

- 17 -

Note: In case the above certain number of employees is set at 500, the following will be the number of factories and the number of workers thereof.

No. of factories

1,431 (0.12% of total of enterprises)

No. of workers

1,973,847 (23.4% of total of workers)

f. In enforcing the wage stabilization program, the Over-all Wage Stabilization Council (tentative denomination) shall be established to be charged with research into and deliberation on necessary matters.

g. Along with the wage stabilization program, measures shall simultaneously be taken to stabilize people's living, such as the securing of distribution of food, necessities of life and labourer's necessities, adjustment of earned income tax, etc.

4. Sound Public Finance.

a. The basic policy shall be to keep the size of public finance within a limit commensurate with national economic power and reasonable from the standpoint of the distribution of national income and to maintain the true balance of revenue and expenditure. In 1948 total expenditure of public finance (¥650,000,000,000) was 27% of the

national

- 18 -

national income (¥2,393,000,000,000 at the November 1948 price level). It is planned for the fiscal year 1949 that the total expenditure of public finance (inclusive of Special Accounts and local public finance) be around ¥775,000,000,000 (of which ¥600,000,000,000 is for General Account), which is also approximately 27% of the national income (¥2,843,000,000,000 at the November 1948 price level). (Refer Appendix 1.)

b. Price adjustment expenditure shall be maintained in keeping with the policy to maintain the price level. The amount will, however, be reduced as much as possible by lowering the unit subsidy and reviewing the coverage so that the total shall become about ¥85,700,000,000.

c. In order to establish financial independence of the Government Enterprise Special Accounts and the Civil Merchant Marine Commission, their operation shall be rationalized and their freights and fees adjusted (Railway cargo freights exclusive of those of coal, fertilizer, iron and steel and mine timber be doubled and marine freight and communication charges increased by 50%). The transfer from the General Account to the Government Railway and Communication Special Accounts shall be cancelled and subsidy to the Civil Merchant Marine Commission shall be limited to around ¥6,000,000,000.

d.

- 19 -

d. The general administrative expenditure shall be reduced by ¥4,200,000,000 in 1949 (bringing down to average ¥52,800,000,000 in and after 1950) through large scale administrative readjustment; the Termination of War Expenditures shall be reduced to approximately ¥120,000,000,000 through reasonable curtailment. On the other hand distribution fund for local government shall be reduced to ¥72,000,000,000 through the establishment of sound public finance of the local government.

As for public works, general welfare facilities shall be restricted in favour of production facilities (agriculture, aquatic industry, forestry, etc.) and land preservation facilities (river, torrential improvement, afforestation, etc.).

e. The construction fund and increase in working fund in Special Account is estimated at ¥110,000,000,000 (¥60,000,000,000 by issuing long term bond; ¥20,500,000,000 by short term bond; ¥29,500,000,000 by loan) and ¥20,000,000,000 in the local government bond. Efforts shall be made to cover such expenditure through accumulated savings in order to prevent inflation through public finance.

f.

-20 -

f. Utmost efforts shall be made to expedite and enforce tax collection and to thoroughly prosecute tax evaders, setting the goal at ¥420,000,000,000 for the fiscal year 1949. At the same time seasonal adjustment of revenue and expenditure shall be made.

g. The tax system shall be amended, by adjustment of corporation/ income tax, etc., with a view to increasing tax revenue, making equitable distribution of tax burden, maintaining real capital of enterprises (revaluating capital, raising the amount of amortization, etc.), and inducing foreign capital. As regards amortization of fixed assets, about one half of the current value shall be made the basis instead of the old book value. (The revaluation of capital shall be made on 30 June 1949.)

h. The total industrial fund shall be ¥390,000,000,000 of which ¥190,000,000,000 for equipment fund and ¥200,000,000,000 for working fund. It is ¥60,000,000,000 decrease in total as compared with the previous year, but electric power source development, iron and steel, agricultural and fishery shall be financed preferentially. In order to use fund efficiently and preferentially for economic rehabilitation, minimum necessary financing by the Reconstruction Finance Bank and self acquisition of fund by enterprises shall be necessary in addition to fund control of private monetary institutions. (Refer Appendix 2.)

- 21 +

i. As regards financing by the RFB, equipment fund required in essential industries shall be preferentially provided within the extent of absorption of the RFB bond (¥75,000,000,000).

The Government investment in the RFB shall be ¥40,000,000,000 which will be assigned for the reimbursement of the RFB bond.

Deficit financing shall not be made in order to maintain sound finance.

j. Financing by private financial institutions shall also be made effectively and preferentially for essential use so that sound economic activities may be operated smoothly, and necessary steps shall be taken to secure supply of long term equipment fund required for economic rehabilitation (¥190,000,000,000 for 1949). (Refer Appendix 9.)

k. Efforts shall be made achieve ¥320,000,000,000 increase in savings. The increase of currency issuance shall be restrained to the utmost, so that it may be limited to ¥54,000,000,000, taking into account of 30% increase in yearly production.

5. Securing of food supply

a. Food production shall be increased as planned in Appendix 4. For this purpose, efforts on the part of farmers shall be called for, land improvement (250,000 cho for 1949) shall be expedited, and agricultural production materials shall be secured.

b.

- 22 -

b. The food delivery goal for 1949 shall be set at 32,220,000 koku for rice, 7,460,000 koku for wheat and barley, 743,260,000 kan for sweet potatoes, and 324,020,000 kan for potatoes, or 46,880,000 koku in terms of rice. The delivery system shall be reexamined to attain this goal, and collection shall be strengthened.

(1) The pre-planting quota system and incentives related thereto shall be continued, but steps shall be taken so that additional quota shall be assigned in case it is reasonable in the light of good crop.

(2) Corresponding to the strengthening of collection, retention by farmers shall reasonably be increased (retention by partial self-supplying farmers shall be raised from 3.15 go to 3.5 go) and back ration shall be reduced as far as possible.

(3) Scientific investigation of cultivated acreage and nature of land shall be completed as soon as possible with a view to rationalizing delivery quota and improving agricultural management.

c. Measures shall be taken to effectively utilize food in order to stabilize food situation. The rationing system shall be reexamined to make it more effective. Supposing the food imports for this year is 2,830,000 tons, average urban and rural food supply per person will be 1,348 calories and 1,832 calories respectively. (Refer Appendix 6.)

- 23 -

6. Strengthening of production and rationalization of enterprises.

a. Utmost efforts will be made for the attainment of the production goals for 1949 set in the Economic Rehabilitation Program, as well as for the qualitative improvement of products and reduction of production cost by strictly abiding by the three principles of enterprises. (Refer Appendix 3 with regard to the production programs of major manufacturing and mining industries.)

b. Positive measures shall be adopted for the mechanization of equipments and the raising of technological level to improve production efficiency simultaneously with the new investment in and the development of new coal mines, electric power sources, construction of ships, iron and steel works, etc. which serve as the basis of economic rehabilitation. The total amount of equipment funds necessary for the above will be ¥190,000,000,000.

c. In the allocation of materials, priority shall be given to superior enterprises producing goods of excellent quality at lower production cost while a formula will be established wherein the selection of producers by consumers can automatically be reflected upon the allocation of raw materials for production.

d.

- 24 -

d. Necessary consideration shall be given to financial and taxational (See paragraph 5.) measures in order to expedite the accommodation of funds necessary for the normal activities of enterprises (The total amount of operational funds for 1949 shall be ¥200,000,000,000) while special consideration will be given to those funds necessary for the rationalization of enterprises which have the possibility of revival.

e. Great expectation will be had upon the inducement of sound foreign capital/economic rehabilitation. For the purpose of expediting above inducement, necessary amendment of the taxation system, raising of the depreciation basis of fixed assets from the present book value to around half the current value, reduction of the rate of corporation tax, and other necessary preparations will be made.

f. The present economic control system will be reviewed from the standpoint of rationalization of enterprises. The controlled items shall be limited to such ones as can be effectively controlled while enforcement being strengthened on such limited items.

g. Unemployment created by the rationalization of enterprises shall be absorbed in public works, etc. as much as possible while such measures as enlargement of the unemployment insurance system shall be taken.

- 25 -

7. Export promotion

a. The export program shall be as shown in Appendix 7, and for the purpose of accomplishing such program all kinds of measures shall be taken on top priority to export basis, including the preferential allocation of production materials and the expediting of financing to foreign trade.

In addition, enforcement will be strengthened for the purpose of preventing materials imported for making exports from being diverted to domestic use.

b. The present foreign trade procedure shall be simplified thoroughly so as to enlarge ~~import and~~ export on the private basis, thereby contributing to the return at the earliest possible date to normal trade transaction.

c. Request shall be submitted to the GHQ, SCAP for the coordination and improvement of relations with foreign countries so that measures may be taken for the improvement in the balance of international payments through the positive development of export markets and the improvement of trade terms, etc.

d. Coping with the transition of export markets, efforts shall be made to export production goods in addition to end products, while making adjustment with the minimum requirement of production goods for domestic economic rehabilitation.

e.

- 26 -

e. Temporary measures will be taken to cushion the impacts of a single exchange rate to be established for securing export, while the rationalization of export industries, particularly of feeble enterprises, shall be pushed forward promptly so as to strengthen the competitive power thereof in the world markets.

- 27 -

Table No. 1

Balance of National Economy

(In Billion Yen, At Price
Level in Nov. 1948)

| National Income, etc. | | | Others | |
|---|---------|------------|--|---------|
| Item | Amount | (1948) | Item | Amount |
| | | Percentage | | |
| (I) National Income by Distributive Shares | 2,847.0 | 89.2 | (I) Personal Consump- tion Expenses | 1,978.0 |
| 1. Earned Income | 1,182.0 | (37.0) | (II) Private Capitali- zation | 450.0 |
| 2. Proprietor's Income | 1,560.0 | (48.9) | 1. Industrial Invest- ment | 390.0 |
| (a) Agriculture & Forestry | 570.0 | | (a) Financing | 300.0 |
| (b) Other Business & Profession | 990.0 | | (b) Direct Invest- ment | 90.0 |
| 3. Others | 105.0 | (3.3) | 2. House Construction | 60.0 |
| (II) Amortization | 23.0 | 0.7 | (III) Financial Expenditure | 775.0 |
| (III) Adjustment Item | 323.0 | 10.1 | 1. General Account | 535.0 |
| 1. Transfer Income | 38.0 | (1.2) | 2. Special Account | 110.0 |
| 2. Indirect Tax | 185.0 | (5.8) | 3. Local Finance | 130.0 |
| 3. Profit of Monopoly Bureau | 100.0 | (3.1) | (IV) Balance of Inter- national Payments: * | 10.0 |
| Total | 3,193.0 | 100.0 | Total | 3,193.0 |

- 27 -

Table No. 1

Balance of National Economy

(In Billion Yen, At Price
Level in Nov. 1948)

| National Income, etc. | | | Others | | |
|---|---------|------------|--|---------|------------|
| Item | (1948) | | Item | Amount | Percentage |
| | Amount | Percentage | | | |
| (I) National Income by Distributive Shares | 2,847.0 | 89.2 | (I) Personal Consump- tion Expenses | 1,978.0 | 62.7 |
| 1. Earned Income | 1,182.0 | (37.0) | (II) Private Capitali- zation | 450.0 | 14.3 |
| 2. Proprietor's Income | 1,560.0 | (48.9) | 1. Industrial Invest- ment | 390.0 | 12.5 |
| (a) Agriculture & Forestry | 570.0 | | (a) Financing | 300.0 | |
| (b) Other Business & Profession | 990.0 | | (b) Direct Invest- ment | 90.0 | |
| 3. Others | 105.0 | (3.3) | 2. House Construction | 60.0 | (1.9) |
| (II) Amortization | 23.0 | 0.7 | (III) Financial Expenditure | 775.0 | 24.1 |
| (III) Adjustment Item | 323.0 | 10.1 | 1. General Account | 535.0 | (16.8) |
| 1. Transfer Income | 38.0 | (1.2) | 2. Special Account | 110.0 | (3.4) |
| 2. Indirect Tax | 185.0 | (5.8) | 3. Local Finance | 130.0 | (3.9) |
| 3. Profit of Monopoly Bureau | 100.0 | (3.1) | (IV) Balance of Inter- national Payments: # | 10.0 | # 0.3 |
| Total | 3,193.0 | 100.0 | Total | 3,193.0 | 100.0 |

- 28 -

Table No. 2

Estimation of Demand and Supply
of Funds

(In Billions of Yen)

| | 1948 F.Y. | 1949 F. Y. |
|---|-----------|------------|
| (I) Demand | | |
| 1. Public Finance | 158.0 | 124.0 |
| (a) National | 122.2 | 104.0 |
| (b) Local | 35.8 | 20.0 |
| 2. Industrial Investment | 450.8 | 390.0 |
| (a) General Financial Institutions | 310.3 | 210.0 |
| (b) R.F.B. | 72.5 | 80.0 |
| (c) Direct Investment | 68.0 | 90.0 |
| (d) Investment from Surplus of Foreign Trade Funds | - | 10.0 |
| Total | 608.8 | 514.0 |
| (II) Supply | | |
| 1. Financial Institutions | 403.8 | 320.0 |
| (a) Increase in General Deposit | 381.6 | 310.0 |
| (b) Other Increase in Capital | 45.4 | 30.0 |
| (c) Capitalization of Financial Institutions | 14.0 | - |
| (d) Increase of Cash in Hand | # 37.2 | # 20.0 |
| 2. Direct Investment | 68.0 | 90.0 |
| (a) Absorption of Securities | 31.0 | 40.0 |
| (b) Self Investment | 37.0 | 50.0 |

- 29 -

| | | |
|-----------------------------------|------------------|------------------|
| 3. Government Investment | 18.0 | 40.0 |
| 4. Surplus of Foreign Trade Funds | - | 10.0 |
| Total | 489.8 | 460.0 |
| (III) Shortage of Funds | 119.0 | 54.0 |
| (IV) Currency Expansion | 123.8 | 54.0 |
| (V) Issue at End of Quarter | 342.6 (100.0) | 396.6 (115.7) |

- 30 -

Mining and Manufacturing Industry Production Program

Table No. 3

| Item | Unit | 1948 F.Y. Estimation | 1949 F.Y. Plan | Index as against 1930 - 34 F.Y. |
|--------------------|---------------------|-------------------------|--------------------|------------------------------------|
| Coal | thousand ton | 34,408 | | |
| Iron Ore | " | 571 | 42,000 | 134,73 |
| Crude Petroleum | thousand Kil. litre | | 1,000 | 349,65 |
| Raw Silk | bale (132 lbs) | 139,600 | 225 | 81,20 |
| Cotton Yarn | thousand lbs | 292,000 | 156,687 | 21,66 |
| Woolen Yarn | " | 23,600 | 346,500 | 29,92 |
| Cotton Fabric | sq. kil. m | | 32,407 | 34,57 |
| Ordinary Pig Iron | thousand ton | 5,599 | 1,042,826 | 32,34 |
| Ordinary Steel | | | 1,830 | |
| Original | thousand ton | | 1,920 | 87,50 |
| Rolled | " | | 1,800 | |
| Rerolled | " | 1,173 | 80 | |
| Special Steel | " | 87 | 40 | |
| Silicon Steel | ton | 55,100 | 90 | 272,72 |
| Machinery | ton | (Steel Consumption) | 62,000 (") | 85,45 |
| Cement | thousand ton | 1,950 | 971,920 | 124,61 |
| Sheet Glass | " box | 1,860 | 2,800 | 76,99 |
| Soda Ash | ton | 77,300 | 2,250 | 85,58 |
| Caustic Soda | " | 114,100 | 110,000 | 581,52 |
| Ammonium Sulphate | " | 972,800 | 140,000 | 156,56 |
| Calcium Cyanamide | " | 243,300 | 243,300 | 239,87 |
| Rubber | " | 23,900 | 280,000 | 140,33 |
| Paper | thousand lbs | 1,006,400 | 39,000 | 75,00 |
| Hie and Leather | ton | | 1,100,000 | 67,09 |
| Salt | " | | 24,000 | 81,45 |
| " Miso " | thousand kan | 280,000 | 425,000 | 70,13 |
| Beer | thousand koku | 111,485 | 145,787 | 92,15 |
| " Sake " | " | 474 | 964 | 110,42 |
| Overall Production | | | 1,853 | 48,96 |
| Index | | 56 - 57% | | 75,50 |

- 31 -

Table No. 4

Foodstuff Production Program

| Item | 1948 F. Y. (Estimation) | 1949 F. Y. (Plan) |
|---------------|-------------------------|-------------------|
| | in thousand koku | in thousand koku |
| Rice | 62,340 | 61,140 |
| Wheat, Barley | 18,300 " | 20,340 " |
| Bean | 287 " | 304 " |
| | in thousand kan | thousand kan |
| Sweet Potatoe | 1,617,670 | 1,528,460 |
| Potatoe | 607,980 " | 719,490 " |

- 32 -

Table No. 5

Staple Food Distribution Program
(1950 U. S. F. Y.)

* (Unit: Thousand ton)

| Item | Production | Seed | Fodder | Food | Total | Collection | For Industry & Other | For Distribu- tion |
|---------------|------------|------|--------|-------|-------|------------|-------------------------|-----------------------|
| Rice | 9,176 | 129 | | 4,620 | 4,749 | 4,423 | 135 | 4,234 |
| Barley | 551 | 23 | 73 | 170 | 266 | 285 | 56 | 230 |
| Wheat | 973 | 46 | - | 460 | 506 | 467 | 40 | 434 |
| Sweet Potatoe | 1,548 | 115 | 85 | 555 | 755 | 793 | 423 | 361 |
| Potatoe | 540 | 74 | 8 | 205 | 287 | 253 | 97 | 176 |
| Cereal | 700 | 40 | 268 | 234 | 542 | 158 | 76 | 73 |
| Starch | | | | | | | | 1,051.05 |
| Total | 14,310 | 456 | 538 | 6,596 | 7,590 | 6,720 | 858 | 5,919 |

- 33 -

Table No. 6.

Calory Intake from Staple Food

(1950 U.S.F.Y.)

| | | |
|--|-----|--------|
| (1) Urban Areas (In thousand tons Brown Rice Equivalent) | | 4,772 |
| Rationing to Normal Consumers | (") | 6,772 |
| Supplementary Rations for Workers | (") | 770 |
| Others | (") | 132 |
| Total | (") | 7,674 |
| Rationed population (number in thousand) | | 46,556 |
| Calory Intake (incl. Supplementary Ration for Workers) | | 1,472 |
| " (Rations for Normal Consumers only) | | 1,348 |
| (2) Rural Districts | | |
| Farmers retention | (") | 6,587 |
| Rationing to Partial Self-supplier | (") | 827 |
| Total | (") | 7,416 |
| Rural Population (number in thousand) | | 36,137 |
| Calory Intake | | 1,832 |

Table No. 7

Export Program

| Item | Amount (in Million Dollars) | Remark |
|------------------------|-----------------------------|---|
| Textile | | |
| Cotton Products | 173 | Cotton yarn 32 million lbs. Cotton Cloth 650 million sq. yards |
| Staple Fiber | 3 | |
| Hemp | 4 | |
| Raw Silk | 37 | 100 thousand bales |
| Silk Products | 35 | 46 million yards |
| Wool Products | 32 | |
| Artificial Silk | 30.030 | |
| Others | 5 | |
| Paper & Paper products | 4 | |
| Rubber | 12 | |
| Hide and Leather | 1 | |
| Machinery | 83 | Steel 630 thousand tons allocated. |
| Metals | 57 | |
| Pottery | 17 | |
| Glass | 6 | |
| Miscellaneous Products | 24 | |
| Canned Goods | 7 | |
| Timber | 6 | |
| Agricultural Products | 6 | |
| Processed Foods | 2 | |

- 35 -

| | | |
|-----------------------|-----|---------------------|
| Marine Products | 12 | |
| Medicines & Chemicals | 10 | |
| Coal | 14 | 1,200 thousand tons |
| Cement | 10 | 600 " |
| Total | 600 | |

- 36 -

Import Program

Table No. 8

| Item | Amount (thousand dollars) | Remark (thousand tons) |
|---------------------------------|------------------------------|---|
| Iron Ore, Non-ferrous metal Ore | 98,443 | Iron Ore 2,260 Pig Iron 130, Manganese Ore 118 |
| Fibre | 213,610 | Raw-Cotton 850, Wool 122 (thousand bale) Secondary Silk yarn 5.920 (thousand lbs.) |
| Rubber | 16,904 | Raw Rubber 39 Waste Rubber 12.75 |
| Leather | 10,532 | Hide & Skin 15.045 |
| Glue Material | 2,413 | Glue Material 8.443 |
| Tannin Material | 4,189 | Tannin Extract 9.15 |
| Petroleum & Its Products | 73,887(B) | Petroleum 600(thousand kil. liter.) Light oil 42 (thousand kil. liter.) Heavy oil 1,350 (thousand kil. liter.) |
| Coal | 57,800 | 2,400 |
| Chemicals & Medicines | 32,571 | Salt 1,400 Benzene 2, Casein 3.15 |
| Gum Resin | 8,984 | Damal 1.372 Shellac 0.916 Pine Resin 14.137 |
| Oil & Fats | 115,236 | Copra 55.5 Soy bean 390 |
| Fertilizer | 50,693 | Ammonium nitrate 226 Phosphate rock 573 |
| Foodstuff | 324,547 | 2,673 Sugar (370) |
| Feedstuff | 9,000 | 150 |
| Timber & its products | 11,633 | Lawan, Pulp wood, Teak Total 1.170(thousand koku) |
| Medicine | 2,741 | Santonin 1000 gm D.D.T. 210 tons |
| Insecticide | 173 | 289 (U.S. ton) |
| Miscellaneous goods | 7,290 | Bristle (1 million lbs.) Ship accessories 12.100 tons Anpella 2.500 (thousand sheets) |
| Total | 1,040,646 | |

Table No. 9

- 37 -

Industrial Fund Requirements for 1949 Fiscal Year

| Item | Requirement | 1949 F.Y. | | 1948 F.Y. Rough Estimate of R.F.B. Loans (in increments annum) |
|-------------------------------------|-------------|--|--|---|
| | | Funds for Equipments Total (including the next item) | Assessed R.F.B. Loans and Investment from Yen Proceeds in Special Account for Foreign Trade | |
| Funds for Equipments | | | | |
| A) Mining | 38,666 | 28,101 | 26,700 | 22,000 |
| (a) Coal | 34,788 | 25,000 | 25,000 | 21,000 |
| (b) Metals, Petroleum and others | 38,77 | 3,101 | 1,700 | 1,000 |
| B) Manufacturing | 81,272 | 53,356 | 20,900 | 14,000 |
| (a) Metal | 15,540 | 12,650 | 8,200 | 2,000 |
| Iron & Steel | 13,075 | 10,678 | 7,500 | 1,000 |
| Non. Ferrous | 2,465 | 1,972 | 700 | |
| (b) Machinery | 16,408 | 10,938 | 4,300 | |
| Electric, Communication | | | | |
| Textile, machine tool | 4,990 | 3,396 | | |
| Ship | 1,241 | 1,241 | | |
| Rolling-Stock | 3,459 | 2,540 | | |
| Others | 6,713 | 3,761 | | |

- 37 -

Industrial Fund Requirements for 1949 Fiscal Year

| Item | 1949 F.Y. | | 1948 F.Y. | | Remark Explanation on Assessed Program |
|------|--|--|--|--|--|
| | Assessed | | Rough Estimate | | |
| | Funds for Equipments Total (including the next item) | R.F.B. Loans and Investment from Yen Proceeds in Special Account for Foreign Trade | of R.F.B. Loans (Actual increase per annum) | | |
| 666 | 28,101 | 26,700 | 22,638 | | |
| 788 | 25,000 | 25,000 | 21,464 | | New Starting Miners' housing 20,800 4,200 |
| 77 | 3,101 | 1,700 | 1,172 | | Petro. 1,379 Others 1,722 |
| 272 | 53,356 | 20,900 | 14,407 | | |
| 540 | 12,650 | 8,200 | 2,259 | | |
| 075 | 10,678 | 7,500 | 1,975 | | Blast Furnaces 5,000 Open hearth Furnaces 857 Rolling Mills 1,500 Transportation, Housing and Others 3,316 |
| 465 | 1,972 | 700 | 286 | | |
| 408 | 10,938 | 4,300 | 1,693 | | |
| 990 | 3,396 | | 819 | | Electric M. 1,057 Communication M. 974 Textile M. 1,330 Machine tool 35 Steel-Ships 1,006 Wooden " 235 Motor-car 1,380 Bicycles 160 Others 1,000 |
| 241 | 1,241 | | 174 | | |
| 459 | 2,540 | | 412 | | |
| 713 | 3,761 | | 287 | | |

| | | | | |
|---|--------|--------|---------|------|
| (c) Textile | 25,393 | 10,005 | 1,700 | 3,8 |
| Silk | 501 | 479 | | |
| Chemical Fibre | 2,601 | 1,757 | | |
| Spining | 8,817 | 4,255) | | |
| Weaving | 9,286 | 2,122) | 2,861 | |
| Felt, Knitted goods, Dying, and Others | 4,188 | 1,392) | | |
| (d) Chemical Industry | 12,334 | 9,844 | 4,800 | 4,6 |
| General | 8,444 | 6,331 | | 2,6 |
| Fertilizer | 3,891 | 3,513 | | 1,9 |
| (e) Ceramic | 2,418 | 1,410 | 600 | 2 |
| (f) Food-Processing | 9,179 | 4,590 | 0) | 1,8 |
| (g) Others | -- | 3,919 | 1,300) | |
| (c) Electric & Gas | 55,043 | 31,801 | 21,500 | |
| (a) Electric Power | 53,266 | 30,024 | 21,000 | 17,0 |

| | | |
|--------|--------|--------|
| 10,005 | 1,700 | 3,810 |
| 479 | | 390 |
| 1,757 | | 556 |
| 4,255) | | |
| 2,122) | 2,861 | |
| 1,392) | | |
| 9,844 | 4,800 | 4,624 |
| 6,331 | | 2,682 |
| 3,513 | | 1,942 |
| 1,410 | 600 | 210 |
| 4,590 | 0) | |
| 3,919 | 1,300) | 1,811 |
| 31,801 | 21,500 | |
| 30,024 | 21,000 | 17,050 |

| | |
|-----------------|-------|
| Rayon | 880 |
| Staple Fibre | 10 |
| Synthetic Fibre | 1,330 |
| Cone-winders | 780 |
| Cotton | 2,405 |
| Staple Fibre | 1,500 |
| Wool | 146 |
| Others | 204 |

| | |
|----------------------|-------|
| Soda | 733 |
| Organic Synthetic | 452 |
| Dye | 1,608 |
| Wood-pulp | 1,022 |
| Drug | 250 |
| Others | 2,266 |
| Sulph. Ammonic | 2,940 |
| Sulphuric Acid | 279 |
| Others | 294 |
| Porcelain & Crockery | 250 |
| Cement | 500 |
| Others | 660 |

| | |
|-----------------|-------|
| Fat & Oil | 988 |
| Liquor and Wine | 2,711 |
| Milk Products | 302 |
| Others | 500 |

| | |
|---|----------|
| Assuming to increase electric charges 1.6 times | |
| Hydro. Gen. | 14,316 |
| Thermal " | 5,017 |
| Transforming | 15,080 |
| Distribution & Others | 9,660 |
| Total | 44,074 |
| Charges | 14,050 |
| Balance | --30,024 |

- 29 -

| | | | |
|-----------------------|---------|---------|--------|
| D) Gas. Cokes. | 1,777 | 1,777 | 500 |
| Agriculture & Fishery | 53,834 | 21,657 | 8,000 |
| E) Transportation | 38,52 | 40,817 | 12,900 |
| (a) | 15,400 | 12,600 | 0 |
| (Private Railways | 5,400 | 6,700 | 0 |
| (Automobile | 10,000 | 5,900 | 0 |
| (b) Marine | 23,126 | 28,217 | 12,900 |
| (Steel-Ship Trans. | 15,970 | 22,301 | 12,900 |
| (Wooden | 2,800 | 2,800 | 0 |
| (Harbour | 4,356 | 3,116 | 0 |
| F) Others | 23,053 | 14,268 | 0 |
| (a) Schools | 1,750 | 1,330 | 0 |
| (b) Hospitals | 3,458 | 1,200 | 0 |
| (c) Private Buildings | 14,076 | 10,000 | 0 |
| (d) Others | 3,769 | 1,738 | 0 |
| Equipment Funds | | | |
| Total (A) | 290,394 | 190,000 | 90,000 |
| Working Capital | | | |
| Total (B) | 130,310 | 200,000 | 0 |
| (A) - (B) Grand Total | 420,704 | 390,000 | 90,000 |

| | | | |
|---------|---------|--------|--------|
| 1,777 | 1,777 | 500 | 8 |
| 53,834 | 21,657 | 8,000 | 5,707 |
| 38,52 | 40,817 | 12,900 | 11,255 |
| 15,400 | 12,600 | 0 | 479 |
| 5,400 | 6,700 | 0 | |
| 10,000 | 5,900 | 0 | |
| 23,126 | 28,217 | 12,900 | 10,775 |
| 15,970 | 22,301 | 12,900 | |
| 2,800 | 2,800 | 0 | |
| 4,356 | 3,116 | 0 | |
| 23,052 | 14,268 | 0 | 0 |
| 1,750 | 1,330 | 0 | 0 |
| 3,458 | 1,200 | 0 | 0 |
| 14,076 | 10,000 | 0 | 0 |
| 3,769 | 1,738 | 0 | |
| 290,394 | 190,000 | 90,000 | 71,057 |
| 130,310 | 200,000 | 0 | |
| 120,704 | 390,000 | 90,000 | |

Including Funds from Agri. & Fishery Central Bank

Ware-houses 1,216
 Stevedoring 600
 Facilities 1,300

It can not be accounted as industrial funds, but listed here as it is the private funds.

Under in vestigation

As for the private capital formation, 60 billion yen of private housing construction must be added to this 390 billion yen of industrial Funds.

- 40 -

- Note;
1. Prices are based on the present base.
 2. Some omissions are found in the requirement in respect to the operational
 3. The actual R.F.B. loan for 1948 (figures for 4th quarter are planned one actual amount of loan consists of the above actual R.F.B. loan plus amount figures shown in the itemized explanation on assessment are newly loan
 4. 5,807 million yen for Agriculture, forestry and aquatic industry in the consists of ¥2,717 million for general plus ¥2,990 million for agriculture which is broken down into ¥1,500 million for the 3rd quarter (estimate)
 5. Out of ¥ 30,000 million loan to be extended by R.F.B. ¥10,000 million are surplus in Foreign Trade Special Account and the repayment to R.F.B. re investment in R.F.B. will be ¥ 40,000 million and R.F.B. bonds ¥35,000 million

- 40 -

the present base.

found in the requirement in respect to the operational fund requirements and Others for F.Y. 1949.

loan for 1948 (figures for 4th quarter are planned ones) represents the annual net increase, so

an consists of the above actual R.F.B. loan plus amount of loan returned by each industry. The

itemized explanation on assessment are newly loaned amount.

for Agriculture, forestry and aquistic industry in the column of estimated actual R.F.B. loan

million for general plus ¥2,990 million for agriculture forestry, fishery rehabilitation,

into ¥1,500 million for the 3rd quarter (estimate) and the 4th ququter (plan).

ion lean to be extended by R.F.B. ¥10,000 million and ¥5,000 million will be met by the

Trade Special Account and the repayment to R.F.B. respectively. Therefore, the Government

will be ¥ 40,000 million and R.F.B. bonds ¥35,000 million.



THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

FE

United States Political Adviser
for Japan

C DIVISION OF
NORTHEAST ASIAN AFFAIRS

Tokyo, April 30, 1949.

No. 271

MAY 13 1949

REC'D
MAY 9

~~RESTRICTED~~

DEPARTMENT OF STATE

Action Assigned to *NA*

Action Taken *No action*

ACTION
FE ENC

Subject: Economic Stabilization Board's Reactions to Mine-Point
Program and Dodge Budget Date of Action *Apr 26, 1949*

Action Office Symbol *NA:FE*

Name of Officer *W. Herndon*

Director's File *File*

INFO
FR
DCR
OPD ENC
ITP
OLI
COM ENC
TREAS ENC
FRB

The Honorable
The Secretary of State,
Washington.

Sir:

I have the honor to refer to this Mission's despatches No. 124 of February 28, 1949, "Economic Stabilization Board's Plan to Stabilize the Japanese Economy," and No. 238 of April 20, 1949, "Transmitting Copies of Memoranda on Japanese Economic Situation Prepared by Economic Stabilization Board;" to forward five copies of an Economic Stabilization Board memorandum of March 9, 1949, "Stabilization and Reconstruction," and of a memorandum of March 19, 1949, "Outline of Over-all Measures." Herewith follows comment on the Board's views on economic stabilization and the Dodge budget as indicated by the first of these memoranda. The second is an amplification of an earlier study forwarded with despatch No. 124.

The Economic Stabilization Board's March 9 memorandum presents in some detail the Board's (and, it may be inferred, the Yoshida Government's) belief that stabilization should be approached cautiously. If stabilization measures are adopted too swiftly, the Board says early in the study, "the possibility cannot be precluded that measures, however reasonable and orthodox they may be, may not be able to demonstrate their effectiveness to the fullest degree." Having thus circumspectly indicated its reluctance to take firm measures, the Board then proceeds to outline in some detail the deflationary and recessive conditions likely to result from too-swift retrenchment.

The basic difference between the Board's position and that held by Mr. Joseph M. DODGE, financial adviser to General MacARTHUR, the study states, "lies in whether the domestic value of currency shall be stabilized at a single stroke or whether the domestic and foreign value of currency shall be stabilized gradually over a period of about two years." Thus, although "of course finance will be made to achieve a consolidate balance,"

~~RESTRICTED~~

DECLASSIFIED

Authority *NN 760050*
By *TR/gat* NARS, Date *2.17.78*

the
JUL 8 1949

STAMP

ACTION COPY

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

DMR

894.50/4-3049

Tokyo's Despatch No. 271,
April 30, 1949.

- 2 -

the issuance of construction bonds, Reconstruction Finance Bank debentures, and local bonds, should be allowed to continue "to the extent that it would not stimulate inflation." Should such devices be prohibited, the accumulation of funds through saving will fall far short of industrial requirements, the study notes (the Board's March 12 study, forwarded with despatch No. 238, took a more optimistic view regarding the possibility of increased savings), and the effect will therefore be not stabilization but deflation.

The study paints an exceedingly black picture of the tight money market to result "in case the extension of credit is restrained in addition to the true balance of the consolidated budget." Total supply of capital, it is stated, will amount to 325 billion yen in 1949, in comparison with 450 billion yen in 1948 (presumably both figures are computed on the basis of current price levels). "Equipment funds," as distinguished from "working capital," will total only 135 billion yen as against a demand for 190 billion yen. The report therefore concludes that the attainment of production targets for coal, iron and steel becomes "hardly possible" without sacrificing production in other industries.

It may be noted that the Board's fears of a stringent money market are apparently borne out by available statistics for early 1949. The Bank of Japan's Monthly Economic Report for February, 1949, shows that deposits in all banks (excluding interbank deposits) decreased by ¥2,431 million in January and increased by only ¥6,050 million yen in February as compared with an increase of ¥27,550 million in November and ¥68,491 in December, 1948. Similarly, total loans decreased in January, and increased in February by a sum equal to only about 40 percent of the September-December average. The decrease in loans, however, can be attributed to the deflationary effects of the Nine-Point Program only if it is assumed that banks refused to extend loans in anticipation of credit restrictions; while the decrease in savings may be partly attributed to tax collections and to delays in Government payments. Moreover, the gloomy picture painted by the Board does not take into account direct Government investment of American aid counterpart funds, which, according to the usually reliable Nihon Keizai Shimbun, are now contemplated to the extent of 80 billion yen, a point, however, on which no final decision has yet been made by SCAP.

The March 9 study concludes that "in case stabilization measures are directly enforced," capital accumulation will decline, the attainment of a self-sustaining economy will be retarded, and stabilization will be "only of an unstable nature." The Board recommends that capital be allowed to accumulate "with the gradual elimination of inflation;" that import subsidies be retained and prices realigned to favor producers' goods; that the surplus in the "Foreign Trade Special Account" (now incorporated into the Counterpart Fund) be used for long-term investment; and that financial controls be tightened.

It may be concluded without injustice, however, that the compilers of the report avoid a direct statement of its real aims and conclusions. The burden of the argument throughout the study is that a tight money market should be avoided, and that credit restrictions should not accompany a balanced budget. It has been widely suggested in the press that Bank of Japan's currency and credit policy will be

relaxed

RESTRICTED

Tokyo's Despatch No. 271,
April 30, 1949.

- 3 -

relaxed at the instance of the Economic Stabilization Board, the Bank representing the last possible source of currency and credit expansion with the drying up of Government deficits and Reconstruction Finance Bank debentures. The Nihon Keizai Shimbun and the Kogyo Shimbun have further reported that the Bank of Japan's basic policy differences with the Yoshida Government will possibly force the resignation of ICHIMADA Hisato, Governor of that Bank, who is said to favor rigid credit controls and to oppose use of the Bank as vehicle for inflation.

Although the March 9 study carefully records its approval of the principle of balanced public finance, it is clear from earlier memoranda forwarded with despatch No. 238, as well as from certain passages in the instant study, that the Board is not happy with the Dodge budget. Thus the "Analysis of Current Economic Situation of Japan," forwarded with despatch No. 238, dwelt at some length on the difficulties of public finance, and concluded that "there lie many difficulties in the way of achieving the real balance of public finance which is apt to run into deficit." The current study, moreover, describes the disastrous effects to be expected not only from credit restrictions but also from curtailment of Government expenditures. If the Communications Ministry or the Transportation Ministry reduces its expenditures, the study notes, "ripples will extend throughout the national economy, which while interfering with one another will enlarge themselves in their successive stages."

It is therefore not unreasonable to conclude that, perhaps for political reasons, the Economic Stabilization Board hopes for relaxation of the Dodge budget. It would perhaps be unjust to state as did the Socialist newsletter Seikai Joho recently, that the Yoshida Government intends to run through the present budget and force supplementary appropriations -- in any case SCAP supervision should preclude such a development -- but the Economic Stabilization Board has already pressed the Dodge Mission for revision of the Counterpart Fund and of import subsidies to compensate for the setting of a higher exchange rate than had been expected. Whatever the Government's motives in making these suggestions, the need for careful supervision over public finance is clear.

Respectfully yours,

W. J. Sebald
W. J. Sebald

Enclosures: *att* *In Bulky file*

1. Five copies of "Stabilization and Reconstruction"
2. Fives copies of "Outline of Over-all Measures"

Parchment Mat to the Department

500
EGSeidensticker Jr.:lee

RESTRICTED

8/13/13

DIVISION OF
NORTHEAST ASIAN AFFAIRS

JUN - 2 1949

DEPARTMENT OF STATE

ACTION
is assigned to

[Handwritten initials]

[Handwritten initials]

[Handwritten initials]

No. 45 to Department.

Action Assigned to *[Handwritten initials]*

Action Taken *no action*

AMERICAN CONSULATE
Kunming, Yunnan, China, May 5, 1949.

Date of Action UNCLASSIFIED

Action Office Symbol *[Handwritten initials]*

Name of Officer *[Handwritten initials]* - Subject: "News Article" on American Economic Policy in Japan.

FE

FR

DC/R

POS

OLI

ITP

OFD

EUR/X

U/7aa

ECA

Com

The Honorable
The Secretary of State,
Washington.

OFFICIAL RECORD COPY
Return to DC/R Files
when ACTION is completed.

[Circular stamp: DIVISION OF CHINESE AFFAIRS, JUN 1 1949, DEPARTMENT OF STATE]

Sir:

I have the honor to enclose the translation of a "news article" purporting to describe the economic policy of the United States in Japan. This article was published in the "Cheng Yi Pao" (Justice Daily) on May 3, 1949. As noted in my despatches nos. 43 and 44 of May 3 and May 5, 1949 the editorial policy of this paper, formerly the most objective and reliable in Kunming, has within the past two weeks changed completely, adopting a strongly anti-American tone and spouting Marxist dogma.

894.50/5-549

Respectfully yours,

[Handwritten signature: LaRue R. Lutkins]

LaRue R. Lutkins
American Vice Consul

4 RECEIVED
DEPARTMENT OF STATE

MAY 31 1949

DC/R
RECORDS BRANCH

Original and hectograph to Department.
Copy to Office of Embassy, Canton.
Copy to USIS, Canton.

350

LRLutkins/hsu

UNCLASSIFIED

JUN 15 1949

STIPED

DMR

APR 13 1948

Tokyo - The economic pillar of American support of Japanese militarism - the Japanese armaments industry plan - is now in full swing. According to information received here, the Hoffman Group which visited Japan in December of last year advocated the reestablishment and expansion of the Japanese iron and steel industry; 11 million tons of steel, 6 million tons of cast iron, and 12 million tons of rolled steel were set as the production goals to be achieved by 1955. Such an objective far exceeds Japan's normal economic needs and is even greatly in excess of the highest level of iron and steel production attained by Japan in wartime. Two-thirds of the scrap iron required by Japan's iron and steel industry will be supplied by the United States. Moreover, all Japanese manufacturing industries which are closely related to armament industries, such as ball-bearings, sulfur, etc., are to be revived with the support of American monopoly capital.

At the same time the various huge American monopolies, which even in the pre-war period had developed close ties with the Japanese Zaibatsu, have now come to control the capital of the Zaibatsu. Many international patent agreements have been signed between American monopolies and the large Zaibatsu companies. Westinghouse, Socony, etc. have acquired more than half of the shares of the Mitsubishi Company. The General Electric Company owns 45 percent of the Mitsui shares. 35 percent of the shares of the Juyu Electrical and Chemical Company are held by the International Telephone and Telegraph Company. The American Lead Company controls over half of the shares of the Japanese Chemical Company, Ltd. The Japanese automotive industry is subject to an even greater extent to the control of the Ford Company and the General Motors Corporation. The Socony Oil Company is monopolizing the supply of gasoline and the petroleum refining industry in Japan.

General MacArthur, the executor of America's policy of supporting Japan, requested in a recent report to the United States Government that the committee responsible for the liquidation of the various companies of the Zaibatsu be dissolved, that the removal of the various enterprises of the Japanese armaments industry be halted, and that the payment of reparations be stopped. MacArthur was firmly of the opinion that the United States should take unilateral action to solve these problems without awaiting the decisions of the Far Eastern Commission. In his report MacArthur emphasized the necessity for American monopoly capital directly undertaking the revival of the Japanese armaments industry.

Tokyo's A-109,
May 6, 1949.

- 2 -

Tanro, conservative labor union strongest in Kyushu, had informally indicated to him that wage cuts appeared inevitable but that officials of Zen Sekitan, Communist-dominated labor union of Hokkaido which insisting on merger with Tanro, vigorously opposed acceptance wage cuts. Hepler expressed opinion that it might be necessary to let coal miners strike for few days in order "save face" and that they would eventually be obliged to accept lower wages as part of overall coal mining rationalization scheme.

3. Progress Made on ESS Allocations Board. At May 2 ESS staff meeting General Marquat approved in principle plan drafted in ESS for establishment ESS allocations board. Purposes are to have one board with which Japanese may deal instead of their dealing separately with various ESS divisions; ensure more thorough follow-up on use of raw materials imported under SCAP auspices primarily for manufacture export goods; greater coordination among ESS divisions on proposals for purchase of materials. General Marquat initially expressed opinion plan as drafted went too far and that prerogatives of division chiefs endangered. Later on in meeting he said that plan could be put into effect with minor modifications.

4. New Shipbuilding Contracts. General Marquat at same meeting mentioned that ESS had just concluded contracts with foreign buyers for construction of 10 vessels. Without giving details he commented that this development was "very pleasing."

5. Fischer-Tropsch Plants Not to Be Demolished. Although recommended by Pope Chemical Mission that all Fischer-Tropsch synthetic fuel plants in Japan be demolished (this Mission's despatch No. 260 dated April 27, 1949), General Marquat stated at May 2 meeting that such plants would, for time being, be used to maximum extent possible for various purposes, especially chemical production.

6. Consumer Price Index Up Only 0.4 Percent. At May 2 ESS staff meeting, Mr. F. L. WHITTINGTON, Chief, Price and Distribution Division, commented on effect on domestic price structure of action taken April 1 to take vegetables off list of rationed foodstuffs. He said prices for vegetables rose slightly but levelled off soon after, with general consumer price index for April being 0.4 percent above corresponding March index.

CONFIDENTIAL

Tokyo's A-109,
May 6, 1949.

- 3 -

7. State, Commerce and Army Mission to Japan. At April 25 and May 2 ESS staff meetings, General Marquat mentioned possibility of special economic mission being despatched to Japan by Departments of State, Commerce and Army. According to statements made May 2 by General Marquat, this mission would interest itself primarily in question of reducing or eliminating "red tape" from present foreign exchange and trade controls.

8. Controller for ESS Recommended. General Marquat May 2 expressed opinion ESS must have its own controller or else face possibility that Far Eastern Commission would appoint controller for it. He added that FEC controller, if appointed, would find plenty to do in this Headquarters in directions other than those covered by ESS.

9. Shipping Conference Under Attack. Far Eastern Freight Conference and its members, including several American steamship lines, have been ordered by Japanese Fair Trade Commission to appear before it on May 20 to show cause why Conference should not be dissolved and why present Conference contract system should not be declared illegal under Japanese Anti-Monopoly Law. Officer this Mission has had several conversations with American lawyer retained by Conference and with Mr. Carl GABRIELSON, Vice President for Far East, American President Lines. Subject being covered by despatch now under preparation. Although above named Conference only named in suit, Trans-Pacific and Japan-Atlantic Coast Freight Conferences also vitally interested.

10. Travel Abroad of Japanese Technicians. Draft memorandum to heads of foreign missions here regarding travel abroad of Japanese technicians (see A-52 of March 7, 1949) undergoing final revision in General Headquarters, SCAP. Will probably provide that technicians, which term includes everyone with exportable skills except common labor, may go abroad unless loss of services of technicians would injure Japanese economy or would contribute unreasonably to development of industries in competition with peculiarly Japanese industries. Latter provision designed specifically to cover sericulture. SCAP also prepared refuse travel for any technician whose activities abroad likely to prejudice aims of Occupation. Financial details not yet worked out, but understood ESS desirous entrusting administration of payments under program to newly established Japanese Foreign Exchange Board.

CONFIDENTIAL

Tokyo's A-109,
May 6, 1949.

- 4 -

11. Proposal for Use of SCAJAP Ship for German Trade. Dr. Robert SIEBURTH, representative of Under Secretary of Army and interested in Japan-Trizone trade (see previous recent airgrams in this series), has suggested to officials concerned in this Headquarters that, as entering wedge for extension of SCAJAP shipping, one Japanese ship be put on Japan-Bremen run. No SCAJAP ship has yet gone as far as Mediterranean area. ESS apparently interested but has not yet reached decision. This Mission of opinion that, if extension SCAJAP shipping desired, less conspicuous and probably less controversial run could be inaugurated.

12. Belgian Financial Arrangement Under Consideration. Officials of National Bank of Belgium and Bank of Belgian Congo now in Tokyo negotiating financial arrangement. Earlier proposal (our despatch No. 96 of February 14, 1949) will be considerably modified because of Belgian reluctance set up special escrow dollar accounts. Belgians also unwilling negotiate trade and commodity arrangement, preferring have only currency controls, with some assurance trade will be balanced. SCAP representatives have suggested that arrangement similar to that drawn up with Uruguay (never finalized) would appear to offer proper solution but conclusion not yet reached. Documents, including copy of SCAP-Uruguayan arrangement, being submitted with despatch.

13. Swiss Disturbed Over Trade Balance. Swiss Mission here has protested, in note to General Headquarters, against unfavorable balance in Swiss-Japan trade and has requested review of trade with possibility of assurance that SCAP will attempt to stimulate purchases from Switzerland.

HUSTON

500
CHBoehringer/EGSeidensticker, Jr.:rc

CONFIDENTIAL

FORM DS-323
7-18-46

OUTGOING AIRGRAM

CLASSIFICATION

Department of State

CONFIDENTIAL

NO. _____

Washington,

CONFIDENTIAL

2445

2445

USPOLAD,

TOKYO.

A-103, June 21, 1949

Reference your A-109 of May 6, 1949, with particular reference to Item 9 regarding action by Japanese Fair Trade Commission against Far Eastern Freight Conference.

The despatch referred to in the subject airgram has not yet been received. Information has been received from a Washington source, however, that the hearings have been postponed indefinitely. Department desires all available information regarding the indictment, reasons leading to postponement of hearings, present status, and any other pertinent developments.

894.50/5-649

Webb
WEBB

ACTING

(RCD)

894.50/5-649

DISTRIBUTION
DESIRED
(OFFICES ONLY)

DOB - ITP Unit

CONFIDENTIAL

WSD
WSD
W

set

CR CLEARANCE

ITP:IR:SESmigel:fsb 6/16/49

Clearance:

TRC/S NA

[Handwritten signatures]

894.50/5-649
OS/H

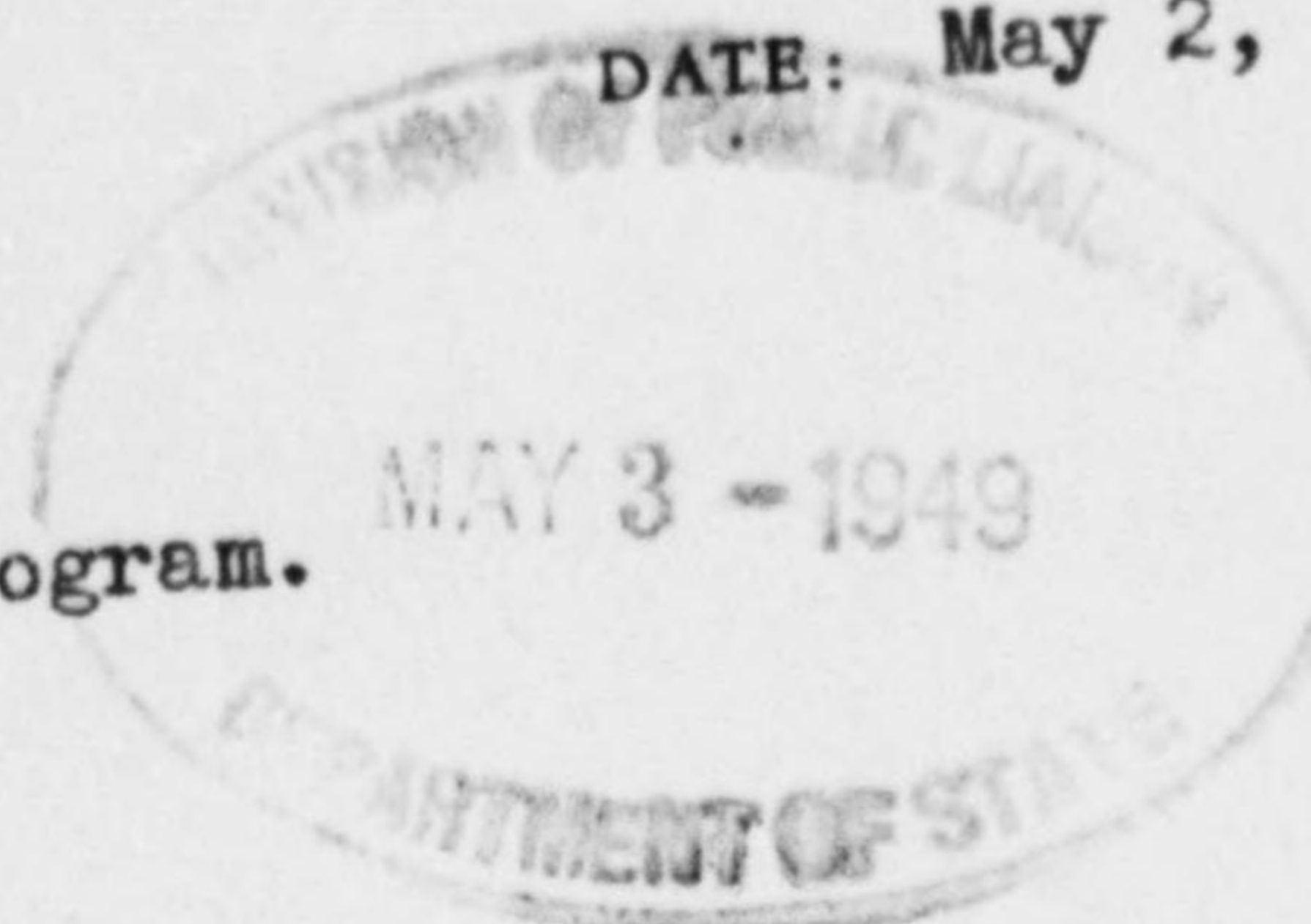
CR
JUN 20 1949 P.M.

STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

TO : PL - Mrs. Carter
 FROM : PL - Mr. Crosby *Bke*
 SUBJECT: Report on the Japanese Recovery Program.

DATE: May 2, 1949



Attached is the documentation which you sent me some weeks ago asking for my views as to whether or not it should be reproduced. I called Boyd Crawford of the House Foreign Affairs Committee and asked him if his committee planned to release this document. He told me that he did not know but that he would call me in a few days. Very shortly after my call to Crawford Sol Bloom died. Crawford told me he would have to wait until later before deciding on this question. Since I had not heard from the House Foreign Affairs Committee, I ~~was~~ called them last week and was told that ^{they} ~~it~~ did not plan to put this report in print unless the Department did not do it. Mr. Hunsberger, DRF, will follow our recommendations unless the work entailed in making last years figures current is too great.

I recommend that we go ahead with this project if that is in accordance with PB's new publication program. We certainly need more information on the economic situation in Japan. The hearings for the economic recovery appropriation for Japan have not yet been held but I doubt if it would be possible to have this report reproduced in time to be of any help to those who will testify.

| |
|-----------------|
| RM/R |
| Anal. <i>AB</i> |
| Rev. <i>AB</i> |
| Cat. |

64-5/5-1349

INCOMING AIRGRAM

DEPARTMENT OF STATE

DIVISION OF COMMUNICATIONS AND RECORDS

TELEGRAPH BRANCH

MAY 23 1949



Action Assigned to AA

Action Taken _____

Date of Action _____

Action Office Symbol _____

Name of Officer _____

Direction to DC/R _____

The Secretary of State,

Washington.

A-117, May 13, 1949

1. Shoup Tax Mission Begins Work. Dr. Carl S. SHOUP, head of Department of Army special mission to survey Japan's taxation laws, arrived here May 10. Dr. Shoup, professor of taxation at Columbia University, also president of (U. S.) National Tax Association, special tax adviser to U. S. Treasury Department, and author of numerous books on tax laws and finance. He accompanied by William S. VICKERY, professor of tax law at Columbia, and Rolland F. WATFIELD of Minnesota Tax Department. Dr. Jerome B. COHEN of College of City of New York arrived several weeks ago to set up preparatory work for Shoup Mission; three more members of Mission due here latter part May or early June. Arrival of Dr. Shoup featured by issuance few days before of SCAP directive to Japanese Government calling for reorganization its national tax administration (copy being forwarded by despatch), which directive was prepared by Mr. L. Harold MOSS, Chief, Internal Revenue Division, Economic and Scientific Section (ESS), General Headquarters, SCAP. Moss, with previous experience in tax matters in Korea and here about one year, has carefully laid ground work for Shoup Mission. He is Treasury Department tax expert on temporary detail to Department of Army and has been doing excellent work in setting up Internal Revenue Division in ESS, in following through on tax collections, and in recommending to Department of Army sending of such high-level tax mission as apparently represented by Shoup Mission. Appears safe to say that further important changes in Japanese tax administration and tax laws imminent, in line with second point in Nine Point Economic Stabilization Program (see this Mission's despatch No. 245 of April 21, 1949, concerning implementation of that Program).

2. Chamber of Commerce Report on Business Investments. Reference made to this Mission's despatch No. 290 dated May 7, 1949.

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

CONFIDENTIAL

There is much in this that needs study, explanation and careful scrutiny. ~~MB~~ → RAF
→ NH
→ HM

File DCR

894.50/5-1349

CSA

14 1952

LEAD

1
Z
ACTION: FE
INFO
DC/R
E
ITP
OPD
OLI

Tokyo's A-117,
May 13, 1949

- 2 -

transmitting copy of report of sub-committee on business investments of Fair Trade Practices Committee, American Chamber of Commerce in Japan. Local United Press correspondent, who received advance copy of report as member of Chamber, gave summary thereof in press article published in Nippon Times, Tokyo, on May 10. On same day report discussed in regular Chamber biweekly meeting and decision as to possible reference thereof to SCAP postponed pending further discussion. As UP article possibly published in U.S., believe Department will be interested to note that information contained therein, while generally correct, does not represent final views of Chamber. Report itself, written seven or eight months ago, obviously needs revision to take account of developments here since then.

3. Deconcentration Review Board (DRB) Finishing Work. DRB presently studying last cases before it for consideration under Deconcentration Act, including cases of power generating and distributing companies. Mr. Roy S. CAMPBELL, Chairman of DRB, leaving for US within next two weeks. Remaining members of Board, with exception Mr. Walter HUTCHINSON, following shortly thereafter. Latter, reliably reported, intends remain Japan and practice law after Board has completed its work.

4. ESS Proposals for Japanese Government Reorganization Rejected. Reference made to this Mission's despatch No. 250 of April 22, 1949, entitled "Possible Jeopardization of Occupation Objectives by Plan for Japanese Government Reorganization." Now reliably informed that recommendations for screening by General Headquarters, SCAP, of Japanese Government's plan for personnel retrenchment, as proposed by ESS in memorandum dated April 16, 1949, sent to Chief of Staff (copy transmitted with reference despatch), rejected by Chief of Staff. According press accounts, bills for reorganization introduced into current session of Diet, with opportunity interested SCAP Sections to present their views if objections raised over excessive reduction of personnel in agencies whose work of direct importance to Occupation.

5. American-Japanese Arbitration Committee. Premature press report issued about 10 days ago by Japanese side interested in setting up American-Japanese arbitration committee. According to Mr. Bruce MITCHISON, American lawyer and concerned member in American Chamber of Commerce in Japan, plans for setting up committee proceeding smoothly but impossible state now when public announcement thereof will be made. He promised supply this Mission with full details of

CONFIDENTIAL

↓
RAF
What's
this?
AmB

Tokyo's A-117,
May 13, 1949

- 3 -

suggested agreement, including arbitration clause to be used in all contracts between American and Japanese traders.

6. Correction regarding Consumer Price Index. Re item 6, A-109, May 6, at May 9 ESS staff meeting, attended by officer this Mission, Mr. F. L. WHITTINGTON, Chief, Price and Distribution Division, stated that increase in general consumer price index of 0.4 per cent represented advance of March index over February with expectation that corresponding index for April would show somewhat greater increase over March.

7. More about State, Commerce and Army Mission to Japan. Re item 7, A-109, May 6, at May 9 ESS staff meeting, Major General W. F. MARQUAT, Chief, ESS, stated that question of sending to Japan "high-powered board" to be comprised of State, Commerce and Army representatives had been cleared with Chief of Staff, GHQ, SCAP. General Marquat reiterated what he has said previously to effect primary concern of this board would be simplification of trade procedures, need being felt for revision all trade forms and contracts. He added board would probably also support ESS recommendation for elimination of Boeki Cho (Board of Trade), with its functions to be transferred to new Ministry of International Trade now being established. General Marquat added that Boeki Cho officials indulging in too many irregular outside deals, many with foreign traders, against which criticisms raised by those foreign traders who not inclined make special undercover deals.

8. Effect of New Rate on Exports. At May 9 ESS meeting, General Marquat asked several division chiefs to comment on effect of new 360-1 exchange rate, made effective April 25, on exports. Mr. R. W. HALE, Acting Chief, Foreign Trade and Commerce Division, stated that Japanese steel manufacturers were reluctant to sell for export at new rate. General Marquat thereupon asked about the present trade position for textiles. Mr. F. A. WILLIAMS, Chief, Textiles Division, stated that he didn't see how it would be possible to sell more Japanese textiles than was now the case. General Marquat concluded discussion on this point by stating that "Japan will probably take the rap" owing to increased competition on part American exporters and possibly also importers.

9. Ministry of International Trade to Set up Licensing System. At May 9 ESS meeting, Lt. Col. W. T. RYDER, Deputy Chief for Operations,

CONFIDENTIAL

Tokyo's A-117,
May 13, 1949.

- 4 -

announced that the Ministry of International Trade, now being established, would be expected to set up import control licensing system with Foreign Exchange Control Board to handle details of program and with banks instructed as to procedures. Colonel Ryder stated that Japanese Government must compile annual program to handle financial aspects of import trade, with details to be passed on by ESS to that Government. He added that ESS expected Japanese to put revised licensing system into effect either as of July 1 or September 1.

10. Japanese to be Permitted to Register Patents Abroad. Colonel Ryder also stated that Scientific and Technical Division, GHQ, SCAP, now processing SCAPIN to permit Japanese nationals to register patents in foreign countries. He added that no directive of Far Eastern Commission involved, and that "Washington" had been notified and had raised no objection.

11. Private Employment of Ex-Occupation Personnel. Colonel Ryder referred to Department of Army Special Regulations No. 600-875-1 dated March 31, 1949, entitled "Personnel: Representative Activities of Former Departmental Personnel". He devoted attention especially to paragraph stating that "no former departmental officer (military or civilian), clerk, or employee will be allowed to appear in a representative capacity before the Department of the Army or any of its agencies or subdivisions within 2 years after termination of his incumbency of such position, unless he obtains prior approval from The Assistant Secretary of the Army in each matter." Matter of considerable importance here, with ex-Occupation personnel now engaged in business in Japan. Colonel Ryder concluded by stating SCAP's policy regarding interpretation of these regulations had definitely not yet "firmed up".

12. Trade with Germany. Dr. Robert SIEBURTH, representative of Assistant Secretary of Army and in Tokyo on SCAP-Trizonia trade, strongly advocating that Japan purchase machine parts and other finished metal products from Germany. Possibly because of Dr. Sieburth's position, he appears to have support of certain high ESS officials despite view of ESS foreign trade officials that Japan cannot afford to expend dollars on such products. Latter would prefer to purchase from Trizonia raw materials, chemicals, and pig iron, but will probably be overruled. Parties concerned in SCAP-Trizonia trade talks have been slow in reaching agreement

CONFIDENTIAL

Tokyo's A-117,
May 13, 1949.

- 5 -

agreement, and overall telegram to Department of Army regarding trade with Germany still in process of being drawn up. Meanwhile, Dr. Sisurth continues his reconnaissance among Japanese business leaders.

13. Japanese to Participate in Future Trade Negotiations. ESS will shortly adopt policy allowing Japanese negotiators to participate in trade negotiations, it is reliably reported. Hitherto, Japanese admitted only as observers, and then only rarely, as in case recent SCAP-French Union talks. Understand that, although negotiations will remain under control of SCAP officials, Japanese in question will be considered participating conferees, subject of course to concurrence of second party to negotiations. Belgians, to whom plan outlined as sort of trial balloon, immediately launched into discourse on Japan's position as enemy nation, with reference to recent attacks in Far Eastern Commission on status of Japanese trade missions. Appears likely, therefore, that new program will get underway only with difficulty.

14. India Dissatisfied with Position under Sterling Area Agreement. According statements made by Acting Chief, ESS Foreign Trade and Commerce Division, to officer this Mission, India may shortly withdraw from Sterling Area Trade Agreement on grounds that Indian interests not properly attended to. Having bought considerably more than originally planned under arrangement, and not having sold correspondingly large amounts to Japan, Indians apparently convinced their interests better served by individual agreement with Japan. Question still in rumor stage, however, and some other SCAP officials have suggested that Indians bringing up threat of withdrawal in hopes stimulating Japanese purchases. In any case, seems unlikely they will take any action before next Sterling Area trade talks scheduled to begin July 15.

HUSTON

CHBoehringer/ESSeidensticker, Jr.:rc
500

CONFIDENTIAL

file 6287 DC/R
RAF

1
A
ACTION:
INFO
DC/R
EUR
E
ITP
OFL
OIA

FE

~~CONFIDENTIAL~~

Action Assigned to ~~AAA~~

FROM: USPOLAD, Tokyo
Date of mailing: May 21, 1949

Action Taken ----- Date rec'd: May 31, 1949, 3:27 pm

~~FOR DEPARTMENT USE ONLY~~

Date of Action -----
Secretary of State, -----
Action Office Symbol -----
Washington, -----
Name of Officer -----

Office of
FAR EASTERN AFFAIRS
JUN 2 1949
DIVISION OF
NORTHEAST ASIAN AFFAIRS
Department

JUN 2 1949
WMB

4-122, May 1949 Direction to DC/R -----

(This airgram supplements this Mission's A-117, May 1949, and earlier airgrams in this series. Request distribution be limited to Department for reasons stated in A-21 of January 28, 1949.)

1. McEVON to Speak at San Francisco. Dennis McEVON, President of American Chamber of Commerce in Japan, scheduled leave Tokyo May 21 for six-week visit to United States. He plans to deliver "Japan Day" address at San Francisco during that city's observance of World Trade Week, May 22-28. McEvoy stated to officer this Mission that he would be complimentary in remarks concerning General MacARTHUR and other key SCAP officials who have been sympathetic and helpful with respect to Chamber's recommendations for liberalized trade and investment opportunities in Japan. However, McEvoy added, he will point to matters concerning which action yet required. As McEvoy's remarks will undoubtedly receive considerable publicity, attempt being made to obtain copy full text of his speech for transmittal to Department.

2. ESS and Office of Comptroller. Reference made to this Mission's despatch No. 318, May 17, 1949, "Establishment of Office of Comptroller in GHQ, SCAP, and in GHQ, Far East Command." As previously indicated (item 8, A-109, May 6), Economic and Scientific Section (ESS), GHQ, SCAP, thinking of having its own comptroller. Asked regarding scope of operations of newly established Office of Comptroller in GHQ, SCAP, and GHQ, Far East Command, with specific reference to ESS financial operations, Mr. M. H. HALFF, Executive Deputy Chief for Operations, ESS, stated to officer this Mission that Major General W. F. MARQUAT, Chief, ESS, had "understanding" with General MacArthur on that point. He said that Office of

~~CONFIDENTIAL~~

894.50/5-2049

JUN 13 1949

FILED

A-122,
May 20, 1949.

- 2 -

Comptroller would not interfere with ESS supervision of Japanese budget matters, taxation, and allied subject. However, he added, that Office would be interested in Japanese Government's disbursements for Occupation requirements and would also be directly interested in formulation of broad policies and procedures for financial aspects, including disbursement, of all U. S. Government appropriated funds.

3. Hutchinson to Return to U.S. In item 3, A-117, May 13, statement made that Mr. Walter HUTCHINSON, member of Deconcentration Review Board, intends to remain in Japan to practice law after Board winds up its affairs near future. This statement in error, Hutchinson reliably reported returning to U.S. to practice law, specializing in international cases and hoping have correspondent law firms in Japan and Philippines.

4. SCAP Trade Mission to South Africa. General Headquarters, SCAP, sending ESS-prepared telegram to Embassy, Pretoria, asking whether South African Government willing receive SCAP trade mission which ESS proposes send in June. Mission, to include one SCAP foreign trade expert and two Japanese textile specialists, will be prepared, inter alia, to discuss SCAP purchases of South African wool and sale Japanese textiles to South Africa.

5. All Exports to Hong Kong Being Screened. Mr. Russell W. HALE, Acting Chief, ESS Foreign Trade and Commerce Division, stated May 19 to officer this Mission that ESS has now adopted policy of screening all trade contracts involving exports from Japan to Hong Kong. Hale said this procedure necessitated by increased interest for Japanese goods displayed by Hong Kong firms, some of which firms obviously interested in trade with Communist China, North Korea and USSR. Objective sought to prevent movement of strategic items from Japan to areas within Soviet orbit.

6. Soviet Trade representatives Unexpectedly Cooperative. Colonel Ralph J. MITCHELL, ESS Foreign Trade and Commerce Division official in charge of SCAP-USSR trade, stated to officer this Mission that Soviet trade representatives here, with whom many fruitless and acrimonious discussions previously held with respect to SCAP's demand that USSR stop shipping sub-standard coal to Japan under existing barter trade plan, have lately manifested cooperative spirit. Soviets have agreed to make adjustment for coal

CONFIDENTIAL

Tokyo's A-122,
May 20, 1949.

- 3 -

already shipped and to start sending coal of quality specified in original agreement. Colonel Mitchell, who hinted broadly that he believed analyses of coal made by Boeki Cho (Board of Trade) purposely falsified to favor Soviets, insisted that Soviets accept analyses made by ESS experts. USSR trade representatives also agreed to this demand. Their changed attitude, Colonel Mitchell pointed out, positively suspicious but may be caused by Moscow directive, in line with lifting Berlin blockade, to ease up in "cold war". Department may be interested in noting that chief Soviet trade representative here is A. A. GHONOV who came to Japan from New York when Kosenkina case resulted in closing Soviet Consulate General there.

7. Trade Talks with Finnish Representative. ESS Foreign Trade and Commerce Division officials have begun negotiations with Mr. Rafael SEPPALA, Finnish Consul General in New York, relative to conclusion of trade and financial arrangements. Finns prepared export to Japan pulps and paper and hope to import wide range of Japanese products, including three cargo vessels. Mr. Seppala pointed out Finns in all probability willing buy Japanese-made ships even at high dollar prices resulting from new exchange rate, in view relatively early Japanese delivery and difficult problem of payments in western Europe. Finns also hope import drugs, textiles, brushes, sponges, bamboo, fish and vegetable oils, thermometers, celluloid, and metal strips for use in tubes. Imports, however, will depend on magnitude of exports to Japan since balanced trade contemplated. Financial arrangements not yet definite but will probably not involve controls so rigid as those governing trade with Sweden (see this Mission's despatch No. 715 of November 8, 1948).

8. Tokyo Shibaura Case Still Pending. Rumored in Japanese press that final order for deconcentration of Tokyo Shibaura Electric Company (see despatch No. 216 of April 12, 1949) expected mid-June. Responsible SCAP officials state, however, that no action likely pending completion hearings now being held before committee of House of Representatives, and that no indication received from Holding Company Liquidation Commission concerning date for final order. Diet hearings interesting because representatives of both Democratic Liberal and Communist parties have pointed out similarity of deconcentration plan to company's rationalization

CONFIDENTIAL

Tokyo's A-122,
May 20, 1949

- 4 -

plan, they questioning advisability of taking action along rationalization lines under Deconcentration Law. Interested SCAP officials have stated to officer this Mission that hearings will probably have little effect on final order, but that Tokyo Shibaura labor union, as interested party, opposing deconcentration plan and will probably appeal to Prime Minister and possibly to courts. In latter regard, Legal Section of General Headquarters, SCAP, has expressed itself as doubtful of right to take court action in view fact that order previously approved by SCAP agency; recourse to courts is specifically provided in Law, however, and union would no doubt make propaganda capital out of SCAP's possible denial of such recourse.

HUSTON

CHBoehringer/EGSeidensticker, Jr.:rc
500

CONFIDENTIAL



THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

[Handwritten initials]

Office of the U. S. Political Adviser
For Japan
DIVISION OF
NORTHEAST ASIAN AFFAIRS
May 26, 1949.

JUN 20 1949

No. 344

DEPARTMENT OF STATE

Action Assigned to NA

Action Taken no action required

Date of Action _____

Action Office Symbol NA

Name of Officer W. Green

Direction to DC/R file

CONFIDENTIAL (Department only)

RECD
JUNE 14

ACTION
FE

INFO
DC/R
OFD
ITP
OLI

Subject: Testimony of Mr. Walter Hutchinson before
Far Eastern Commission.

The Honorable
The Secretary of State,
Washington.

a

Sir:

I have the honor to refer to the Department's airmgram no. 82 of May 13, 1949, and to this Mission's airmgram no. 84 of April 8, 1949, regarding remarks of Mr. Walter HUTCHINSON, member of the Deconcentration Review Board, before the Committee on Economic and Financial Affairs, Far Eastern Commission, on January 19, 1949.

The first paragraph of this Mission's A-84, it will be remembered, stated that the Deconcentration Review Board had taken the position that Mr. Hutchinson's remarks were personal and that he was speaking as an individual rather than as a representative of the Board. So far as this Mission is aware, the Board has neither retracted nor elaborated upon that statement, and it is therefore not possible to report either that the Board has clearly repudiated Mr. Hutchinson's statements, or that it was the Board's "desire.... to repudiate the statements." It should be noted, moreover, that the Board has made no public statement on the matter, and that its position was briefly stated in a one-sentence memorandum to the Chief of the Anti-Trust and Cartels Division, Economic and Scientific Section, General Headquarters. It would therefore perhaps be near the truth to state that, without repudiating Mr. Hutchinson's testimony, the Board has chosen to ignore it as much as possible.

This being the case, it is clearly impossible to produce a satisfactory answer to the Department's query as to the statements which the Board desired to repudiate. It may be of interest to the

Department

CONFIDENTIAL

ACTION COPY

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

JUL 20 1949
FILED

894.50/5-2649

DMR

Tokyo's Despatch No. 344,
May 26, 1949.

- 2 -

Department, however, to point out certain passages in Mr. Hutchinson's remarks which seem to this Mission to be more or less at variance with the facts, or which may be considered misleading in their emphasis.

On page 2 of the appendix to the minutes of the 138th meeting of the Committee on Economic and Financial Affairs, Mr. Hutchinson stated that "the Anti-Trust and Cartels Division of SCAP was following a position that was not consistent with the intent of the statute. They were recommending to HCLC that they arbitrarily designate these companies as excessive concentrations, and provided for no hearings. There was no test made to objectively find out whether or not any given company was an excessive concentration under the definition of the statute."

The implication is, of course, that the method of designation was inconsistent with the Deconcentration Law, and that the Deconcentration Review Board instituted practices more in keeping with that Law. It should be noted, however, that there is no provision in the Law for hearings prior to designation, and, so far as this Mission is aware, the procedure for hearings has in no way been altered since the arrival of the Board. Companies were designated on the basis of standards set up under Articles 3 and 6 of the Deconcentration Law. It would be somewhat difficult to prove that the designations were or were not "objectively" tested according to those standards. No provision is made under the Law for hearings prior to transmittal of the proposed order for reorganization nor have any such hearings been held since the Board assumed its duties. Moreover, the Deconcentration Law was written by the Anti-Trust and Cartels Section, which should therefore be assumed to be acquainted with the Law's intent. Exception may well be taken to the Law itself and to the manner in which it was written, but that would of course involve arguments unrelated to the question raised by Mr. Hutchinson.

Mr. Hutchinson's statement on the same page to the effect that the Board felt impelled to give the company a hearing "in order to determine what facts were in existence showing that the company was an excessive concentration" is open to similar criticism, since the Law required no hearing regarding the designation itself, and since no provisions for hearings have been instituted by the Board in addition to those in effect when the Board arrived. Mr. Hutchinson's quarrel would appear to be with the Law itself, rather than with the manner in which it has been administered.

On page 3, Mr. Hutchinson states that the Board's "Four Principles" in effect "gave to each company the right to have a hearing." So far as we are aware, the "Four Principles" established no such right, nor would a careful reading of them indicate that they were intended to do so.

Mr. Hutchinson states on page 4 that, "if the program had proceeded as it had started out...there would have been pretty close

to

CONFIDENTIAL

Tokyo's Despatch No. 344,
May 26, 1949.

- 3 -

to 300 breakups." It should be noted, however, that only 100 companies were still on the list of designees for reorganization when the Board arrived in Tokyo.

On the same page, Mr. Hutchinson states, without reservation, that "the Zaibatsu had been completely eliminated and destroyed." This is certainly a debatable point; it may be noted in passing that only 30 per cent of the securities confiscated by the Holding Company Liquidation Commission have been sold, and that complete surveillance over the buyers of that 30 per cent has not been possible; that the banks and insurance companies through which the pre-war family combines exercised much of their control have been left intact; and that the personal fortunes of the Zaibatsu families, though under close control, remain sizable. The argument here is not whether measures to counter these facts are possible or desirable, but simply whether or not the Zaibatsu in the commonly accepted sense of that term have been destroyed, and it is the opinion of this Mission that Mr. Hutchinson's statements are much too sweeping. Similar exception may be taken to Mr. Hutchinson's statement on page 16 that "Baron" Mitsui "has lost all."

On page 6, Mr. Hutchinson states that holding companies have been dissolved and divested of securities and property; at the top of the same page, however, he states that they "are being liquidated." The latter statement is the more accurate of the two; none of the larger holding companies have been completely liquidated as yet. While a distinction may be drawn between "dissolution" and "liquidation," it is believed that the first statement creates an impression of more sweeping accomplishment than has actually been the case.

On page 11, Mr. Hutchinson states that more effort has been expended in recent months than before in distributing stocks among employees of the company in question. It is believed that there is little evidence to support this statement. Policy with regard to the disposal of securities has always emphasized sales to employees of the company and to residents of the area in which the company is located.

On page 14, in discussing the question of reorganizing the textile industry, Mr. Hutchinson implies that the fundamental problem in that case was one of protecting the rights of the company, and that the Board stepped in to protect those rights; as the chairman implies in his next question, however, the same questions of property rights were not so overriding in the case of Japan Iron and Steel. The point to be made is that guarantees under the Law were observed in both cases, and the fundamental question was not one of property rights but one of the presence or absence of an economic concentration within the meaning of the Law.

On

CONFIDENTIAL

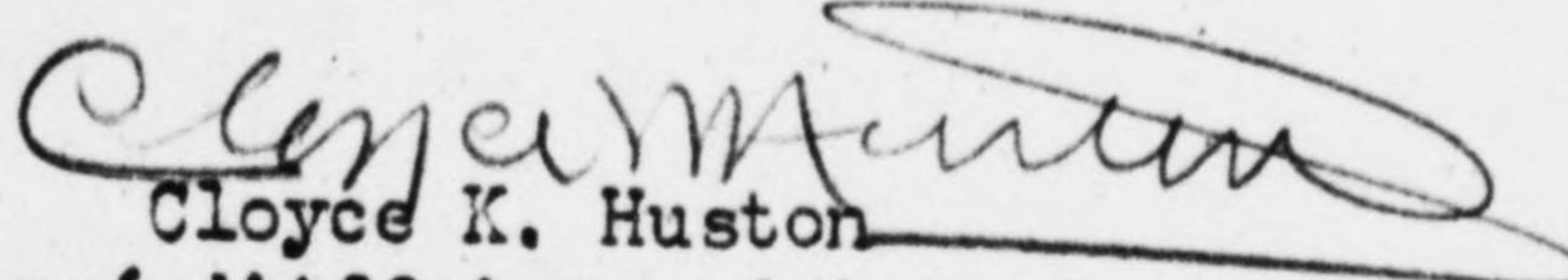
Tokyo's Despatch No. 344,
May 26, 1949.

- 4 -

On pages 20 and 21, Mr. Hutchinson implies, though his testimony is far from clear, that 54 operating companies are being or will be broken up. A better estimate would be from 6 to 10 companies, although the Board has not yet completed its deliberations.

Although, as noted above, the Board has not positively repudiated Mr. Hutchinson's statements, it seems likely in view of the frequent errors included in those statements that the Board could not give them the status of official pronouncements; the Board has in fact refused to do so in its terse memorandum on the private and personal nature of those statements. The Board's refusal to repudiate the statements, on the other hand, may be attributed to the fact that disagreements in high echelons of General Headquarters are rarely given publicity even in official circles. It may be pointed out that for this reason Major General W. F. Marquat, Chief of the Economic and Scientific Section, has refused to forward a rebuttal to either the present F.E.C. minutes or to an earlier report submitted by Mr. Hutchinson to the Department of the Army.

Respectfully yours,


Cloyce K. Huston
Chargé d'Affaires ad interim

Parchment Mat to the Department.

500
EGSeidensticker, Jr.:lee

CONFIDENTIAL

JMB

MWB file D/R

INCOMING AIRGRAM

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

Action Assigned to *NA*
Action Taken *No action*

JUN - 8 1949

AIRCRAF DEPARTMENT OF STATE

1129

Date of Action -----

FROM: USPOLAD, Tokyo

Action Office Symbol -----

Date of mailing: May 28, 1949

Name of Officer -----

Rec'd: June 7, 1949 2:00 p.m.

2
BA
ACTION:
INFO
DC/R
EUR
E
ITP
OFD
OLI

Direction to DC/R *file*

FOR DEPARTMENT USE ONLY

Secretary of State,

Washington.

A-131, May 27, 1949.

(This airgram supplements this Mission's A-122, May 20, 1949, and earlier airgrams in this series. Request distribution be limited to Department for reasons stated in A-21 of January 28, 1949.)

4
32 R's

1. Copy of McEVoy Speech Not Available: Reference is made to item (1), A-122, May 20, regarding "Japan Day" speech to be made at San Francisco during that city's observance of World Trade Week, May 22-28, by Mr. Dennis McEVoy, President of American Chamber of Commerce in Japan. Requested to supply a copy of his speech to officer of this Mission prior to his departure from Tokyo May 21, McEvo stated that he had not yet completed speech. He added, however, that he planned to visit Washington and call upon Department officials concerned with Far Eastern affairs. Suggestion made they request copy of speech from him.

2. Praise for General MARQUAT. May 20 issue of United Press Special Daily Financial & Economic World News Review, released Tokyo on restricted basis, contained following comments on Major General W. F. MARQUAT, Chief, Economic and Scientific Section, General Headquarters, SCAP: "The Army's Tracy S. VOORHEES is coming to Japan soon. He is interested in the economic set-up here....When he gets here he will be presented with a number of plans for removing restrictions on private foreign businessmen....These plans have been drawn up by William F. Marquat, Chief of Economic and Scientific Section.... Every time Marquat gets a chance, he puts forward his ideas for liberalization. Sometimes he makes gains....Sometimes higher officials but his own. But Marquat is always trying....It is known that Marquat wants to work with foreign businessmen in Japan and hear their complaints on the set-

894.50/5-2749

JUN 13 1949

FILED

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

CONFIDENTIAL

Taylor's, 131,
No. 27, 1949.

- 2 -

Marquat's schedule is so full and he is working so hard that he can not see all who apply for appointments....Marquat has a tough job on his hands....He is trying to make Japan as attractive to foreign investors as South America....The big trouble is that Marquat just doesn't have the material to work with....Japan isn't as good potentially....Marquat is telling personal friends that one trouble with the Japanese economy and foreign trade today is that the Japanese haven't adjusted their business to the new exchange rate....Thus, prices still are not competitive on the world market....However, Marquat will not give up....He works night and day and will probably keep at it for some time....Basically, he is in a tough spot....He must try to work things out so they suit foreign businessmen--at the same time he must protect Japanese interests.... Although Marquat will not say so, people who know him well are getting the impression that he feels the Japanese are not giving him all possible cooperation...." Forgoing appears to be factually correct. American businessmen who have talked with General Marquat testify as to his interest in their problems and desire to be of assistance. At recent ESS weekly staff meetings, he has repeatedly pointed out that ESS officials must adopt attitude of being willing to accept advice from businessmen in effort to eliminate or reduce deterrents to business and investment activities.

7R
661.9431 3. Sidelights on Soviet Trade Representatives. Reference made to item (6) in A-122, May 20, concerning current unexpectedly cooperative attitude of local Soviet trade representatives. Colonel Ralph J. MITCHELL, ES Foreign Trade and Commerce Division official in charge of SCAP-USSR Trade, May 24 supplemented information previously given to officer of this Mission regarding these representatives. He stated that Mr. A. A. GROMOV, senior trade representative, invariably suspicious, stiff and non-committal in manner; his meager knowledge of English forces him to depend upon Mr. Nikolai I. AGUSEV, No. 2 trade representative, to serve as interpreter in talks with ESS trade officials. In presence of Gromov, Colonel Mitchell stated, Agusev invariably cowed and equally non-committal. However, when alone, Colonel Mitchell said, Agusev affable and willing to talk. Recently, Agusev assertedly told Colonel Mitchell that Soviet Mission here under pressure expand Japan-USSR trade; Agusev also expressed disgust because "everything must be referred to Moscow," even slightest details of trade talks with SCAP officials. Colonel Mitchell expressed opinion that Soviet Mission interested not only in acquiring Japanese products, especially machinery, vessels, and other items of some strategic importance, but also, as result of contracts for such products, to obtain permission to visit as many plants in Japan as possible in what appears to be renewed concerted

CONFIDENTIAL

Tokyo's A-131,
May 27, 1949.

- 3 -

drive for economic intelligence. Colonel Mitchell said further that he believed Agueev under suspicion by Soviet secret service; last autumn when Agueev and wife left Tokyo for leave in USSR, he was taken off ship at Hokkaido port and returned to Tokyo while his wife proceeded alone to USSR. Officer of this Mission recalls Agueev when he served in Soviet Embassy, Chungking, during 1943-45 as No. 2 Soviet trade representative. Agueev then considered approachable and fairly talkative. Appears strange that Agueev, with more than 20 years' experience in Far East, should still be obliged to serve as assistant to official like Gromov with no known previous Far Eastern experience but probably with better record for regularity in Communist Party than Agueev.

4. Discussions on Japanese Tariffs. At weekly ESS staff meeting May 23 attended by officer of this Mission, General Marquat appointed committee to study question of permitting Japanese authorities to collect import duties on certain categories of products such as tobacco and liquors imported for sale in Overseas Supply Stores (Japanese Government operated) to commercial entrants and other non-Occupation or non-diplomatic personnel. Position taken by General Marquat that Japanese Government should be permitted to realize revenue from this source and that consideration at same time should be given to reactivation of Japanese customs service along progressive lines. Service overshadowed before and during war by numerous other official agencies, many of which still in existence, with overlapping authorities and responsibilities.

5. Travel of Japanese Abroad. Policy statement and directive to Japanese Government regarding travel abroad of Japanese technicians have been drafted and await approval of ESS and Chief of Staff, General Headquarters, SCAP. Significant documents being transmitted to Department by despatch. Regarding this question, it may be noted that Dr. Robert SIEBURTH, representative of the Assistant Secretary of Department of Army, May 26 told Tokyo Chamber of Commerce and Industry that Japanese businessmen will shortly be allowed to travel to Europe. While program for allowing retention by Japanese of proportion of export proceeds for financing agents, commercial representatives, et cetera, has been approved and will be made effective shortly, travel of Japanese to Germany presents special problem. Japanese, always searching for hidden meanings, will probably interpret Dr. Sieburth's statement as promising exchange of commercial representatives between two occupied areas, a subject on which ESS officials feel that any announcement at present would be premature.

694.003
7R
CONFIDENTIAL

Tokyo's A-131,
May 27, 1949.

- 4 -

7R
660d.9431

6. Trade with Finland. Discussions proceeding here between ESS officials and Mr. Rafael SEPPALA, Finnish Consul General, New York City. Now appears that Japan-Finland trade about \$2,000,000 each way for year covered by Trade Plan (probably to begin June 1, 1949). Japan will buy rayon pulp almost exclusively. Finland no longer so interested in buying Japanese-made ships as when talks began, but likely place order for one 2500-ton vessel. Payment will probably be through open account. Mr. Seppala has indicated intention remain Japan until documents completely processed in General Headquarters, in view fact Finland has no diplomatic mission here.

7. Mr. Oliver Arrives for Visit to Ryukyus. Mr. Douglas OLIVER, adviser on Pacific Island areas in Department's Far Eastern Division, arrived Tokyo May 26. Accompanied by officer of this Mission, he called same day on Brig. Gen. John WECKERLING, Chief, Ryukyus Military Government Section, General Headquarters, Far East Command. Arranged fly by MATS to Okinawa June 1; making plans also visit northern and southern Ryukyus. Mr. Oliver spent morning May 27 with General Weckerling and his assistants and states he impressed with caliber of men on Weckerling's small staff.

HUSTON

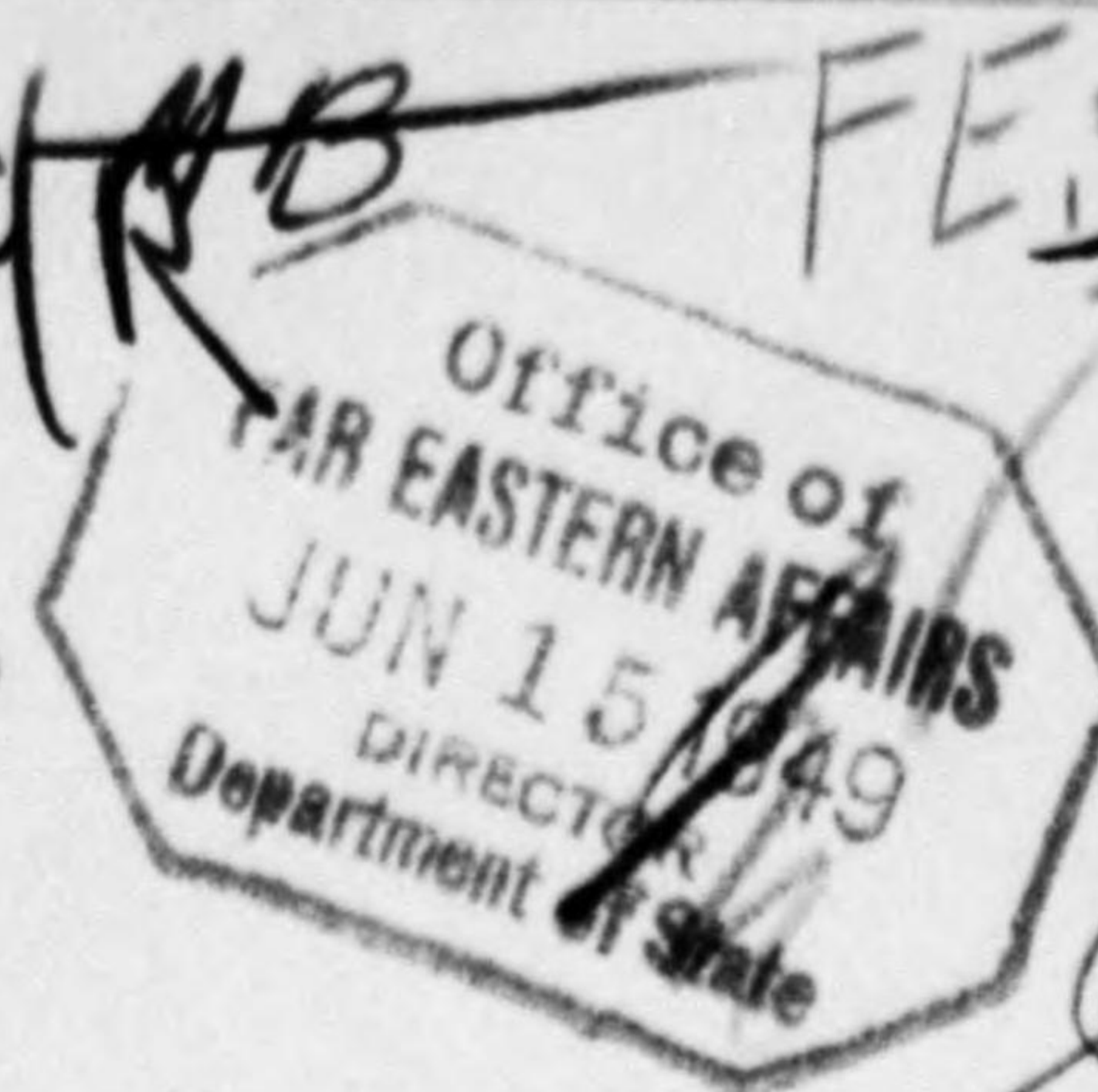
EOO
HDM/CHB/EGS:lee

CONFIDENTIAL

Action Assigned to - *NA*
Action Taken *no action*

DIVISION OF
NORTHEAST ASIAN AFFAIRS

JUN 15 1949



FE
AA
HH
RAT
AA

Date of Action -----
Action Office Symbol -----
Name of Officer -----

AIRGRAM DEPARTMENT OF STATE

FROM: USPOLAD, Tokyo.

Date of mailing: June 4, 1949

Rec'd: June 14, 1949 3:23 p.m.

CONFIDENTIAL Direction to DC/R *file*

2
A
ACTION: FE
INFO
DC/R
EUR
E
ITP
OPD
T
TRC
OLI

FOR DEPARTMENT USE ONLY

Secretary of State,
Washington.

A-137, June 3, 1949.

Here is an example of the vicious circle of reform and enforcement of directive and more directives - so the 'Empire' grows

(This airgram supplements this Mission's A-131, May 27, 1949, and earlier airgrams in this series. Request distribution be limited to Department for reasons stated in A-21 of January 28, 1949.)

1. Operation of Stock Markets Not Ideal. Although volume of securities exchanged on Tokyo stock exchange has increased since slow opening on May 11, responsible officials of Economic and Scientific Section (ESS), General Headquarters, SCAP, not pleased with operating methods exhibited thus far, and concluding that Japanese dealers, reared in bucket-shop tradition, both distrustful and ignorant of regulations instituted under Securities and Exchanges Law. Delay in reporting transactions to purchasers gives evidence that dealers still speculating in futures, while there is little doubt, ESS officials state, that dealers are, in clear violation of law, acting as principal and agent in same transaction. Further pointed out that rumors of stock expansion and investment of foreign capital, which invariably inflate values of stocks in question, are being exploited by dealers, quite possibly in violation of law. Only method of policing exchanges, it is believed, would be to import staff of experienced American securities investigators who would scan reports and exchange dealers' records. Japanese Securities and Exchanges Commission, empowered to perform those functions, is reportedly inexperienced and somewhat reluctant to perform them.

2. Finnish Trade Talks Continue. General outline of Japan-Finland trade gradually becoming clear. Financial arrangement will involve open account with annual clearance. Balance will not be allowed to exceed \$400,000 on either side. Trade arrangement will be standard, except that it will apply to contracts rather than to deliveries during trade period. Question of future review will present

7R
894.5171

2R
660d.9431

894.50/6-349

FILED

HH

Tokyo's 4-137
June 3, 1949.

- 2 -

special problem, since Finland has no official representative in Tokyo, and does not consider volume of trade sufficient to warrant sending special mission to Japan. Since review will contain confidential information, moreover, Finnish representative reluctant to use Swedish diplomatic channels, as would normally be the case, in view fact Sweden and Finland are competitors in large segment of their foreign trade. Solution would appear to be use of United States Government as intermediary to transmit documents and reports either to Finnish Minister, Washington, or to American Minister, Helsinki.

3. Japanese Government Railways to Adopt Accounting System. According to Colonel Harold T. MILLER, Chief, Transportation Section (CTS), General Headquarters, that Section now drawing up complete accounting system for Japanese Government Railways. Although being based on American uniform railway accounting system, which has 786 separate accounts, CTS system will probably have about 400 separate accounts compared with 200 now used by Railways. Heretofore, Railways not required prepare balance sheet to cover operations, they operating as part of Transportation Ministry with revenue, if any, turned over to Japanese Government which in turn expected cover deficits. With adoption new accounting system, probably July 1, 1949, Railways will hereafter be operated as regular business enterprise and required to prepare detailed balance sheets.

4. LOKANATHAN Interested in Travel of Japanese Technicians. Dr. P. S. Lokanathan, Executive Secretary, ECAFE, especially interested in implementation of policy permitting Japanese technicians to be employed abroad (see this Mission's despatch no. 355, June 1, 1949). He has also expressed hope to officer of this Mission during current visit here that GHQ, SCAP, would permit Japanese technicians to attend meetings of ECAFE technical committees, and that SCAP would play more active role in ECAFE work, especially in response to various resolutions passed at ECAFE meeting in Bangkok.

HUSTON

500
DMM/CHB/PJS/lee

CONFIDENTIAL

7R
894.77

7R
894.542
501. BD *over*

INCOMING AIRGRAM

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

*file DC/R as
RAF*

Action Assigned to *NA*
Action Taken *No Action*

Office of
FAR EASTERN AFFAIRS
JUN 17 1949
DIRECTOR
Department of State

Date of Action _____
Action Office Symbol *NA*
Name of Officer *RAF*

AIRGRAM
DIVISION OF
NORTHEAST ASIAN AFFAIRS
JUN 17 1949

2870

USPOLAD, Tokyo

Direction to DC/R *file*

DEPARTMENT OF STATE

Rec'd: June 11, 1949.

Rec'd: June 16, 1949, 3:58 PM

FOR DEPARTMENT USE ONLY

Secretary of State,

Washington.

A-145, June 10, 1949.

(This airgram supplements this Mission's A-137, June 3, 1949, and earlier airgrams in this series. Request distribution be limited to Department for reasons stated in A-21 of January 28, 1949.)

1. Revised Industrial Production Indexes. As yet classified as confidential, Research and Programs Division of Economic and Scientific Section (ESS), General Headquarters, SCAP, has now recalculated Japanese industrial production indexes on new basis which believed more comparable to similar indexes in other countries. (See item 1, A-50, March 4, 1949). New basis will give general industrial production index for April 1949 of approximately 89 per cent of 1930-34 average compared with currently published index of 71.6 per cent (see this Mission's A-141, June 9, 1949). Believed new index series will be released by ESS within next two months.

2. Comments on Coal Production Drive. Reference made to this Mission's despatch no. 272 dated April 30, 1949, containing supplementary information on drive for increased coal production. Mention therein made of presence in Japan of Mr. Paul R. PAULICK, coal expert brought to Japan to assist Japanese in producing 42,000,000 metric tons of coal during current fiscal year commencing April 1, 1949. Paulick, known by officer of this Mission when he visited China in 1948 in connection with ECA economic rehabilitation program, stated June 9 to the officer that he had considerable doubt as to ability Japanese mines to produce that amount of coal. Paulick added that, when he visited many coal mines in China he was aware of growth of Communism among Chinese miners and that he reported this matter to ECA officials concerned. Paulick, who stated that he had

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

894.50/6-1049

FILED

HH

1
BA
ACTION:FE
INFO
DC/R
L
EUR/X
EUR
E
ITP
OPD
OLI

114R's

*TR
894.60*

*TR
894.6362*

Tokyo's A-145,
June 10, 1949.

- 2 -

spent several months at Hokkaido coal mines, pointed out beginnings of same attitude favoring Communism noted in China now apparent in Hokkaido. Paulick said that he was about to leave Tokyo for several weeks' stay Hokkaido, that he had grave misgivings regarding trend of political thought among Hokkaido coal miners, and that he would appreciate opportunity discuss matter in greater detail upon return to Tokyo.

①
7R
894.659

3. More about Pope Chemical Report. See item 1, A-100, April 28, 1949, regarding controversy over Pope Chemical Mission report. This Mission has not been able to obtain copy of report for transmittal to Department, ESS official concerned stating that Department could possibly obtain copy upon request from Department of Army. Should Department wish to follow up this matter, suggest Department of Army be requested supply copy. If copy not made available, Department may wish to note that this Mission has copied all pertinent parts thereof which can be sent to Washington, if desired. Meanwhile, it may be noted that report in question designated as "terrible" by Mr. W. S. VAUGHAN, Chief, ESS Industry Division, in conversation with officer of this Mission. Vaughan said Pope primarily interested in writing up visits to sulphate of ammonia plants, with which he had prewar experience, and that report therefore unbalanced. However, believed report contains valuable background data on production of chemicals, wage rates, productive efficiency of workers, et cetera, and recommended that Department, if not able to obtain copy from Department of Army, may wish to instruct this Mission to transmit copy of material on hand.

7R
6602.9431
894.5151
8602.5151

4. Arrangements with Finland Drafted. Agreement reached between ESS foreign trade officials and Mr. Rafael SEPPALA, Finnish Consul General in New York, on Japan-Finnish Trade and Financial Arrangements. Provision made for trade to total \$2,500,000 each way. Finnish exports, as expected, to be almost exclusively pulp; Japan to export textile products, one ship, metal products, drugs, various non-mineral oils, waxes, hardened whale oil, and small quantities of bamboo, sponges, zinc oxide, celluloid, et cetera. Trade arrangement standard, except that it applies to contracts concluded rather than to deliveries made during trade period (July 1, 1949 to June 30, 1950). Financial Arrangement provides for Open Account with clearance as of 30 June, with balance never to exceed \$400,000 for either party. As in case of French Financial Arrangement, purchase of ship will operate under special terms outside Open Account. Documents to follow by despatch. Mr. Seppala hopes to remain in Japan to sign final SCAP-approved arrangements; SCAP trade officials, somewhat chastened by Belgian experience (see below), make no predictions as to when SCAP approval can be expected.

Tokyo's 1-145,
June 10, 1949.

- 3 -

5. Controversy over SCAP-Belgian Trade. Deputy chief and one of directors of ESS have objected to provision in SCAP-Belgian Monetary Area Financial Arrangement (see this Mission's despatch no. 362 of June 7, 1949) providing that Japan will make available foreign exchange for purchases in Belgian Area to total of \$600,000 more than credits accruing from Belgian Area during trade period, and have also questioned exclusion of itemized Trade Plan from Trade Arrangement. Provision regarding foreign exchange will as result probably be deleted. In this connection, General C. D. de la CHEVALERIE, Chief of Belgian Mission, called on Economic Counsellor this Mission during week and expressed deep concern over this development in his relations with GHQ, SCAP. He stated that he personally, together with two representatives of Belgian Government from Brussels, had conducted lengthy negotiations with SCAP officials regarding Trade and Financial Arrangements, and that he had every right to assume that he had been negotiating with responsible, SCAP-approved officials. Recent refusal of deputy chief and director of ESS to approve drafts, however, indicates to him that he had been dealing with "minor clerks" who were subject to overruling by several echelons of "junior officers" (it is to be noted in this connection that General W. F. MARQUAT, Chief of ESS, had evidently not reviewed the drafts). This, the General continued, must be considered an insult to Belgian Government and a serious breach of international courtesy. Although it is believed that substance of arrangements can be adjusted to the satisfaction of both parties, the incident has not created good will for SCAP or for SCAP methods of negotiating Trade Arrangements.

6. Other Trade Developments. (1) Swedish firm, apparently as result of reports on SCAP Missions to Pakistan and Latin America, has written to ESS Textile Division suggesting that mission be sent to Sweden; interested ESS officials, although clearly pleased at even informal and unofficial invitation, state prospects not good for immediate future, at least pending outcome of trade review scheduled for this month under Arrangements signed last November. (2) SCAP has requested extension of Siam Trade Arrangement and Trade Plan due to expire June 30, 1949, pending negotiation of suitable substitute Arrangements. Siamese trade representative expected in Tokyo next week, at which time problem of extension or renegotiation will be taken up.

HUSTON

500
DMM/CHB/EGS/lee

78
855.9431
855.5151

78
610.9431
645f.9431
692.9431

C O N F I D E N T I A L

In reply refer to
OFD

JUL 20 1949

33221

My dear Colonel Hendricks:

It occurs to me that you and your colleagues at the working level in the Army may be interested in looking over the attached paper on "Public Relations Aspects of the Economic Stabilization Program in Japan".

This paper was prepared by some of our research analysts in the State Department who had previously analyzed reactions across the board of Japanese public opinion to the Economic Stabilization Program. The attached paper represents their general ideas as to how an understanding of the basic purposes of the Stabilization Program might be improved and hostility to certain of its provisions diminished or eliminated. Their recommendations have no official standing within the Department; however, some of us feel that certain of the recommendations do have real merit and might profitably be drawn to your attention and possibly, should you consider it desirable to do so, to the attention of officers at the working level in Tokyo.

894.50/6-1349

If you or Mr. Foster wish to talk about this paper, do not hesitate to give me a ring.

Sincerely yours,

Robert W. Barnett
Robert W. Barnett
Economic Adviser

Office of Financial and Development Policy

Enclosure

CS/J

894.50/6-1349

Lt. Col. E. W. Hendricks,
Civil Affairs Division,
Department of the Army,
Room 2E-550, Pentagon Building.

(Mr. McDiarmid)

(Mr. Fearey)

C O N F I D E N T I A L

JUL 19 1949

OFD:RB Barnett:mck
7/15/49

JUN 13 1949

CONFIDENTIALPUBLIC RELATIONS ASPECTS OF THE ECONOMIC STABILIZATION PROGRAM IN JAPAN

During the past few months, the economic stabilization program has met with widespread opposition from the major segments of Japanese society -- opposition that is having adverse political repercussions and is a potential threat to the successful implementation of the stabilization program and to the prestige of the United States occupation.¹ While a degree of opposition to certain aspects of the stabilization program having immediate adverse effects on the special economic interests of labor, business, and farmers is unavoidable, much of the opposition can be traced to a lack of understanding of the over-all economic situation facing Japan as well as of the basic objectives of the stabilization program and to a strong tendency to overestimate adverse effects of the program and underestimate its long-run benefits.

It is believed that there is a need (1) to institute an educational program to demonstrate the necessity for a stabilization program and its basic contributions to the economic recovery of Japan and to a higher standard of living in future years; (2) to make use of all possible economic incentives and ameliorative measures within the framework of the stabilization program in order to reduce the opposition arising from labor, unemployed groups, and small and medium-sized business to manageable proportions, and, if possible, win the full cooperation of these groups.

A. Educational Program

Since there is a wide lack of understanding of economic stabilization in Japan, the fundamental objective of the educational program would be to

1. See OIR-4938 (PV), April 19, 1949 CONFIDENTIAL.

CONFIDENTIAL

CONFIDENTIAL

2

demonstrate that the achievement of economic stability is an important and necessary step toward the eventual attainment of economic self-support and of optimum recovery under conditions of self-support. Beyond establishing the over-all necessity and value of the stabilization program to the Japanese economy, the educational material might be geared to correlating the self-interest of the Japanese worker, businessmen, and farmer in the achievement of economic stability through pointing out the stabilization program's effectiveness in maintaining the present standard of living and in securing prospective improvements in living standards. Furthermore, the educational program might actively counteract the unfavorable criticism of the role of the US in initiating a stabilization program with some onerous aspects by demonstrating that (1) the adverse effects are in fact minimized by US aid; (2) the US is protecting the various economic groups affected by enforcing equitable distribution of the burdens of stabilization; and (3) the US is basically interested in maximizing the Japanese standard of living under present and future world trade conditions and not in limiting Japanese exports and the level of industry to the detriment of the Japanese economy.

A clearer understanding of the stabilization program and the achievement of wider support for its implementation would be gained through information relating to and explanation of the following:

1. The present economic status of Japan and the Far East and the relation of both to the world economy.
2. The role of the US in bolstering the Japanese economy and the standard of living since the end of the war.

CONFIDENTIAL

CONFIDENTIAL

3

3. The absolute necessity of optimum performance and cooperation on the part of Japanese labor, business, and farmers in order to stabilize the economy and thus contribute to the achievement of economic recovery and better living conditions than would otherwise be possible.
4. The advantages of a stabilization program as compared with other allegedly possible solutions to present depressed economic conditions.
5. The over-all relationship between stabilization and economic recovery -- pointing out that these objectives are not antithetical but directly related and interdependent.
6. The mechanics of the stabilization program -- explaining the operations of the over-all program, the part played by each of its nine points in achieving stability, and the rationale underlying each point.
7. The relationship of the stabilization program to the standard of living and to individual economic self-interest during the present year as well as in future years -- pointing out, first, that, while present living standards are low, they would be substantially lower without US aid; and, second, that future increases in the standard of living are dependent upon success of the stabilization program, the performance of the Japanese economy in utilizing US aid, and the general recovery of Far Eastern and world trade.
8. The effect of the stabilization program on Japanese foreign trade and its contribution toward achievement of a level of trade that will by 1953 probably result in a self-supporting economy in Japan.
9. The effect of the stabilization program on productivity -- the general prospect of increased production and increased amounts of goods and services for the domestic economy.
10. Comparative studies between the stabilization program and other programs for economic recovery and stability instituted in western and eastern Europe.
11. The problems of unemployment and bankruptcy of small and medium-sized business -- placing emphasis on the relative security of the bulk of workers and businessmen, the provisions for temporary relief of the people adversely effected, and the future reabsorption of these marginal businesses and unemployed workers once productivity increases. (While these explanations would probably be considered unsatisfactory by the unemployed and by bankrupted businessmen, they would serve to make the bulk of businessmen and workers feel more secure.)

CONFIDENTIAL

CONFIDENTIAL

4

While such an educational program would be designed to minimize opposition to the stabilization program based on lack of understanding on the part of all segments of the society, emphasis should be placed on labor, the opposition group that is best organized, most vocal, and most vulnerable to Communist propaganda. Labor's particular grievances -- wage stabilization, unemployment, and high taxation -- may be mitigated in part by the ameliorative measures mentioned below. However, its personal stake in the achievement of stability and inequitable distribution of the burdens of stabilization and economic recovery will have to be brought out clearly in the educational material. In addition, a measure of labor participation, even in an advisory role, in the implementation of the stabilization program might reduce labor's suspicion of the program as a method of retracting its newly gained rights. Finally, labor cooperation will be more likely if labor is assured that even under a conservative government its basic rights, guaranteed in the constitution, will be respected and not undermined.

B. Economic Incentives for Economic Stabilization

Economic stabilization in Japan is essential to achievement of a self-supporting economy. No program with the latter as its goal can be successful

CONFIDENTIAL

CONFIDENTIAL

5

in Japan until order is brought out of the internal economic chaos that has prevailed in varying degrees since the end of the war. A balanced budget, rigid limitations on credit, and strict enforcement of tax laws are all necessary to put the economy on a sound financial basis. Similarly, wage-price stability is necessary to curb the inflationary spiral that has prevailed since the end of the war. Effective controls to enforce allocation of scarce imported raw materials into channels that will lead ultimately to the export of goods manufactured from these materials are also important to maximize foreign exchange earnings. The stabilization program is expected to achieve these goals.

In the implementation of this program it is important to place the temporary hardships connected with this program -- such as the elimination of certain uneconomic producers, reduction in employment, and tight credit -- in the context of gains that are expected to result from the broader recovery program of which internal stabilization is an integral and important part.

In SCAP's most recent program for a self-supporting economy, more realistic, perhaps, than previous recovery programs, the Japanese people are offered new incentives each year as the performance of the economy meets the annual goals contemplated by SCAP. Increases in consumption of food, textiles, and other commodities may be anticipated as Japanese trade expands. For example, consumption of cotton, wool, rayon, silk, given a reasonable expansion of trade, is estimated by SCAP to increase gradually from 2.5 pounds per capita in 1949 to nearly 5 pounds per capita in 1953. Food consumption should likewise increase as Japanese exports increase. These increases are tangible incentives that could be used in association with the

CONFIDENTIAL

CONFIDENTIAL

6

public relations program described above.

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

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

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

CONFIDENTIAL

CONFIDENTIAL

7

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

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

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

CONFIDENTIAL

CONFIDENTIAL

8

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

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

CONFIDENTIAL

JUN 13 1949

CONFIDENTIALPUBLIC RELATIONS ASPECTS OF THE ECONOMIC STABILIZATION PROGRAM IN JAPAN

During the past few months, the economic stabilization program has met with widespread opposition from the major segments of Japanese society -- opposition that is having adverse political repercussions and is a potential threat to the successful implementation of the stabilization program and to the prestige of the United States occupation.¹ While a degree of opposition to certain aspects of the stabilization program having immediate adverse effects on the special economic interests of labor, business, and farmers is unavoidable, much of the opposition can be traced to a lack of understanding of the over-all economic situation facing Japan as well as of the basic objectives of the stabilization program and to a strong tendency to overestimate adverse effects of the program and underestimate its long-run benefits.

It is believed that there is a need (1) to institute an educational program to demonstrate the necessity for a stabilization program and its basic contributions to the economic recovery of Japan and to a higher standard of living in future years; (2) to make use of all possible economic incentives and ameliorative measures within the framework of the stabilization program in order to reduce the opposition arising from labor, unemployed groups, and small and medium-sized business to manageable proportions, and, if possible, win the full cooperation of these groups.

A. Educational Program

Since there is a wide lack of understanding of economic stabilization in Japan, the fundamental objective of the educational program would be to

1. See OIR-4938 (PV), April 19, 1949 CONFIDENTIAL.

CONFIDENTIAL

FW 893.50 / 6-1349

CONFIDENTIAL

2

demonstrate that the achievement of economic stability is an important and necessary step toward the eventual attainment of economic self-support and of optimum recovery under conditions of self-support. Beyond establishing the over-all necessity and value of the stabilization program to the Japanese economy, the educational material might be geared to correlating the self-interest of the Japanese worker, businessman, and farmer in the achievement of economic stability through pointing out the stabilization program's effectiveness in maintaining the present standard of living and in securing prospective improvements in living standards. Furthermore, the educational program might actively counteract the unfavorable criticism of the role of the US in initiating a stabilization program with some onerous aspects by demonstrating that (1) the adverse effects are in fact minimized by US aid; (2) the US is protecting the various economic groups affected by enforcing equitable distribution of the burdens of stabilization; and (3) the US is basically interested in maximizing the Japanese standard of living under present and future world trade conditions and not in limiting Japanese exports and the level of industry to the detriment of the Japanese economy.

A clearer understanding of the stabilization program and the achievement of wider support for its implementation would be gained through information relating to and explanation of the following:

1. The present economic status of Japan and the Far East and the relation of both to the world economy.
2. The role of the US in bolstering the Japanese economy and the standard of living since the end of the war.

CONFIDENTIAL

CONFIDENTIAL

3

3. The absolute necessity of optimum performance and cooperation on the part of Japanese labor, business, and farmers in order to stabilize the economy and thus contribute to the achievement of economic recovery and better living conditions than would otherwise be possible.
4. The advantages of a stabilization program as compared with other allegedly possible solutions to present depressed economic conditions.
5. The over-all relationship between stabilization and economic recovery -- pointing out that these objectives are not antithetical but directly related and interdependent.
6. The mechanics of the stabilization program -- explaining the operations of the over-all program, the part played by each of its nine points in achieving stability, and the rationale underlying each point.
7. The relationship of the stabilization program to the standard of living and to individual economic self-interest during the present year as well as in future years -- pointing out, first, that, while present living standards are low, they would be substantially lower without US aid; and, second, that future increases in the standard of living are dependent upon success of the stabilization program, the performance of the Japanese economy in utilizing US aid, and the general recovery of Far Eastern and world trade.
8. The effect of the stabilization program on Japanese foreign trade and its contribution toward achievement of a level of trade that will by 1953 probably result in a self-supporting economy in Japan.
9. The effect of the stabilization program on productivity -- the general prospect of increased production and increased amounts of goods and services for the domestic economy.
10. Comparative studies between the stabilization program and other programs for economic recovery and stability instituted in western and eastern Europe.
11. The problems of unemployment and bankruptcy of small and medium-sized business -- placing emphasis on the relative security of the bulk of workers and businessmen, the provisions for temporary relief of the people adversely effected, and the future reabsorption of these marginal businesses and unemployed workers once productivity increases. (While these explanations would probably be considered unsatisfactory by the unemployed and by bankrupted businessmen, they would serve to make the bulk of businessmen and workers feel more secure.)

CONFIDENTIAL

CONFIDENTIAL

4

While such an educational program would be designed to minimize opposition to the stabilization program based on lack of understanding on the part of all segments of the society, emphasis should be placed on labor, the opposition group that is best organized, most vocal, and most vulnerable to Communist propaganda. Labor's particular grievances -- wage stabilization, unemployment, and high taxation -- may be mitigated in part by the ameliorative measures mentioned below. However, its personal stake in the achievement of stability and inequitable distribution of the burdens of stabilization and economic recovery will have to be brought out clearly in the educational material. In addition, a measure of labor participation, even in an advisory role, in the implementation of the stabilization program might reduce labor's suspicion of the program as a method of retracting its newly gained rights. Finally, labor cooperation will be more likely if labor is assured that even under a conservative government its basic rights, guaranteed in the constitution, will be respected and not undermined.

B. Economic Incentives for Economic Stabilization

Economic stabilization in Japan is essential to achievement of a self-supporting economy. No program with the latter as its goal can be successful

CONFIDENTIAL

CONFIDENTIAL

5

in Japan until order is brought out of the internal economic chaos that has prevailed in varying degrees since the end of the war. A balanced budget, rigid limitations on credit, and strict enforcement of tax laws are all necessary to put the economy on a sound financial basis. Similarly, wage-price stability is necessary to curb the inflationary spiral that has prevailed since the end of the war. Effective controls to enforce allocation of scarce imported raw materials into channels that will lead ultimately to the export of goods manufactured from these materials are also important to maximize foreign exchange earnings. The stabilization program is expected to achieve these goals.

In the implementation of this program it is important to place the temporary hardships connected with this program -- such as the elimination of certain uneconomic producers, reduction in employment, and tight credit -- in the context of gains that are expected to result from the broader recovery program of which internal stabilization is an integral and important part.

In SCAP's most recent program for a self-supporting economy, more realistic, perhaps, than previous recovery programs, the Japanese people are offered new incentives each year as the performance of the economy meets the annual goals contemplated by SCAP. Increases in consumption of food, textiles, and other commodities may be anticipated as Japanese trade expands. For example, consumption of cotton, wool, rayon, silk, given a reasonable expansion of trade, is estimated by SCAP to increase gradually from 2.5 pounds per capita in 1949 to nearly 5 pounds per capita in 1953. Food consumption should likewise increase as Japanese exports increase. These increases are tangible incentives that could be used in association with the

CONFIDENTIAL

CONFIDENTIAL

6

public relations program described above.

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

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

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

CONFIDENTIAL

CONFIDENTIAL

7

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

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

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

CONFIDENTIAL

CONFIDENTIAL

8

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

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

CONFIDENTIAL

JUN 13 1949

CONFIDENTIALPUBLIC RELATIONS ASPECTS OF THE ECONOMIC STABILIZATION PROGRAM IN JAPAN

During the past few months, the economic stabilization program has met with widespread opposition from the major segments of Japanese society -- opposition that is having adverse political repercussions and is a potential threat to the successful implementation of the stabilization program and to the prestige of the United States occupation.¹ While a degree of opposition to certain aspects of the stabilization program having immediate adverse effects on the special economic interests of labor, business, and farmers is unavoidable, much of the opposition can be traced to a lack of understanding of the over-all economic situation facing Japan as well as of the basic objectives of the stabilization program and to a strong tendency to overestimate adverse effects of the program and underestimate its long-run benefits.

It is believed that there is a need (1) to institute an educational program to demonstrate the necessity for a stabilization program and its basic contributions to the economic recovery of Japan and to a higher standard of living in future years; (2) to make use of all possible economic incentives and ameliorative measures within the framework of the stabilization program in order to reduce the opposition arising from labor, unemployed groups, and small and medium-sized business to manageable proportions, and, if possible, win the full cooperation of these groups.

A. Educational Program

Since there is a wide lack of understanding of economic stabilization in Japan, the fundamental objective of the educational program would be to

1. See OIR-4938 (PV), April 19, 1949 CONFIDENTIAL.

CONFIDENTIAL

CONFIDENTIAL

2

demonstrate that the achievement of economic stability is an important and necessary step toward the eventual attainment of economic self-support and of optimum recovery under conditions of self-support. Beyond establishing the over-all necessity and value of the stabilization program to the Japanese economy, the educational material might be geared to correlating the self-interest of the Japanese worker, businessman, and farmer in the achievement of economic stability through pointing out the stabilization program's effectiveness in maintaining the present standard of living and in securing prospective improvements in living standards. Furthermore, the educational program might actively counteract the unfavorable criticism of the role of the US in initiating a stabilization program with some onerous aspects by demonstrating that (1) the adverse effects are in fact minimized by US aid; (2) the US is protecting the various economic groups affected by enforcing equitable distribution of the burdens of stabilization; and (3) the US is basically interested in maximizing the Japanese standard of living under present and future world trade conditions and not in limiting Japanese exports and the level of industry to the detriment of the Japanese economy.

A clearer understanding of the stabilization program and the achievement of wider support for its implementation would be gained through information relating to and explanation of the following:

1. The present economic status of Japan and the Far East and the relation of both to the world economy.
2. The role of the US in bolstering the Japanese economy and the standard of living since the end of the war.

CONFIDENTIAL

CONFIDENTIAL

3

3. The absolute necessity of optimum performance and cooperation on the part of Japanese labor, business, and farmers in order to stabilize the economy and thus contribute to the achievement of economic recovery and better living conditions than would otherwise be possible.
4. The advantages of a stabilization program as compared with other allegedly possible solutions to present depressed economic conditions.
5. The over-all relationship between stabilization and economic recovery -- pointing out that these objectives are not antithetical but directly related and interdependent.
6. The mechanics of the stabilization program -- explaining the operations of the over-all program, the part played by each of its nine points in achieving stability, and the rationale underlying each point.
7. The relationship of the stabilization program to the standard of living and to individual economic self-interest during the present year as well as in future years -- pointing out, first, that, while present living standards are low, they would be substantially lower without US aid; and, second, that future increases in the standard of living are dependent upon success of the stabilization program, the performance of the Japanese economy in utilizing US aid, and the general recovery of Far Eastern and world trade.
8. The effect of the stabilization program on Japanese foreign trade and its contribution toward achievement of a level of trade that will by 1953 probably result in a self-supporting economy in Japan.
9. The effect of the stabilization program on productivity -- the general prospect of increased production and increased amounts of goods and services for the domestic economy.
10. Comparative studies between the stabilization program and other programs for economic recovery and stability instituted in western and eastern Europe.
11. The problems of unemployment and bankruptcy of small and medium-sized business -- placing emphasis on the relative security of the bulk of workers and businessmen, the provisions for temporary relief of the people adversely effected, and the future reabsorption of these marginal businesses and unemployed workers once productivity increases. (While these explanations would probably be considered unsatisfactory by the unemployed and by bankrupted businessmen, they would serve to make the bulk of businessmen and workers feel more secure.)

CONFIDENTIAL

CONFIDENTIAL

4

While such an educational program would be designed to minimize opposition to the stabilization program based on lack of understanding on the part of all segments of the society, emphasis should be placed on labor, the opposition group that is best organized, most vocal, and most vulnerable to Communist propaganda. Labor's particular grievances -- wage stabilization, unemployment, and high taxation -- may be mitigated in part by the ameliorative measures mentioned below. However, its personal stake in the achievement of stability and inequitable distribution of the burdens of stabilization and economic recovery will have to be brought out clearly in the educational material. In addition, a measure of labor participation, even in an advisory role, in the implementation of the stabilization program might reduce labor's suspicion of the program as a method of retracting its newly gained rights. Finally, labor cooperation will be more likely if labor is assured that even under a conservative government its basic rights, guaranteed in the constitution, will be respected and not undermined.

B. Economic Incentives for Economic Stabilization

Economic stabilization in Japan is essential to achievement of a self-supporting economy. No program with the latter as its goal can be successful

CONFIDENTIAL

CONFIDENTIAL

5

in Japan until order is brought out of the internal economic chaos that has prevailed in varying degrees since the end of the war. A balanced budget, rigid limitations on credit, and strict enforcement of tax laws are all necessary to put the economy on a sound financial basis. Similarly, wage-price stability is necessary to curb the inflationary spiral that has prevailed since the end of the war. Effective controls to enforce allocation of scarce imported raw materials into channels that will lead ultimately to the export of goods manufactured from these materials are also important to maximize foreign exchange earnings. The stabilization program is expected to achieve these goals.

In the implementation of this program it is important to place the temporary hardships connected with this program -- such as the elimination of certain uneconomic producers, reduction in employment, and tight credit -- in the context of gains that are expected to result from the broader recovery program of which internal stabilization is an integral and important part.

In SCAP's most recent program for a self-supporting economy, more realistic, perhaps, than previous recovery programs, the Japanese people are offered new incentives each year as the performance of the economy meets the annual goals contemplated by SCAP. Increases in consumption of food, textiles, and other commodities may be anticipated as Japanese trade expands. For example, consumption of cotton, wool, rayon, silk, given a reasonable expansion of trade, is estimated by SCAP to increase gradually from 2.5 pounds per capita in 1949 to nearly 5 pounds per capita in 1953. Food consumption should likewise increase as Japanese exports increase. These increases are tangible incentives that could be used in association with the

CONFIDENTIAL

CONFIDENTIAL

6

public relations program described above.

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

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

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

CONFIDENTIAL

CONFIDENTIAL

7

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

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

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

CONFIDENTIAL

CONFIDENTIAL

8

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

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

CONFIDENTIAL

JUN 19 1949

CONFIDENTIALPUBLIC RELATIONS ASPECTS OF THE ECONOMIC STABILIZATION PROGRAM IN JAPAN

During the past few months, the economic stabilization program has met with widespread opposition from the major segments of Japanese society -- opposition that is having adverse political repercussions and is a potential threat to the successful implementation of the stabilization program and to the prestige of the United States occupation.¹ While a degree of opposition to certain aspects of the stabilization program having immediate adverse effects on the special economic interests of labor, business, and farmers is unavoidable, much of the opposition can be traced to a lack of understanding of the over-all economic situation facing Japan as well as of the basic objectives of the stabilization program and to a strong tendency to overestimate adverse effects of the program and underestimate its long-run benefits.

It is believed that there is a need (1) to institute an educational program to demonstrate the necessity for a stabilization program and its basic contributions to the economic recovery of Japan and to a higher standard of living in future years; (2) to make use of all possible economic incentives and ameliorative measures within the framework of the stabilization program in order to reduce the opposition arising from labor, unemployed groups, and small and medium-sized business to manageable proportions, and, if possible, win the full cooperation of these groups.

A. Educational Program

Since there is a wide lack of understanding of economic stabilization in Japan, the fundamental objective of the educational program would be to

1. See OIR-4938 (PV), April 19, 1949 CONFIDENTIAL.

CONFIDENTIAL

CONFIDENTIAL

2

demonstrate that the achievement of economic stability is an important and necessary step toward the eventual attainment of economic self-support and of optimum recovery under conditions of self-support. Beyond establishing the over-all necessity and value of the stabilization program to the Japanese economy, the educational material might be geared to correlating the self-interest of the Japanese worker, businessman, and farmer in the achievement of economic stability through pointing out the stabilization program's effectiveness in maintaining the present standard of living and in securing prospective improvements in living standards. Furthermore, the educational program might actively counteract the unfavorable criticism of the role of the US in initiating a stabilization program with some onerous aspects by demonstrating that (1) the adverse effects are in fact minimized by US aid; (2) the US is protecting the various economic groups affected by enforcing equitable distribution of the burdens of stabilization; and (3) the US is basically interested in maximizing the Japanese standard of living under present and future world trade conditions and not in limiting Japanese exports and the level of industry to the detriment of the Japanese economy.

A clearer understanding of the stabilization program and the achievement of wider support for its implementation would be gained through information relating to and explanation of the following:

1. The present economic status of Japan and the Far East and the relation of both to the world economy.
2. The role of the US in bolstering the Japanese economy and the standard of living since the end of the war.

CONFIDENTIAL

CONFIDENTIAL

3

3. The absolute necessity of optimum performance and cooperation on the part of Japanese labor, business, and farmers in order to stabilize the economy and thus contribute to the achievement of economic recovery and better living conditions than would otherwise be possible.
4. The advantages of a stabilization program as compared with other allegedly possible solutions to present depressed economic conditions.
5. The over-all relationship between stabilization and economic recovery -- pointing out that these objectives are not antithetical but directly related and interdependent.
6. The mechanics of the stabilization program -- explaining the operations of the over-all program, the part played by each of its nine points in achieving stability, and the rationale underlying each point.
7. The relationship of the stabilization program to the standard of living and to individual economic self-interest during the present year as well as in future years -- pointing out, first, that, while present living standards are low, they would be substantially lower without US aid; and, second, that future increases in the standard of living are dependent upon success of the stabilization program, the performance of the Japanese economy in utilizing US aid, and the general recovery of Far Eastern and world trade.
8. The effect of the stabilization program on Japanese foreign trade and its contribution toward achievement of a level of trade that will by 1953 probably result in a self-supporting economy in Japan.
9. The effect of the stabilization program on productivity -- the general prospect of increased production and increased amounts of goods and services for the domestic economy.
10. Comparative studies between the stabilization program and other programs for economic recovery and stability instituted in western and eastern Europe.
11. The problems of unemployment and bankruptcy of small and medium-sized business -- placing emphasis on the relative security of the bulk of workers and businessmen, the provisions for temporary relief of the people adversely effected, and the future reabsorption of these marginal businesses and unemployed workers once productivity increases. (While these explanations would probably be considered unsatisfactory by the unemployed and by bankrupted businessmen, they would serve to make the bulk of businessmen and workers feel more secure.)

CONFIDENTIAL

CONFIDENTIAL

4

While such an educational program would be designed to minimize opposition to the stabilization program based on lack of understanding on the part of all segments of the society, emphasis should be placed on labor, the opposition group that is best organized, most vocal, and most vulnerable to Communist propaganda. Labor's particular grievances -- wage stabilization, unemployment, and high taxation -- may be mitigated in part by the ameliorative measures mentioned below. However, its personal stake in the achievement of stability and inequitable distribution of the burdens of stabilization and economic recovery will have to be brought out clearly in the educational material. In addition, a measure of labor participation, even in an advisory role, in the implementation of the stabilization program might reduce labor's suspicion of the program as a method of retracting its newly gained rights. Finally, labor cooperation will be more likely if labor is assured that even under a conservative government its basic rights, guaranteed in the constitution, will be respected and not undermined.

B. Economic Incentives for Economic Stabilization

Economic stabilization in Japan is essential to achievement of a self-supporting economy. No program with the latter as its goal can be successful

CONFIDENTIAL

CONFIDENTIAL

5

in Japan until order is brought out of the internal economic chaos that has prevailed in varying degrees since the end of the war. A balanced budget, rigid limitations on credit, and strict enforcement of tax laws are all necessary to put the economy on a sound financial basis. Similarly, wage-price stability is necessary to curb the inflationary spiral that has prevailed since the end of the war. Effective controls to enforce allocation of scarce imported raw materials into channels that will lead ultimately to the export of goods manufactured from these materials are also important to maximize foreign exchange earnings. The stabilization program is expected to achieve these goals.

In the implementation of this program it is important to place the temporary hardships connected with this program -- such as the elimination of certain uneconomic producers, reduction in employment, and tight credit -- in the context of gains that are expected to result from the broader recovery program of which internal stabilization is an integral and important part.

In SCAP's most recent program for a self-supporting economy, more realistic, perhaps, than previous recovery programs, the Japanese people are offered new incentives each year as the performance of the economy meets the annual goals contemplated by SCAP. Increases in consumption of food, textiles, and other commodities may be anticipated as Japanese trade expands. For example, consumption of cotton, wool, rayon, silk, given a reasonable expansion of trade, is estimated by SCAP to increase gradually from 2.5 pounds per capita in 1949 to nearly 5 pounds per capita in 1953. Food consumption should likewise increase as Japanese exports increase. These increases are tangible incentives that could be used in association with the

CONFIDENTIAL

CONFIDENTIAL

6

public relations program described above.

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

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

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

CONFIDENTIAL

CONFIDENTIAL

7

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

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

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

CONFIDENTIAL

CONFIDENTIAL

8

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

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

CONFIDENTIAL

JUN 13 1949

CONFIDENTIALPUBLIC RELATIONS ASPECTS OF THE ECONOMIC STABILIZATION PROGRAM IN JAPAN

During the past few months, the economic stabilization program has met with widespread opposition from the major segments of Japanese society -- opposition that is having adverse political repercussions and is a potential threat to the successful implementation of the stabilization program and to the prestige of the United States occupation.¹ While a degree of opposition to certain aspects of the stabilization program having immediate adverse effects on the special economic interests of labor, business, and farmers is unavoidable, much of the opposition can be traced to a lack of understanding of the over-all economic situation facing Japan as well as of the basic objectives of the stabilization program and to a strong tendency to overestimate adverse effects of the program and underestimate its long-run benefits.

It is believed that there is a need (1) to institute an educational program to demonstrate the necessity for a stabilization program and its basic contributions to the economic recovery of Japan and to a higher standard of living in future years; (2) to make use of all possible economic incentives and ameliorative measures within the framework of the stabilization program in order to reduce the opposition arising from labor, unemployed groups, and small and medium-sized business to manageable proportions, and, if possible, win the full cooperation of these groups.

A. Educational Program

Since there is a wide lack of understanding of economic stabilization in Japan, the fundamental objective of the educational program would be to

1. See OIR-4938 (PV), April 19, 1949 CONFIDENTIAL.

CONFIDENTIAL

CONFIDENTIAL

2

demonstrate that the achievement of economic stability is an important and necessary step toward the eventual attainment of economic self-support and of optimum recovery under conditions of self-support. Beyond establishing the over-all necessity and value of the stabilization program to the Japanese economy, the educational material might be geared to correlating the self-interest of the Japanese worker, businessmen, and farmer in the achievement of economic stability through pointing out the stabilization program's effectiveness in maintaining the present standard of living and in securing prospective improvements in living standards. Furthermore, the educational program might actively counteract the unfavorable criticism of the role of the US in initiating a stabilization program with some onerous aspects by demonstrating that (1) the adverse effects are in fact minimized by US aid; (2) the US is protecting the various economic groups affected by enforcing equitable distribution of the burdens of stabilization; and (3) the US is basically interested in maximizing the Japanese standard of living under present and future world trade conditions and not in limiting Japanese exports and the level of industry to the detriment of the Japanese economy.

A clearer understanding of the stabilization program and the achievement of wider support for its implementation would be gained through information relating to and explanation of the following:

1. The present economic status of Japan and the Far East and the relation of both to the world economy.
2. The role of the US in bolstering the Japanese economy and the standard of living since the end of the war.

CONFIDENTIAL

CONFIDENTIAL

3

3. The absolute necessity of optimum performance and cooperation on the part of Japanese labor, business, and farmers in order to stabilize the economy and thus contribute to the achievement of economic recovery and better living conditions than would otherwise be possible.
4. The advantages of a stabilization program as compared with other allegedly possible solutions to present depressed economic conditions.
5. The over-all relationship between stabilization and economic recovery -- pointing out that these objectives are not antithetical but directly related and interdependent.
6. The mechanics of the stabilization program -- explaining the operations of the over-all program, the part played by each of its nine points in achieving stability, and the rationale underlying each point.
7. The relationship of the stabilization program to the standard of living and to individual economic self-interest during the present year as well as in future years -- pointing out, first, that, while present living standards are low, they would be substantially lower without US aid; and, second, that future increases in the standard of living are dependent upon success of the stabilization program, the performance of the Japanese economy in utilizing US aid, and the general recovery of Far Eastern and world trade.
8. The effect of the stabilization program on Japanese foreign trade and its contribution toward achievement of a level of trade that will by 1953 probably result in a self-supporting economy in Japan.
9. The effect of the stabilization program on productivity -- the general prospect of increased production and increased amounts of goods and services for the domestic economy.
10. Comparative studies between the stabilization program and other programs for economic recovery and stability instituted in western and eastern Europe.
11. The problems of unemployment and bankruptcy of small and medium-sized business -- placing emphasis on the relative security of the bulk of workers and businessmen, the provisions for temporary relief of the people adversely effected, and the future reabsorption of these marginal businesses and unemployed workers once productivity increases. (While these explanations would probably be considered unsatisfactory by the unemployed and by bankrupted businessmen, they would serve to make the bulk of businessmen and workers feel more secure.)

CONFIDENTIAL

CONFIDENTIAL

4

While such an educational program would be designed to minimize opposition to the stabilization program based on lack of understanding on the part of all segments of the society, emphasis should be placed on labor, the opposition group that is best organized, most vocal, and most vulnerable to Communist propaganda. Labor's particular grievances -- wage stabilization, unemployment, and high taxation -- may be mitigated in part by the ameliorative measures mentioned below. However, its personal stake in the achievement of stability and inequitable distribution of the burdens of stabilization and economic recovery will have to be brought out clearly in the educational material. In addition, a measure of labor participation, even in an advisory role, in the implementation of the stabilization program might reduce labor's suspicion of the program as a method of retracting its newly gained rights. Finally, labor cooperation will be more likely if labor is assured that even under a conservative government its basic rights, guaranteed in the constitution, will be respected and not undermined.

B. Economic Incentives for Economic Stabilization

Economic stabilization in Japan is essential to achievement of a self-supporting economy. No program with the latter as its goal can be successful

CONFIDENTIAL

CONFIDENTIAL

5

in Japan until order is brought out of the internal economic chaos that has prevailed in varying degrees since the end of the war. A balanced budget, rigid limitations on credit, and strict enforcement of tax laws are all necessary to put the economy on a sound financial basis. Similarly, wage-price stability is necessary to curb the inflationary spiral that has prevailed since the end of the war. Effective controls to enforce allocation of scarce imported raw materials into channels that will lead ultimately to the export of goods manufactured from these materials are also important to maximize foreign exchange earnings. The stabilization program is expected to achieve these goals.

In the implementation of this program it is important to place the temporary hardships connected with this program -- such as the elimination of certain uneconomic producers, reduction in employment, and tight credit -- in the context of gains that are expected to result from the broader recovery program of which internal stabilization is an integral and important part.

In SCAP's most recent program for a self-supporting economy, more realistic, perhaps, than previous recovery programs, the Japanese people are offered new incentives each year as the performance of the economy meets the annual goals contemplated by SCAP. Increases in consumption of food, textiles, and other commodities may be anticipated as Japanese trade expands. For example, consumption of cotton, wool, rayon, silk, given a reasonable expansion of trade, is estimated by SCAP to increase gradually from 2.5 pounds per capita in 1949 to nearly 5 pounds per capita in 1953. Food consumption should likewise increase as Japanese exports increase. These increases are tangible incentives that could be used in association with the

CONFIDENTIAL