934	401	240
1935	372	329
1936	372	334
1937	306	325
1938	166	298
1939	147	438
1940	177	382

To date there has emerged no item of Japanese merchandise to replace silk as the dominant element in the foreign trade complex. Under these circumstances in which Japan lacks the foreign exchange to stimulate the trade cycle, most of the raw cotton in excess of that amount required for export as finished goods to liquidate the import cost is being retained

RESTRICTED

for domestic consumption and is sufficient only to provide a very low per capita clothing level. Thus the cotton trade cannot yet be expected to provide substantial additions in foreign exchange with which to expand trade still more.

The second basic problem in Japan's postwar trade has been the dependence upon the United States as the principal source of exterior food supply. Prewar Japan depended primarily upon Korea, Formosa and Indo-China for rice, and upon Australia and to a lesser extent upon Argentina, Canada and the United States for wheat imports. Crude sugar came in from Formosa and the Netherlands East Indies. The long-term problem of Japan's food supply can best be met by foods produced in areas relatively near at hand. Until these areas again have exportable surpluses of food which they can trade for Japanese merchandise, the hopes of extensive normal trade revival are slim indeed; Japan will continue to be dependent upon the United States and to a lesser extent upon Latin American and Australian foods. This problem has been complicated further by the fact that the normal suppliers of Japanese foods -- not only having little or no surplus food for export currently -- also do not have ample dollar credits with which to purchase needed Japanese merchandise which Japan in turn could then use to purchase food or raw materials in dollar areas.

This problem should be alleviated to some degree by the recent decision to permit the maximum utilization of GARIOA funds for procurement in the Far East. This policy should permit some shift in the direction of part of the food trade to the near-seas area and some of the monies thus expended will probably be utilized to purchase Japanese goods, thus stimulating Japan's trade and furnishing Japan with additional dollars.

A series of favorable current developments indicate that foreign trade, both imports and exports, will be raised to higher levels in the coming months. These include the Congressional appropriation of funds to be earmarked for the first time for recovery purposes and with which imports of increased amounts of basic raw materials can be obtained; the passage of the "Eastland Bill" revolving fund for the purchase of textile fibers; the conclusion of a sterling area trade agreement and the prospects for additional procurement of raw cotton from Pakistan; the recent increased tempo of imports of iron ore and coking coal coupled with the higher level of industrial production already achieved during the first half of 1948; and the growing indications of strong demand in Far Eastern markets for machinery and metal products.

RESTRICTED

PRICES AND WAGESEffective Consumer Prices

In May for the tenth consecutive month since the sharp price increases during the summer of 1947, the index of effective consumer prices continued to exhibit a relatively satisfactory degree of stability. However, in June the index of effective prices showed a sharp rise of 15 per cent. There is ample evidence that the June rise is a temporary phenomenon and does not necessarily indicate, therefore, that the period of relative stability has come to an end.

Since the beginning of the Occupation the most inflationary period in Japan occurred in the first seven months from August 1945 to March 1946, when the index of effective consumer prices in Tokyo advanced by approximately 295 per cent, a monthly rate of increase of about 42 per cent. The currency conversion in March 1946, coupled with a capital levy tax and other auxiliary measures which siphoned off a substantial amount of the excess purchasing power concentrated in the medium and upper income groups, was followed by a period of six months of relative stability in the price level. Thereafter prices turned upward, and in the three months of May, June and July 1947, when the food shortage became most acute, prices increased at a rapid rate approximating 24 per cent per month. In the ten months beginning in August 1947 to May 1948, a period of relative stability was achieved in which the price level increased at a rate approximating 4 per cent per month.

STAGES OF INFLATION IN JAPAN SINCE AUGUST 1945
Consumer Price Index - Tokyo

Period	Length of Period	Total Increase in Price Level Per cent	Monthly Rate of Increase in Price Level Per cent	Remarks
Sept. 1945-Mar. 1946 (Incl.)	7 months	293	42.17	Collapse following surrender
Apr. 1946-Nov. 1946	8 months	6	1	March 1946 currency conversion, etc.
Dec. 1946-Apr. 1947	5 months	59	12	-
May 1947-Jul. 1947	3 months	73	24.20	Food shortage and ration delays
Aug. 1947-May 1948	10 months	39	4.3	Relative stability
June 1948	1 month	15	15	-

RESTRICTED

RESTRICTED

The main increases in the Tokyo index during the recent ten-month period were among miscellaneous commodities, this category showing an increase of 113 per cent during the period. Among the principal commodity groups the increase of 26 per cent in staple foods was lowest, and resulted from: (a) general absence of delays in the delivery of the ration, and (b) the fact that in the previous period of sharp price advances the prices of staple foods had risen to levels considerably in excess of those of other categories.

An analysis of the factors underlying the increases in effective food prices during the recent months indicates the important effects of blackmarket prices and of distribution controls. In the case of staple food, average official prices advanced only 10 per cent between November 1947 and May 1948. Blackmarket prices, however, rose 90 per cent during the same period and constituted the main factor in the 63 per cent advance which took place in effective prices of staple foods. Among nonstaple foods, official prices registered an average increase of 33 per cent, and free and blackmarket prices 23 per cent. Improvement in distribution controls, however, particularly in fish and vegetables, held the average increases in effective prices of non-staples down to 17 per cent.

The 15 per cent rise in the total index in June resulted primarily from a 37 per cent rise in the staple food segment of the index. About one-third of the June increase in effective prices of staple foods was brought about by rising blackmarket prices, and about two-thirds of the increase was due to a shift in the proportions purchased in the blackmarket. A very marked increase in purchases of potatoes outside official channels and a heavy substitution of sugar for cereals in the ration were the factors which accounted for the large shift in proportions purchased outside official markets. Thus the June rise in effective prices in part reflects technical characteristics of the index under the abnormal influence of the substitution of sugar for cereals and the consequent shrinkage in the quantity of rice and wheat available in the official market. In future months when a larger proportion of cereals are sold through the ration, the abnormality of the June data should become more apparent.

In the postwar period the pattern of expenditures has altered considerably from that of prewar days as indicated by the table below. Food currently accounts for a substantially greater proportion of total expenditures and non-food items for a correspondingly smaller proportion. The relative position of staple foods has increased enormously and reflects the severity of the shortage of staple foods.

RESTRICTED

Groups	Salaried Men 1934-1936 Average Per cent	Wage Earners 1934-1936 Average Per cent	All Consumers May 1948 Per cent
Total Expenditure	100.0	100.0	100.0
Food:	41.5	44.3	66.0
Staple food	13.2	15.5	25.2
Non-staple food	28.3	28.8	40.8
Housing	19.8	17.4	3.8
Fuel and Light	5.7	5.2	3.0
Clothing	13.0	14.2	11.3
Other	20.0	18.9	15.9

In May 1948 average blackmarket prices of staple foods were approximately nine times as high as official prices. For non-staples average blackmarket prices exceeded official prices by less than three times. The greater range in the prices of staple foods results largely from the more pronounced overall shortage and from the fact that a smaller proportion of the total quantity moves outside official channels. (Approximately 70 per cent of the total urban consumption of staple foods is distributed at official prices.) There is thus a two-fold force of shortage against the blackmarket in staple foods and the prices are extremely sensitive to variations in supply. With such high blackmarket prices relatively small changes in the proportion moving in the official market bring about large changes in effective prices. For these reasons from month to month the fluctuations in effective prices of staple foods are much greater than for any other group of commodities.

The shortage of staple foods has the added effect of increasing the buying pressure against non-staples and thereby tending to exaggerate the shortage of the latter. However, in spite of this fact and of the more pronounced seasonal variations in supply of non-staple foods, the fluctuations in average effective prices of non-staples have been much less severe than of staples.

The increases in the effective price index which have taken place since last summer must be attributed principally to rising prices in the blackmarket. Official prices have increased somewhat but at a relatively slow rate while distribution controls have registered some improvement. Subsequent to May 1948, however, official prices generally are being raised to conform to current cost conditions as discussed below, and these increases will certainly be reflected--although not in corresponding magnitude--in an increase in effective consumer prices and in the cost of living.

RESTRICTED

Significant though the impact of the current increases in official prices undoubtedly will be, however, the outstanding factor in the price picture in the period immediately ahead is whether the staple food ration can continue to be delivered as scheduled. Last summer by the end of June cumulative delays in the delivery of the staple food ration ranged from seven days in Kobe to seventeen days in Tokyo. These delays were concentrated in May and June, and as previously noted, resulted in a wild increase in the cost of living. By contrast, at the end of June this year only minor delays had occurred.

The more favorable performance during the current year resulted from (a) larger releases of imported food, and (b) larger collections of indigenous staple foods into official channels. From November 1947 to May 1948 inclusive, 807,000 tons of imported staple foods were distributed through the ration as compared with 464,000 tons during the same period of the previous food year. Collections of indigenous rice and rice substitutes in the current food year (through May) amounted to 4,587,500 tons as compared with 4,322,100 for the same period of the previous year. In order to continue delivery throughout the summer of the ration as scheduled (which averages 1,246 calories per person per day for the normal consumer), favorable wheat, barley and potato crops this summer and quota collections thereof must materialize in addition to the timely arrival of approximately 1,000,000 tons of imported staple foods. Prospects for achieving these goals are fairly good.

Upward Revision of Official Prices

The level of official prices was revised upward during the summer of 1947 on the basis of a standard wage-cost level of 1,800 yen per month, and the general price level thus established, although punctuated by increases of individual commodity prices, remained in effect until June 1948. Wage rates continued to move upward, however, and constituted the basic factor in the increasing level of costs until the schedule of official prices could no longer be realistic in terms of production costs. In recent weeks, therefore, the Price Board has been promulgating a new schedule of official prices to conform with current wage levels and cost conditions. These increases will also result in a sharp rise in the farm parity index and consequently in the prices of food. On the average the price adjustments will approximate an increase of 70 to 80 per cent. A standard wage-cost level of 3,700 yen per month has been utilized in making the adjustments.

Price data for selected important commodities are shown in the following table:

RESTRICTED

Prices Paid Producers
Yen

Commodity	Unit of Measure	Previous Price	New Price	Ratio New Price to 1934-1936 Average Price
Coal	MT	956	2,388	318
Pig iron	MT	6,370	14,070	328
Steel bar	MT	9,460	18,450	211
Caustic soda (solid)	MT	12,591	28,853	155
Ammonium sulphate	MT	7,442	18,800	209
Salt	MT	5,166	9,745	238
Cement	MT	1,270	2,921	172
Steel nail	MT	14,090	28,000	153
Sulphur	MT	4,500	10,350	133
Aluminum	MT	77,295	141,616	89
Lumber	Koku	445	670	124
Rayon pulp	100 lb.	815	1,640	139
Newsprint	100 lb.	615	1,280	162
Rayon staple	100 lb.	6,000	11,000	171
Worsted yarn	Lb.	93	248	103
Cotton yarn	Bale	9,920	20,897	98
Sheet glass	100 sq.ft.	913	2,200	267
Galvanized steel sheet	Ea.	62	126	159
Brick	1,000	3,087	4,785	191
Copper wire	100 Kg.	6,250	12,720	122

Because of low levels of output and abnormally high unit costs in many industries, and because of the lack of uniformity in wage increases, the cost structure of the economy is distorted to a marked degree either in terms of the prewar pattern or of any conceivably normal pattern. For this reason, the range of increases above the prewar prices, commodity by commodity, is wide. In order to minimize these distortions and their effects upon the economy and to prevent the cost of living going to still higher levels, subsidies to a number of key commodities have also been increased, thereby holding down their prices to the consumer. These commodities are basic materials and their prices importantly affect costs and prices throughout the economy.

The following table presents price data for the principal subsidized commodities:

RESTRICTED

Price Data for Principal Subsidized Commodities
Yen

Commodity	Unit of Measure	New Producer Price	New Consumer Price	Ratio of New Consumer Price to 1934-1936 Average Price
Coal <u>1/</u>	MT	2,388	1,000	81
Pig iron	MT	14,070	5,150	110
Pig iron <u>2/</u>	MT	14,070	3,600	77
Steel bar	MT	18,450	10,120	110
Ammonium sulphate	MT	18,800	11,126	110
Caustic soda solid	MT	28,853	20,856	110

1/ Price to special consumers only.

2/ Price to steel industry only.

New producer prices have been set for summer crops (wheat, barley and white potatoes) in accordance with the parity formula on the basis of an estimated level of 110 times the base period (1934-1936). New consumer prices were then computed on a pooled basis so that the weighted average increase over the previous prices would amount to approximately 80 per cent. The following table presents price data for the principal foods in the staple food ration.

Consumer Price Data for Selected Foods
Yen

Commodity	Unit of Measure	Previous Price	New Price	Per cent Increase	Ratio to 1934-1936 Average
Rice	10 Kg.	148.50	266.00	79	105
Wheat flour	10 Kg.	131.50	266.00	102	126
Barley	10 Kg.	127.00	251.00	98	138
Refined sugar	1 Kin	16.10	19.25	20	81
White potatoes	10 Kan	130.00	212.00	63	93

Wages

The continued pressure for higher wages by Japanese workers has been a prime factor in the increase of production costs and consequent increases in official prices. This pressure is generated by depressed consumption and living standards as compared with prewar levels and by the necessity for worker's families to supplement rationed quantities of commodities in the blackmarket at constantly rising prices. The disparity between current wage

RESTRICTED

and price levels is illustrated by the relative increases which have occurred since prewar years. Thus, comparing with 1937, current wage rates have risen on the average about 75 times, whereas effective consumer prices were 120 to 130 times the 1937 level even prior to the setting of the new official price levels.

The current wage picture is also characterized by a distortion in industry relationships as certain industries, particularly coal mining and electric power, have granted wage increases far above the average and have thereby increased the pressures for wage increases on the part of workers in other industries.

The possibility of achieving an increased degree of stabilization in the period immediately ahead is none too favorable. The summer months, with the uncertainty of the staple food ration and the extreme shortage of rice, will see rising blackmarket prices of staple foods. Coupled with increases in official prices, the result will probably be an acceleration in the rather moderate rate of increase which effective consumer prices have shown since last summer. In such a situation, the wage level will be subject to renewed pressures.

RESTRICTED

NATIONAL GOVERNMENT FINANCESFiscal Year 1947-48

The final quarter of the fiscal year ending 31 March 1948 was high-lighted by the collection of income tax in excess of budgeted goals. Whereas the budget for the year as a whole called for income tax revenue of 69 billion yen, actual collections reached 77.9 billion yen. (The figures on actual collections will be increased still more as late returns are tabulated.) The relatively favorable collection record resulted from: (a) the mounting wage levels and consequent increases in taxes withheld at source, and (b) the year-end collection drive against the self-assessment group. In spite of the relatively satisfactory year-end collections from the self-assessment group, almost all of the collections in excess of budgeted amounts came from taxes withheld at source.

Further progress was made during the year in improving tax laws and administration. Nevertheless, Japanese tax enforcement and administration remain extremely weak. Final achievement of the revenue goals was in part at least due to heavy pressures exerted by SCAP and Military Government Teams in the field.

During 1947-48, though tax collections greatly increased over the previous year, taxes nevertheless have been quite low in relation either to budgetary needs or the levels of national income. In particular, the tax structure has been deficient in collection of direct income taxes from the higher income groups, so that the tax system taken as a whole is regressive in its burden.

During the past fiscal year, primarily as a consequence of the increasing trends of both wages and prices, there were thirteen supplemental general account budgets in addition to the original budget. The original budget anticipated total expenditures in the general account of 114.5 billion yen; however together with the thirteen supplements the final budget called for total expenditures of 214.3 billion yen. It is significant to note that 85 per cent of the total increases above the original budget took place in the seventh supplemental budget in November 1947, as a consequence of the substantial increases which took place earlier in the fiscal year both in official prices and in wage rates. These price and wage increases inevitably caused marked increases in government expenditures.

As a result of favorable year-end collections of taxes by the government (particularly income and non-war sufferers' taxes) and of other due and past-due obligations (notably of revenues from the food administration and from government monopolies), a period of relative stability in the size of the national debt and of the note issue of the Central Bank began at the end of December 1947, and continued for several months, as evidenced below:

RESTRICTED

RESTRICTED

(Billion Yen)			
	Tax Receipts (During month)	National Debt (End of month)	Bank of Japan Note Issue (End of month)
December 1947	-	372.8	219.1
January 1948	(a) 9.2	386.2	218.0
February 1948	(a) 32.5	362.1	215.3
March 1948	(b) 22.9	360.8	218.8
April 1948	(a) 23.1	358.2	230.4
May 1948	(a) 14.5	365.6	223.5
June 1948	(b) 16.2	367.0	230.6

- (a) 4 weeks ended January 31, February 28, May 1, and May 29, 1948.
 (b) 5 weeks ended April 2 and July 3, 1948.

As tax receipts again turned downward in the new fiscal year, the note issue of the Central Bank reached new high levels in June; and during the coming months as government revenues continue to lag behind expenditures, it is probable that the temporary period of stability in the size of both the national debt and the note issue will be ended.

The 1948 General Account Budget

After much debate and delay the general account budget for the current fiscal year beginning 1 April 1948 has been passed by the Diet and has the following principal features in comparison with the budget of the past fiscal year:

a. Total revenues (and expenditures) are estimated at 414.5 billion yen, 1.94 times the level of the past year's budgets.

b. The higher levels result principally from higher wage and price levels, and do not reflect any substantial increase in governmental activities. In fact, there is a decrease in activities for "termination of the war" inasmuch as estimated expenditures have been increased much less than the change in prices would call for.

c. Estimates of income tax revenue are substantially higher, with the larger part of the increase levied against the self-assessment group.

d. Excise and commodity tax revenue estimates are increased greatly, and a transaction tax has been instituted which is estimated to yield a further substantial sum.

e. A large increase in revenue is anticipated to come from price differential profits (inventory profits on stocks held by the government resulting from the current increases in official prices).

RESTRICTED

RESTRICTED

In appraising the tax and revenue structure and tax goals for this year, it can be seen that in general considerable improvement has been planned. Total revenues are expected to be nearly 22 per cent and total taxes 14 per cent of projected national income of 1,900 billion yen for the fiscal year, while in 1947-48 the corresponding figures were 19 and 12 per cent of an income of 1,150 billion yen. Furthermore, personal income tax is expected this year to be 35 per cent of total revenues, as against 33 per cent last year, and will constitute 7.7 per cent of prospective national income in contrast with only 6.0 per cent of total income payments in final 1947-48. The burden of income tax has also been shifted somewhat--labor income will pay 5.6 per cent in withholding tax against wages and salaries in 1948-49; the share withheld in 1947-48 was 5.3 per cent. Groups subject to self-assessment on the other hand paid taxes last year equal roughly to 6.5 per cent of total income, while this year they are expected to pay 9 per cent of prospective income from the fiscal year. Encouraging though all this is, it remains true that in the light of the pattern of price pressures and consumer expenditures, and relative to national income and capacity to pay, the Japanese economy as a whole is considerably under-taxed; and relatively too little still is obtained from direct income tax on the self-assessment groups.

The income tax laws have been amended this year so as to lessen the tax burden especially on the lower income groups of wage earners. Personal exemptions and family allowances have been raised and tax rates adjusted. The gain to these groups is nevertheless largely offset by the introduction of a general 1 per cent transactions tax which is regressive in character and tends to set back the process of tax reform and modernization in Japan. It goes into effect in November this year. While it exempts rationed and some other specified foods, government monopoly goods like tobacco and liquor, and certain other transactions, it is nevertheless a heavy additional burden on the masses of consumers. In addition it has a pyramiding effect on prices and thus is to some degree a directly inflationary factor.

In the following table are shown the general account budgets for the current and past fiscal years and the ratio of the former to the latter.

RESTRICTED

BUDGETS OF NATIONAL GOVERNMENT GENERAL ACCOUNT
FISCAL YEARS - 1947-1948 AND 1948-1949

	1948-49	1947-48	Ratio
	(Billion Yen)		
<u>Total Revenue</u>	<u>414.5</u>	<u>214.3</u>	<u>1.94</u>
Income Tax			
Self-assessment	(108.2)	(49.2)	2.20
Withholding	(38.1)	(19.8)	1.92
Total	146.3	69.0	2.12
Liquor Tax	45.7	23.9	1.91
Textile Excise and Commodity Taxes	25.6	9.9	2.58
Transaction Tax	21.4	0.0	
All Other Taxes	28.7	32.6	0.88
Profits from Government Enterprises, Etc.	100.7	55.8	1.80
Prices Differential Profits	21.0	7.1	2.96
All Other Revenue	25.1	16.0	1.57
<u>Total Expenditures</u>	<u>414.5</u>	<u>214.3</u>	<u>1.94</u>
Termination of War	92.6	64.0	1.44
Price Adjustments	51.5	23.9	2.16
Public Works	43.5	14.7	2.96
Allotment Local Tax	39.2	19.7	1.98
Reconversion Finance Bank	18.0	6.0	3.00
Government Enterprise Rehabilitation	39.8	16.4	2.42
All Other Expenditures	129.9	69.6	1.66

Further Rise in National Debt and Note Issue

In spite of the fact that the general account budget is estimated to be in balance, the activities of the national government will continue to require support from the Central Bank and bring about increased currency issue and national debt. This arises out of the following considerations:

1. General account revenues will lag behind expenditures and thus necessitate short-term funding by the Central Bank.

2. The government's various special accounts will require large borrowings which cannot be liquidated during the fiscal year. It is not yet possible to make definite estimates of these magnitudes, but the nature of the principal special account activities are as follows:

RESTRICTED

RESTRICTED

- a. The Reconversion Finance Bank during the year will need to borrow in excess of 50 billion yen which, in turn, will be advanced to industry for the purpose of financing essential productive activities and reconstruction.
- b. The government must issue bonds in the amount of about 23 billion yen in meeting unusual financial and industrial guarantees chiefly arising out of the liquidation of the "old" accounts of the banks in connection with the financial reorganization brought on by the war's end.
- c. The rice crop will be collected but not fully distributed during the fiscal year, and at substantially higher prices than paid for the last crop. Consequently the Food Administration will require net borrowing in excess of 30 billion yen for the purpose of building inventory during the fiscal year.
- d. The Railway and Communications Accounts contemplate long-term borrowings of the magnitude of 40 billion yen, chiefly for new construction and capital improvement.
- e. The largest unknown element in the picture lies in the foreign trade account. If imports exceed exports by a wide margin, a large yen surplus will be accumulated. However, if exports are increased relatively more this balance will diminish and might even develop into a temporary yen deficit in the account.
- f. There are several additional accounts which probably will require further but relatively smaller borrowings. Also a certain amount of borrowing on the part of the local governments is probable.

The Sources of Government Borrowing and the Distribution of National Debt

Since the end of the war savings on the part of the public have been largely inaccessible as a source for government borrowings. There is little evidence that the current year will see any marked change in this condition. It is impossible to drain away and "sterilize" any large part of the excess purchasing power and thus relieve the expanding strain upon the credit facilities of the Japanese banking system. The government must continue to borrow chiefly from the Bank of Japan, which in March held 54 per cent of the outstanding national debt.

The table below shows the trend of the national debt, and the distribution of holdings of the debt between 30 September 1946 and 31 March 1948. The peak level of national debt was 386 billion yen on 31 January 1946; on 30 June this year at 367 billion yen it was still 5 per cent below the previous peak.

RESTRICTED

DISTRIBUTION OF HOLDINGS OF THE NATIONAL DEBT

	Billions of Yen		Per Cent Distribution	
	1946 30 Sept.	1948 31 March	1946 Sept.	1948 March
Bank of Japan	34.2	193.7	14.6	53.7
Ordinary Banks	40.7	58.3	17.4	16.2
Reconversion Finance Bank	-	2.3	-	0.6
Other Banks	22.2	17.3	9.5	4.8
Other Investors	<u>137.2</u>	<u>69.2</u>	<u>58.5</u>	<u>24.7</u>
Total National Debt	234.3	360.8	100.0	100.0

Not only is the Bank of Japan the principal creditor of the government at present, and by its current lending operations the direct source of monetary expansion, but as the above table brings out, it has even been absorbing the previous holdings of other investors, i.e., the public at large.

Thus the outlook for the remainder of the fiscal year is that expansion of the national debt will be resumed, involving further large increase in the note issue in the hands of the public. It would be naive, however, to lay prime stress on the note issue as a cause of inflation in general or on "control" of the note issue—by way of contracting essential economic activities particularly in the special accounts—as a stabilization measure. Rather, these monetary phenomena are basically merely symptoms and effects of the more fundamental maladjustments in the economy, involving shortages of supplies, maldistribution of supplies and of purchasing power, the need to expand production and economic activity generally, and a large degree of ineffectiveness of the fiscal and monetary systems.

Bank Loans to Non-Governmental Borrowers

Though government borrowing has been the principal feeder of increased money supply, the operations of the commercial banking system and of government loans to private business have also contributed. Ordinary banks and the Reconversion Finance Bank are forced to borrow from the Bank of Japan the funds for a large part of their loans to business, and thus the note issue is swelled.

The increase of bank credit to industry by types of institution is shown below:

RESTRICTED

RESTRICTED

BANK LOANS TO BUSINESS AND OTHER NON-GOVERNMENT BORROWERS

	Billions of Yen		Per Cent Distribution	
	1946 30 Sept.	1946 31 March	1946 Sept.	1946 March
Bank of Japan	42.1	58.1	63.1	20.7
Ordinary Banks (new accounts)	13.8	124.6	20.7	44.5
Reconversion Finance Bank	-	59.5	-	21.2
Other Banks (new accounts)	<u>10.8</u>	<u>38.2</u>	<u>16.2</u>	<u>13.6</u>
Total Loans	66.7	260.4	100.0	100.0

A comprehensive survey of bank loans (excepting those of the Bank of Japan) was conducted as of 30 September 1947 embracing reports covering 161,792 loans totaling 116.9 billion yen made subsequent to August 1946 and outstanding as of the survey date. The majority of these loans were for sums ranging between 20 thousand yen and 500 thousand yen. However, a relatively few large borrowers dominated the picture. Eighty-three per cent of the total amount of all loans were advanced to 8 per cent of the borrowers, and each of these loans exceeded 1 million yen. Fifty-four per cent of the total amount of all loans were advanced to 1 per cent of the borrowers, and each of these loans exceeded 10 million yen.

The purposes of these loans were reported as follows:

Purpose	Number	Amount
Current operations and inventories	140,256	¥ 88.7 billion
Capital repairs and expansion	21,372	20.4 "
All other purposes	20,164	7.8 "

By industry these loans were distributed as follows:

Business of Borrower	Number	Amount
<u>Total</u>	<u>131,792</u>	<u>¥116.9 billion</u>
Manufacturing	81,130	47.8 "
Agriculture	21,612	1.0 "
Retail Trade	17,050	1.7 "
Wholesale Trade	14,359	11.0 "
Mining	2,524	11.6 "
All Other	45,117	43.8 "

RESTRICTED

DO NOT DETACH THIS FORM

RECORD COPY

THE ATTACHED COPY OF A DESPATCH TELEGRAM AIRGRAM
HAS BEEN DESIGNATED THE RECORD COPY TO REPLACE THE ORIGINAL
ACTION COPY WHICH WAS NOT RETURNED TO THE CENTRAL RECORDS BY
THE ACTION OFFICE.

THIS COPY MUST BE RETURNED TO DC/R FOR FILING.

894.50/8-2848

FILE NO. DESP. 564 FROM TOKYO

FAP

FILED

JUN 15 1950

RESTRICTED

DC/R

FE

SEP 10 1948

564
No. 564

RESTRICTED

Tokyo, August 28, 1948

Subject: Transmittal of report entitled "Economic Conditions in Japan".

The Acting Political Advisor has the honor to enclose five copies of a report dated 5 August 1948 compiled by the Economic and Scientific Section of this Headquarters and entitled "Economic Conditions in Japan". The report covers the month of June, 1948.

Production in June, the report states, totalled more than fifty per cent of the 1930-1934 level for the second month in succession, a reflection chiefly of increased coal output. Textile production, however, lagged behind and constituted a major depressing element. Prices rose sharply, but, the report states, the rise was a result of a shortage of staple foods on the official market and of the substitution of sugar for cereals in ration, and is not to be interpreted as a drastic change from the preceding period of relative price stability. Prices continued to rise with rising prices.

The report notes some improvement in government finance, though deficit spending and increased currency will be necessary for some time to come. Finally, it is pointed out that bottlenecks in foreign trade rather than inflation constitute the major obstacle to Japan's economic recovery.

Enclosure:

Five copies of report on "Economic Conditions in Japan" dated 5 August 1948.

W.S. Soidensticker, Jr.:mis

RESTRICTED

RESTRICTED

894.57/8-2848

Rec'd
Sept 3

ACTION
FL

INFO
RR

FR

DCR

ITP

OPD

OLA

COM-ENC

TAR-ENC

TRIAS-ENC

FRB-ENC



THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

UNITED STATES POLITICAL ADVISER FOR JAPAN

ACTION
is assigned to



No. 596

To: **DIVISION OF
NORTHEAST ASIAN AFFAIRS** September 10, 1948.

CONFIDENTIAL (FOR DEPT. USE ONLY)

OCT 15 1948 6

DEPARTMENT OF STATE

*DC/P
File*

Subject: Progress of Economic Deconcentration Program.

RECEIVED
DEPARTMENT OF STATE

1948 SEP 24 PM 2 26
THE HONORABLE
THE SECRETARY OF STATE,
WASHINGTON.

Sir

I have the honor to enclose clippings from the Pacific Stars and Stripes and the Nippon Times dealing with the progress of the economic deconcentration program in Japan, and to report on comments made in that connection by officials of the Anti-Trust and Cartels Division, Economic and Scientific Section, SCAP, in conversations with an officer of this Mission.

*XR 894.602 894.50/4.2348
2/16 DECLASSIFIED
IR-CP
FN
LH*

ACTION
COPIES
TO:

Documents regarding the deconcentration program have already been forwarded by this Mission to the Department in despatch No. 126 of February 27, 1948 and despatch No. 243 of April 23, 1948. The policy in this Headquarters has been to designate companies for deconcentration under Law No. 207 of 1947, "Elimination of Excessive Concentration of Economic Power", on the basis of standards established by the Holding Company Liquidation Commission, and to delete companies which subsequent investigation may show not to be excessive concentrations. Such a policy, it is believed, should remove uncertainties that might act as a deterrent to Japanese economic recovery, and should thereby reduce criticism of the program both in Japan and in the United States.

Two hundred fifty-seven industrial companies were designated as excessive concentrations, on February 8, 1948, and 68 distributive and service companies on February 22, 1948 (see this Mission's despatch No. 126 of February 27, 1948). On May 2, 1948 the Holding Company Liquidation Commission announced that 194 companies had been released from designation for reorganization. Fifty of the firms, the announcement said, were found not to constitute excessive concentrations; the other 144 either were excessive concentrations which, because of plant structure, did not lend themselves to reorganization, but which would nevertheless continue under the surveillance of the Fair Trades Commission, or were minor concentrations whose monopoly character would be removed by such steps as sale of stocks in other companies or disposal of plants unrelated to the main line of business.

On July 1, 1948 the Commission announced that further investigation had resulted in the release of 31 more companies from the necessity of reorganizing. The announcement emphasized that the com-

companies

CONFIDENTIAL

Class. sheet made

CONFIDENTIAL FILE

894.50/9-1048

A/MK

Tokyo's No. 596
September 10, 1948

CONFIDENTIAL (FOR DEPT. USE ONLY) -2-

companies would nevertheless be required to divest themselves of stock holdings in other companies, and that in some cases trade-marks would be changed and certain unrelated properties disposed of.

There are thus one hundred companies remaining on the list designated for reorganization, of which only forty or fifty, it is believed in the Anti-Trust and Cartels Division, will ultimately be required to reorganize. Procedure under the Deconcentration Law requires that a preliminary order be drawn up by the Holding Company Liquidation Commission, that a hearing open to all interested parties, including stockholders, creditors, and representatives of employees, be held no earlier than fifteen days after transmittal of the preliminary order, and that a final order be drafted on the basis of information received in the hearing. Within thirty days thereafter, the company may appeal to the Prime Minister on grounds of insufficient evidence or omission of evidence.

In practice, the preliminary orders are drawn up by the Anti-Trust and Cartels Division in conference with the Holding Company Liquidation Commission and the company concerned, and cleared through interested sections of Headquarters, such as the Industrial Division or the Finance Division.

X
The Deconcentration Review Board receives the preliminary order together with the case file after the order has cleared Headquarters and is ready for official transmittal to the company. The Board, as the Department is aware, arrived in Tokyo in June, 1948, and is empowered to report directly to General MacArthur, but administratively, it is considered as part of the Economic and Scientific Section. According to its terms of reference, the Board is limited to findings of fact; its primary concern is whether or not the proposed reorganization will interfere with the economic recovery of Japan. Whether or not the Board has limited itself to such findings of fact is a matter of sharp disagreement in this Headquarters, it being felt by Mr. E. C. Welsh, Chief of the Anti-Trust and Cartels Division, that the Board is interested primarily in minimizing the effects of the Deconcentration Law (Law No. 207 of 1947), regardless of whether or not evidence of an adverse effect on the Japanese economy can be shown.

X
The reorganization of the Nippon Soda Company, mentioned in the enclosed Nippon Times article, is regarded as a case in point. It represents the first instance under the Deconcentration Law in which a final order for reorganization has been completed and cleared through Headquarters; previous orders have been concerned with only such comparatively minor items as stock disposal. The case was selected carefully, according to officials of the Anti-Trust and Cartels Division, so that it presented no special problems and could therefore be used as a test of the position of the Deconcentration Review Board. No United Nations Nationals held stock in the company; the company itself voiced no opposition to reorganization, and indeed appeared generally in favor of it; and finally, the Anti-Trust and Cartels Division felt that no strong case could be made to show that the Japanese economy would suffer from the reorganization, the company itself agreeing that operations would be more efficient with the removal of central control.

CONFIDENTIAL

A preliminary

Tokyo's No. 596
September 10, 1948

CONFIDENTIAL (FOR DEPT. USE ONLY) -3-

A preliminary order was therefore prepared breaking Nippon Soda into six companies, to be known as Sanwa Soda, Nippon Chemical, Nippon Electro-Steel, Nippon Mining, Nisshin Mining, and Tohoku Mining, with capitalizations of from 3,500,000 yen to 230,000,000 yen. Before the hearing, which was held on August 10, the Deconcentration Review Board conducted lengthy interviews with officers of the company, at which, according to the Chief of the Anti-Trust and Cartels Division, considerable pressure was placed on the officers in question to contest the order. These interviews, Mr. Welsh said, were concerned more with the political theory of the Deconcentration Law than with questions of its effect on the Japanese economy.

The company, however, did not appear at the hearing, and the final order was transmitted on August 22. Mr. R. S. Campbell, Chairman of the Deconcentration Review Board, has stated to a member of this Mission that the Board is still in close touch with company officers, and that it is more interested in the precedent which will be established than in the merits of this particular case. Even should an appeal not be forthcoming, the Board may, if it chooses, make an adverse report to SCAP, in which case he could of course dismiss the reorganization proceedings.

This Mission will report further on this subject in due course, with more detailed information on possible economic effects of the deconcentration program, and also will bring to the Department's attention cases that appear to present critical points in the application of policy.

Respectfully yours,

W. J. Sebald

W. J. Sebald.

Enclosures: *art*
att m/c.

1. Five Copies of Clipping from Tokyo Edition, Pacific Stars and Stripes, dated August 26, 1948.
2. Five Copies of Clipping from Nippon Times, dated August 28, 1948.

Original and hectograph to Department

File 850
EGSeidensticker, Jr.:mis

CONFIDENTIAL

L.B.B.

CONFIDENTIAL

Enclosure No. 1 to Despatch No. 596 dated September 10, 1948 from the Office of the Political Adviser for Japan, Tokyo, on the subject, "Progress of Economic Deconcentration Program".

STARS AND STRIPES: Aug, 26, 1948

EGS

Japanese Reds Fight SCAP'S Fiscal Policy

By **PETER KALISCHER**
UP Correspondent

The Japanese Communist party has ordered an all-out fight against business deconcentration because the SCAP-inspired program is directed against Red objectives "and the Communists know it," an Allied headquarters official told the United Press.

Edward C. Welsh, chief of the ESS Anti-Trust and Cartels division, said that Communist directives have been issued instructing members to disrupt the breaking up of Japanese monopolistic combines with "strikes" and "sabotage."

Welsh, a former Office of Price Administration official, has been under fire from certain sections of the American press ever since the inception of the deconcentration program. A column by Raymond Moley in the August 23, issue of Newsweek charged Welsh with being one of "a lot of New Dealers (in Japan) whose ideas if unchecked will turn the country into a Communist state."

Welsh vigorously defended the deconcentration program as encouraging "private management, private ownership, freedom of private enterprise, competition based on efficiency rather than governmental privilege—all the basic principles of private capitalism."

He said Japanese Communists were opposed to deconcentration because under former Zaibatsu owners Japanese business combines were "all ready to be taken over as they were and nationalized."

Reorganization of the companies into "financially sound, competing organizations breaks up the pattern and makes the Communists' objectives much more difficult to attain," he said.

"They find it easier to turn a Fascistic economy into a Communistic economy because the differences are relatively slight and neither is handicapped, in the Communist sense, by democratic freedom as we know it in the United States."

Without referring to his critics by name, Welsh observed that opposition to the deconcentration program was creating some "embarrassed bedfellows." It also found the "control-crazed" Zaibatsu in secret support of the Communists, he asserted, while no one who actually examined the program "has or can show how it will decrease productive efficiency."

CONFIDENTIAL

Enclosure No. 2 to Despatch No. 596 dated September 10, 1948, from the Office of the Political Adviser for Japan, Tokyo, on the subject, "Progress of Economic Deconcentration Program".

NIPPON TIMES: Aug. 28, 1948

EGS

Plans for Reorganization Of Key Industries Pushed

Program Completed or Near Final Stage for
Textiles, Steel, Chemicals, Movies

By PETER KALISCHER
United Press Staff Correspondent

Reorganization plans for companies in four key Japanese industries are completed or near the final draft stage, Edward Welsh, chief of the ESS Anti-Trust and Cartels Division told the United Press.

The affected industries are textiles, steel, chemicals and motion pictures.

In an industry-by-industry breakdown, Mr. Welsh said the following steps had been taken:

1. Textiles—A total of 26 companies have been designated for reorganization. Of these, 10 companies were removed without structural break-up, although they were divested of their holding companies and other monopolistic features.

The remaining 16 companies include the Big Ten spinning companies, the Katakura and Gunze Silk companies, Nippon Wool Co., Imperial Rayon Co., Toyo Rayon Co., and the Imperial Textile Co. (Flax and hard fibres.)

None of these companies has received reorganization orders, Mr. Welsh said. The orders are expected to be finalized soon subject to review by the Deconcentration Review Board.

The companies are expected to be reorganized two or three different ways—financially, structurally, etc.

Mr. Welsh stressed that none of the designated companies' plants or compounds would be broken up. Reorganization plans, as previously published by the Cotton Spinning Association are along "fiber lines"—leaving cotton, silk, and wool plants as individual units. Even where a predominantly one-fiber plant also manufactures another fiber both fibers would be left in a single unit.

Among the Big Ten, plans for three cotton spinning companies do not call for structural reorganizations, Mr. Welsh said.

2. Steel—Of the designated nine companies five have been removed without structural reorganization. They are the Kokura Steel Co., Japan Steel Works, Daido Steel Co., Nakayama Steel Co., and Mitsubishi Steel Co.

The four ready for reorganization are the Japan Iron and Steel Co., Kobe Steel (probably into five companies), Japan Steel Tube Co., and Fuso Steel Co.

3. Chemicals—In the salt, acids and soda subdivision the Nippon Soda Co. was broken up into six companies. Two other companies were ordered to reorganize but not along structural lines.

In the soap, cosmetics and medicines subdivision two companies have been designated for reorganization but not along structural lines.

In the dyes, plastics and explosives subdivision six companies have been designated of which the Hodogaya Chemical Co. and the Japan Synthetic Resin Company will not be reorganized along structural lines.

Plans for the structural reorganization of the Nisshin Chemical Co., Mitsui Chemical Co., Nippon Dynamite Co., and the Asahi Chemical Co., are nearly completed.

4. Motion Pictures—the Daiei, Toho, Shochiku, Toyoko Eiga and Nikkatsu companies have all been designated for reorganizations with emphasis on separating distribution and exhibiting agencies from the production end.

Mr. Welsh also said reorganization plans for the Oji Paper Co., are at an advanced stage of completion.

STANDARD FORM NO. 64

CONFIDENTIAL

Office Memorandum • UNITED STATES GOVERNMENT

TO : NA - Mr. Allison

DATE: October 25, 1948

FROM : NA - Mr. Green

*msg. despatch 9/10/48
894.50 / 9-10-48*

SUBJECT: Attached: Tokyo's 596

This despatch on the Progress of Economic Deconcentration Program points out that of the 325 companies designated last February as "excessive concentrations" only 100 companies now remain on the list designated for reorganization. Of these, only 40 or 50 will ultimately be required to reorganize according to opinion in the Anti-Trust and Cartels Division.

On the basis of this despatch it is evident that considerable friction has developed between the Deconcentration Review Board and Mr. Welsh, Chief of the Anti-Trust and Cartels Division. The latter privately charges that although the Board is limited to findings of fact, it is primarily interested evidently in minimizing the effects of the Deconcentration Law, regardless of whether or not evidence of an adverse effect on the Japanese economy can be shown.

The August 1948 order breaking up the Nippon Soda Corp. into six companies is the first instance under the Deconcentration Law in which a final order for reorganization has been completed and cleared through GHQ, previous orders having related only to stock disposal and other comparatively minor items. The test case of the Nippon Soda was carefully selected by the Anti-Trust and Cartels Division because it was uncomplicated by special problems and because no strong case could be made to show that the company would suffer from reorganization. Mr. Welsh complained that despite all this and despite the fact that the company itself had previously agreed that its operations would be more efficient with the removal of central control, the Deconcentration Review Board applied considerable pressure on officials of the Nippon Soda Corp. to contest the reorganization order. Mr. Welsh regarded this as a good illustration of the DRB's primary concern with the political theory of the Deconcentration Law rather than with the question of its effect on the Japanese economy. Even though the final order on Nippon Soda has been transmitted, the DRB may still, if it chooses, make an adverse report to SCAP leading to a possible dismissal of the reorganization proceeding.

Handwritten routing slip with fields for 'Mr. Allison', 'Mr. Green', 'Mr. ...', and 'Mr. ...' with checkmarks.

*State Dept.
Northeast Asian
Affairs Office
From Green*

CONFIDENTIAL

also document transmitted to the RMR...

EW 1048

CS/10

EW 894.50 / 9-10-48

SECRET

-2-

Japanese appropriated aid to be requested of the Congress during the next fiscal year and the extent to which appropriated aid made available by the Congress for use in the occupied areas is to be assigned to Japan during any given period of the current fiscal year.

The adoption of these policies will place our Japanese aid program on somewhat the same basis as our aid programs in other parts of the world. They will, of course, diminish SCAP's immediate control over the economic administration of the Japanese Government. However, basic economic policies in Japan can still be powerfully influenced by the U. S. Government if it clearly fulfills its announced intention of directly and continually relating the amount of U. S. aid to the caliber of Japanese economic performance.

Effectiveness of this policy would, I believe, be enhanced if the United States simultaneously announced its intention to pay to the Japanese Government, beginning in the fiscal year 1950, the dollar equivalent of all yen costs incurred by that Government in meeting the needs of the occupation forces - less a suitable allowance for capital installations of permanent value to the Japanese. The introduction of this pay-as-you-go arrangement would not affect the total amount of funds to be requested of the Congress for Japan in FY 1950, since the appropriation for Japanese import procurement could be reduced by the amount of dollars made available to Japan to cover occupation costs. However, the net amount of U. S. aid being furnished to Japan would be made more clear both to the Japanese and to ourselves than it is at present, and, as a result, execution of a policy relating the amount of that aid to Japan's economic performance could be more easily effected and more generally understood. In particular, the Japanese would no longer be able to depreciate the significance of U. S. aid by indulging in loose allegations concerning the heavy counter-vailing burden of occupation costs.

Since payment for Japan on a current basis of the dollar equivalent of yen costs incurred by the Japanese Government in support of the occupation would reduce Japan's dollar deficit, this proposed policy would also have the effect of reducing future appropriation requests for aid to Japan, as distinct from appropriation requests to meet occupation cost payments. This would have beneficial diplomatic consequences, since the smaller appropriation requests for Japanese aid would arouse less Far Eastern antagonism towards the United States and Japan.

I am aware that this pay-as-you-go arrangement, although followed in Austria and Korea, is not in effect in Germany; it does not seem to me, however, that the German and Japanese situations are necessarily

comparable

SECRET

SECRET

-3-

comparable, in view of the existence of a central Japanese Government, of SCAP's undivided executive responsibility in Japan, and of the revised policy to be followed towards Japan during the pre-treaty period under the terms of the above-mentioned NSC policy paper.

I would appreciate hearing from you concerning these proposals at your earliest convenience, so that appropriate officials of the State and Army Departments may consult concerning them. I hope that it will be possible for the State and Army Departments to reach agreement on these proposals in the near future, as the Department of State would be assisted in determining its position in regard to future Japanese appropriation requests by knowledge of the course to be pursued with respect to these proposals.

Yours sincerely,

Charles E. Saltzman
Assistant Secretary

OE:HOwen:mw

A true copy of
the signed orig-
inal

NA-
Mr. Allison

FE-
Benninghof

OFD-
Mr. Knapp

O. M. Clanton.

OE - Mr. Whitman

SECRET

TOP SECRET

De/R

September 17, 1948

Dear Royall:

Since our meeting on Tuesday afternoon I have been giving careful consideration to the points made by you in connection with the modifications of the levels of industry set out in the Johnston Committee Report which were proposed in my letter to you of September 10th. Since Mr. Hoffman, who was Chairman of the Sub-committee of the Johnston Committee which drafted the section of the Report dealing with the reparations problem, could not be present at our Tuesday meeting, I have had my representatives consult with him and I have taken his observations into account.

As you know, the Johnston Committee was in Japan only briefly and although its Report on the matter of reparations is helpful, I feel that due to the technical intricacy of the subject and the short time which the Committee had to devote to it its conclusions should not necessarily be regarded as more sound or precise than those of the Overseas Consultants, Inc., or than other studies made by the Japanese Government and SCAP. After consideration of all of these studies and the points advanced by the offices of the Government interested in this problem, I have concluded that the level of 5 million tons annual capacity for steel which I recommended in my previous letter to you is not to be regarded as inconsistent with the philosophy of the Johnston Committee's Report. At the same time I feel that this level is economically and politically more defensible in our negotiations with friendly Far Eastern Commission countries.

Although I proposed in my letter of September 10th the retention of a 400,000 tons annual steel shipbuilding capacity, which corresponds as you know with the recommendations made by the OCI, I feel that no serious additional difficulty would be involved if we propose in our initial discussions with the friendly FEC countries that the retention level be 500,000 metric tons. This level accords with the recommendation made by SCAP and represents an effort to meet your desire to have our levels approach as closely as possible the Johnston Committee's recommended levels in our initial approach to the FEC countries. I feel for reasons which we have already discussed that the above retention levels, although somewhat lower than those recommended by the

Johnston

The Honorable
Kenneth C. Royall,
Secretary of the Department of the Army,
Washington, D. C.

TOP SECRET

894.50/9-1748

A/FCP SECRET FILE
COPI SECRET FILE

*740.00119 PW
894.60
XR*

TOP SECRET

-2-

Johnston Committee, represent capacity adequate to meet Japanese production needs during the foreseeable future. At the same time I am convinced that any higher retention levels would produce political repercussions in the FEC countries which might well render acceptance of our proposal as a whole impossible.

I agree with you that the machinery and equipment actually put into operation by SCAP or which he may need for the purposes of the occupation should not be removed merely because it falls within the general definition of primary war facilities. Therefore, I have amended our proposal regarding primary war facilities so as to enable SCAP to retain such facilities already put into operation and to permit SCAP a period of 30 days after receipt of his directive to designate additional facilities falling in this category which he may deem essential for the purposes of the occupation. This amendment would also require SCAP to make substitution so far as practicable for any such facilities thus retained out of similar facilities existing in Japan which would not otherwise be removed. This provision has been incorporated in a revised version of the State Department's proposal for the reparations paragraph in the NSC paper on Japan. The revised proposal is attached.

The amendment set out above is as far as I can go in modifying the principle that all primary war facilities in Japan should be made available for reparations claim. I consider that this position cannot be further modified because firstly, the commitments of the U. S. Government contained in the FEC Basic Post Surrender Policy and other decisions of the Far Eastern Commission are such as to leave no real loophole, legally, on this matter. Secondly, I am convinced that any limitation of the principle that all primary war plants should be removed from Japan, other than that set forth above, would be regarded by the Far Eastern Commission countries as a reversal of previous American policy regarding Japan's demilitarization. As you know, these arguments have already been used by FEC countries, both in the FEC and in United Nations' organs, to justify denial of most favored nation treatment to Japan in trade relations and opposing admission of Japanese businessmen into their countries. This attitude can, I fear, do far greater harm to that expansion of Japanese trade, upon which Japanese self-support so vitally depends, than the removal of the machine tools and primary war facilities in question as reparations.

I am anxious to insure as far as practicable that there will be no dismantling of facilities designated as reparations which will not be accepted by the claimant countries and actually removed from Japan. I therefore suggest that the claimant countries should be required to

enter

TOP SECRET

TOP SECRET

-3-

enter into agreements with SCAP, establishing specific schedules for removal of allocated reparations facilities and that SCAP should be empowered to arrange these schedules with a view to minimizing the possibility of dismantlement being rendered useless by any failure of recipient countries to remove equipment from Japan. Should any country fail to remove facilities on schedule, SCAP should be empowered to revise or suspend schedules for dismantling and delivery to dockside of facilities previously allocated to that country. A provision to this effect will be found in the enclosure.

I have dwelt on the question of revision of the Johnston Committee's recommendations because it is my understanding that at our meeting you withdrew your objection to points two through six of my letter of September 10th. I am submitting to the NSC the attached revised recommendations for inclusion in the policy paper on Japan. I am conscious of the fact that the amended State Department position as set out in the attachment and in my above conclusions on levels does not fully accord with the views you have expressed. I hope, however, that in the interest of the prompt and final disposition of this problem which we all desire, you will be able to accept this position.

Faithfully yours,

A true copy of
the signed orig-
inal. *MD*

Attachment

O:PPClaxton:br
OE:RNBarnett:br
Sept. 17, 1948

S/S
MD
SEP 17 1948

TOP SECRET

TOP SECRETJAPANESE REPARATIONS

1. The United States should rescind the Japanese reparations interim directive (part A of JCS Directive No. 75) on advance transfers except that part A of Directive No. 75 should remain in effect with respect to allocations of assets which have already been processed under that directive. After prior diplomatic discussion with friendly FEC nations the United States should submit the following proposals on Japanese reparations to the Far Eastern Commission, unless such extremely strong opposition is encountered in the diplomatic discussions as to indicate the need for review or withdrawal of the proposals.

2. The aforementioned United States proposals should be that:

(a) Japanese external assets located within the jurisdiction of Allied nations at the time of the Japanese surrender should be retained by such nations and their value credited to reparations;

(b) SCAP should be directed to determine, announce and make available for reparations claims, categories and quantities of industrial facilities and equipment which are in excess of the levels finally agreed to by the State and Army Departments. Industrial facilities and equipment to be determined available for reparations claims should not include buildings. SCAP may, if necessary, exercise authority granted him by the FEC in FEC 084/21 to retain particular plants declared available for reparations. However, all machinery and equipment (including thermal power units) in primary war facilities (army and navy arsenals, privately-owned munitions plants and aircraft plants) should be made available for reparations claim, excepting that such of this machinery and equipment as may, within 30 days after his receipt of a directive on this subject, have been designated by SCAP as required for the purposes of the occupation, may be retained within Japan and SCAP should furnish wherever practicable in the light of occupation requirements replacements as closely similar as can be provided from the general inventory of Japanese industrial facilities which otherwise would be retained in Japan. It is the view of this Government that this provision should be deemed the final application of paragraph 10 of FEC 084/21 so far as it applies to primary war facilities. The United States Government

TOP SECRET

TOP SECRET

-2-

Government should request SCAP to announce publicly, within 30 days after his receipt of a directive on this subject, the facilities and equipment which would be made available for reparations claims;

(c) SCAP should be directed to receive reparations claims from Far Eastern Commission countries within a reasonable period;

(d) Allocations of available and claimed reparations should be made by SCAP in accordance with national percentage shares, substantially as herein stated. In making such allocations, consideration should be given by SCAP to items already delivered pursuant to the U.S. advance transfers directive (JCS Directive No. 75);

(e) Actual allocations and deliveries should be made by SCAP as soon as possible after issuance of the directive embodying this position in order that recipient nations may have the benefit of facilities and equipment as soon as possible and in order that reparations deliveries may be completed within eighteen months thereafter; and

(f) Claimant countries should be required to enter into agreements with SCAP establishing specific schedules for the removal of allocated reparations facilities. SCAP should be instructed to arrange these schedules with a view to minimizing the possibility of dismantlement being rendered useless by any failure of recipient countries to remove equipment from Japan. Should any country fail to remove facilities on schedule, SCAP shall be empowered to revise or suspend schedules for dismantling and delivery to dockside of facilities previously allocated that country.

3. If, after reasonable consideration in the Far Eastern Commission, this position cannot be agreed upon in the Far Eastern Commission, the United States should consider the desirability of issuing a unilateral directive to SCAP.

4. Industrial reparations under the above proposal should be made available to those member countries of the Far Eastern Commission which can approve the following schedule of percentage shares. The United States Government for its own part should hold 18 of its 23% share of industrial facilities for redistribution among those Far Eastern countries which approve the schedule and which desire increments to industrial facilities which they are entitled to receive by their share. The United States Government should allow a period not to exceed one month for negotiation among countries wishing to participate in the redistribution of this 18%, in which these countries can seek a mutually

acceptable

TOP SECRET

TOP SECRET

-3-

acceptable redistribution of that share. If no agreement is reached within this period, the said 18% for redistribution should be divided among participating countries in proportion to the percentage shares shown below.

Australia	8%
Canada	1
China	30
France	2 1/2
India	5
Netherlands	5
New Zealand	1
Philippines	8
USSR	4
United Kingdom	12 1/2
United States	23

TOP SECRET

*Letter copy 4
(copy to NA)
FE
HMB
WJB*

Office of
FAR EASTERN AFFAIRS
SEP 17 1948
DIRECTOR
Department of State
BWB

SEP 17 1948

Bureau of
FAR EASTERN AFFAIRS
AUG 20 1952
ASSISTANT SECRETARY
Department of State

TOP SECRET

Dear Bill:

I think that you will be interested in the enclosed clipping from the New York Times of September 8, in case it has not come to your attention. It contains an article by a Tokyo correspondent under headline of "Japanese Exports Get a Price Floor." Since the latest information received by this Department is not sufficient to indicate whether or not this report is exact, would you be good enough to let me hear from you in that regard?

If this report is correct, the steps which it indicates as having been taken in the theater, particularly with respect to the establishment of a system representing, in effect, a multiple rate system, are in serious conflict not only with the recommendations of the Young Mission Report but also with the policy approved in NAC Action No. 263 of June 28, to which I referred in my letter of June 30 to General Noce. Such steps are also incompatible with those outlined in the proposed reply to General MacArthur's cable of June 29, which was enclosed in my letter of July 14. The letter was also addressed to General Noce during your absence from Washington at that time.

In regard to the proposed cable of July 14, which was mentioned but not discussed in detail at the meeting in your office on July 28 of representatives of the interested Departments and the members of the Young Mission, I am informed that it continues to represent the views of the Departments of the Treasury and Commerce and of interested officials of the Federal Reserve Board, as well as of the Department of State. These views are that the Young Mission's Report, together with its supplementary memorandum of August 16, substantially exhaust the possibility of further analysis of the problem on the basis of information here; also that it is difficult to see how additional up-to-date and detailed statistical information now requested from the

theater

The Honorable
William H. Draper, Jr.,
Under Secretary of the Army.

This Document Must Be Returned To
DC/R
Central
Files
7-11-50/9-17-48

DC/R
Anal 10
Rev _____
Cat _____

SEP 17 1952

FILED

TOP SECRET FILE

TOP SECRET

2611

TOP SECRET

- 2 -

theater by your Department could be determining insofar as a decision on the principles involved is concerned. It is thus believed that continuing requests for the latest subsidiary data from the theater and review thereof in Washington would result only in unprofitable further delay in action relative to the points analyzed in the proposed cable above referred to. In the meantime, the target date of October 1 proposed in the Young Mission report is already practically upon us.

I should also mention that there is increasing apprehension in the Department of State and, I am told, likewise in the Treasury Department, the Department of Commerce, and the Federal Reserve Board, regarding the apparent lack of progress in the matter of implementing comprehensively the National Advisory Council action of June 28 which, as you know, is in line with the recommendations of the Young Mission report; also regarding the delay in acquainting General MacArthur fully with the views contained in the proposed cable of July 14 to him in answer to the points which he raised in his cable of June 29.

It would be helpful if you would advise me as to the Department of the Army's view of action which should be taken to execute the policy approved in NAC action No. 263 of June 28. The recommendations of the Departments of State and Treasury as to the appropriate action were set forth in the proposed cable of July 14, with which the Department of Commerce and the Federal Reserve Board concurred. It is my understanding that you think that some features of the program outlined in that cable are inappropriate in the circumstances. However, it appears that appropriate action should be taken without further delay to implement the NAC policy in a practical manner and I would appreciate your views in this regard.

Sincerely yours,

Charles E. Saltzman
Assistant Secretary

Attachment.

O:CCHilliard:eg
9/16/48

Concurred in by: FE - Mr. Butterworth
NA - Mr. Allison
OFD - Mr. Knapp
OE - Mr. McDiarmid
Treasury - Mr. Lipsman
Commerce - Mr. Lee
Federal Reserve - Mr. Young

A true copy of
the signed original.
ES

TOP SECRET

STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

DATE: Sept. 23, 1948

TO : NA - Mr. Allison

FROM : NA - Mr. Fearey ✓

SUBJECT: Attached Note.

Mrs. Kallis sent over the initial draft of this note day before yesterday, attached at bottom of file, for preliminary comment. It seemed a little over sentimental and gushy without really being of help, so I suggested over the phone what now appears on the blue. The idea is to postpone the substantive reply rather than to offer comforting, unfortunately empty assurances.

On seeing it in print, and on noting the friendly tone of the Philippines note, I wonder if it would be a good idea to add the following as a new third paragraph:

"It is most gratifying to note that the reparations facilities thus far received by the Philippines from Japan have been of assistance in the rehabilitation of Philippine economy."

The only danger is that the sentence might be interpreted to mean that we had had doubts that they would be of assistance.

We might also add something about being fully conscious of the Philippines urgent need for additional reparations facilities, but I'm afraid that might be quoted back at us after we announce our new reparations proposals.

new second para

*State Dept.
northwest Asian
affairs office
from Fearey*

NA:RAFearey:lt

DC/A
Ans 57
Rev
Cat

This Document must be returned to the Foreign Control Files

894.50/9-2348

CSM

89450/9-2348

De/R

CONFIDENTIAL

September 29, 1948

894.50/9-2948

MEMORANDUM FOR THE U. S. MEMBER
ON THE FAR EASTERN COMMISSION

Subject: The Statement of the U. S. Member of the FEC
Regarding Soviet Members Proposals on "Level of
Economic Life in Japan: Policy Toward Japanese
Industry."

In connection with the statement made by the Soviet Member at the last meeting regarding proposals on the level of economic life in Japan, the following statement is provided for your use at your discretion. You will note that certain questions are set out in this statement. It is the feeling of the Government that the United States should not take a leading position in the discussion of this subject. Therefore, it is believed preferable to defer asking these questions until it is seen whether some other representative may ask them. If none does, then the questions should be put at your discretion.

"My Government notes with interest the statement made by the Soviet member concerning FEC 242/32. My Government has pointed repeatedly to the mutually beneficial effects upon the economic rehabilitation of the Far Eastern countries which may be expected from a development of Japanese peaceful industry and enlargement of Japan's foreign economic ties. On January 21 of this year I stated to the Commission that the U. S. Government expected to take positive measures to bring about that objective. My Government welcomes any indication that other member countries of the Far Eastern Commission have a similar interest in realizing the potential advantages to all member countries which may be expected from the free and healthy development of Japanese trade and production for peaceful purposes.

CS/V

894.50/9-2948

"There are, however, a number of questions which have been prompted by this statement.

"A distinction was drawn by the Soviet member between "peaceful Japanese industry" and "Japanese war industry." It would be

appreciated

*AS
ypr*

CONFIDENTIAL

3231

*YR
894.60*

CONFIDENTIAL

-2-

appreciated if the Soviet member could clarify the meaning of these two expressions.

"The Soviet member has referred in his statement to the need for establishing 'controls' in his proposed policy decision to prohibit the revival and creation of Japanese war industry. Does the reference to 'controls' imply the establishment of some machinery for this purpose during the period of the occupation, and if so would not such controls conflict with the terms of reference of the Far Eastern Commission, the Allied Council for Japan, and the role of the Supreme Commander for the Allied Powers in the regime of control in Japan?"

"The Soviet member has referred to 'those powers most interested in preventing a new Japanese aggression.' Does this phrase describe the present membership of the Far Eastern Commission, or are fewer or more countries than those now members of the Far Eastern Commission referred to?"

(copy)
Charles E. Saltzman
Assistant Secretary

OFD:RWBarnett:bcg;br 9/29/48
O:PP/Claxton:hjh;br 9/29/48

Cleared by Allen & Buttsmith (Allen by phone) *TC*

a true copy of
the signed original.

CONFIDENTIAL

DRAFT

✓ THE STATEMENT OF THE U.S. MEMBER OF THE FEC REGARDING SOVIET MEMBERS PROPOSALS ON "LEVEL OF ECONOMIC LIFE IN JAPAN: POLICY TOWARD JAPANESE INDUSTRY"

My Government notes with interest the statement made by the Soviet member concerning FEC 242/32. ↑

There are a number of questions ^{however,} on which I have been prompted by this statement.

A distinction was drawn by the Soviet member between "peaceful Japanese industry" and "Japanese war industry." ^{It would be appreciated if the Soviet member could clarify the meaning of these two expressions.} Can the Soviet member provide definitions of these terms?

The Soviet member has referred in his statement to the need for establishing the control ^{in his policy} over the proposed decision to prohibit the revival and creation of Japanese war industry. Does the reference to control imply the establishment of some machinery for this purpose during the period of the occupation, and if so how would such controls affect the terms of reference of the Far Eastern Commission, the Allied Council for Japan, and the role of the Supreme Commander for the Allied Powers in the regime of control in Japan?

The Soviet member has referred to "those powers most interested in preventing a new Japanese aggression." Does this phrase describe the present membership of the Far Eastern Commission, or are fewer or more countries than those now members of the Far Eastern Commission referred to?

My Government repeatedly has pointed to the mutually beneficial effects upon the economic rehabilitation of the Far Eastern countries which may be expected from a development of Japanese peaceful industry and ^{enlargement} ~~a restoration~~ ^{of Japan's foreign} economic ties with Japan. On January 21 of this year I stated to the Commission that the U.S. Government expected to take positive measures to bring about that objective. My Government ^{welcomes} ~~recommends~~ any indication that other member countries of the Far Eastern Commission ^{are showing} a similar interest in the ^{realizing} potential advantages which may be expected from the free and healthy development of ^{all} Japanese ~~trade~~ and production for peaceful purposes.

FW 894.50/9-2-48

170/200
April
May
June
July
Aug
Sept
Oct
Nov
Dec

STATEMENT OF THE SOVIET DELEGATION CONCERNING FEC-242/32

"LEVEL OF ECONOMIC LIFE IN JAPAN: POLICY TOWARDS JAPANESE INDUSTRY"

The question of the level of industrial development for Japan is one of the most important questions requiring settlement. The determination of the level for the development of Japanese industry will predetermine the future economic development of Japan.

However, while considering this question it is necessary to understand clearly what industry is to be developed. Industry may work to meet the peaceful requirements of the country. But it is also known that industry may work for the purpose of military preparation, as was the case earlier in Japan.

Therefore, from the very beginning it is necessary to clarify this question and then to determine one's attitude towards one or another proposal concerning the level of the future industrial capacity of Japan. Besides, it should be remembered that Japan will have to satisfy legitimate claims for reparations on the part of those states which suffered from Japanese aggression.

The Soviet Government does not consider it reasonable to require limitations of the level of the development of Japan's peaceful industry for the future. Such a requirement could find no justification whatsoever. It would meet neither the interests of the Japanese people, nor the interests of other countries, and, first of all, of Asiatic countries which are in need of economic ties with Japan.

- 2 -

A high level of industrial development of Japan will not in itself be dangerous if Japan is not permitted to revive her war industry and militarism. Japanese industry in the past served as an economic basis for Japanese aggression, not because it had reached a comparatively high level of development, but because of the fact that its development had been subordinated to the needs of war.

Japanese militaristic circles, acting contrary to the vital interests of the Japanese people, directed the development of the country's industry as well as of the economy as a whole in such a way that it was adapted to meet the needs of the army and navy, i.e., it worked for the preparation of war.

Such a situation suited the interests of aggressive Japanese circles, which set themselves the purpose of enslaving other countries and peoples in alliance with Hitlerite Germany. However, it goes without saying that this should not be repeated, since militaristic Japan was defeated and there is an opportunity to direct the development of Japan along democratic and peace-loving lines. Now measures must be taken to prevent the revival of Japanese militarism and the conversion of Japan once again into a hotbed of war danger.

In order to ensure the settlement of this problem, the development of Japanese industry should have as its sole purpose the satisfaction of the peaceful needs of the Japanese people. If we proceed from this, the only correct basis, the unfoundedness of demands to limit the development of peaceful Japanese industry will become self-evident.

3231

- 3 -

The development of peaceful Japanese industry to the level of 1930-34 or to a higher level will contribute to the improvement of the physical well-being of Japan's population, which continues to suffer serious after-effects of the criminal and adventurous policy of the Japanese militarists.

Such a development of industry will broaden the possibilities of Japanese export, will contribute to the strengthening of Japan's economic independence and will lighten the dependence of Japan's national economy on external factors which are alien to her interests.

Besides this, the export of Japanese industrial goods would contribute to the satisfaction of appropriate needs, for example, of certain Asiatic countries, and would thus serve for Japan as a basis for the import of raw materials needed by her, and of other goods necessary to satisfy the peaceful needs of the Japanese people.

It follows from the above that the objective of the Allied Powers should be, not limitation of the development of Japan's peaceful industry, but prevention of the development in Japan of war industry, as well as prevention of the creation of conditions under which Japanese militarism and Japanese aggression can revive.

Naturally, the question arises to how this objective could possibly be attained. The Soviet Government considers that this objective can be attained if an appropriate control is established in Japan for a certain period in order to prevent the revival or creation of Japanese war industry. All peace-loving nations should be interested in the establishment of such a control.

32-31

- 4 -

Such a control, established for a period of several years and exercised by the powers most interested in preventing a new Japanese aggression, should be provided for in the Peace Treaty with Japan, the preparation and conclusion of which is long overdue.

In accordance with the position which I have stated, I propose on the instructions of the Soviet Government that the following decisions be adopted.

1. No limitations should be imposed upon the restoration and development of peaceful Japanese industry which seeks to satisfy the needs of the Japanese population, nor upon the development of export in accordance with the needs of Japan's peaceful economy.

2. The revival and creation of Japanese war industry should be prohibited and there should be established, for a period of several years, a control over the fulfillment of this decision, to be exercised by those Powers most interested in preventing a new Japanese aggression.

aa-12.

3231

SUBJECT OR FILE NO. 894.50/10-448		DATE DUE 3/27/52
DATE OF DOC. 10/4/48	DOC. NO. D-124	DATE CHARGED 2/27
TO/FROM for Shanghai to Nanking		SECURITY CLASS.
CHARGE TO Hurkins		ENCLOSURES
Form DS-933a (9-1-51)		OFFICE SYMBOL CA

ACTION is assigned to

FE

**American Consulate General
Shanghai, China
October 4, 1948**

SUBJECT: Report of a Conversation Between Professor Chang Hsi-je of Tsinghua University, Peiping, and Mr. John M. Cabot, American Consul General, Shanghai, on September 26, 1948.

*XR
893.50 Recovery
711.94
711.93*

**The Honorable
J. Leighton Stuart,
American Ambassador,
Nanking.**

Sir:

1/ I have the honor to transmit herewith a report of a conversation which I had on September 26th with Professor Chang Hsi-je, a leading professor of Tsinghua University, with respect to our aid to Japan and to China.

Respectfully yours,

**John M. Cabot
American Consul General**

**Enclosure: *att*
Memorandum of Conversation.**

**Copy and hectograph to
Department of State.**

JMC:oms

894.50/10-448

ACTION
FE
COPIES
TO:
LTA
OFD
O
OLI
BR
etc/x

1948 OCT 11 PM 1 50

DC/M
FACILITIES BRANCH

1948 OCT 12 PM 4 07

RECEIVED
DEPARTMENT OF STATE

CS/N

FILED

FEB 8 - 1949

A true
copy of
original.
C748

894.50/10-448

Handwritten initials

ACTION
is assigned to

FE

File -
No action
AS
DIVISION OF CHINESE AFFAIRS
OCT 14 1948
DEPARTMENT OF STATE

DCR
American Consulate General
Shanghai, China
October 4, 1948

No. 124

RESTRICTED

SUBJECT: Report of a Conversation Between Professor Chang Hsi-je of Tsinghua University, Peiping, and Mr. John M. Cabot, American Consul General, Shanghai, on September 26, 1948.

XR
993.50 Recovery
711.94
711.93

The Honorable
J. Leighton Stuart,
American Ambassador,
Nanking.

Sir:

1/ I have the honor to transmit herewith a report of a conversation which I had on September 26th with Professor Chang Hsi-je, a leading professor of Tsinghua University, with respect to our aid to Japan and to China.

Respectfully yours,

John M. Cabot
American Consul General

Enclosure: *att*
Memorandum of Conversation.

Copy and hectograph to
Department of State.

JMC:oms

894.50/10-448

ACTION
FE
COPIES
TO:
LTA
OFD
0
OL
AK
EWCH

1948 OCT 11 PM 1 50

DC/M
FACILITIES BRANCH

1948 OCT 12 PM 4 07

RECEIVED
18
DEPARTMENT OF STATE

CS/V

FEB 8 - 1949

FILED

A true copy of the signed original.
C748

Handwritten signature

894.50/10-448

Enclosure to Despatch 124,
October 4, 1948, from
Shanghai to Nanking

RESTRICTED

MEMORANDUM OF CONVERSATION BETWEEN PROFESSOR CHANG
HSI-JR OF TSINGHUA UNIVERSITY, PEIPING, AND MR. JOHN
M. CABOT, AMERICAN CONSUL GENERAL, SHANGHAI, ON
SEPTEMBER 26, 1948

By courtesy of Mr. James Burke, the Peiping correspondent of TIME-LIFE, I had a long conversation on September 26, 1948, with Professor Chang Hsi-je, Professor of Political Studies, I believe, at Tsinghua University, and one of the outstanding intellectuals leading the campaign against American aid to Japan. Professor Chang knew in advance the purpose of my visit and we therefore wasted little time in preliminary conversation.

I said that I understood Professor Chang took a leading part in opposing our program of aid to Japan, and said that I would be very interested in having his views, bearing in mind the following circumstances:

(1) The United States was admittedly helping Japan to get on her feet economically. This was in strict accord with the Potsdam Declaration, which specifically envisaged that Japan should have a self-sustaining economy.

(2) The United States was nevertheless spending a great deal of money to finance Japan's trade deficit and keep her people from starvation. Obviously we were not prepared to continue this indefinitely, nor would that be feasible in any case.

(3) It was completely untrue, as had often been alleged in China, that we were helping Japan to rearm. Japan had been, and remained, completely disarmed.

(4) We were frankly concerned at the Communist menace, and any military preparations in Japan which had any basis in fact would be explained by this consideration.

Professor Chang said that when I circumscribed his comments in this manner it made his answer somewhat more difficult. He emphasized the long history of Sino-Japanese relations and the many Japanese aggressions against China. He said that many Chinese have understandably bitter memories of what Japan had done, and that they did not wish anything like that repeated. He emphasized that the Chinese had thought that, at the end of the war at least, China, with its immense population and resources, would become the predominant nation in the Far East. China's difficulties had prevented her from attaining this position, and now China, beset with difficulties, saw her old

rival

RESTRICTED

Enc. to Desp. 124 10/4/48
from Shanghai to Nanking

-2-

RESTRICTED

rival coming back with the help of the United States, while China was embroiled in a desperate civil war.

I said that these were really two separate problems. We had a traditional friendship for China, and we would greatly prefer to see China, rather than Japan, the predominant nation in the Far East. We were doing what we could to help China. Unfortunately there were circumstances in China which we could not control, and as Professor Chang had pointed out, it was on this account that China had not achieved the goal which she might well have expected.

Professor Chang immediately said that that was the real nub of the difficulty; the question of American aid to Japan was really secondary, and anti-American sentiment, in his opinion, superficial. He said that some of his friends would not agree with the latter, and that he was afraid that anti-American sentiment might be consolidated by a continuance of present trends. What Chinese public opinion really objected to was not our aid to Japan, but rather our aid to the Kuomintang Government. That Government was so rotten, corrupt, and inefficient that it was a stench in the nostrils of the Chinese intellectuals. The Chinese masses could never be bludgeoned into accepting its rule again. By our aid we were keeping it in power over them and we were, moreover, prolonging the civil war. He added that we should appreciate that history cannot be denied and that we should find ourselves unable to prop up the Kuomintang Government no matter how hard we tried.

I said that if the Chinese situation were to be taken as a strictly Chinese matter we would, of course, have abstained from interference. Nevertheless, rightly or wrongly, we believed that a Communist conspiracy existed to dominate the world. When we found Chinese Communists in rebellion against the legitimate government of China we naturally assumed that it was part of the worldwide pattern which we had observed, even though we recognized that it had local peculiarities. Our fears had been confirmed by the recent Chinese Communist endorsement of the Cominform attack on the Yugoslav Government. Many Americans did not appreciate the intricacies of the Chinese situation, and quite frankly reasoned that since (1) we were friends of China, (2) China was fighting the Communists, and (3) we were alarmed at the worldwide Communist conspiracy, quite clearly we should help China fight the Communists. I asked whether Professor Chang thought the Chinese Communists were more Chinese or more Communist.

Professor Chang said that clearly if the Chinese Communists expected to run the country they would have

to

RESTRICTED

Enc. to Desp. 124 10/4/48
from Shanghai to Nanking

-3-

RESTRICTED

to be more Chinese than Communist. He intimated that Communism was like many movements of the past which had come from outside China and which China had gradually absorbed. It might take some time, but the end was certain.

Professor Chang then went on to point out that he did not think that the Chinese Communists could afford to be too antagonistic toward the United States once they came to power. China would be in desperate need of American trade, machinery, capital, and "know-how". No other country in the world, including Russia, could supply them. Under the circumstances he felt that the Chinese Communists would be only too glad to move toward better relations with us if we were responsive.

I pointed out that I realized the logic of what he said, but that we already had had one experience which gave us pause. My last post had been in Yugoslavia. We had poured hundreds of millions of dollars of UNRRA supplies into Yugoslavia immediately after the war without seeking any advantage of the Yugoslavs, and we had been prepared to play ball with them if they would with us. Yugoslavia's need for trade, machinery, capital, and "know-how" were just as great as China's, particularly in connection with the five-year plan. Nevertheless Yugoslavia's press had engaged, even while UNRRA supplies were coming in, in most vituperative attacks on everything the United States stood for and Yugoslavia had adopted the most antagonistic attitude toward the United States. It was true that Yugoslavia had now had a squabble with the Cominform, but I did not think this was a very encouraging example.

The conversation then turned back to the question of our aid to the Chinese Government. While Professor Chang said he realized the basis on which we were giving aid to the Government we recognized as legitimate, he could only emphasize that, in the first place, it was going to end in disaster and, in the second, it was going to embitter the Chinese feeling toward America for a long time.

The entire conversation was dispassionate, yet candid. Professor Chang seemed to be well aware of the major facts of the situation and of the reasons for our policies. Although he shed little new light on the question of United States aid to Japan and to China, he confirmed and underlined a great many of the points which have been made before by less well known leaders. His most significant statement was perhaps the one that the agitation against aid to Japan was really a cover for agitation against the Chinese Government.

John M. Cabot

JMC:oms

OCT 25 1948

Smith 301

Kallis OFD
EP

Reply drafted

10/22/48

SGK

Dck

File DC/R

Albert T. Kanzaki
505 West 142 St.
New York 31, N.Y.
Oct. 12, 1948

U.S. Dept. of State
Office of Economic Security Policy
Division of Japanese and Korean Economic Affairs
Washington D.C.

Gentlemen:

I shall appreciate it very much if you will send me the informations concerning the economy of Japan such as:

- The Pauley report.
- The Clifford W. Strike report.
- Any information concerning the liquidation of the Zaibatsu.
- Post-war and pre-war foreign trade of Japan.
- Post-war and pre-war industry of Japan.
- Post-war and pre-war financial condition of Japan.
- Future planning of Japanese industry and foreign trade.

Will you please inform me where I can get further information concerning above topic?

I need all these information for my thesis leading to the master's degree which I am working at New York University Graduate School of Business Administration.

I shall appreciate your kindness very much.

Yours truly,
Albert T. Kanzaki
Albert T. Kanzaki

894.50/10-1248

CS/SMS

DCR - IEP Unit	
Anal.	<i>SP</i>
Rev.	<i>[Signature]</i>
Cat.	<i>[Signature]</i>
Dist.	

OCT 28 1948

FILED

894.50/10-1248

Albert Kanzaki
505 West 142 St.
New York 31, N.Y.



U.S. Dept. of State
Office of Economic Security Policy
Div. of Japanese and Korean Economic Affairs
Washington D.C.

OCT 25 1948

301
~~EP~~
EP

My dear Mr. Kanzaki:

The receipt is acknowledged of your letter of October 12, 1948 requesting information concerning the economy of Japan.

Copies of two publications issued by the Department of State on this subject are enclosed. For further information regarding the Japanese economy I suggest that you write to certain other agencies of the Government which may be able to supply copies of their publications or to inform you concerning their availability at libraries in New York.

With regard to the specific subjects mentioned in your letter, your inquiry concerning the Strike report should be directed to the Department of the Army, to which this report was submitted. The Department of the Army may also be able to inform you concerning additional material in which you are interested. I suggest that you ask them about the availability at libraries in New York of the "Summation of Non-Military Activities in Japan" issued monthly by the Supreme Commander for the Allied Powers. This publication contains considerable information on Japanese industry, trade and finance.

The United States Tariff Commission may also be able to help you in securing information on Japanese industry and trade.

Sincerely yours,

For the Acting Secretary of State:

OCT 25 1948 P.M.

[Handwritten signature]

R. Burr Smith, Chief
Reparations and Property Branch
Division of Economic Property Policy

Enclosures:

Pauley Report
Activities of Far Eastern Commission

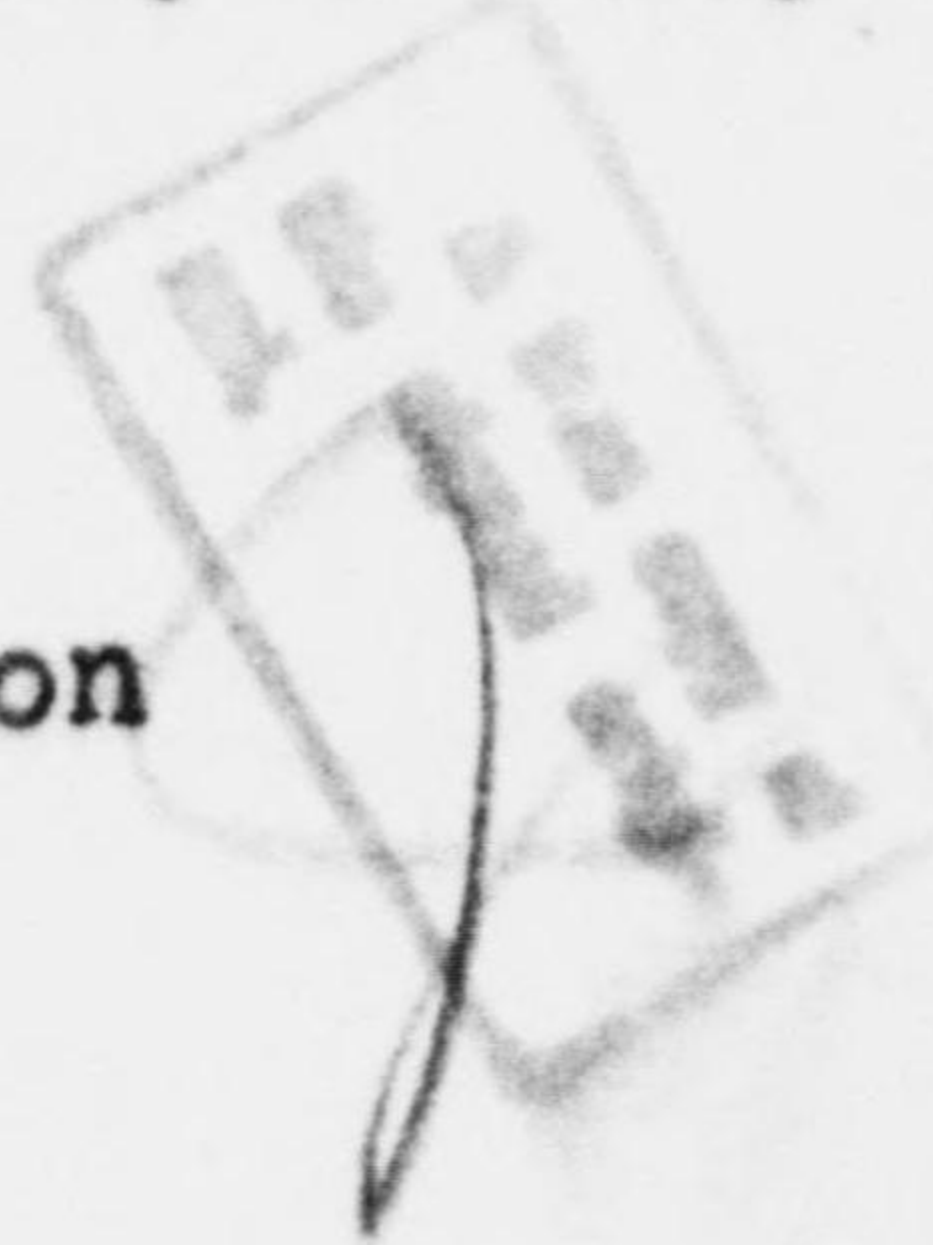
Mr. Albert T. Kanzaki,
505 West 142 Street,
New York 31, New York

SGK
EP:Skallis:mcm 10/22/48

894.50/10-1248

CS/SMS

894.50/10-1248



SECRET

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

ASSISTANT SECRETARY
FOR OCCUPIED AREAS

*per
file*

1948 OCT 15 OCT 1948
PM 2 00

Honorable Charles E. Saltzman
Assistant Secretary of State
Department of State

DEPARTMENT OF STATE

Dear Mr. Saltzman:

894.50/9-1348 Secret file

Your letter of 13 September 1948, on the subject of "Restoration of Japan to Self-Support" has been given careful consideration by the Department of the Army. While it is agreed that "Restoration of Japan to Self-Support" is unquestionably a major objective of U. S. Foreign Policy there are, it is believed, serious obstacles to achieving this objective through the program outlined in the referenced letter.

The program suggested by your letter proposes that full responsibility for the operation of an approved Japanese economic recovery program, including the combined objectives of Prevention of Disease and Unrest and Economic Rehabilitation, be shifted from SCAP to the Japanese Government. SCAP's responsibility would change from one of control of the Japanese economy to one of inspection and report. Occupation costs under the proposal would be put on a pay-as-you-go basis. A Japanese Aid Program based on net dollar deficit less receipts from occupation costs would be formulated in such a manner as to relate the amount of aid to "the caliber of Japanese economic performance".

In commenting on your proposals we have divided the principal points under two headings, A Pay as You Go and B Shift of Responsibility to the Japanese Government.

A. Pay as You Go: The State Department proposes the adoption of a Pay-as-you-go policy in Japan so that (1) the net amount of U. S. aid after deduction of occupation costs can be made clear; (2) a policy can be developed relating such net amount of U. S. aid to Japan's economic performance under an approved Recovery Plan; (3) the Japanese will not be able to "depreciate the significance of U. S. aid by indulging in loose allegations concerning the heavy countervailing burden of occupation costs"; (4) future appropriation requests for aid to Japan, as distinct from requests to meet occupation costs, can be reduced. This, State Department feels, would diminish the antagonism felt by other Far Eastern countries toward our policy of rebuilding Japan.

This Document Must Be Returned to
DC/R
Central
FILES
894.50/10-1548

894.50/10-1548
SECRET
CS/H

FILED
OCT 14 1952

DC/R
Annot. *HW*
Rev. *[Signature]*
Cmt. *[Signature]*

SECRET

02721

SECRET

Page 2

Occupation costs in Japan are estimated by the Japanese to be approximately \$333,000,000 per year, based on the assumption that one-third of the Japanese national budget of approximately \$1,000,000,000 is earmarked for costs of occupation.

1. Pay-as-you-go Occupation costs would be chargeable to the Military Functions Budget of the Department of National Defense, since Army, Navy and Air are all involved in the occupation of Japan. The FY 1950 ceiling for Military Functions has been set at \$15,000,000,000. A reduction of this sum by \$333,000,000 (see above) involves the question as to whether at this time such an amount should not rather be programmed for primary military requirements.

2. Under the terms of the Armistice, Japan, an enemy of the United States as distinct from a liberated country, is responsible for occupation costs. A unilateral change in this agreement prior to a peace treaty raises the problem of probable Congressional objection. It is believed that there would be much unfavorable Congressional reaction if a pay-as-you-go policy is adopted in Japan at this time or in the near future.

3. Even though the participation of Russia, Great Britain and France in the occupation of Japan is a minor matter, it should be noted that they have refused to participate in the pay-as-you-go procedure in Austria, and it is not believed that they would join in a similar proposal for Japan. This opinion is reinforced by the recent refusal of the British Commonwealth Occupation Forces to pay for Japanese personal servants, despite a SCAP directive to the contrary.

In light of the foregoing the Department of the Army does not now concur with the pay-as-you-go proposal.

B. Shift of Responsibility to the Japanese Government: This appears to be a matter of degree rather than of principle. Para. 15 of NSC 13/2 setting forth a policy on economic recovery seems to be the pertinent broad policy guidance. In approaching this problem the following points have been raised in the Department of the Army.

1. GARIOA funds have been appropriated directly to the Department of the Army for the purpose of preventing disease and unrest prejudicial to the Occupation Forces and for initiating industrial recovery. The Congress holds the Department of the Army responsible for these expenditures. As regards the GARIOA appropriation which rests on U. S. legal responsibility under International Law, there may arise a conflict between State Department proposals which may envisage direct control of all

SECRET

SECRET

Page 3

U.S. aid in the hands of the Japanese Government, and the practical problem of fulfilling our responsibility without having direct control of sufficient funds to do the job.

2. The operation of OJEIRF (formulated pursuant to FEC policy) and the loan arranged under this credit with the Export-Import Bank and private banks have been made on the basis of SCAP responsibility.

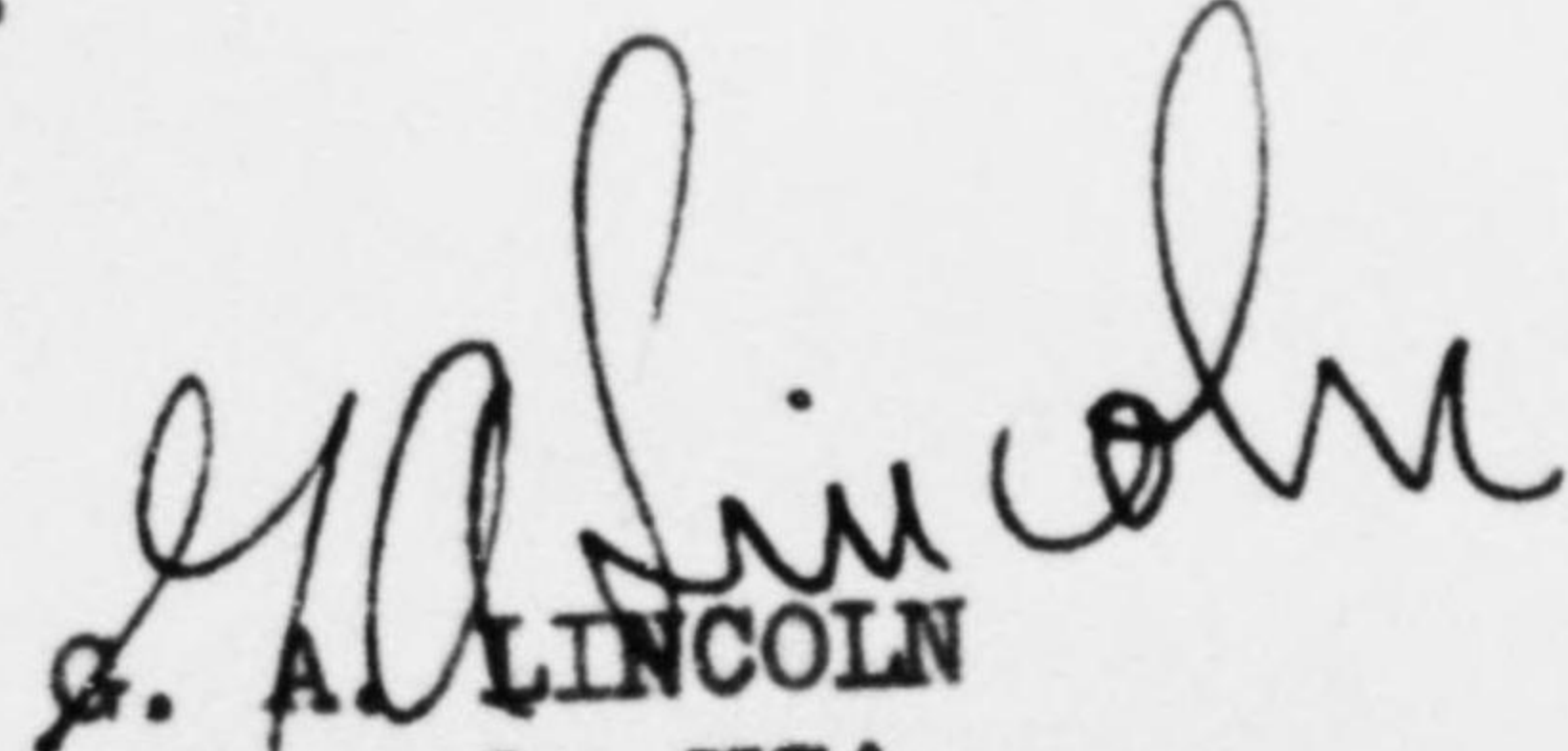
3. In the operation of the Natural Fibers Revolving Fund (PL 820, 80th Congress) the Secretary of the Army is designated as the responsible official.

4. There is a definite limitation to the power of the economic club held over Japan so long as our occupation forces remain there, and hence the U.S. is unable to divest itself of responsibility for the prevention of disease and unrest.

5. It does not appear that the Executive Branch of the Government could take action to transfer full responsibility for operations under the various appropriations and Government actions indicated above, even if it desired to do so, without prior consultation with and approval by the Congress.

It is agreed that it would be very desirable for appropriate officials of the State and Army Departments to consult in the immediate future on this matter of the shift of responsibility to the Japanese Government.

FOR THE UNDER SECRETARY OF THE ARMY:


G. A. LINCOLN
Colonel, USA
Assistant to the Under
Secretary of the Army

SECRET



UNCLASSIFIED
THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

Def
ACTION
is assigned to
FE

AIR MAIL

London, England.
October 22, 1948.

No: 2109.

ZXR'S
Subject: The Future Development of the Japanese Economy.

DIVISION OF
NORTHEAST ASIAN AFFAIRS

FEB 10 1949

DEPARTMENT OF STATE

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to transmit herewith five copies of a pamphlet entitled, "The Future Development of the Japanese Economy," published by His Majesty's Stationery Office, London, for the Board of Trade.

The booklet was written by Mr. H. A. Macrae, formerly Commercial Minister at the British Embassy in Tokyo, who went to Japan in 1947 on the invitation of the British Government to make a survey of possible trends in the future development of the Japanese economy.

Mr. Macrae foresees an increase in foreign investment in Japan's industrial enterprises and states that some Japanese have suggested that countries claiming reparations in the form of factory equipment might find it to their advantage to have some of their industrialists take over the operation of the factories for a period of years, using Japanese labor and leaving the equipment in place. This policy has also been suggested for the public utilities in the interest of efficiency as well as providing a source of profit for foreign investors.

Although the future of Japan's economy is bound to be closely linked to the economy of the United States, the British Commonwealth and other countries will also benefit, in Mr. Macrae's opinion, since, as rehabilitation progresses, Japan will again become a good market for materials which British territories exported to Japan in the past.

UNCLASSIFIED

FE
ITP
OFD
EUR
OLI
UNA
DC/R

X R
800-503194
7K
2/700
POS
Etc

751
Agri - sec
Com - sec
X R
10419431
Tax
DEPARTMENT OF STATE
RECEIVED
DEPARTMENT OF STATE
1948 OCT 29 PM 2 24

DC/M
FACILITIES BRANCH
DCR - EP Unit
Anal. *as*
Rev. *af*
Dist. *class, m, as*

It/
DEPARTMENT OF STATE
RECEIVED
18
A/AP
1948 NOV 1 AM 10 28
DC/L
LIAISON

894.50/10-2248
FILED
FEB 17 1949
894.50/10-2248

UNCLASSIFIEDDespatch No. 2109.
October 22, 1948.

-2-

American Embassy,
London.

It will be noted that the pamphlet is divided into three parts:

- I Economic Conditions and Trends in Japan in the Summer and Autumn of 1947;
- II The Future Development of the Japanese Economy;
- III Opportunities for British Trade.

Respectfully yours,

For the Ambassador:

Basil D. Dahl.
Basil D. Dahl
Commercial Attaché

Enclosure: *at*

1. The Future Development of the Japanese Economy,
H. M. Stationery Office,
London. (Five copies).

EDDahl/jac

Original and hectograph to Dept.

UNCLASSIFIED*KMM*

Enclosure No. 1 to dispatch No. 2109, Oct. 22, 1948.
from the Embassy at London, England



BOARD OF TRADE

THE FUTURE DEVELOPMENT OF THE JAPANESE ECONOMY

*AND THE OPPORTUNITIES FOR
BRITISH TRADE WITH
JAPAN*

LONDON: HIS MAJESTY'S STATIONERY OFFICE

1948

NINEPENCE NET

A FORECAST OF THE
FUTURE DEVELOPMENT OF
THE JAPANESE ECONOMY
AND THE
OPPORTUNITIES FOR BRITISH
TRADE WITH JAPAN

by

H. A. MACRAE, C.M.G., M.B.E.
*formerly Minister (Commercial) at His Majesty's Embassy,
Tokyo*

NOTE

The writer of this paper was invited by His Majesty's Government to visit Japan during 1947, in order to make a careful survey of the way in which Japan's economic future is likely to develop, with a view to seeing what opportunities are likely to exist for British trade with Japan in the years following the resumption of normal commercial intercourse.

The views expressed in the paper are those of the writer, and are not necessarily those of His Majesty's Government.

CONTENTS

PART I. ECONOMIC CONDITIONS AND TRENDS IN THE SUMMER AND AUTUMN OF 1947

Agriculture	.
Forestry and River Conservancy	.
Fisheries	.
Coal Mining, Iron and Steel, and Electricity	.
Other Mining, and Petroleum	.
The Textile Industries	.
Résumé of progress in industrial recovery	.
Railways and Road Transport	.
Merchant Shipping	.
Social and Financial Conditions	.
Foreign Trade	.

PART II. THE FUTURE DEVELOPMENT OF JAPAN

Progress so far and measures still necessary	.
Foreign trade credits and foreign trade	.
Probable future developments:	.
Increased use of natural resources	.
Increased importance of textile industries	.
Expansion of system of processing for production of export goods	.
Control of import and export trade	.
Increase in foreign investment in industry	.
Tourist traffic	.
Importance of shipping industry and of Japanese economy linked to United States	.

PART III. OPPORTUNITIES FOR BRITISH TRADE WITH JAPAN

A. Merchant Trade	
Pre-War trade with Japan	.
Future imports from Japan	.
Future exports to Japan	.
B. Invisible Trade	
Banking, insurance, etc.	.
Merchant shipping	.
Investments in Government Loans, etc.	.

AST OF THE
VELOPMENT OF
ESE ECONOMY
D THE
ES FOR BRITISH
WITH JAPAN

by

C.M.G., M.B.E.

(Special) at His Majesty's Embassy,
Tokyo

NOTE

The paper was invited by the Government to visit Japan in order to make a careful study of the way in which Japan's economy is likely to develop, and to suggest what opportunities there may be for British trade with Japan following the resumption of commercial intercourse.

The views expressed in the paper are those of the author, and are not necessarily those of His Majesty's Government.

CONTENTS

	<i>Paragraphs</i>
PART I. ECONOMIC CONDITIONS AND TRENDS IN JAPAN	
IN THE SUMMER AND AUTUMN OF 1947	
Agriculture	3 - 6
Forestry and River Conservancy	7 - 9
Fisheries	10 - 11
Coal Mining, Iron and Steel, and Electricity	12 - 19
Other Mining, and Petroleum	20 - 22
The Textile Industries	23 - 32
Résumé of progress in industrial recovery	33
Railways and Road Transport	34 - 37
Merchant Shipping	38 - 41
Social and Financial Conditions	42 - 53
Foreign Trade	54 - 62
PART II. THE FUTURE DEVELOPMENT OF THE JAPANESE ECONOMY	
Progress so far and measures still necessary	63 - 65
Foreign trade credits and foreign trade difficulties	66 - 69
Probable future developments :	
Increased use of natural resources	70 - 72
Increased importance of textile and medium and small industries	73
Expansion of system of processing imported raw materials for production of export goods	74
Control of import and export trade after Peace Treaty	75
Increase in foreign investment in industrial enterprises	76
Tourist traffic	77
Importance of shipping industry and food supplies	78 - 79
Japanese economy linked to United States economy	80
PART III. OPPORTUNITIES FOR BRITISH TRADE	
<i>A. Merchandise Trade</i>	
Pre-War trade with Japan	81 - 82
Future imports from Japan	83 - 87
Future exports to Japan	88 - 93
<i>B. Invisible Trade</i>	
Banking, insurance, etc.	94 - 95
Merchant shipping	96 - 98
Investments in Government Loans, etc.	99

Part I

ECONOMIC CONDITIONS AND TRENDS IN JAPAN IN THE SUMMER AND AUTUMN OF 1947

IN JULY 1947 the Japanese Government, through the medium of special supplements to the daily newspapers, gave wide publicity to a document entitled "A Report on the actual State of the Japanese Economy," which had been prepared by the Japanese Economic Stabilisation Board. The Report explained in simple language the causes and the extent of the serious deterioration that had taken place in economic conditions in Japan, and informed the Japanese people that it was essential that they should co-operate fully with the Government in the measures it was taking, or proposed to take, to restore the national economy, if these measures were to be successful. In an introductory section it was explained that the economic statistics available in Japan for the preparation of such a Report were very inadequate in comparison with those available in any other civilized country, but that the Government had decided that it was much more important to act quickly and give the people an account of the economic state of the country, based on the data available, "rather than to wait for the completion of perfect statistics, when it might be too late. There was need for haste because (1) the stocks of industrial and other materials that existed in the country when the War came to an end were fast running low; (2) repairs and replacements necessary to maintain the national economy in a sound condition were being left undone; (3) the national debt to foreign countries was steadily increasing."

2. Use has been made of the above Report (which is commonly referred to in Japan as the Japanese "Economic White Paper") in preparing the short account, contained in paragraphs 3 to 62 below, of economic conditions and trends in certain sections of the Japanese economy in the summer and autumn of 1947. Use has been made also of other official sources of information, especially the series of reports and other documents compiled by the Economic and Scientific and the Natural Resources Sections of General MacArthur's Headquarters, in order to supplement and, where necessary, correct the information extracted from the "Economic White Paper," and additional information has been obtained from other reliable official and non-official sources. Paragraphs 3 to 62 below have been written in order to indicate the amount of reconstruction and new development necessary if the Japanese people are to regain a moderate standard of living and if the Far Eastern Commission* policy of "the rehabilitation of a self-supporting economy for Japan" is to be carried out, and also in order to indicate what plans have been formed for reconstruction and new development and what progress is being made in giving effect to these plans. It appears possible that the process of reconstruction and new development may provide opportunities for British trade with Japan, and this possibility is examined below, in paragraphs 90 to 92 of Part III of this Paper.

AGRICULTURE

3. During the war years, when there was a shortage of farm workers owing

*The Far Eastern Commission, established in December, 1946, is composed of representatives of Australia, Canada, China, France, India, The Netherlands, New Zealand, Philippine Republic, United Kingdom, U.S.A., and U.S.S.R. Its task is to formulate the policy, principles and standards by which Japan may fulfil its obligations under the terms of the surrender and to advise the Supreme Commander for the Allied Powers.

to the mobilisation of large numbers of men increasingly concentrated on the cultivation of rice and particularly potatoes—to the exclusion of other crops for green manuring diminished. During the war for the feeding of livestock was neglected, and as at the same time there were no new additions of livestock, the numbers of livestock decreased. Compared with the best pre-war years, the numbers maintained the following percentages:—Hogs, by 91 per cent; cattle, by 38 per cent; horses, by 30 per cent; working oxen, by 20 per cent. In livestock resulted in a decrease in the number of livestock, and also a progressive decrease in the application of fertilisers, the amount applied in 1946 being only 920,000 tons of potash compounds, 110,000 tons of phosphate nitrates, 1,920,000 tons of phosphates, and 1,100,000 tons of nitrogen, as applied in 1937. The supply of farming implements was progressively difficult, and the number of tractors in use about 30 per cent of the number in use about 1945. Even this small number, because of a shortage of new implements and for repairs to those in use, these deficiencies, the fertility of the soil, etc.

4. During the war years, also, there was a loss of land, because considerable areas of farmland were requisitioned for military purposes and for the building of factories, and other areas have been restored to cultivation, and other areas are now being used for crop growing, so that the total area of land under cultivation at the end of 1945 now amounts to about 590 million acres, and it is being investigated, during the past two years, whether it is possible to reclaim an additional one million acres in Kyushu, by 1950, and for the improvement of farm lands by better systems of irrigation, etc. A separate investigation is being carried out in the island of Hokkaido that approximately 2 million acres of land could be brought under cultivation in that Island and could supply the necessary supply of fodder, in order to bring about a more efficient supply of fodder, is also being investigated; and measures are being taken of chemical fertilisers and the production of fertilisers in connection with the supply of phosphate. The issue of a directive, by General MacArthur, to the Japanese Government regarding the mining of phosphate in the former Japanese Mandated Territory of Manchuria, and the Japanese Government to recruit and train personnel to mine the phosphate deposits in Manchuria for shipment to Japan, and on its arrival in Japan.

5. The shortage of farm labour that has been more than made good by the repatriation of men formerly in the Japanese armed forces, and the better working of existing farmland, both in the better working of existing farmland and of land under cultivation.

6. A Land Reform Law, drafted in accordance with the policy of General MacArthur's Headquarters, was promulgated in Japan.

Part I

CONDITIONS AND THE SUMMER AND AUTUMN OF 1947

ernment, through the medium of special gave wide publicity to a document entitled "Japanese Economy," which had been pre- mobilisation Board. The Report explained in extent of the serious deterioration that had in Japan, and informed the Japanese people to co-operate fully with the Government in the to take, to restore the national economy, if

In an introductory section it was explained in Japan for the preparation of such a Report with those available in any other civilized and decided that it was much more important account of the economic state of the country, than to wait for the completion of perfect There was need for haste because (1) the is that existed in the country when the War ; (2) repairs and replacements necessary to sound condition were being left undone ; ies was steadily increasing."

Report (which is commonly referred to in te Paper") in preparing the short account, ow, of economic conditions and trends in omy in the summer and autumn of 1947. icial sources of information, especially the compiled by the Economic and Scientific of General MacArthur's Headquarters, in ary, correct the information extracted from additional information has been obtained icial sources. Paragraphs 3 to 62 below e the amount of reconstruction and new eople are to regain a moderate standard mission* policy of "the rehabilitation of a to be carried out, and also in order to for reconstruction and new development givng effect to these plans. It appears ction and new development may provide an, and this possibility is examined below, his Paper.

CULTURE

ere was a shortage of farm workers owing hed in December, 1946, is composed of repre- nce, India, The Netherlands, New Zealand, A., and U.S.S.R. Its task is to formulate the Japan may fulfil its obligations under the terms Commander for the Allied Powers.

to the mobilisation of large numbers of men for the armed forces, efforts were increasingly concentrated on the cultivation of the staple food crops—rice, wheat, and particularly potatoes—to the exclusion of other crops. The growing of green crops for green manuring diminished. Farm produce customarily used before the war for the feeding of livestock was increasingly used for human consumption, and as at the same time there were no imports of feeding stuffs, the numbers of livestock decreased. Compared with the average numbers maintained in the best pre-war years, the numbers maintained in 1946 had decreased by the following percentages:—Hogs, by 91 per cent; poultry, by 62 per cent; milk cows, by 38 per cent; horses, by 30 per cent; working oxen, by 15 per cent. The decrease in livestock resulted in a decrease in the use of farmyard manure, and there was also a progressive decrease in the application of chemical fertilisers, the quantities applied in 1946 being only 920,000 tons of nitrates, 400,000 tons of phosphates, and 110,000 tons of potash compounds, as compared with 1,900,000 tons of nitrates, 1,920,000 tons of phosphates, and 250,000 tons of potash compounds applied in 1937. The supply of farming implements and machines became progressively difficult, and the number of these now in use is only between 20 and 30 per cent of the number in use about 1940. It is difficult at present to maintain even this small number, because of a shortage of fuel for the manufacture of new implements and for repairs to those damaged or worn. As a result of all these deficiencies, the fertility of the soil, except in the rice paddies, has decreased.

4. During the war years, also, there was a decrease in the acreage of cultivated land, because considerable areas of farm land were taken over for military purposes and for the building of factories, etc. These lands, however, have now been restored to cultivation, and other areas of land have also been reclaimed for crop growing, so that the total area of land already reclaimed for cultivation since the end of 1945 now amounts to about 590,000 acres. The possibility of reclaiming still more land for cultivation, and of improving existing farm lands, has been investigated, during the past two years, by agricultural experts of the Natural Resources Section of General MacArthur's Headquarters, with the result that plans have been made, and are now in process of being carried out, for the reclamation of an additional one million acres of land in Honshu, Shikoku, and Kyushu, by 1950, and for the improvement of about 8,750,000 acres of existing farm lands by better systems of irrigation, drainage, and flood control. Experts who carried out a separate investigation in the Hokkaido reported on August 26th, 1947, that approximately 2 million acres of land could be profitably reclaimed for cultivation in that Island and could support about 100,000 farming families. The possibility of adding to the acreage of pasture land and of increasing the supply of fodder, in order to bring about an increase in the numbers of live stock is also being investigated; and measures have been taken to increase the imports of chemical fertilisers and the production of these in Japan. An interesting development in connection with the supply of chemical fertilisers has been the issue of a directive, by General MacArthur's Headquarters, to the Japanese Government regarding the mining of rock phosphate on Angaur Island in the former Japanese Mandated Territory in the Pacific. The directive instructs the Japanese Government to recruit and transport to the Island sufficient Japanese personnel to mine the phosphate deposits on the Island and prepare the phosphate for shipment to Japan, and on its arrival in Japan to convert it into superphosphates.

5. The shortage of farm labour that existed during the war years has now been more than made good by the repatriation and demobilisation of large numbers of men formerly in the Japanese armed forces, and this should have good effects both in the better working of existing farm lands and in bringing additional areas of land under cultivation.

6. A Land Reform Law, drafted in accordance with a directive from General MacArthur's Headquarters, was promulgated by the Japanese Government on

October 21st, 1946. The purpose of the Law is to enable the majority of the large number of Japanese farmers who at present pay high rents for their farms to become actual owners of the land they cultivate, and to reduce the rentals to be paid by such farmers as do not become owners. Good progress has been made, and it is expected that these reforms will have been completed by the end of 1948.

FORESTRY AND RIVER CONSERVANCY

7. Standing timber was cut in much larger quantities during the war years than ever before, and much less replanting was done. This was particularly so in privately-owned and community-owned forests. Over the whole country, replanting decreased annually to such an extent that only about 171,500 acres were reforested in 1946, whereas the average area reforested annually in the three years 1939 to 1941 was 1.2 million acres. In many parts of the country there has been serious soil erosion as a result, and also the annual growth of standing timber is now about 81 million cubic feet less than the annual growth from 1926 to 1930. The forestry industry is seriously short of equipment and supplies. Forest railways, tractors, trucks, and machinery now need replacement and repairs which were not effected during the war, and there are shortages of saws, files, motor engines, belting, wire ropes, gasoline, and lubricating oils.

8. During the war, and since, owing to shortages of labour and materials, there has been insufficient maintenance and repair of river embankments. In the Spring of 1947 when the snows melted, and again in July and August, when there were very heavy rains in North-East Japan and in the Hokkaido, river banks gave way under increased pressures of larger and faster-flowing volumes of water from hillsides denuded of timber, and extensive flooding resulted. There was extensive flooding again in September, when river embankments in the districts north of Tokyo gave way as the result of typhoon rains. The Japanese Ministry of Welfare reported at the end of September that since the spring of 1947, 1,002 persons had died, 1,616 persons had been injured, and 985 were missing, as the result of floods in Japan, and that 440,000 houses, and 588,000 acres of farming land, had been damaged or destroyed. Deforestation has had other bad effects, in that the irregular flow of water from deforested hills has prevented the smooth operation of hydro-electric installations.

9. Forestry experts of the Natural Resources Section recently completed a survey of all forest areas in Japan, and with their assistance the Japanese authorities have begun a reforestation programme designed to ensure the replanting of 10 million acres in the next five years. The survey showed that in about 14 per cent of the forest areas no timber had ever been cut, because it was impossible to remove the timber owing to the lack of roads. Road building was begun in 1946, and 276 miles of forest roads were completed by the spring of 1947. These roads give access to about 3 per cent of the forest areas hitherto unused, and expert opinion is that access to about 75 per cent of the unused timber areas will eventually be obtained if an extensive road-building programme, which it is at present proposed should extend over ten years, is carried out.

FISHERIES

10. The Natural Resources Section of General MacArthur's Headquarters produced in October 1947 a very detailed statistical report showing the annual contributions made to the Japanese food supply by the various branches of the Japanese fishing industry (coastal and inland, offshore, overseas and colonial fisheries) during the years 1908 to 1946. The report contained the following

general observations:—The fishing industry is the most important source of animal protein for the population of Japan. The industry was at maximum production, and 363,000 fishing craft were annually in use, or partly employed, annually, in fishing. The quantity of fish, shellfish, and edible sea products during these years averaged about 6 million tons. The industry was thus of far greater importance than any other industry. The report shows that during the year 1946-47 complete statistics for all branches of the industry were available. The quantities of fish produced by the various branches are as follows:

Coastal and inland fisheries	
Offshore	''
Overseas	''
Colonial	''

Of the colonial fisheries, i.e. the fisheries of Korea, Formosa, and the Mandated Pacific were those in Korea, which produced, between 1946 and 1947, about 1,461,000 tons per annum. About one half of this was supplied to Japan for consumption there, and the other half was supplied to the other colonies. The offshore fisheries in the Pacific to the east, south-east, and south, and in the Antarctic, trawling in the Pacific and in the Antarctic, and in the off Mexico, South America, Australia, and the Kamchatka and in the Okhotsk and Bering Seas, annually obtained from coastal and inland fisheries in the Loo Choo Islands, and in the now detached from Japan. (There are no statistics for production was in these three territories.)

11. Whatever decision is finally reached regarding the Japanese fishing industry will obviously be of great importance in view of food supply, employment, and the export trade. In the meantime, the areas to which Japanese fishing vessels have been extended. In November, 1945, have been extended. In 1946, 100,000 tons of oil were specially imported and distributed to the fishing industry. Rope, wire, and other equipment are issued to the fishing industry as they are available. By August, 1947, the authorized areas had increased to the same extent as before the war. Experts of the Natural Resources Section are conducting investigations with a view to determining how to conduct so as to ensure maximum production of fish without depleting the fishing grounds. As a means of increasing the supply and to the export trade of Japan, the Government authorized the despatch of a Japanese whaling fleet during the 1946-1947 season. The whales caught during the 1946-1947 season were 11,000 tons of whale oil and 11 tons of vitamins worth a total of 6 million U.S. dollars. The despatch of whaling vessels to operate in the Antarctic during the 1947-1948 season is also authorized.

the Law is to enable the majority of the population at present pay high rents for their farms they cultivate, and to reduce the rentals to become owners. Good progress has been made and forms will have been completed by the end of the year.

RIVER CONSERVANCY

With larger quantities during the war years reforestation was done. This was particularly so in the case of owned forests. Over the whole country, to an extent that only about 171,500 acres of average area reforested annually in the three years. In many parts of the country there was a decline, and also the annual growth of standing timber was less than the annual growth from 1926 to 1945. Machinery now need replacement and repairs are needed, and there are shortages of saws, files, gasoline, and lubricating oils.

Due to shortages of labour and materials, there was a repair of river embankments. In the Spring of 1947, again in July and August, when there were heavy rains in Japan and in the Hokkaido, river banks were washed away and larger and faster-flowing volumes of water caused extensive flooding resulted. There was a decline in river embankments in the districts affected by typhoon rains. The Japanese Ministry of Forestry reported that since the spring of 1947, 1,002 people were injured, and 985 were missing, as the result of flooding, 1,000 houses, and 588,000 acres of farming land were destroyed. Deforestation has had other bad effects, and deforested hills has prevented the smooth flow of water.

The Resources Section recently completed a survey with their assistance the Japanese authorities have designed to ensure the replanting of trees. The survey showed that in about 14 per cent of the forest areas hitherto unused, and 10 per cent of the unused timber areas will be planted. Road building was begun in 1946, and completed by the spring of 1947. These roads are of the forest areas hitherto unused, and 10 per cent of the unused timber areas will be planted. Road-building programme, which it is at present being carried out.

FISHERIES

The report of General MacArthur's Headquarters contains a statistical report showing the annual production of fish supply by the various branches of the industry in inland, offshore, overseas and colonial fisheries. The report contained the following

general observations:—The fishing industry is the main source of supply of animal protein for the population of Japan, and also, before the war, provided exports which earned considerable amounts of foreign exchange. When the industry was at maximum production, during the years 1931 to 1938, about 363,000 fishing craft were annually in use, and about 1½ million people were fully or partly employed, annually, in fishing or in the processing of marine products. The quantity of fish, shellfish, and edible seaweed produced by the industry during these years averaged about 6 million metric tons per annum. The fishing industry was thus of far greater importance in Japan than in most countries.

The report shows that during the years 1931 to 1938 (years for which complete statistics for all branches of the industry are available) the average annual quantities of fish produced by the various branches of the industry were as follows:

	<i>Metric Tons</i>
Coastal and inland fisheries	3,038,000
Offshore	810,000
Overseas	396,000
Colonial	1,762,000
	<hr/> 6,006,000

Of the colonial fisheries, i.e. the fisheries on the coasts of Southern Saghalien, Korea, Formosa, and the Mandated Pacific Islands, the most valuable, to Japan, were those in Korea, which produced, between 1931 and 1938, an average of 1,461,000 tons per annum. About one half of this quantity was regularly brought from Korea to Japan for consumption there; but Japan did not draw large supplies from the other colonies. The offshore and overseas fisheries, most of the production of which was brought to Japan, included the valuable bonito and tuna fisheries in the Pacific to the east, south-east, and south of Japan, whaling in the Pacific and in the Antarctic, trawling in the Western Pacific and in the waters off Mexico, South America, Australia, and India, and the fisheries on the coasts of Kamchatka and in the Okhotsk and Bering Seas. The 3,038,000 metric tons annually obtained from coastal and inland fisheries included production of the fisheries in the Loo Choo Islands, and in the Bonin and Kurile Islands, territories now detached from Japan. (There are no separate statistics to show what the production was in these three territories.)

11. Whatever decision is finally reached regarding the future limits of the Japanese fishing industry will obviously be of great importance from the points of view of food supply, employment, and the export trade of Japan. In the meantime, the areas to which Japanese fishing operations were restricted in November, 1945, have been extended. In 1946, some 237,000 kilolitres of fuel oil were specially imported and distributed to fishing craft, and supplies of nets, rope, wire, and other equipment are issued to the fishing industry in so far as they are available. By August, 1947, the quantity of fish taken within the authorized areas had increased to the same level as the catch in these waters before the war. Experts of the Natural Resources Section are conducting investigations with a view to determining how fishing operations can best be conducted so as to ensure maximum production over a long period without risk of depleting the fishing grounds. As a means of adding quickly to the food supply and to the export trade of Japan, General MacArthur's Headquarters authorized the despatch of a Japanese whaling fleet to operate in the Antarctic during the 1946-1947 season. The whales caught provided over 21,000 tons of salted and frozen whale meat which was distributed as food in Japan, and 12,000 tons of whale oil and 11 tons of vitamins which were sold abroad and realized a total of 6 million U.S. dollars. The despatch of a Japanese whaling fleet to operate in the Antarctic during the 1947-1948 season has also been authorized.

COAL MINING, IRON AND STEEL, AND ELECTRICITY

12. Plans were made for the output, in the year ended March, 1947, of 24 million tons of coal; but the actual output was only 22½ million tons. The output planned for the year ending March, 1948, is 30 million tons. So far, however, the output in any one month has not reached 2½ million tons, and the present rate of production is approximately 26 million tons per annum. Since the end of the War, the coal produced has been deficient in quality as well as in quantity. In 1946 the Government Railways used about 7 million tons of coal as compared with about 4 million tons consumed in 1936 for approximately the same train mileage run. This increased coal consumption was due partly to deterioration of railway locomotives and rolling stock, but mainly to the higher percentage of incombustible material in the coal.

13. It is generally agreed that the reasons for the present insufficient output of coal and its poor quality are the following:—The greatly increased demand for coal during the war led to the exhaustion of many of the best and most easily worked coal seams. Large numbers of skilled Korean and Chinese coal-miners were removed from the mines at the end of the war. Housing conditions for these miners were primitive, and it has not yet been possible to replace the Koreans and Chinese by Japanese miners, because houses suitable for the latter cannot be built quickly enough owing to shortages of timber and other materials. Mining equipment during the war was overworked, and much of it needs replacement and repair, which is being delayed owing to the shortage of iron and steel. Labour in the mines is now voluntary, and an eight-hour working day has been adopted, of which, on an average, about three hours per day are spent in walking from the shaft to the coal face, as no mechanical transport is provided. There has been a decrease in the ratio of coal-face workers to the total number of mine workers, because the wages paid to coal-face workers are relatively low. In some mining districts it is customary for miners to take time off to cultivate plots of land in order to supplement their food rations. The prices per ton, as at present fixed by the Government for different qualities of coal, do not sufficiently encourage the production of high-quality coal.

14. Nearly the whole of the present small output of coal is required for the maintenance of essential services and industries, such as the railways, shipping, electric power and gas generation, the production of iron and steel and chemical fertilisers, the metal-mining industries, and the needs of the Occupation Forces. Not enough is yet available, in quantity or quality, for industries that can produce goods for export.

15. A larger output of iron and steel is urgently needed in order that machinery and equipment in the coal mines may be repaired or replaced; on the other hand the output of iron and steel cannot be increased unless there is an increased output of coal, or unless coal is diverted to the iron and steel industry at the expense of the essential services and other industries, including industries producing for export.

16. In the hope that a larger output of coal can be obtained as the result of closer Government control of the coal-mining industry, the Japanese Government has prepared a Bill, for submission to the Diet, which provides for State control of the industry for a period of three years, with a provision that control may be continued for a longer period if necessary. Presentation of the Bill* to the Diet has been approved by General MacArthur, who sent to the Japanese Prime Minister a letter, published in the press, from which the following is an extract: "The Government should approach the problem from every angle; by concentrating the best engineering and other technical skill on the operations, placing

*This Bill was approved by the Diet on December 7th, 1947.

coal-mining activity generally on a twenty-working shifts, providing the living facilities, productivity of the individual, opening up new conditions justify such action, scrupulously coal to other than legitimate industrial purposes who wilfully impede the successful accomplishment

17. Production of pig iron and crude steel at the beginning of 1946; but the highest output in the year of the shortage of coal, has been only 33,000 tons of crude steel. During the five years 1930-1934 production was:—pig iron, 104,000 tons, and crude steel, 104,000 tons. Owing to the shortage of coal for iron and steel production in Japan until June, 1947, of electric steel furnace capacity was approved, by a decision of the Government in 1946; and in view of the continuing shortage of coal in July, 1947, the retention of these furnaces until June, 1948.

18. The generation of electric current during the war averaged 185 millions of kilowatt hours per month from hydro-electric installations, but in 1946 only 185 million kilowatt hours of kilowatt hours per month from hydro-electric installations, however, owing to lack of coal supplies, the average output of electric installations has been only 79 million kilowatt hours. On the other hand, the output from hydro-electric installations in 1934, has averaged 2,828 millions of kilowatt hours. On the basis of these figures it would appear that there is not a sufficient supply of electric current for all requirements, because of shortages of coal, charcoal, coal-gas, and for heating and cooking in private households. A large increase in the use of electric appliances for heating and for heating and cooking in private households that most of the hydro-electric installations in Japan depend on direct flow from the rivers. In 1946, from November to February, the flow of water was reduced. The result is that the electricity supply does not meet requirements, and there are frequent restrictions on electricity to all other consumers. There is not a full use can be made of the electric steel furnace production between now and June, 1947. "Economic White Paper" there has been a very large increase in the use of thermal-electric installations, as the result of the replacement, so that the actual output capacity is less than half what it was before the war.

19. The coal output target for the year ending March, 1947, is 33 million tons, and plans are being made for the year 1949-50 and for an output increasing to 45 million tons, until a total production of 45 million tons is reached. The recovery and economic recovery generally in the past, coal production. In the past, coal exports from Japan to East Asia and averaged a million tons per year. In 1935 to 1937, formed a not unimportant item in the export trade. In response to requests for coal for urgent needs of exports from Japan to the Colony were sanctioned for the Allied Powers and are being continued at 9,000 tons monthly.

AND STEEL, AND ELECTRICITY

output, in the year ended March, 1947, of 24 million tons. The output in March, 1948, is 30 million tons. So far, however, output has not reached 2½ million tons, and the present output is only 26 million tons per annum. Since the end of the war, coal has been deficient in quality as well as in quantity. In 1947, about 7 million tons of coal as compared with 1936 for approximately the same train consumption was due partly to deterioration of the coal stock, but mainly to the higher percentage of

of the reasons for the present insufficient output are the following:—The greatly increased demand for coal, the exhaustion of many of the best and most easily accessible seams, the loss of skilled Korean and Chinese coal-miners at the end of the war. Housing conditions for miners has not yet been possible to replace the lost miners, because houses suitable for the latter are scarce owing to shortages of timber and other materials. Miners were overworked, and much of it needs re-organizing, being delayed owing to the shortage of iron and steel, and voluntary, and an eight-hour working day is not yet in force, about three hours per day are spent at the coal-face, as no mechanical transport is provided. The ratio of coal-face workers to the total number of miners is low. Wages paid to coal-face workers are relatively low. The incentive for miners to take time off to cultivate their food rations. The prices per ton, and the quality of coal, do not compare with that of high-quality coal.

The present small output of coal is required for the iron and steel industries, such as the railways, shipping, and the production of iron and steel and chemical products, and the needs of the Occupation Forces. The quantity or quality, for industries that can produce

is urgently needed in order that machinery and equipment be repaired or replaced; on the other hand the output must be increased unless there is an increased output of coal for the iron and steel industry at the expense of the other industries, including industries producing for

The output of coal can be obtained as the result of the coal-mining industry, the Japanese Government has presented to the Diet, which provides for State control over the coal industry for five years, with a provision that control may be terminated if necessary. Presentation of the Bill* to the Diet by Mr. McArthur, who sent to the Japanese Prime Minister, from which the following is an extract: "The problem from every angle; by concentrating technical skill on the operations, placing emphasis on December 7th, 1947.

coal-mining activity generally on a twenty-four hour basis through the requisite working shifts, providing the living facilities and food essential to the maximum productivity of the individual, opening up new seams and mines where geological conditions justify such action, scrupulously preventing the diversion of mined coal to other than legitimate industrial purposes, and vigorously prosecuting any who wilfully impede the successful accomplishment of the task".

17. Production of pig iron and crude steel has been increasing since the beginning of 1946; but the highest output in any one month since then, because of the shortage of coal, has been only 33,000 tons of pig iron and 92,000 tons of crude steel. During the five years 1930 to 1934 the average monthly production was:—pig iron, 104,000 tons, and crude steel, 227,000 tons. Because of the shortage of coal for iron and steel production, the temporary retention in Japan until June, 1947, of electric steel furnaces in excess of 100,000 tons annual capacity was approved, by a decision of the Far Eastern Commission, in June, 1946; and in view of the continuing shortage of coal, the Commission approved, in July, 1947, the retention of these furnaces for a further period of one year, until June, 1948.

18. The generation of electric current during the years 1930 to 1934 averaged 185 millions of kilowatt hours per month from thermal-electric, and 1,216 millions of kilowatt hours per month from hydro-electric installations. Since April, 1947, however, owing to lack of coal supplies, the average monthly output from thermal-electric installations has been only 79 millions of kilowatt hours. On the other hand, the output from hydro-electric installations, which were expanded after 1934, has averaged 2,828 millions of kilowatt hours per month since April, 1947. On the basis of these figures it would appear that there should be at present a sufficient supply of electric current for all requirements in Japan; but since 1946, because of shortages of coal, charcoal, coal-gas, and wood, there has been a very large increase in the use of electric appliances for heating in all kinds of buildings, and for heating and cooking in private households. There is also the difficulty that most of the hydro-electric installations in Japan are of the aqueduct type and depend on direct flow from the rivers. In the dry season, which lasts normally from November to February, the flow of water from the rivers is very much reduced. The result is that the electricity supply is in fact insufficient for all requirements, and there are frequent restrictions of the supply of current to industries and to all other consumers. There is some doubt, therefore, whether full use can be made of the electric steel furnaces made available for iron and steel production between now and June, 1948. According to the Japanese "Economic White Paper" there has been a very great deterioration of the equipment of thermal-electric installations, as the result of insufficient repair and replacement, so that the actual output capacity of these installations is now less than half what it was before the war.

19. The coal output target for the year ending March, 1949, has been set at 33 million tons, and plans are being made for an output of 36 million tons in the year 1949-50 and for an output increasing annually thereafter by 3 million tons, until a total production of 45 million tons is attained in 1952-1953. Industrial recovery and economic recovery generally in Japan, will depend primarily on increased coal production. In the past, coal exports, which were shipped to most countries in East Asia and averaged a million tons annually in the three years 1935 to 1937, formed a not unimportant item in Japan's trade with these countries. In response to requests for coal for urgent needs in Hong Kong, the resumption of exports from Japan to the Colony were sanctioned by the Supreme Commander for the Allied Powers and are being continued at present at a rate of approximately 9,000 tons monthly.

OTHER MINING, AND PETROLEUM

20. Experts of the Natural Resources Section of General MacArthur's Headquarters have stated that notwithstanding the urgent demand in Japan for metals of all kinds for military purposes prior to and during the war, practically no use was made by the Japanese of modern methods of exploration for minerals, and that Japan was twenty years behind the rest of the world in the field of mineral exploration when the Military Occupation began. Modern methods of exploration, and improved mining methods, have since been introduced. Japan has workable deposits of many of the metals, but lacks sufficient supplies of such important minerals as high-grade iron ore, anthracite, and coking coal. Progress in mining production at present is impeded by shortages of coal, oil, electric power, and mechanical equipment, and shortages of housing, food, and clothing make it difficult to recruit additional mine-workers.

21. The Natural Resources Section has paid particular attention to the search for new petroleum deposits in Japan, and under the guidance of experts of the Section a Petroleum Exploration Advancement Committee was formed for the purpose of directing the necessary geological surveys with a view to locating oil-producing strata. A new oil field was discovered in north-eastern Honshu in August, 1947, and it is expected that new fields will be located in the Hokkaido also.

22. Statistics compiled by the Research and Statistics Division of the Economic and Scientific Section of General MacArthur's Headquarters show the following progress in production of the principal metal ores and crude petroleum since January, 1946 :—

	<i>In Metric Tons</i>		
	<i>January 1946</i>	<i>Highest Production per month</i>	<i>July 1947</i>
Iron ore concentrates	10,308	69,178 (Aug., 1946)	56,183
Copper ore concentrates, metal content	572	1,945 (June, 1947)	2,116
Lead ore concentrates, metal content ..	182	601 (June, 1947)	464
Zinc ore concentrates, metal content ..	969	2,752 (June, 1947)	2,594
	<i>In Kilolitres</i>		
Crude petroleum	17,784	20,955 (Aug., 1946)	16,924

THE TEXTILE INDUSTRIES

23. COTTON. During the first half of 1946 the Japanese cotton manufacturing industry, by making use of the small stocks of raw cotton and the small amount of operable spinning and weaving machinery that remained to the industry at the end of the war, produced, on an average, 2,626,000 lbs. of cotton yarn and 7,244,000 square yards of cotton cloth per month.

24. The first post-war imports of raw cotton arrived in Japan, from the U.S.A. in June, 1946. In August, 1946, 13½ million lbs. of cotton yarn and 17½ million square yards of cotton cloth were produced, and monthly production has increased,

fairly regularly, to 25½ million lbs. of yarn in July, 1947. Of the cotton yarn and cloth 20 per cent has been made available for export for the provision of clothing, so far been very small. Further imports of amount to 170,000 bales, are at present on

25. The number of spindles actually in operation (as of July 1947) is about 2.2 million, out of a total of 4 million. The Japanese textile machinery industry since the war, and provided that sufficient supplies of spindles and supporting machinery quickly enter the market, it is expected that the number of spindles to 4 million by 1949. Thereafter, the cotton spinning industry may be expanded to about 1½ million spindles and supporting machinery available for export.

26. WOOL. Operable machinery remaining in the manufacturing industry at the end of the war consisted of 190 woollen cards, and about 10,000 looms; had been increased to 390,000, 450, and 10,700 in Japan at the end of the war amounted to 10,700 reserved for the use of the Japanese Army and the only raw wool available for use by the industry between the end of the war and 1946, gradually by the industry during that period, practically all consumed. The highest monthly production in January, 1946, to July, 1947, were the following:

Woollen yarn, September, 1946 .. .
Worsted yarn, November, 1946 .. .
Woollen and worsted cloth, May, 1946 .. .

27. Pending a final decision as to the level at which the industry should be maintained in the future, the Textile Division of the Economic and Scientific Section of General MacArthur's Headquarters prepared, in 1946, a program for the interim rehabilitation of the industry, that the productive capacity of the industry should be maintained at 10,700. It recommended also that the productive capacity of the industry be gradually increased as the capacity began and gradually increased as the capacity that every effort should be made to export wool in sufficient volume and value to pay for the total consumption of these manufactures in Japan itself. In accordance with this program, the Textile Division authorized by General MacArthur's Headquarters to permit an increase in the numbers of spindles and looms, but it was explained to the Japanese Government that the authorization did not imply that the woollen and worsted industries receive priority in supplies of fuel, raw materials, and that the rate of increase in the number of spindles and looms should be dependent on the availability of these materials.

MINING, AND PETROLEUM

resources Section of General MacArthur's Headquarters, standing the urgent demand in Japan for metals prior to and during the war, practically no use of modern methods of exploration for minerals, and the rest of the world in the field of mineral exploration began. Modern methods of exploration, however, have since been introduced. Japan has workable deposits but lacks sufficient supplies of such important minerals as anthracite, and coking coal. Progress in mining has been retarded by shortages of coal, oil, electric power, and other necessities. Shortages of housing, food, and clothing make it difficult for workers.

The Government has paid particular attention to the search for minerals in Japan, and under the guidance of experts of the Economic and Scientific Section of the General MacArthur's Headquarters an Advancement Committee was formed for the purpose of conducting geological surveys with a view to locating new fields. A new field was discovered in north-eastern Honshu in 1946. It is expected that new fields will be located in the Hokkaido

The Research and Statistics Division of the Economic and Scientific Section of General MacArthur's Headquarters show the following production of principal metal ores and crude petroleum since

January 1946	In Metric Tons	
	Highest Production per month	July 1947
10,308	69,178 (Aug., 1946)	56,183
572	1,945 (June, 1947)	2,116
182	601 (June, 1947)	464
969	2,752 (June, 1947)	2,594
In Kilolitres		
17,784	20,955 (Aug., 1946)	16,924

TEXTILE INDUSTRIES

At the end of 1946 the Japanese cotton manufacturing industry had stocks of raw cotton and the small amount of machinery that remained to the industry at an average, 2,626,000 lbs. of cotton yarn and 17 1/2 million spindles per month.

Raw cotton arrived in Japan, from the U.S.A. 17 1/2 million lbs. of cotton yarn and 17 1/2 million spindles, and monthly production has increased,

fairly regularly, to 25 1/2 million lbs. of yarn and 62 1/2 million square yards of cloth in July, 1947. Of the cotton yarn and cloth produced since June, 1946, 80 per cent has been made available for export from Japan. Most of the remaining 20 per cent has been allocated for use in the essential industries, and the quantities made available for the provision of clothing, etc. for the Japanese population have so far been very small. Further imports of raw cotton, which it is expected will amount to 170,000 bales, are at present on the way to Japan, from India.

25. The number of spindles actually in operation at the present date (October, 1947) is about 2.2 million, out of a total of about 3 million which are operable. The Japanese textile machinery industry sustained very little damage during the war, and provided that sufficient supplies of coal, electric power, pig iron, etc. are available, it is expected that the industry will be able to manufacture spindles and supporting machinery quickly enough to raise the number of operable spindles to 4 million by 1949. Thereafter, depending on the extent to which the cotton spinning industry may be expanded in subsequent years, the output of the textile machinery industry, which it is estimated may eventually amount to about 1 1/2 million spindles and supporting machinery per annum, will be available for export.

26. WOOL. Operable machinery remaining to the Japanese woollen manufacturing industry at the end of the war consisted of only 95,000 worsted spindles, 190 woollen cards, and about 10,000 looms; but by June, 1947, these numbers had been increased to 390,000, 450, and 10,700 respectively. Stocks of raw wool in Japan at the end of the war amounted to only 176,000 bales, which had been reserved for the use of the Japanese Army and Navy. These stocks have been the only raw wool available for use by the Japanese woollen manufacturing industry between the end of the war and August, 1947. They were used gradually by the industry during that period, and by August, 1947, had been practically all consumed. The highest monthly production figures, in the period January, 1946, to July, 1947, were the following:—

Woollen yarn, September, 1946	2,089,000 lbs.
Worsted yarn, November, 1946	842,000 lbs.
Woollen and worsted cloth, May, 1946	2,724,000 square yards.

27. Pending a final decision as to the level at which the industry should operate in the future, the Textile Division of the Economic and Scientific Section of General MacArthur's Headquarters prepared, in the summer of 1947, a programme for the interim rehabilitation of the industry. The programme recommended that the productive capacity of the industry should be increased to 733,000 worsted spindles and 815 woollen cards, and that the number of looms should remain at 10,700. It recommended also that imports of raw wool should be begun and gradually increased as the capacity of the industry expanded, and that every effort should be made to export woollen and worsted manufactures in sufficient volume and value to pay for the total imports of raw wool, the consumption of these manufactures in Japan itself to be restricted meantime to a minimum. In accordance with this programme, the Japanese Government was authorised by General MacArthur's Headquarters, on August 21st, 1947, to permit an increase in the numbers of spindles and cards up to 733,000 and 815; but it was explained to the Japanese Government at the same time that this authorization did not imply that the woollen manufacturing industry would receive priority in supplies of fuel, raw materials, or construction materials, and that the rate of increase in the number of spindles and cards must depend on the availability of these materials.

28. The first post-war import of raw wool, 7,481 bales from Australia, reached Japan in June, 1947, and was in process of distribution to the industry in August, 1947, mainly for the purpose of conversion into woollen goods for export. Negotiations were in progress, in August, 1947, for a further import, from New Zealand, of 10,000 bales of raw wool which it was intended should be used partly for consumption in Japan and partly for conversion into export goods. Negotiations were begun also in August, 1947, for the import, from the U.S.A., of a portion of the surplus stock of raw wool held by the Commodity Credit Corporation.

29. RAYON. The Textile Mission (consisting of five representatives of the United States Government and four observers from China, India, and the United Kingdom) which visited Japan early in 1946 found that the Japanese rayon industry, as the result of the scrapping of machinery and bomb damage during the war, had in March, 1946, machinery sufficient for the production of a total of only 354 million lbs. of rayon yarn and staple fibre per annum. Before the war, the industry had machinery of a productive capacity of over 1,600 million lbs. per annum. Production of yarn and of staple in March, 1946, was 379,000 lbs. and 1,545,000 lbs. respectively, and production increased to 1,522,000 lbs. of yarn and about 2 million lbs. of staple in July, 1947.

30. As in the case of the woollen manufacturing industry, a programme for the interim rehabilitation of the rayon industry has been prepared by the Textile Division of the Economic and Scientific Section of General MacArthur's Headquarters. The programme recommended that supplies of coal, wood pulp, caustic soda, etc., should gradually be made available to the industry, until a production of a total of 150,000 metric tons of yarn and staple per annum was attained, and that the number of spindles in the rayon staple spinning branch of the industry should be raised to 500,000. It recommended further that all possible efforts should be made to increase exports of the products of the industry to the equivalent of 60 million lbs. of rayon filament and 30 million lbs. of rayon staple per annum. The Japanese Government was authorized on April 4th and on July 8th, 1947, to take the necessary measures to increase production of yarn and staple to 150,000 metric tons per annum and to raise the number of spindles to 500,000. In both cases the Japanese Government was informed that the authorization was not to be construed as granting priorities for supplies of fuel, electric power, or raw materials to the industry.

31. It was stated in the programme that the competent officials of the Natural Resources Section of General MacArthur's Headquarters were of the opinion that the Japanese forests could provide the necessary pulp wood, and that Japanese wood pulp producers could supply the quantities of pulp necessary for the interim rehabilitation of the rayon industry, provided that the necessary supplies of coal and chemicals could be made available for wood pulp production. It was added, however, in the programme, that the quality of the wood pulp at present produced in Japan was low, and that it was probable that high-grade pulp would have to be imported and mixed with Japanese-produced pulp, if the quality of Japanese-made rayon was to be improved sufficiently to ensure that the finished products of the Japanese rayon industry could compete successfully in foreign markets with the products of the rayon industries of other countries.

32. The success of the interim programmes for the cotton, woollen, and rayon industries will depend on increasing supplies of coal. Even if sufficient imports of raw cotton and raw wool are obtained, coal supplies will be the limiting factor as regards production in the cotton and woollen manufacturing industries. The rayon industry is even more dependent on coal supplies, since rayon production requires more coal per unit of output than the production of cotton or woollen manufactures.

RÉSUMÉ OF PROGRESS IN

33. An interesting résumé of the difficulties and of the progress that has nevertheless been made since September, 1945, was presented to the Allied and United States Member, on October 10, 1945, from the résumé:

"Initially, the Occupation was a period of virtual standstill. The Japanese economy by sea and by air had throttled all the major portions of her former Empire, while the loss of 30% of her overall plant capacity and the destruction through the burning of cities and the effects of the surrender and entrance of the occupation forces were even more pronounced. The Ministry of Economic Affairs, the American War Production Board, and the Japanese Governmental organization of adequate scope for the resumption of production. At the time of surrender, the Japanese workers discharged and paid off with the Japanese industrial labor force had already fled to other services had come almost to a standstill. The other industries were found almost at a standstill and metal-working plants were in operation and reached an all-time low of less than 10% in October, 1945."

"Attendant upon the release of the Japanese Chinese impressed mineworkers, who were while awaiting repatriation, the coal shortage and chaos. The Supreme Commander for the Far East in September, 1945, issued Directive No. 1 to maximize production of consumers' goods and to compile a list of some ten war industries in which production should be maintained."

"Since that time, the inability to meet the time material requirements of such industries as high-grade coking coal, wood-pulp, leather, skins, and tanning materials has obliged the Japanese to pile up her own inadequate resources and has imposed an insuperable obstacle to the flow of raw materials sufficient at least to support a supporting economy and, further, has imposed a required manufactured products—for the respective source of fabricated products complicating Japan's industrial recovery and food and consumers' goods and the Japanese economy."

"Very substantial recovery has taken place. Industrial production has risen from a level of approximately 45% calculated on the basis of the years 1930-34. This base period is the Eastern Commission's appraisal as to the requirements. This five-year average peacetime requirements because of the time peak production index was approximately 100%."

"The major production handicap is the coal shortage. By the war's end, the Japanese economy was in a debilitated condition requiring extensive rehabilitation."