

Dec File

Box #

7102

DECLASSIFIED

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

760050

894.50/1-149-----9-1549

FORM DS-323
7-18-48

OUTGOING AIRGRAM

CLASSIFICATION

Department of State

CONFIDENTIAL

NO. A-5

Washington,

Jan. 7, 1949

534

534

USPOLAD,

TOKYO.

Subject is Meeting of Steering Committee, December 21, 1948.

Economic Stabilization in Japan (SC-329/1)

The New Zealand member stated that he was not at this time criticizing the action taken by the US Government in issuing the interim directive but rather asking to be convinced, before seeking instructions from his Government, that the action taken had been a proper and legitimate exercise of authority by the power which all agreed must exert authority. He added that he had nothing to criticize in the substance of the directive, but he could not understand from whence arose the urgency which alone would have justified the US in taking its action. The US member indicated two reasons for the action of the US (1) the necessity of stemming the rapidly rising inflation in Japan; (2) the immediate necessity of asking the US Congress for appropriations to meet occupation expenses and of convincing Congress that such funds were being used economically and efficiently. The UK, Australian and Chinese members expressed the view that there could be no program of economic stabilization in Japan until the fundamental problem of the level of industry had been settled.

In reply to questions of the USSR member regarding the nature of the program and intention of the US Government, a member of the US Delegation indicated that the stabilization directive was a program of broad objectives rather than a program of methods for attaining those objectives; that the program had arisen out of recommendations made by the Young Mission; that it was the expectation of the US Government that particular methods for attaining the objectives involved would be the responsibility of the Supreme Commander; that the US would keep the Commission informed of developments.

The

DISTRIBUTION
DESIRED
(OFFICES ONLY)

CR CLEARANCE

DOE UNIT

Recd. *USSR*

Exp. *USSR*

Dist. *cc*

CONFIDENTIAL

★ U. S. GOVERNMENT PRINTING OFFICE - 1948 784228

894.50/1-749

CS/A

894.50/1-749

0-266

FORM DS-323
7-18-46

OUTGOING AIRGRAM

CLASSIFICATION

Department of State

CONFIDENTIAL

NO. A-5

Washington;

Jan. 7, 1949

- 2 -

534

The Australian member asked the US member as to the relationship between paragraph h of the interim directive, which stated that there should be an increase of all essential indigenous raw material and manufactured products, and the problems of reparations and level of industry.

The Committee agreed to forward this subject without recommendations to the Commission for consideration.

Replacement of Lost Cultural Objects (SC-272/10)

UK member submitted the following amendment: "sub-paragraph 3b, second to fifth lines - delete the words 'or had served to demonstrate the evolution of national culture and art of the claimant country, or had been used for other public cultural purposes;' and substitute therefore 'or were typical of the evolution of the national culture of the claimant country.'"

Further action deferred.

Removal of Aircraft and Private Munitions Plants from Japan (SC-312)

US member stated that he was not prepared to comment with regard to US position on this subject.

LOVETT
(initials)
Acting

DISTRIBUTION
DESIRED
(OFFICES ONLY)

NMB *ALD*
FE:NA:ALDunning:clh
1/3/49

FE
AM

Hub.
P.O.F.D.

was
o

CONFIDENTIAL

✓ cc: Amembassy,
London.

CR CLEARANCE

CR
JAN 6 1949

266

January 12, 1949

*Disseminated
Wentley
by Mr. [unclear]
1/12/49*

MEMORANDUM TO THE UNITED STATES MEMBER OF THE
FAR EASTERN COMMISSION

Subject: Economic Stabilization in Japan (329 Series)

You are authorized, in your discretion, to use the following state-
ment in replying to questions on the above subject which were raised at
the meeting of the Far Eastern Commission on 6 January 1949:

At the January 6 meeting of the Far Eastern Commission the
Chinese and Philippine members raised certain questions regarding a
statement made by me at the Commission meeting of December 30. In that
statement I observed that "Raw material shortages and difficulties in
finding markets for manufactured output will make it most difficult for
Japan to exceed 1930-34 levels even with maximum effort on the part of
the Japanese. Yet, unless those production levels are reached and, even,
in some cases surpassed, due to population, technological and trade pattern
changes, Japan will not be self-supporting and its deficits will fall upon
the United States taxpayer."

My Chinese and Philippine colleagues have expressed concern over
the phrase "in some cases surpassed". I should like to reassure them that
there was no implication whatever in this phrase that SCAP or the U.S.
Government contemplated any compromise of the principles set forth in the
Far Eastern Commission decision dealing with "determination of the peace-
ful needs of Japan." They will note that that policy deals with the
problem of Japan's consumption needs or, in other words, the standard of
living of the Japanese people. That policy was explicit in dissociating
the standard of living concept from any arbitrary prescription for the
pattern of Japanese industry. In other words, paragraphs 2 and 3 of that
policy make clear that the nature and size of a Japanese industrial struc-
ture capable of satisfying Japan's peaceful needs will be affected by
population growth and various other factors and that the 1930-34 standard
should not be interpreted to imply any specific level for any particular
industry.

884.50/1-1249

CS/B

74450/1-1249

4970

[Handwritten initials and signatures]

Charles E. Saltzman
Assistant Secretary

A true copy of
this signed orig-
inal. *[Signature]*

OFD:RWBarnett:evc:br:mwc

OFD NA
(initialed clearances on attached draft)

January 12, 1949

MEMORANDUM TO THE UNITED STATES MEMBER OF THE
FAR EASTERN COMMISSION

Subject: Economic Stabilization in Japan (329 Series)

You are authorized, in your discretion, to use the following statement in replying to questions on the above subject which were raised at the meeting of the Far Eastern Commission on 6 January 1949:

At the January 6 meeting of the Far Eastern Commission the Chinese and Philippine members raised certain questions regarding a statement made by me at the Commission meeting of December 30. In that statement I observed that "Raw material shortages and difficulties in finding markets for manufactured output will make it not difficult for Japan to exceed 1930-34 levels even with maximum effort on the part of the Japanese. Yet, unless those production levels are reached and, even, in some cases surpassed, due to population, technological and trade pattern changes, Japan will not be self-supporting and its deficits will fall upon the United States taxpayer."

My Chinese and Philippine colleagues have expressed concern over the phrase "in some cases surpassed". I should like to reassure them that there was no implication whatever in this phrase that SCAP or the U. S. Government contemplated any compromise of the principles set forth in the Far Eastern Commission decision dealing with "determination of the peaceful needs of Japan." They will note that that policy deals with the problem of Japan's consumption needs or, in other words, the standard of living of the Japanese people. That policy was explicit in dissociating the standard of living concept from any arbitrary prescription for the pattern of Japanese industry. In other words, paragraphs 2 and 3 of that policy make clear that the nature and size of a Japanese industrial structure capable of satisfying Japan's peaceful needs will be affected by population growth and various other factors and that the 1930-34 standard should not be interpreted to imply any specific level for any particular industry. It is, I believe, well known to the Commission that the economic statistics being prepared by the Japanese Government have been based upon the 1930-34 period = 100. Indices for industrial productivity are related to that base period. In saying that some production levels may have to surpass 1930-34 levels if Japan is to become self-supporting, I was merely making clear the fact that we cannot know at this time what, exactly, will be the pattern of Japan's economic activity which will take shape as a result of Japan's efforts to develop a peaceful self-supporting society capable of playing a part in the economic rehabilitation and recovery of the Far East and the world.

OFD:RWBarnett:evc:br

Cleared and draft
OFD attached
NA
J. J. J.Charles E. Saltzman
Assistant Secretary

4910

MEMORANDUM TO THE UNITED STATES MEMBER OF THE
FAR EASTERN COMMISSION

There is attached a statement which you are authorized to use at your discretion in replying to questions raised at the meeting of the Far Eastern Commission on 6 January 1949.

Charles E. Saltzman
Assistant Secretary for Occupied Areas

Enclosure

RWB
OFD

NA
WMB

John

OFD:RWBarnett:evc(FEC)
1/7/49

E N C L O S U R E

PROPOSED STATEMENT FOR THE U. S. REPRESENTATIVE
OF THE FAR EASTERN COMMISSION
REGARDING JAPANESE ECONOMIC STABILIZATION PROGRAM

At the January 6 meeting of the Far Eastern Commission the Chinese and Philippine members raised certain questions regarding a statement made by me at the Commission meeting of December 30. In that statement I observed that "Raw material shortages and difficulties in finding markets for manufactured output will make it most difficult for Japan to exceed 1930-34 levels even with maximum effort on the part of the Japanese. Yet, unless those production levels are reached and, even, in some cases surpassed, due to population, technological and trade pattern changes, Japan will not be self-supporting and its deficits will fall upon the United States taxpayer."

My Chinese and Philippine colleagues have expressed concern over the phrase "in some cases surpassed." I should like to reassure them that there was no implication whatever in this phrase that SCAP or the U.S. Government contemplated any compromise of the principles set forth in the Far Eastern Commission decision dealing with "determination of the peaceful needs of Japan." They will note that that policy deals with the problem of Japan's consumption needs or, in other words, the standard of living of the Japanese people. That policy was explicit in dissociating the standard of living concept from any arbitrary prescription for the pattern of Japanese industry. In other words, paragraphs 2 and 3 of that policy make clear that the nature and size of a Japanese industrial structure capable of satisfying Japan's peaceful needs will be affected by population growth and various other factors and that the 1930-34 standard should not be interpreted to imply any specific level for any particular industry. It is, I believe, well known to the Commission that the economic statistics being prepared by the Japanese Government have been based upon the 1930-34 period = 100. Indices for industrial productivity are related to that base period. In saying that some production levels may have to surpass 1930-34 levels if Japan is to become self-supporting, I was merely making clear the fact that we cannot know at this time what, exactly, will be the pattern of Japan's economic activity which will take shape as a result of Japan's efforts to develop a peaceful self-supporting society capable of playing a part in the economic rehabilitation and recovery of the Far East and the world.

CONFIDENTIAL

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

ACTION
is assigned to

FE

17 January 1949

ITP
OFD
~~OFD~~



The Honorable
Acting Secretary of State

Dear Mr. Secretary:

I have just had brought to my attention, FEC restricted paper Committee 2, 230/4 of 20 December 1948. This paper purports to be a review of the policy on excessive concentrations of economic power in Japan, FEC 230, prepared by Sub-Committee No. 3, Financial and Monetary Matters in accordance with instructions given it at the 128th meeting of Committee No. 2 "to prepare a concise summary of the important points at issue in FEC 230". According to the note by the Secretary General, it is presented in the form of a proposed policy in order to facilitate discussion and is circulated for the information of Committee 2, Economic and Financial Affairs. The inclosure proposes to restate the Far Eastern Commission policy with respect to excessive concentrations of economic power in Japan. I understand that this document was prepared by a sub-committee of Committee 2, on which the U.S. representative did not serve.

The Department of the Army believes there is a clear understanding with the Department of State that FEC 230 is no longer to have the support of this government and that no further statement of policy with respect to this question by the Far Eastern Commission is either needed or to be supported by this government. By agreement between the two departments, a Deconcentration Review Board was appointed by the Supreme Commander to review the decisions taken under the Japanese legislation already in existence on this subject and I understand that you and I have agreed that no further action on this matter should be taken by the Far Eastern Commission and that in accordance with this understanding, U.S. support for the proposal before the Commission was withdrawn. I realize, of course, that the U.S. representative has no control over the other countries representatives at the committee level in the commission. I request, however, that instructions to the U.S. member of

XR
740.00119
Control
(Japan)
XR 740.00119
FEAC

RECEIVED
DEPARTMENT OF STATE
5

894.50/1-1749 A/LA

DIVISION OF
NORTHEAST ASIAN AFFAIRS

JAN 21 1949

DEPARTMENT OF STATE

15322

DCR - CLAIMS UNIT
LA Class Electmade
LA

JUN 20 1951

FILED

894.50
/1-1749

CONFIDENTIAL

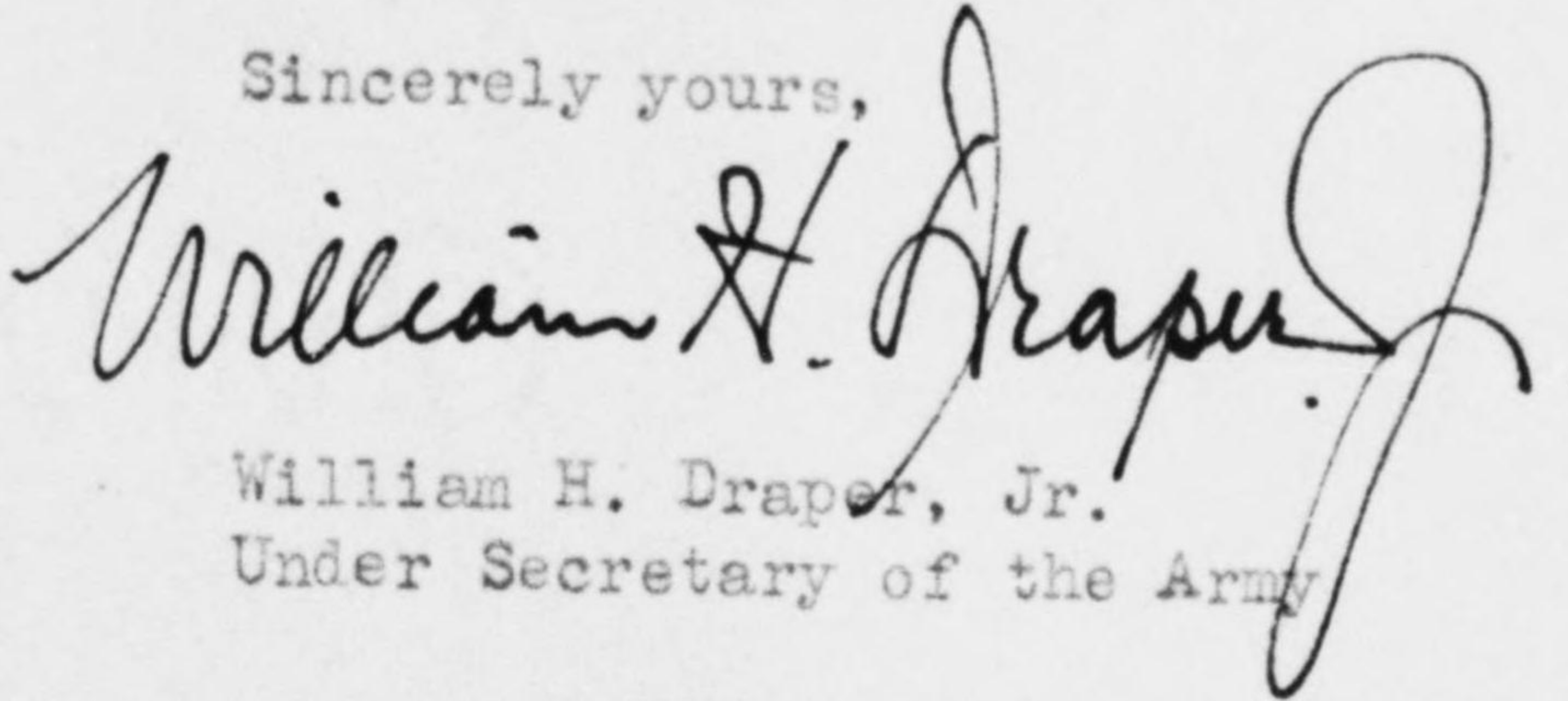
CONFIDENTIAL

- 2 -

the commission be reaffirmed to include the instruction to oppose the paper in committees and to prevent its adoption as a statement of policy by the commission.

Only last week, I invited Attorney General Clark and Mr. Saltzman to hear a report with me from Mr. Hutchinson, a member of the Deconcentration Review Board, and I am entirely prepared, as I told Mr. Saltzman on that occasion, to have Mr. Hutchinson explain fully to the members of the interested committees of the Far Eastern Commission just what has been accomplished with respect to elimination of the economic concentrations of power and the general operation and current situation. It may well be that Mr. Hutchinson's report will be useful to the U.S. member in convincing other members of the validity of the U.S. position that no further policy guidance in this field is necessary.

Sincerely yours,



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

CONFIDENTIAL

6289

FE
DCTR
NA

In reply refer to
NA

February 8, 1949

CONFIDENTIAL

MEMORANDUM FOR THE UNITED STATES MEMBER,
FAR EASTERN COMMISSION

894.50/1-1749

In accordance with previous oral instructions, and pursuant to the U.S. position set forth in the final two paragraphs of your statement of December 9, 1948, regarding "Excessive Concentration of Economic Power in Japan", it is requested that the U.S. Delegation oppose C 2-230/4, "Policy on Excessive Concentration of Economic Power", and attempt to dissuade FEC Members from

proposal which would have as its purpose the development of additional policy
~~policy proposal~~ on the subject of excessive concentration of economic power in Japan. Should C 2-230/4 or a similar proposal be sent forward to the Commission, you should prevent its adoption by the Commission.

CS/A

CHARLES E. SALTZMAN

2K
CK
JAN 31 1949 P.M. To E
FEB 8 1949

Charles E. Saltzman
Assistant Secretary

CONFIDENTIAL

A true copy of the signed copy
CR/21K

FE:NA:RA Fearey:aw 1/26/49

FE (D) E
initials by Mr. W. Carnot
(01/26/49)

894.50/1-1749

6297

FE

FEB 8 1949

In reply refer to
NA

CONFIDENTIAL

Dear Mr. Draper:

I have your letter of January 17 to the Acting Secretary in which you request that instructions to the U.S. Member of the Far Eastern Commission to oppose C 2-230/4, "Policy on Excessive Concentration of Economic Power in Japan" in committee, and to prevent this paper's adoption as a statement of policy by the Commission, be reaffirmed.

You will recall that the penultimate paragraph of the United States Statement of December 9, 1948, on "Excessive Concentration of Economic Power in Japan" contained the following sentence:

"Accordingly, upon a careful resurvey of the deconcentration program now well advanced in Japan, the United States now believes that, as a practical matter, there is no need to lay down policies for the guidance of the Supreme Commander with respect to any remaining significant aspect of the program."

In the final paragraph it is stated that reorganization of remaining excessive concentrations and related programs "no longer call for the development of policy".

Notwithstanding these clear statements of policy, with which the U.S. Representative on the Commission is of course fully familiar, he was orally instructed when C 2-230/4 was first submitted to oppose the paper at every stage of its consideration, and the U.S. Member of Committee No. 2 has followed these instructions

explicitly.

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

WHD

man

CONFIDENTIAL

894.50/1-1749

CS/A

894.50/1-1749

CONFIDENTIAL

- 2 -

explicitly. In view of your request that the instructions be reaffirmed, however, they have now been transmitted in written form (copy enclosed with this letter) to General McCoy.

I am informed that Mr. Hutchinson appeared before Committee No. 2 of the FEC on January 19 to explain the background and current status of the deconcentration program, and that his report was received with much interest. Copies of Mr. Hutchinson's written reports to you which you were kind enough to furnish this Department are now being studied by the concerned offices of the Department.

Sincerely yours,

Charles E. Saltzman
Assistant Secretary

Enclosure:

✓ Instructions to
U.S. Member of FEC.

215
GR
JAN 31 1949 P.M.
FEB 8 1949

RAY
FE:NA:RAFearey:aw

CONFIDENTIAL

1/26/49

Handwritten initials and stamps: "OFD", "E", "6299", and other illegible marks.

6299

C
O
P
YCONFIDENTIALMEMORANDUM FOR THE UNITED STATES MEMBER,
FAR EASTERN COMMISSION

In accordance with previous oral instructions, and pursuant to the U.S. position set forth in the final two paragraphs of your statement of December 9, 1948, regarding "Excessive Concentration of Economic Power in Japan", it is requested that the U.S. Delegation oppose C 2-230/4, "Policy on Excessive Concentration of Economic Power", and attempt to dissuade FEC Members from giving further consideration to this or any other proposal which would have as its purpose the development of additional policy on the subject of excessive concentration of economic power in Japan. Should C 2-230/4 or a similar proposal be sent forward to the Commission, you should prevent its adoption by the Commission.

Charles E. Saltzman
Assistant SecretaryCONFIDENTIAL

STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

TO : The Secretary

AA

DATE: January 25,
1949.

FROM : FE, Mr. Butterworth

THROUGH: S/S

SUBJECT: Background for Luncheon with Secretary Royall

SECRET

10

It is understood that at your luncheon tomorrow with Secretary Royall he will wish to discuss several of the more important problems concerning relations with Japan. One of the chief reasons for Secretary Royall's visit to Japan at this time is believed to be his desire to make certain that the initiation of the economic stabilization program gets off to a good start. As you know, he is taking with him Mr. Norman Dodge of Detroit who will remain in Japan as financial adviser to SCAP. General MacArthur has from the beginning resisted the efforts of the Washington agencies concerned to impose on Japan a stabilization program and it was only after the NAC had taken a firm stand on this matter and after an interim directive had been issued that SCAP took steps to get the Japanese Government to carry out the desired program. This program is based on the report of the Young Mission which went to Japan some time ago with a view to studying the problem of the establishment of a commercial rate of exchange and one of the purposes of the stabilization program is to make possible the establishment of such a commercial exchange rate. FE has learned informally that General MacArthur has recently set up in Tokyo a high economic council to advise him on all economic matters, composed of General Whitney as chairman and Generals Marquette and Fox. In view of the reluctance of SCAP to introduce the stabilization program, there is some reason to fear that this economic council may have been set up as a buffer between Mr. Dodge and SCAP with a view to watering down any recommendations which Mr. Dodge may make before they reach General MacArthur. In view of the importance of Mr. Dodge's mission the President has given him, with the approval of this Department, the personal rank of Minister, and it is believed that he should have direct access to General MacArthur in order to achieve the best results. A copy of the stabilization directive is attached as TAB A.

Another matter which may come up during your luncheon with Secretary Royall is the implementation of NSC 13/2, which sets forth US policy on Japan. As you know, this paper is based

upon

SECRET

894.50/1-2549

SECRET

-2-

upon the report made by George Kennan as a result of his trip to Japan last spring. One of the primary purposes of this policy is to encourage SCAP to increase the use of his executive authority in carrying out policy, but considerable resistance has been met in trying to implement this policy. This resistance comes not only from General MacArthur himself but from various sections of his headquarters who apparently are not in accord with the policy provisions of NSC 13/2. There has also been some difficulty in Washington in securing agreement as to methods of implementing this paper but it is believed that at present relations between the Department of the Army and the Department of State in this respect are satisfactory.

The question of United States relations toward the Far Eastern Commission may also arise, and it is believed you will wish to read the statement on this problem which has been prepared for your policy book. Briefly, the Department of the Army has taken the position that for all practical purposes the objectives of the FEC have been substantially fulfilled and that from now on the scope of action of that organization should be held to a minimum. While agreeing in general with this point of view this Department has felt that the United States Government could not lightly ignore or by-pass the FEC because of its international commitments, but that every effort should be made through positive action and leadership to ensure that activities of the FEC do not infringe on the executive authority of SCAP. It is agreed that the FEC should not interest itself in detailed implementation but only in the determination of broad general policies on matters which clearly come within its terms of reference. One of the reasons for wishing to encourage General MacArthur to make more use of his executive authority, as mentioned in the preceding paragraph, is that in this way it will not be necessary for interim directives to be issued which would then have to be filed with the FEC and would thereby give that body a locus standi in many matters.

It has not yet been possible to obtain agreement within the Department on the reparations program. Pending final determination by the Department of its position on Japanese reparations, which it is hoped may be achieved in the near future, it is not believed advisable to go into that question with Secretary Royall at this time. However, you may wish to look at the statement in your policy book which has been prepared on this question.

I

SECRET

SECRET

-3-

I am sending you a separate memorandum on the subject of State Department representation in Japan for your information in the event that Secretary Royall brings up the subject.

LWB

FE:JMAllison:hst

SECRET

1/27.1

SECRET

10 December 1948

A

INTERIM DIRECTIVE TO THE SUPREME COMMANDER
FOR THE ALLIED POWERS

ECONOMIC STABILIZATION IN JAPAN

The following interim directive of the United States Government, serial number 96, prepared by the Department of the Army, in accordance with Paragraph III, three of the terms of reference of the Far Eastern Commission, has been received from the Department of the Army for transmission to you for necessary action:

"1. You will direct the Japanese Government immediately to carry out a program of economic stabilization by adopting whatever measures may be required rapidly to achieve fiscal, monetary, price and wage stability in Japan and to maximize production for export.

"2. In the development of the above program you will direct the Japanese Government to adopt measures designed to:

a. Achieve a true balance in the consolidated budget at the earliest possible date by stringent curtailing of expenditures and maximum expansion in total government revenues, including such new revenue measures as may be necessary and appropriate.

b. Accelerate and strengthen the program of tax collection and insure prompt, widespread and vigorous criminal prosecution of tax evaders.

c. Assure rigorous limitation of credit extension to projects contributing to economic recovery of Japan.

d. Establish an effective program to achieve wage stability.

e. Strengthen and, if necessary, expand the coverage of existing price control programs.

f. Improve

SECRET

SECRET

- 2 -

f. Improve the operation of foreign trade controls and tighten existing foreign exchange controls, to the extent that such measures can appropriately be delegated to Japanese Agencies.

g. Improve the effectiveness of the present allocation and rationing system, particularly to the end of maximizing exports.

h. Increase production of all essential indigenous raw material and manufactured products.

i. Improve efficiency of the food collection program.

"3. The above plans will be developed to meet a target date for the establishment of a single general exchange rate not later than three months after the initiation of the stabilization program by the Japanese Government."

SECRET

INCOMING AIRGRAM

2578

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

AIRGRAM

DIVISION OF INVESTMENT AND ECONOMIC DEVELOPMENT
 No action necessary
 FEB 8 1949
 2/9/49 HD mw
 DEPARTMENT OF STATE

OFFICE OF FINANCIAL AND DEVELOPMENT POLICY

no action necessary
 FEB 8 1949
 H. B. 2/19/49
 DEPARTMENT OF STATE

1439

FROM: USPOLAD Tokyo

Dated: January 28, 1949

Date of mailing: January 29, 1949

Rec'd: FEB. 7, 1949, 3:47 p.m.

5
 P
 ACTION: OFD
 INFO
 DC/R
 O
 PE
 E
 ITP
 TRC
 OLI
 DC

CONFIDENTIAL (For Department use only)

Secretary of State,
Washington.

A-21, January 28, 1949.

(In order to keep the Department currently informed of economic developments in Japan, especially with regard to important policy matters under discussion in this Headquarters, the Mission herewith inaugurates a special series of weekly airgrams to the Department. As it is intended briefly to present information on subjects which may be highly classified and concerning which it might prove embarrassing to this Mission should reference thereto be made in telegrams to Tokyo, it is requested that every effort be made to limit distribution of this series of airgrams to the Department.)

1. Yen-Dollar Exchange Rate. Strongly favored in ESS Committee on Establishment of Yen Exchange Rate is relatively low rate of around 330. However, ESS officials directly connected with trade and financial problems are reliably known to favor rate between 370 and 400. Adherents of these two viewpoints feel that action to fix rate will be taken following arrival of Dodge with Royall Mission.

2. Subsidization of Industries. Japanese sources indicate that establishment of single general yen-dollar exchange rate will probably cause those industries whose costs of production will not permit profitable operation at established rate to seek subsidies from Japanese Government to make up difference, rather than endeavoring to streamline their operations to achieve lower costs. In this connection, present indications are that persons concerned in General Headquarters and Japanese Government favor grant of domestic, as distinguished from export, subsidies temporarily to those in-

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

894.50/1-2849

FEB 11 1949

HH

-2-

Tokyo's A-21,
January 28, 1949

single general exchange rate. We are inclined to hold view, however, that in event grant of subsidies not controlled strictly, ultimate effect will be same as that which would obtain if multiple export rate were adopted.

3. Deconcentration being Completed. During week ending January 29, a total of 16 more Japanese companies were released by SCAP from designation under deconcentration program. Action on all remaining designated companies now expected to be taken by end February. Meanwhile, reorganization important Japan Iron and Steel, Dai Nippon Brewery and Oji Paper Manufacturing companies being effected.

4. Labor-Management Conference. A special labor-management conference opened in Tokyo January 27 sponsored by ESS Labor Division. Participants include representatives from SCAP, Eighth Army, management and labor groups. ESS hopes general agreement on wage stabilization will be reached voluntarily by management and labor although those SCAP officials closest to labor situation assertedly not optimistic regarding early voluntary settlement.

5. SCAP Recognition of Securities Markets. Although sales of securities at Tokyo unofficial "curb exchange" fell off following the January 23 elections, reportedly due to Communist gains, recovery to pre-election sales volume of approximately 1,000,000 shares daily has since been noted. In this regard, present indications point to early recognition by SCAP of securities markets in Japan by permitting stock exchanges to reopen. Such markets now permitted to operate on informal basis but without formal SCAP permission.

6. Trend of Industrial Production. ESS industrial experts believe Japan's overall industrial production during January and February 1949 will recede slightly from that of December 1948 but that slight gain will be made in March 1949. The index of industrial production for December 1948 is tentatively placed at 64 while the index for March 1949 is predicted at 65.

7. ESS Foreign Investment Board. During week ending January 29 special Foreign Investment Board established in ESS met with representatives of Japanese Government to discuss broad principles governing foreign investments in Japan. Several prominent American companies, e.g., Standard-Vacuum Oil Company, Texas Co., Ltd., and Pan American Airways, already pressing Investment Board for immediate decision on specific proposals aimed to expand their operations in Japan. Foreign business community has shown great interest in

CONFIDENTIAL

-3-

Tokyo's A-21,
January 28, 1949

work of this Board, especially with reference to manner in which
it will make first decisions in accordance with its announced stand-
ards for foreign investments.

SEBALD

500
DMM/CHB/DMB/EGS:rc

CONFIDENTIAL

INCOMING AIRGRAM

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

AIRGRAM

4472

FROM: USPOLAD, Tokyo

1
P
ACTION: ITP
INFO
DC/R
O
EUR/X
EUR
FE
ARA
E
OFD
OLI

(CONFIDENTIAL (FOR DEPT. USE ONLY))

Date of Mailing: February 5, 1949

DIVISION OF COMMERCIAL POLICY

no action required
File

Recd: Feb 21, 1949, 1:25 pm

Secretary of State,

Washington,

A-27, February 4, 1949.

DEPARTMENT OF STATE

(This airgram supplements our A-21, January 28. Request distribution be limited to Department for reasons stated in that airgram.)

1. Communist Interference in Tax Collection Program. The Japanese Communist Party (JCP) appears to have been signally successful in gaining adherents by demanding lower taxes for the masses; attempting to expose tax evasion by profiteers, black marketers and the wealthy in general; and giving legal counsel on tax matters to farmers, fishermen, laborers and small-scale industrialists and businessmen. So-called "tax struggle" is reliably reported as one of major JCP lines of attack in campaign for Jan. 23 elections. Intelligence reports indicate that an appreciable proportion of those who voted Communist ticket were individuals grateful for assistance in getting their income and other tax assessments reduced by from 20 to 50 percent. Although subject of Communist tax interference, including Communist infiltration into tax offices, has been regularly investigated by G-2, Internal Revenue Division of Economic and Scientific Section (ESS) has now requested G-2 to make more complete and detailed survey of current situation, with view to recommending counter-action to Japanese Govt.

2. American Businessmen not Satisfied. The American Chamber of Commerce, Tokyo, on Feb. 7 will present to Secretary of the Army Royall and his party a statement of grievances against the Occupation. While generally appreciative of steps recently taken by SCAP to expand opportunities for foreign businessmen, spokesman for the Chamber in meeting Feb. 1 expressed considerable bitterness over treatment received in Japan, especially from lower echelons in various sections of this Headquarters.

3. Trade Negotiations with France and Belgium. ESS now conducting trade talks with representatives of French Union and Belgium. With French Union, balanced trade agreement contemplated with total trade of \$20,000,000 per year.

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

ITP/D

CP	ACTION
INFO	INFORMATION
ITP	<input type="checkbox"/>
IP	<input checked="" type="checkbox"/>
CH	<input checked="" type="checkbox"/>
IR	<input type="checkbox"/>
PED	<input type="checkbox"/>

1949 FEB 23 AM 10:04

894.50/2-449

MAR 7 1949

FILED

HH

Tokyo's A-27

February 4, 1948

-2-

arrangement to continue. Belgians do not favor concrete trade plan but will most likely conclude financial arrangement. Lack of interest in trade plan said based on general opposition to conducting trade through government channels or under governmental planning and control. Early meetings indicate financial agreement with Belgium will resemble SCAP-Egyptian agreement, with dollars earned by party making early sales to be held in escrow pending compensating sales by second party.

4. Labor-Management Conference. Report on this conference, held at Tokyo Jan. 27-28, contained our A-25, Jan. 31. Maj. Gen. W. F. Marquat, Chief of ESS, holds view that SCAP's policy will be one of establishing "flexible" controls over wages and prices in contrast to "inflexible" controls which Japanese Govt. would set up if given free hand to do so. In our opinion, distinction apparently drawn between formal enactment of wage-freeing measure and informal settlement on case-by-case basis; end result will probably be same, however, with wage increases tolerated only when accompanied by increased productivity.

5. Trade Mission to Latin America. ESS now planning send SCAP trade mission to Mexico and such South American countries as Peru, Chile, Argentina and Brazil. Mission, which may be accompanied by four Japanese trade experts, will probably leave Japan mid-March. Not yet certain whether all countries to be visited willing to receive Japanese members of mission. General plan is to discuss trade possibilities between occupied Japan and countries cited, with hope of concluding trade agreements or at least laying groundwork for such agreements.

6. Foreign Exchange Control Board. On Feb. 1 SCAP directed Japanese Govt. to establish Foreign Exchange Control Board for purpose of implementing controls over movement of foreign exchange in connection with Japan's foreign trade. Not mentioned in press reports of this development is fact Finance Minister informally assured General Marquat, Chief of ESS, Board would be set up within 60 days by which time all regulations and working procedures would be drawn up.

7. Exchange Rate on Export Commodities has been lowered to 450 yen to the dollar in order to speed up the rationalization of industries which will be hardest hit by establishment of single exchange rate. We estimate that this will affect enterprises producing about five percent of Japan's present exports, including high-cost producers of such items as potteries, sundry goods, rubber manufacturers and bicycles.

SEBALD

500

DME/CHB/DMB/EGS:rc

CONFIDENTIAL

INCOMING AIRGRAM

44480

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

I
A
ACTION: OPD
INFO
DC/R
L
O
EUR/X
EUR
FE
E
ITP
OPD
TRC
OLI

File as action
MAR 8 1949
DIVISION OF FINANCIAL AFFAIRS
DEPARTMENT OF STATE

AIRGRAM

1537

FROM: USPOLAD, Tokyo.

Date of mailing: February 26, 1949

Rec'd: March 7, 1949, 3:59 PM

CONFIDENTIAL (FOR DEPT USE ONLY)

Secretary of State,

Washington.

A-46, February 25, 1949.

OFFICE OF
FINANCIAL & DEVELOPMENT POLICY
MAR 8 1949
DEPARTMENT OF STATE

xR
661.9431

(This airgram supplements this Mission's A-43, February 18, 1949, and earlier airgrams in this series. Request distribution be limited to Department for reasons stated in A-21 of January 28, 1949.)

1. Soviets Claim Discrimination in Shipbuilding. Mr. N. A. Gromov, Soviet Trade Representative in Japan, in letter dated February 18, 1949, to Maj. Gen. W. F. Marquat, Chief, Economic and Scientific Section (ESS), CHQ, SCAP, claimed discrimination against Soviet Union in Japanese shipyard construction of vessels for account foreign interests. Mr. Gromov referred to refusal of ESS Foreign Trade and Commerce Division to accept Soviet order for 15 steel seiner boats, representing reduction from 45 steel seiner boats and five tuna clipper boats originally requested by Soviets in November 1947. In his letter, Mr. Gromov stated that: "This refusal should be considered absolutely groundless and contradicting to the Far Eastern Committee policy decisions dated 9 May 1947, No. 032/22 and 20 June 1947, No. 014/9, regarding the equal opportunities in trade with Japan for all members of the United Nations, because CHQ SCAP simultaneously with that refusal agreed to construct in Japan 15 large steel vessels with total tonnage of 172,000 gross-tons for export to Norway, Denmark, France, USA and Philippines, as was reported in the Japanese press."

While this Mission has not yet received copy of ESS report, it is noted that ESS announced February 23 that contracts for about \$8,000,000 have just been signed for construction in Japan of five steel vessels, four for Danish interests and one for Norwegian, and ESS expresses confidence that further contract for three additional ships for Philippine interests will be signed within next

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

894.50/2-2549

HH

Tokyo's A-46,
February 25, 1949.

- 2 -

2. Ratification of SCAP-French Trade Accord expected. Officials of French Mission in Japan stated to officer this Mission that ratification of SCAP-French Union trade arrangement (see despatch No. 77 of February 5, 1949) may be expected soon. Those officials have indicated that while trade will be at level contemplated in trade plan, some revision of contents of trade are to be expected, with more emphasis on Japanese exports of cotton textiles and less on silk.

3. Deconcentration Policy Affects nationalization of Industries. Recent orders by Holding Company Liquidation Commission to Tokyo Shibaura Electric and Hitachi Industrial companies present interesting indication of way Deconcentration Law being used to further industrial rationalization in Japan. Present orders provide no breakup of companies into two or more successor companies, but require disposition of certain unprofitable operations for sake of more efficient management. Action in this direction seemingly represents departure from policy announced last September by Deconcentration Board to effect that no orders would be issued under Deconcentration Law unless a prima facie case of restraint of trade was shown.

4. Exchange Rate of 400-1 Discouraged. Japanese Economic Stabilization Board (ESB) during past two weeks has discussed with SCAP officials concerned adoption of foreign exchange rate of between 300 and 330 to United States dollar. In conversation with officer this Mission, the ES liaison with SCAP confidentially stated that ESB's latest study had indicated that rate of about 400 to 1 would be most satisfactory but that ESB had been informally advised by members of Economic and Scientific Section of this Headquarters that such rate is out of question and not being considered further.

5. Dodge Insists on balanced Japanese Budget. On February 23 in his first meeting with new Japanese Minister of Finance, Joseph E. Dodge, financial adviser to SCAP, stated in clear and concise terms the requirement for true balance in total consolidated Japanese budget for fiscal year commencing April 1, 1949. Heretofore general budget has been submitted to Diet, followed by several special accounts also requiring Diet approval. Mr. Dodge insisted strongly that these accounts be brought together and single consolidated budget be

CONFIDENTIAL

Tokyo's A-46,
February 25, 1949.

- 3 -

compiled, based on conservative estimates of revenue and reasonable margins of error for expenditures.

6. Proposed SCAP Trade Mission to Latin America Delayed. ESS still hoping proposed SCAP trade mission to Latin America, under discussion since April 1948, may leave Japan mid-March. Plans for clearance from certain South American countries have not progressed as rapidly as anticipated. The mission, to be headed by Mr. Frank E. Pickelle, Chief of the Foreign Trade and Commerce Division, ESS, will include three ESS trade experts and five Japanese experts to assist in making actual sales of Japanese products.

7. Employment of Japanese Technician in India. Discussions held during past week by officials concerned in this Headquarters regarding granting permission for employment of Japanese technician in India. Executive Office of ESS liberally inclined to permit such employment with approval of contract but currently G-2 considers Headquarters should not permit Japanese to be employed abroad unless clearly demonstrated such employment of outstanding benefit to economy of Japan or employing nation.

8. Direct Trade between Japan with Taiwan. Question of direct Japan-Taiwan trade (mentioned our A-43, February 18, 1949) now referred by ESS, SCAP to Embassy, Nanking, in telegram dated 20 February repeated to Department of Army. After stating that complexities of dealing through Chinese Government licensing system have deterred development of trade between Japan and Taiwan, suggestion made that possibilities for direct trade be explored. Telegram noted Japan interested in Taiwan sugar, coal, ores and salt, in return for Japanese textiles, leather goods, rolling stock, industrial machinery and equipment, chemicals and drugs, et cetera.

9. Direct Trade between Ryukyu Islands and Taiwan. During visit to Okinawa February 14-18, officer this Mission was informed that Economics Department, (U.S.) Military Government of Ryukyus, is exploring possibilities of opening direct trade between Ryukyus and Taiwan. Some clandestine trade is now being carried on between southern Ryukyus and Taiwan, with goods from Taiwan and China being offered for sale on Okinawa. Military Government believes that centuries-old trade pattern and inability of Military Government to prohibit Ryukyuan-Taiwan trade give added reason to attempt to regularize trade to benefit Ryukyuan economy.

SEBAIN

500
DMB/CMB/ECS:rc

CONFIDENTIAL



THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

[Handwritten signature]

United States Political Adviser
for Japan

Scpr file

No. 123

Tokyo, February 25, 1949.

RESTRICTED

Subject: Establishment of Free Enterprise System in the Ryukyu Islands.

No action required

The Honorable
The Secretary of State,
Washington.

G DIVISION OF
NORTHEAST ASIAN AFFAIRS
file
MAY 11 1949
DEPARTMENT OF STATE

Rec'd
Mar 4

Sir:

ACTION
FE

INFO
FR
DCR
ITP
OFD
CLI
COM
AGRI
TAR
FRB
O

1/
2-5/

I have the honor to report that an important step toward economic rehabilitation of the Ryukyu Islands was taken October 26, 1948, when the United States Military Government of those Islands, with headquarters on Okinawa, issued Special Proclamation No. 33, which establishes free enterprise within the Ryukyus, as well as the rules and regulations under which the Ryukyans may engage in trade among themselves and with members of the United States occupation forces.

Simultaneously with the issuance of this proclamation, a copy of which is enclosed, the Military Government on the same day sent to the chiji, or governors of the four Ryukyuan regional civil governments, directives providing for the implementation of various provisions of the proclamation. Copies of these four directives (Nos. 37-40, inclusive) are also enclosed.

Directive No. 37 requires that a declaration of essential commodities be made by each of the civil governments every six months. The declaration and approval of the essentiality of a given commodity automatically prohibits its use in trade with non-Ryukyans or as an item of inter-area Ryukyuan trade until removed from the list of essentials.

Directive No. 38, sent only to the chiji of the Okinawa Civil Administration, provides for the establishment of special areas on Okinawa for purpose of commercial transactions between Ryukyans and United States occupation personnel.

Directive No. 39, sent to the chiji of the four civil administrations, states that each administration will establish a central licensing office for issuance of licenses to persons engaging in business transactions in the Ryukyus.

Of more than passing interest is Directive No. 40, which specifies regulations by which permanent committees on Ryukyuan economy, composed of not less than three and not more than five members, be

established

RESTRICTED

MAY 11 1949
FILED

ACTION COPY

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

894.50/2-2549

DMR

Tokyo's Despatch No. 123,
February 25, 1949.

- 2 -

established. Each chiji is directed to appoint representatives from each of the four regional governments, these representatives to be members of the respective independent area committees as well as members of a single committee for the entire Ryukyus. As stipulated in paragraph 5 of the directive, the primary function of the area committees will be to assemble and submit data as directed by the Economics Department, Military Government, relative to production, commercial transactions, prices, wages, population and living standards within the area represented. The primary function of the Ryukyuan Committee, as stipulated in paragraph 6 of the directive, will be the periodic analysis of economic conditions and trends, as reflected by the data assembled by the area committees, and the submission of recommendations to the Military Government for the achievement of the maximum degree of Ryukyuan self-sufficiency.

According to the Ryukyuan Military Government Section (RMGS), General Headquarters of the United States Far East Command, Tokyo, Special Proclamation No. 33, which is generally referred to as the "free enterprise proclamation," will take on increased meaning only with the general revival of trade and industry expected to result from the carrying out of special economic rehabilitation programs inaugurated by the Military Government for the current and next four fiscal years. A responsible officer of RMGS on February 22, 1949, pointed out to an officer of this Mission that equipment, raw materials and consumers' goods must be injected into the Ryukyuan economy in order to provide the basis for recovery on a free enterprise basis.

Since the occupation of the Ryukyus by United States armed forces in 1945, the interchange of goods among the several major island groups has been strictly controlled by the Military Government and all transactions were made only by the civil governments and supervised by the Military Government. A complicating factor in this situation, featured by almost complete stagnation of inter-area trade, was the disparity in the price levels between Okinawa, with the most depressed economy, and the more nearly self-sufficient northern and southern areas. Okinawa, having the least to trade, required the most in goods but was unable to pay the relatively high yen prices asked by the other islands. The lifting of price controls and lessening of inter-area trade barriers throughout the Ryukyus, as provided for by Special Proclamation No. 33, is an initial step in leveling the economies of all areas.

According to the recently-issued but undated Ryukyuan Economic Bulletin, prepared by the Economics Department of the Ryukyuan Military Government, Ryukyuan foreign and inter-area trade prospects have improved substantially in recent months. Resumption of trade, it is pointed out, will be possible for the following two reasons: (1) Some items, especially much-needed consumers' goods, are available in Japan for export to the Ryukyus, and are now being purchased here under Ryukyuan Military Government auspices by means of a special dollar fund. This fund accumulates in the Ryukyus from payment of wages to servants of occupation personnel and for money expended in the Ryukyus by occupation personnel for Ryukyuan handicraft goods, and now amounts to several hundred thousand dollars.

(2) Appropriated

RESTRICTED

Tokyo's Despatch No. 123,
February 25, 1949.

- 3 -

(2) Appropriated funds from the United States were made available in fiscal year 1949 for the purpose of Ryukyuan rehabilitation. This will make possible the processing and manufacture of commodities for export. Prior to fiscal year 1949, the use of appropriated funds was restricted to the "alleviation of disease and unrest" level. Imports have thus far been largely of a relief nature, these being purchased mostly in the United States with dollars and sold to the Ryukyans for yen in the form of food or food producing supplies (e.g., fertilizer for agriculture and lumber for fishing boats), clothing, shelter and medical supplies.

While Special Proclamation No. 33 provides, inter alia, for the establishment of special committees on Ryukyuan economy for consultation with the Military Government, another recent development involves the shifting of certain operational responsibilities to the Ryukyans. A Ryukyuan Board of Trade, now being formed and referred to in Article V of the proclamation as the Import-Export Board, will handle civilian supply imports as well as the promotion and operation of the actual import-export trade. According to the Economics Department, Ryukyuan Military Government, the Board of Trade will take action in its field of activity, independent of any one civil government. As now planned, the Board will conduct the only Ryukyuan-wide civil government functions thus far permitted the Ryukyans by the Military Government.

According to statements made to an officer of this Mission who visited Okinawa during the period February 14-18, 1949, there is considerable optimism manifested on the part both of Ryukyans and of Military Government personnel over the immediate and long-range effects of the introduction of the free enterprise system in the Ryukyus. Whereas some six or seven months ago there were no privately-owned stores in operation on Okinawa, there has been, since issuance of Special Proclamation No. 33, some expansion in that field. Small stores, primarily selling locally-made goods, have been established, together with shops doing such work as watch and clock repair, the making of household utensils out of aluminum aircraft scrap and beer cans, et cetera.

It was also pointed out by persons interviewed by the officer of this Mission that the lifting of price controls and rationing of indigenous commodities, as well as the lessening of inter-area trade barriers, also as provided by Special Proclamation No. 33, will tend to reduce smuggling between the northern Ryukyuan islands and Japan and between the southern islands and Taiwan. Contrariwise, there will now be a natural tendency for goods to move from surplus areas in the Ryukyus to Okinawa, which suffered heavily from the fighting which preceded the occupation of the island by United States forces and which later suffered from two of the most disastrous typhoons recorded in recent history of Okinawa.

Respectfully yours,

Enclosures: *att.*

W. J. Sebald
W. J. Sebald

1. Copy

RESTRICTED

Tokyo's Despatch No. 123,
February 25, 1949.

- 4 -

- ✓ 1. Copy of Special Proclamation No. 33 issued October 26, 1948, by the U. S. Military Government, Ryukyus Command, Okinawa;
- ✓ 2. Copy of Military Government Directive No. 37 issued October 26, 1948, subject: "Declaration of Essential Commodities";
- ✓ 3. Copy of Military Government Directive No. 38 issued October 26, 1948, subject: "Establishment of Special Areas for Purpose of Commercial Transactions on Okinawa between Ryukyans and Occupation Personnel";
- ✓ 4. Copy of Military Government Directive No. 39 issued October 26, 1948, subject: "Licensing of Business Enterprises";
- ✓ 5. Copy of Military Government Directive No. 40 issued October 26, 1948, subject: "Establishment of Committees on Ryukyuan Economy".

Parchment Mat to Department

510.1
CHBoehringer:rc

RESTRICTED

gwm

UNCLASSIFIED

Enclosure No. 1 to Despatch No. 123
from the United States Political Ad-
viser for Japan, Tokyo, dated February
25, 1949, on the subject "Establish-
ment of Free Enterprise System in the
Ryukyu Islands."

(COPY)

UNITED STATES MILITARY GOVERNMENT

SPECIAL PROCLAMATION NO. 33

TO THE PEOPLE OF

THE ISLANDS OF NANSEI SHOTO AND ADJACENT WATERS SOUTH
OF THIRTY (30) DEGREES NORTH LATITUDE

WHEREAS, it is deemed desirable to provide means whereby
Ryukyans may under certain conditions, engage in free trade on
one economic level, among themselves and with persons of other
nationalities, within their borders.

NOW, THEREFORE, I, W. W. EAGLES, Major General, United States
Army, Chief Military Government Officer of the Islands of Nansei
Shoto and Adjacent Waters South of Thirty (30) Degrees North Lat-
itude, do hereby proclaim as follows:

Article I

DEFINITIONS

In this Proclamation and for all purposes relating thereto:

- a. Ryukyu Islands (the Ryukyus) are those islands of Nansei Shoto and adjacent waters South of Thirty (30) Degrees North Latitude.
- b. A RYUKYUAN is an individual lawfully inhabiting any part of the Ryukyu Islands who is a native thereof, or who has taken up residence therein with the intent of remaining indefinitely.
- c. FREE ENTERPRISE is the manufacture of commodities, the buying and selling of commodities and services without price control according to prescribed regulations.
- d. INTER-AREA TRADE is the licensed exchange of commodities between any two of the territorial areas of the four Regional Governments; namely, Northern Ryukyus, Okinawa, Miyako and Yaeyama. Trade between islands of the same Regional Governments is not Inter-Area Trade for the purposes of this proclamation.
- e. MARKET is any place licensed to exchange goods or services.
- f. INDIGENOUS COMMODITY is any item produced or procured from the natural resources of the Ryukyu Islands or manufactured therein.
- g. ESSENTIAL COMMODITY is any item declared by Military

Government

UNCLASSIFIED

Enclosure No. 1
to Tokyo's Despatch No. 123,
February 25, 1949.

- 2 -

Government to be essential for the rehabilitation of the basic economy of any area within the Ryukyu Islands.

h. RATION is the amount of an essential commodity allotted to an individual for a given period of time.

i. SERVICES are jobs requiring specialized skills such as watch repairing, tailoring etc. offered to the public by a Ryukyuan in a licensed market.

Article II

FREE ENTERPRISE

Any Ryukyuan will be permitted to initiate and to engage in Free Enterprise, including Inter-Area Trade, and, will be permitted to sell his products or services to the Ryukyuan population and to persons of all other nationalities within the Ryukyu Islands, except to those known by seller to have entered the Islands illegally, subject to the following conditions:

a. Each individual or group of persons desiring to establish a business, or to engage in Inter-Area Trade, will first apply to the Civil Administration or Provisional Government of his locality and receive a license in accordance with such regulations as may be approved by Military Government.

b. Indigenous food and other essential commodities will be sold without price control in Ryukyuan markets, to Ryukyuan only. The rationing of essential indigenous commodities is discontinued but such commodities will not be available for Inter-Area Trade so long as their essentiality to the area of production continues.

c. Commodities not determined to be essential by a Regional Government and approved as such by Military Government will be sold by Ryukyuan without price or quantity control to both Ryukyuan and non-Ryukyuan in markets located in areas which are not off-limits and which have been previously approved by Military Government.

d. A business licensed and operated by Ryukyuan primarily to furnish services such as tailoring, watch repairing and cobbling, may furnish such services to all persons without price control.

Users of such Ryukyuan services will deal with licensed operators only. The licensee may perform the work personally or he may delegate the work to an employee.

e. A Ryukyuan desiring to sell non-essential commodities or services to non-Ryukyuan, as well as to Ryukyuan, will establish his market at a place on a main highway which has been previously approved by Military Government and so marked. Non-Ryukyuan will not enter any off-limits areas for the purpose of trading in the markets located therein.

f. Ryukyuan

UNCLASSIFIED

Enclosure No. 1
to Tokyo's Despatch No. 123,
February 25, 1949.

- 3 -

f. Ryukyans may engage with other Ryukyans in Free Inter-Area Trade in other than essential commodities; such trade to be licensed both in area of origin and in area to which imported. Commodities declared to be essential will not be exchanged among the areas.

g. Ryukyans will not engage in the production, manufacture, distribution or sale of a commodity which has been made a government monopoly, except as agents of such government.

Article III

MILITARY GOVERNMENT CIVILIAN SUPPLY IMPORTS

Goods imported by Military Government will be sold to Ryukyans on a supplementary rationed basis, determined by the difference in the quota for the individual, as specified by Military Government, and that portion of such quota as he may first obtain from indigenous goods. The distribution of such supplementary ration will be dependent upon the availability of such imports at any given time. Food will be supplied on a caloric basis as defined by Military Government Directives establishing the basic diet. Clothing and other goods will be supplied on an item basis as prescribed by Military Government. The price of Military Government imported goods will be based on the prices of similar indigenous commodities or in the absence of any similarity to indigenous goods, in line with the current level of the general economy; except in case of Military Government goods sold to government employees, prices will be set consistent with the fixed government wages, as specified in Article VII, hereinafter.

Article IV

MEDIUM OF EXCHANGE

The only currency permitted for use in transactions between, or with, Ryukyans will be the currently authorized circulating medium of exchange of the Ryukyu Islands. Non-Ryukyuan purchasers will obtain such currency through channels prescribed by Military authority.

Article V

MILITARY GOVERNMENT IMPORT-EXPORT PROGRAM

The Import-Export Board of the Ryukyu Islands will, subject to supervision of Military Government, determine the distribution, and be accountable for the disposition of goods except those purchased with appropriated funds imported by Military Government for use by Ryukyans. Prices will be based on the cost of similar indigenous commodities or on a fair value determined by the prevailing economic condition in the Ryukyu Islands.

Article VI

UNCLASSIFIED

Enclosure No. 1
to Tokyo's Despatch No. 123,
February 25, 1949.

- 4 -

Article VI

ITEMS FOR USE BY U. S. FORCES

It shall be unlawful for Ryukyuans knowingly to buy, sell or barter any U. S. Government-issued foods, clothing equipment or post-exchange items intended for exclusive use by members of U. S. Military Installations or agencies thereof, except where specifically authorized by Military Government.

Article VII

COMMITTEE ON RYUKYUAN ECONOMY

Representatives from each of the four Regional Governments, appointed from officials thereof, by the respective Chiji thereof, will be organized immediately as a permanent Committee on Ryukyuan Economy. Such Committee will conduct Military Government directed surveys periodically for the purpose of supplying statistical data on a continuing basis which will reflect the trends in business enterprises, production, wages, commodity prices, and living standards. The representatives of each Regional Government will act as an independent Committee on Economy within its governmental area and as a constituent part of one Ryukyuan-wide Committee.

The work of the Committee on Ryukyuan economy will be performed by the members as a part of their regular official duties. Travel expenses incurred by members will be reimbursable from Ryukyuan yen budget.

Article VIII

PENALTIES

a. Any person who, in the Ryukyus, engages in Free Enterprise or Inter-Area Trade as defined in Article I of Special Proclamation Number 33, without a license as required by said proclamation, shall, upon conviction, be sentenced to a fine of not more than ¥1,000, or imprisoned for not more than three months, or both.

b. Any person who, in the Ryukyus, engages in the export in Inter-Area Trade of essential commodities as defined by applicable Military Government Directives, shall, upon conviction, be sentenced to a fine of not more than ¥5,000, or imprisoned for not more than one year, or both.

c. Any person who, in the Ryukyus, engages in the sale of non-essential commodities to non-Ryukyuans, except in a market licensed for such purpose, shall, upon conviction, be sentenced to a fine of not more than ¥5,000, or imprisoned for not more than one year, or both.

d. Any person who, in any area of the Ryukyus, engages in the commercial production, distribution, or sale of a commodity which has been made a government monopoly by applicable Military

Government

UNCLASSIFIED

Enclosure No. 1
to Tokyo's Despatch No. 123,
February 25, 1949.

- 5 -

Government Directives, except as an authorized agent of the civilian governments, shall, upon conviction, be sentenced to a fine of not more than ¥5,000, or imprisoned for not more than one year, or both.

e. Any person who, in the Ryukyus, accepts into his possession any Military Payment Certificates, shall, upon conviction, be sentenced to a fine of not more than ¥5,000, or imprisoned for not more than six months, or both.

f. Any person who, in the Ryukyus, buys, sells, barter, or contracts to buy, sell or barter any food, clothing, equipment, or post-exchange items which were imported into the Ryukyus for the exclusive use of the Armed Forces, member thereof, or their dependents, except through markets specifically authorized by Military Government, shall, upon conviction, be sentenced to a fine of not more than ¥5,000, or imprisoned for not more than six months, or both.

g. In addition to the above criminal penalties, violators of the administrative provisions of this Proclamation, may, as an executive action of the appropriate Regional Government be subject to suspension or revocation of any license required by special Proclamation No. 33 of October 26, 1948.

h. Any person who receives any property whatsoever from any member of the Occupation Forces, regardless of the nature of that property and regardless of whether the property was given freely or in exchange for money, goods, or services, may, upon conviction, be fined not more than ¥25,000 or imprisoned for not more than one year, or both, provided that acquisition of property within the following categories shall not be considered within the prohibition of this Section.

1. Property lawfully acquired by transactions in authorized outlets or markets under Military Government control.
2. Property lawfully acquired as relief benefits from authorized relief agencies under Military Government control.
3. Property for which the transferee has a lawful property pass in proper form, issued and signed by a commissioned officer of the Armed Forces of the United States.
4. Small amounts of personal property of insignificant value given for the recipients own immediate use as a social amenity.

Article IX

RESCISSION

For the

UNCLASSIFIED

Enclosure No. 1
to Tokyo's Despatch No. 123,
February 25, 1949.

- 6 -

For the purpose of effectuating this Proclamation, it is hereby ordered that the following Proclamations, Directives and Orders to the people of the Ryukyus be rescinded:

Military Government Directive No. 10, dated 20 September 1946.

Military Government Directive No. 14, dated 25 October 1946, paragraphs 8, 9 and 10.

Military Government Directive No. 26, dated 24 June 1947.

Military Government Directive No. 34, dated 24 June 1947.

General Administrative Order No. 2, dated 17 June 1946.

Article X

POWER TO MAKE ORDERS

The Deputy Commander for Military Government may make such orders or regulations as he may deem necessary for the purpose of the administration of this Proclamation.

Article XI

TRANSLATION

In case of any conflict or ambiguity between the English text of this Proclamation or any other proclamation, order, or regulation issued under my authority, and any translation thereof, the English shall prevail.

Article XII

EFFECTIVE DATE

The Proclamation will become operative on the 1st day of November 1948.

Given under my hand this
26th day of October 1948.

W. W. EAGLES
Major General, United States
Army Commanding General, Ryukyus
Command Chief Military Govern-
ment Officer

OFFICIAL:

JESSE P. GREENE
Colonel Infantry
Deputy Chief of Staff

UNCLASSIFIED

UNCLASSIFIED

Enclosure No. 2 to Despatch No. 123
dated February 25, 1949 from the United
States Political Adviser for Japan, Tokyo,
on the subject "Establishment of Free
Enterprise System in the Ryukyu Islands."

(COPY)

HEADQUARTERS RYUKYUS COMMAND
MILITARY GOVERNMENT
APO 331 c/o PM
San Francisco, California

MG DIRECTIVE
NUMBER 37

26 October 1948

SUBJECT: Declaration of Essential Commodities

TO : Chiefs of Regional Governments in the Ryukyus

1. In accordance with Article II, paragraph b, of Special Proclamation Number 33, dated 26 October 1948, a declaration of essential commodities will be made by each of the Regional Governments of the Ryukyus and submitted for approval to the Military Government Officer of the area concerned and to the Economic Department, Military Government, Headquarters, Ryukyus Command.
2. A regular declaration will be submitted for approval every six months thereafter.
3. Upon approval of authorities indicated in paragraph 1, commodities may be added to, or subtracted from, the list of essentials between the periodic declarations as indicated by the change of essentiality of such commodities in any one of the four government areas in which they are produced or manufactured.
4. In cases of commodities of which a certain percentage is essential to the area of production and the balance available for inter-area trade, such percentages will be indicated by the Civil Government concerned at the time regular lists of essential commodities are submitted and any time between regular declarations that the supply situation warrants.
5. Declaration and approval of the essentiality of a commodity, or a percentage thereof, automatically prohibits the use of such as an item of trade with non-Ryukyuan or as an item of inter-island trade until it is removed from the list of essentials.

BY COMMAND OF MAJOR GENERAL EAGLES:

JESSE P. GREEN
Colonel Infantry
Deputy Chief of Staff

UNCLASSIFIED

UNCLASSIFIED

Enclosure No. 3 to Despatch No. 123
dated February 25, 1949 from the United
States Political Adviser for Japan, Tokyo,
on the subject "Establishment of Free
Enterprise System in the Ryukyu Islands."

(COPY)

HEADQUARTERS RYUKYUS COMMAND
MILITARY GOVERNMENT
APO 331 c/o PM
San Francisco, California

MG DIRECTIVE
NUMBER 38

26 October 1948

SUBJECT: Establishment of Special Areas for Purpose of Commercial
Transactions on Okinawa Between Ryukyuans and Occupation
Personnel.

TO : Chiji of Okinawa Civil Administration

1. In accordance with Article II, paragraph c, Special Procla-
mation Number 33, dated 26 October 1948, occupation personnel de-
siring to purchase Ryukyuan services or items not declared as
essential commodities by proper authorities, may make such pur-
chases from Ryukyuan merchants, artisans or workers in authorized
markets only, which are located on the highways indicated below:

- a. Highway 1 - North from Air Depot at Naha to
Military Police check point near Onna.
- b. Highway 13 - North from intersection of high-
ways 44 and 13 to Military check point near Yako.
- c. Highway 44 - from bottom of MG Hill Shinato
Villahe west to Naha.
- d. Highway 5 - Asphalt portion only.
- e. Highway 24 - Entire.
- f. Highway 10 - Entire.

2. A copy of paragraph 1 will be printed on the reverse side
of all licenses issued by the Civil Government, Okinawa, for the
conduct of business within its jurisdiction.

BY COMMAND OF MAJOR GENERAL EAGLES:

JESSE P. GREEN
Colonel Infantry
Deputy Chief of Staff

UNCLASSIFIED

UNCLASSIFIED

Enclosure No. 4 to Despatch No. 123
dated February 25, 1949 from the United
States Political Adviser for Japan, Tokyo,
on the subject "Establishment of Free
Enterprise System in the Ryukyu Islands."

(COPY)

HEADQUARTERS RYUKYUS COMMAND
MILITARY GOVERNMENT
APO 331 c/o PM
San Francisco, California

MG DIRECTIVE
NUMBER 39

26 October 1948

SUBJECT: Licensing of Business Enterprises

TO : Chiefs of Civil Administration in the Ryukyus

1. Military Government Directive No. 10, dated 10 September 1946, is hereby rescinded.

2. The following regulations providing for the registration and licensing of business enterprises in compliance with the provisions of Special Proclamation No. 33 dated 26 October 1948, will become effective immediately.

a. In accordance with Article II, paragraph a, Special Proclamation No. 33, dated 26 October 1948, each Civil Government will establish a Central Licensing Office for the issuance of licenses to persons now engaged, or desiring to engage, in business transactions in the Ryukyus.

b. Any individual or group of persons at present engaged in business, including inter-area trade, will apply within 60 days from the effective date of this Directive to the Civil Administration of his locality for a license of operation.

c. Any person or group of persons desiring to engage in any type of business enterprise, including inter-area trade, will, prior to the initiation of such business, make application for and receive a license from the Civil Government of the area in which the business is to be established.

d. The Central Licensing Office will inform the prospective licensee of the provisions of Special Proclamation No. 33, dated 26 October 1948, at the time of application.

e. The original of each application, upon approval by the Central Licensing Office of the Civil Government, will be stamped with an official government seal and given to the licensee. Such license will be prominently displayed by the licensee in his place of business at all times. One copy of all applications will be kept on file by the Central Licensing Office of the Civil Government to which application was made. One copy of all applications, upon approval by the Civil Governments, will be forwarded to the Economics Department, Military Government, for the purpose of review and for recording of economic data given thereon.

(1) If

UNCLASSIFIED

Enclosure No. 4,
to Tokyo's Despatch No. 123,
February 25, 1949.

- 2 -

- (1) If there is any objection by Military Government reviewers to the operation of the business for which the license has been issued or to the licensee as an operator of such business, appropriate action will be taken by the Civil Government in which the business is operated to correct the objection thereto or, if deemed necessary, to revoke the license thereof.
- (2) If an applicant is denied a license to engage in business or if the same is revoked under the provisions of (1) above, he will be informed of the reasons for such denial by the licensing official of the Civil Government. When such reasons are removed, re-application may be made. If the applicant is unable to satisfy the demands of the Civil Government required for approval of application and granting of license, such applicant may appeal said decision to the Deputy Chief of Staff, Military Government, for review.

f. A charge not to exceed one-half of one percent of the capital to be invested in the proposed business will be paid by licensee at the time the license is issued. Renewal of license will be made annually thereafter at a charge not to exceed one-half of one percent of the working capital at time of license renewal.

- (1) License fees will be used to meet the administrative cost of the Central Licensing Office and any amount in excess of such cost will be applied to the general operating expenses of the regional government concerned.

g. The successor to the operator of a business enterprise will become the owner of the license upon his succession. Said successor will report to the Central Licensing Office within two weeks following the change and will, at that time, surrender the old license for cancellation and receive, without cost, a new license for the unexpired term.

h. All licenses issued for business enterprise upon the Island of Okinawa will have printed on the reverse side a list of the highways, as specified in Directive No. 36 dated October 1948, on which licenses engage in trade with occupation personnel in addition to Ryukyans.

3. It is directed that the above regulations be translated and distributed throughout the Ryukyus and that proper steps be taken to insure compliance of all concerned. In case of any conflict or ambiguity between the English text and any translation thereof, the English will prevail.

BY COMMAND OF MAJOR GENERAL EAGLES:

JESSE P. GREEN
Colonel Infantry
Deputy Chief of Staff

UNCLASSIFIED

UNCLASSIFIED

Enclosure No. 5 to Despatch No. 123
dated February 25, 1949 from the United
States Political Adviser for Japan, Tokyo,
on the subject "Establishment of Free
Enterprise System in the Ryukyu Islands."

(COPY)

HEADQUARTERS RYUKYUS COMMAND
MILITARY GOVERNMENT
APO 331 c/o PM
San Francisco, California

MG DIRECTIVE
NUMBER 40

26 October 1948

SUBJECT: Establishment of Committees on Ryukyuan Economy

TO : Chijis of Regional Governments in the Ryukyus

1. In compliance with Article VII, Special Proclamation Number 33, dated 26 October 1948, representatives of each of the four regional governments will be appointed by the respective Chijis thereof to form permanent Committees on Ryukyuan Economy. It is desired that such representatives, so far as possible, be appointed from representatives of the Civil Governments who attended one or both of the Conferences on Ryukyuan Economy held respectively in February and in September 1948.
2. When it is necessary that a representative be appointed who did not attend either Conference referred to in 1 above, it is desired that such representative be appointed from Civil Government officials who are conversant with economic problems of the Ryukyus.
3. The Committees should be composed at all times of not less than three and not more than five persons.
4. Members of such committees will act dually as independent area committees and as members of one Ryukyuan wide committee.
5. The primary function of each area committee will be the assemblage and submittal of data as directed by Economics Department, Military Government, relative to production, commercial transactions, prices, wages, population and living standards within area represented.
6. The primary function of the Ryukyuan Committee will be the periodic analysis of economic conditions and trends, as reflected by data assembled, and the submittal of recommendations to Military Government based on findings for the achievement of the maximum degree of Ryukyuan self-sufficiency.
7. Each regional government will, at time of appointment, inform Economics Department, Military Government, of the name, position title, and any pertinent qualifications of each Committee member.

BY COMMAND OF MAJOR GENERAL EAGLES:

JESSE P. GREEN
Colonel Infantry
Deputy Chief of Staff

UNCLASSIFIED

DC/R COPY

This copy must be returned to the DC/R document files.

~~TOP SECRET~~

Bellevue Army Portner

28 February 1949

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

Mr. W. W. Butterworth
Room 3152, New State Building
Department of State
Washington, D. C.

Subject: Economic Stabilization - Japan

Dear Mr. Butterworth:

Enclosed herewith is a set of the cables received to date from Mr. Joseph Dodge, who, as you know, is serving as economic adviser to General MacArthur.

Inasmuch as these reports are briefs of recommendations made to General MacArthur and are sent to the Department of the Army for information only, distribution of these cables is being carefully limited. Since the Japanese Economic Stabilization Program is of interest to your department, copies of subsequent messages from Mr. Dodge will also be forwarded to you.

It is requested that a list be maintained of all personnel who have access to this series of cables.

Sincerely yours,

SIGNED

R. W. PORTER, JR.
Colonel, General Staff Corps
Executive Officer

8 Encls

- 1. CM IN 1485, dtd 7 Feb 49, cy 35
- 2. CM IN 2938, dtd 12 Feb 49, cy 25
- 3. CM IN 3406, dtd 15 Feb 49, cy 24
- 4. CM IN 4967, dtd 21 Feb 49, cy 30
- 5. CM IN 5214, dtd 22 Feb 49, cy 55
- 6. CM IN 6264, dtd 26 Feb 49, cy 6
- 7. CM IN 6265, dtd 26 Feb 49, cy 6
- 8. CM IN 4941, dtd 21 Feb 49, cy 77

DC/R
Anal 10
Rev *Class*
Shay Medp
Cat

104911

~~TOP SECRET~~

DECLASSIFIED
E.O. 11652, Sec. 3(E) and 5(D) or (E)
DSO Letter, Apr. 12, 1974
By *TG/ JML*, NARS, Date *2/17/78*

SEP 19 1952

A/11/10

894.50/2-2849

TOP SECRET FILE

This Document Must Be Returned To
DC/R
Central Files
894.50/2-2849



THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

FE Dep file

United States Political Adviser
for Japan

Tokyo, February 28, 1949.

No. 124

CONFIDENTIAL (For Department use only)

Subject: Economic Stabilization Board's Plan to Stabilize
the Japanese Economy.

Rec'd
Mar 9

ACTION
FE

INFO
DCR
O
CLI

The Honorable
The Secretary of State,
Washington.

G DIVISION OF
NORTHEAST ASIAN AFFAIRS
[Signature]
MAR 11 1949
DEPARTMENT OF STATE

Sir:

I have the honor to enclose a copy of a paper prepared by the Japanese Economic Stabilization Board dated February 10, 1949, entitled an "Outline of Over-all Measures", regarding the measures to be taken by the Japanese Government to establish a stabilized and self-supporting economy, which was submitted to Mr. Joseph M. Dodge, Special adviser to General MacArthur, and Major General W. F. Marquat, Chief, Economic and Scientific Section, on February 10, 1949.

Firstly, the Board states that a single exchange rate shall be established this year. As to what the rate will be and when it will be established, informal conversations with a member of the Board indicate that, although the Board had been considering a rate of between 400 and 450 yen to the dollar, in as much as the Economic and Scientific Section had indicated that plans should be formulated on the basis that the rate would be established somewhere between 300 and 350 yen to the dollar, the Board is currently working on the assumption that the rate will be set at either 330 or 350, probably the former, and that it will be officially established about April 1, 1949.

With the establishment of an exchange rate, the Board takes the position that it will be necessary, during an interim or transitional period, to undertake the subsidization of certain imports and exports. Food imports are to be subsidized in order to maintain the domestic price level; however, in general raw

material

CONFIDENTIAL

ACTION COPY

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

JUL 11 1949

FILED

894.50/2-2849

Confidential EMR

Tokyo's Despatch No. 124,
February 28, 1949.

- 2 -

material imports for export production will not be subsidized. (This Mission believes that the latter is of importance in considering Japan as a competitor in the field of international trade.) Additionally, import subsidies are to be granted where the increase in the price of the imported item would be such as to effect appreciably the general price level. Export subsidies, on the other hand, are to be paid in those instances where the continued export of the item is rendered impossible due to the drop in the export price following the establishment of the exchange rate, but only where there is a reasonable expectation that the item is capable of being exported at some future time at the established rate without the benefit of subsidy.

The Board expects to use the profits that will accrue to the foreign trade fund as the result of the establishment of an exchange rate to finance such subsidization as may be considered necessary. Additionally, profits which accrue to certain industries as a result of the establishment of the exchange rate are to be utilized to reduce import and export subsidies. However, it will be noted that the Board does not indicate how such profits will be captured. It is assumed that they would be obtained through taxation.

The Board admits that if a single exchange rate "in its true sense" is to be established and maintained, rationalization of industry must be accomplished rather than the institution of a system of subsidies, which would, in the final analysis, leave the present system unchanged.

In this connection, a member of the Economic Stabilization Board informed an officer of this Mission that, on the basis of an exchange rate of 330 yen to the dollar, the Board is planning in terms of a 10 billion yen subsidization program for the fiscal year beginning April 1, 1949. Although the Board estimates that at a rate of 330 yen to the dollar it would currently take about 33 billion yen to cover present exports for the next fiscal year, it is considered that a 10 billion yen subsidy program will actually cover about 80 per cent of Japan's exports. Furthermore, it is anticipated that the remaining 20 per cent can, for the most part, effect a readjustment if an honest effort is made to rationalize. In this connection, according to information available to this Mission, although industry recognizes the inevitability of the establishment of a single general exchange rate in the near future, it is hopeful, for the most part, that it will be able to obtain governmental subsidies to make up the difference where necessary rather than to undertake a genuine overhauling of plants to get rid of, for example, about a 25 to 50 per cent surplus personnel overhead. Industry would prefer to retain surplus personnel and absorb it by expanding production, which in turn will depend in most instances upon increased supplies of raw materials and a final

determination

CONFIDENTIAL

Tokyo's Despatch No. 124,
February 28, 1949.

- 3 -

determination of levels of industry.

Secondly, the Board takes the position that no general price revision, including the prices of the agricultural parity commodities will be made after the establishment of the exchange rate. The Board considers that a general upward price revision can be avoided by increasing production and, at the same time, cutting production costs. Price adjustments are to be made only in specific instances and then only for important items. Additionally, price control is to be simplified by releasing those items which it is no longer necessary to control.

Thirdly, in order to stabilize wages, standard wages are to be established for industries producing commodities subject to price control, industries employing more than a specific number (to be determined) of persons, and those to be designated, and an increase in the standard wage will have to be approved by the competent authorities. To implement the wage stabilization program, which is to be predicated on the premise that the rise of real wages shall be in proportion to the rise of labor productivity, an Over-all Wage Stabilization Council is to be established. At the same time, the Board proposes that measures be taken to stabilize at the highest level possible Japan's minimum standard of living.

Fourthly, with respect to public finance and the budget, the Board plans to strike a real balance between revenue and expenditures. Among other things, there is to be a drastic cut in government personnel and governmental administrative costs, as well as an effective effort made to increase tax revenues. Public and private credit is to be put on a sound basis. Within the marketability limit of Reconstruction Finance Bank bonds, loans are to be made principally to provide funds for equipment in essential industries. No deficit loans are to be made.

Fifthly, measures will be taken to increase food production through soil improvement, increased provision of needed materials, et cetera. The food collection program is to be improved.

Sixthly, every effort will be made to attain 1949 industrial production goals, to improve the quality of goods produced, and to lower production costs. Priority in the allocation of production materials will be given to the most efficient industries producing items of superior quality at low cost. Consideration will be given to the rational adjustment of the tax burden borne by industry. Of interest in this connection is the statement that the Board is counting on foreign investment and that due preparatory measures, such as tax reform, will be undertaken to facilitate such investment. This is of considerable importance inasmuch as the American Chamber of Commerce membership estimates that if current Japanese taxes were to be applied to them without reservation, most of them would fall within the 75 to 80 per cent bracket and would be driven out of business. Of further interest

is the Board's

CONFIDENTIAL

Tokyo's Despatch No. 124,
February 28, 1949.

- 4 -

is the Board's statement that, as unemployment develops as a result of a genuine rationalization of industry, measures will be taken to absorb the unemployed in public works and to expend unemployment insurance.

Finally, all possible measures are to be taken to increase the production of export goods. Immediate attention will be given to the revision of the materials allocation system and steps taken to prevent diversion to domestic consumption of raw materials imported for the export industry. The Board plans a drastic simplification of import-export procedures. Japan's balance of payments position is to be improved by means of active exploration of foreign markets and more favorable terms of trade. Additionally, in response to foreign demand, efforts will be made to increase exports of producer goods in addition to the types of items exported at present. Again, as indicated heretofore, every effort will be made to rationalize export industries, particularly the weak and inefficient.

To date this Mission has no information concerning Mr. Dodge's or General Marquat's reaction to the Economic Stabilization Board's plan as outlined above. With the possible exception of the wage stabilization proposal of standard wages, this Mission is of the opinion that the plan will be well received. In regard to export subsidies, although General Marquat has stated that there will be no export subsidies as such, the Economic and Scientific Section does recognize the need for interim subsidization in certain instances following the establishment of an exchange rate; however, it is being described as a proposed program of "domestic subsidization" to industry within the ITO Charter's definition of domestic subsidy.

Respectfully yours,

W. J. Sebald
W. J. Sebald

Enclosure: *ATT*

Economic Stabilization Board
paper "Outline of Over-all
Measures", dated February 10,
1949.

500

DMBane:rab

CONFIDENTIAL

CONFIDENTIAL

Enclosure to Despatch No. 124 dated February 28, 1949 from the United States Political Adviser for Japan, Tokyo, on the subject "Economic Stabilization Board's Plan to Stabilize the Japanese Economy".

(COPY)

Outline of Over-all Measures

E. S. B.
10 February 1949

In conformity with the principles set forth in the Nine Objectives concerning economic stabilization, the following measures shall be taken to establish a stabilized and self-supporting economy through the perseverance and efforts on the part of the entire nation.

1. Establishment of exchange rate

(1) A single exchange rate shall be established in the month of _____ this year.

(2) The rate of exchange shall be determined in the light of the actual state of the over-all national economy and of the possible extent of the cushioning measures stated below. The rate of exchange shall be such that it renders possible the rationalization of enterprises and the stabilization of domestic price level which are required for the participation in the international economy and that it invites no internal or external apprehensions over its maintenance.

(3) The profits which accrue in the Trade Fund in consequence of the establishment of a single exchange rate shall be utilized to finance the following cushioning measures as a temporary step pending the rise of production level and completion of enterprises rationalization, in order to alleviate the effects of the single rate upon the domestic price level and export trade. The amount to be utilized for such purpose shall be limited to the necessary minimum so that the profits should as far as possible be utilized for economic rehabilitation.

a. As to the imports of foods and other articles, the price rise of which directly affects the cost of living to a large extent, import subsidy shall be paid to such imports in order to keep their price at the domestic level.

b. Import subsidy shall not in general be paid to such articles which are imported primarily as raw materials for export products.

c. As to the imports of articles other than a. and b. above, import subsidy shall be paid only in case where the rise of import price is so large that, in spite of the rise of

operation

CONFIDENTIAL

Enclosure to Tokyo's
Despatch No. 124,
February 28, 1949.

- 2 -

operation of enterprises, it gives substantial effects upon the price level.

d. As to export, subsidy shall be paid only to such enterprises whose export is rendered economically impossible on account of the fall of the export price but which will in future be able to export at the established exchange rate and within certain specified amount and period.

e. Large amount of export profits, which may accrue to specific industries in consequence of the establishment of single exchange rate, shall be utilized to reduce the import and export subsidies.

f. The established single exchange rate shall by all means be maintained. With the single exchange as an index, rationalization of home industries shall be vigorously expedited with the object of hastening the change-over to a single exchange rate in its true sense of the term by gradually reducing import and export subsidies.

2. Adjustment of Price Structure

(1) Raising of price level at this moment will, in principle, be avoided as much as possible by means of the rationalization of enterprises and the increase of production. In view of the fact that the prevailing price structure appears to be unbalanced in some respects and that it is necessary to align it to international price, price adjustment will be made only in connection with specific important industries, but no general price revision will be made.

(2) Price adjustment will be made in such a way as it will not imperil the outlook of production increase and the maintenance of production equipment. And as regards the industries which can absorb the repercussion of increased cost on consumer price, price raise will be restrained or subsidies will be reduced.

(3) The price of agricultural products shall be determined according to the parity system. Efforts shall be made, however, to avoid as far as possible the price rise of parity price commodities.

(4) The price of such commodities the state of demand and supply, operation rate, or other production conditions of which have improved beyond those which are foreseen under the present price structure shall be reduced, thereby contributing to the stabilization of the price level.

(5) As to the payment of the price adjustment subsidies, the level of the stabilization band shall be reexamined in the

light

CONFIDENTIAL

Enclosure to Tokyo's
Despatch No. 124,
February 28, 1949.

- 3 -

light of the international and domestic price levels.

(6) Further efforts shall be made for the enforcement of price control. Price control, at the same time, shall be simplified by releasing such items which are no longer necessary to control.

3. Wage stabilization

Corresponding to the policy of maintaining price level, the following measures shall be taken for wage stabilization through the cooperation of labor and management on the basis of the principle that the rise of real wages shall correspond only to the rise of labor productivity.

(1) Standard wages shall be established by industries which shall be the national basis of wages.

(2) Approval of the competent authorities shall be required in case where the enterprise is going to pay wages higher than the standard wages or where the enterprise which is currently paying wages higher than the standard wages is going to raise them, provided that prior approval may be replaced by report to the competent authorities in case where the former is not deemed necessary.

(3) In case of report mentioned in the preceding paragraph, the enterprise shall be required to prove that the source of payment of wages is neither illegal nor improper.

(4) The source of payment of wages shall be fully examined, and investigation on the spot shall be conducted if necessary. In case where the source is found to be inappropriate, necessary adjustment shall be made with respect to subsidies and price, and wage adjustment order, moreover, may be issued when deemed specially necessary.

(5) The enterprises which are subject to the wage stabilization measures shall be the producers of the commodities of which official prices are set who have normally employees over certain numbers and others who are engaged in the industries to be designated.

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

(7) Measures shall simultaneously be taken to stabilize people's living, such as the securing of the distribution of foods, daily necessities and commodities necessary for work, the

adjustment

CONFIDENTIAL

Enclosure to Tokyo's
Despatch No. 124,
February 28, 1949.

- 4 -

adjustment of earned income tax, etc.

(8) Enterprises required to obtain approval of the competent authorities for wage raise shall obtain approval of the competent authorities for payment of dividends above a specified level.

Note: (2) above may be replaced by the following:

(2) Report shall be submitted to the competent authorities in case where the enterprise is going to pay wages higher than the standard wages or where the enterprise currently paying wages higher than the standard wages is going to raise them, provided that, with regard to specified industries, approval system will be considered. In this case (8) related to restriction of dividends will be deleted.

4. Sound public finance and sound credit.

(1) The basic policy will be to keep the size of public finance within a limit proportionate to the economic power of the people and reasonable in view of the distribution of national income and to maintain the real balance of revenue and expenditure without fail.

(2) The expense for price adjustment will be continued in conformity with the policy of maintaining price level. The amount will, however, be reduced as much as possible by lowering unit cost and reviewing the coverage.

(3) In order to establish the financial independence of the Government Enterprise Special Accounts and Civilian Merchant Marine Commission, their operation will be rationalized and their freights and fees adjusted while transfers, or contribution, from the general budget will be eliminated or reduced as far as possible.

(4) Drastic curtailment of the Government personnel and economy of general administration cost will be effected, while efforts will be made to assure a reasonable curtailment of the expense for termination of way etc.

Moreover, efforts to assure sound local finance will be accelerated and adjustment of contribution of the Central Government to local finance effected.

(5) The construction fund and necessary increased working capital of the special accounts will be limited lest it should cause financial inflation.

(6) Efforts

CONFIDENTIAL

Enclosure to Tokyo's
Despatch No. 124,
February 28, 1949.

- 5 -

(6) Efforts will be made to secure tax revenue by accelerating and strengthening the tax collection program and by vigorously prosecuting tax-evaders, while the utmost will be made to effect seasonal adjustment of the financial revenue and expenditure.

(7) Efforts will be made to increase tax revenue and to distribute the burden of taxes fairly as well as equitably, while, from the view point of maintenance of real capital of enterprises and of facilitating foreign investments, revision of the present taxation system such as adjustment of depreciation and corporate and income taxes will be made.

(8) In view of the limitation of government investment loans by the Reconstruction Finance Bank will be extended principally to provide equipment funds necessary for production increase in the essential industries with priority within a limit marketability of reconstruction finance bank bonds permits.

Moreover, no deficit loans will be extended in conformity with the policy of sound financing.

(9) With regard to loans by ordinary financial institutions, necessary measures will be taken to assure effective financing as that concentrated and efficient utilization of funds may be accelerated and sound business activities may be carried out with efficiency and to assure the supply of long-term equipment funds required for economic recovery.

(10) New savings will be increased in order to raise supply of money and, at the same time, increased issuance of currency, will be prevented as far as possible.

5. Securing of feed.

(1) In order to step up feed production and meet the need for securing feed, efforts on the part of farmers will be called for and, at the same time, endeavour will be made to improve, without delay, the basic conditions of production essential for production increase through expediting soil improvement, securing production materials etc.

(2) The feed collection system will be reviewed and the following measures will be taken in order to improve the efficiency of feed collection program.

a. Pre-planting quota allocation and attendant incentive program will be continued, while measures will be taken to enable upward revision of quotas in cases where, in view of a good crop, it is generally considered reasonable to do so.

b. While strengthening feed collection program, effort will be made to raise farmer retention in a reasonable manner and to diminish return rations.

CONFIDENTIAL

c. Scientific

Enclosure to Tokyo's
Despatch No. 124,
February 28, 1949.

- 6 -

c. Scientific survey of area under cultivation and soil fertility will be completed as early as possible to facilitate the rationalization of quota allocation and improvement of farm management.

d. As counter-measures to deal with strengthening of food collection program, effort will be made to secure rationing of goods required by farmers for their farm management and household use at official prices and to make taxation on farmers as fair as possible, with a view to stabilizing farmers' economy.

(3) In order to stabilize the dietary life of the people, measures will be taken to achieve efficient utilization of food and to improve efficiency of rationing and consumption on the basis of review of the present control system.

6. Production increase and industrial rationalization

(1) The utmost effort will be made to attain the target of production for 1949 or the first year of the Economic Rehabilitation Program. In this case, effort will be directed not only towards attaining target figures but also towards improving quality of products and lowering production cost and that strictly in accordance with the Three Principles of enterprise.

(2) Positive measures will be taken to improve production efficiency, to mechanize facilities and to raise the technical level. At the same time, new investment and construction basic to economic recovery will be initiated.

(3) In the allocation of materials, priority is given to efficient enterprises producing products of superior quality at low cost and a system will be established, under which the desire of demandants is reflected on the allocation of materials of the products concerned, on the basis of a regulation.

(4) In order to make necessary funds available for normal business operation, due consideration will be given with respect to the taxation law and credit policy. Special consideration will also be given to financing funds required for business rationalization and expected to make the business concerned self-supporting in the future.

(5) Sound foreign investments contributing to production increase and economic recovery will be counted upon and due preparatory measures such as taxation reform will be taken to facilitate them.

(6) The present economic controls will be re-examined from the view-point of rationalization of industry and the coverage

will be

CONFIDENTIAL

705-1342
Enclosure to Tokyo's
Despatch No. 124,
February 28, 1949.

- 7 -

will be limited in such a manner as will assure effectiveness of their enforcement. Within this limited coverage, strong enforcement will be carried out to make controls effective.

(7) As the unemployment comes to light as a result of progress of business rationalization, measures will be taken not only to absorb it into public works as much as possible but also to expand unemployment insurance.

7. Expansion of export

(1) All possible measures will be taken to increase production of export goods under the principle of "export first." The first and foremost of such measures will be to revise the production materials allocation system, so that priority may be given to the export industry and to facilitate the financing of foreign trade.

Moreover, enforcement will be strengthened to prevent diversion to domestic consumption of imported raw materials for export industry.

(2) Efforts will be made to restore normal foreign trade through drastic simplification of export-import procedures and expansion of private trade.

(3) A request will be made for the adjustment and improvement of foreign relations and measures will be taken to improve the balance of payments by means of active exploration of market for export goods and, improvement of terms of trade, etc.

(4) In response to change in the overseas market, efforts will be made to export producer goods in addition to the present export items. In this case, consideration will be given to adjustment with the minimum requirement of economic recovery.

(5) From the viewpoint of securing export, temporary measures will be taken to minimize the impact of establishment of a single foreign exchange rate. At the same time, however, efforts will be made to strengthen the competitive power in world market by expediting, without delay, the rationalization of export industry, especially of weak and inefficient enterprises.

CONFIDENTIAL

STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

TO : PL - Mrs. Margaret R. T. Carter

FROM : DRF - Warren S. Hunsberger *WST*

SUBJECT: Paper on Japanese Recovery Program

DATE: February 28, 1949

Attached are three documents relating to a project started in the summer of 1948 for the purpose of providing factual material as background for the discussion of the economic recovery appropriation for Japan in the fiscal year 1950. These documents include: 1) dummy prepared in CS/G for printed pamphlet, 2) text of pamphlet, and 3) selected statistics of the Japanese economy, draft, for use as appendix to pamphlet.

As I told Dick Friedman on the phone this afternoon, the turn-over in the staff of the House ~~of~~ Foreign Affairs Committee has led to doubt as to whether the Committee will issue the proposed pamphlet. The question of whether or not to issue this pamphlet is currently under discussion but there is no assurance that this material will be used by the Committee at all.

In view of the considerable amount of material that has been assembled, the question has been raised as to whether PL would find this material of sufficient value to warrant the issuance of a pamphlet like this or whether PL would like to issue this material in some other form.

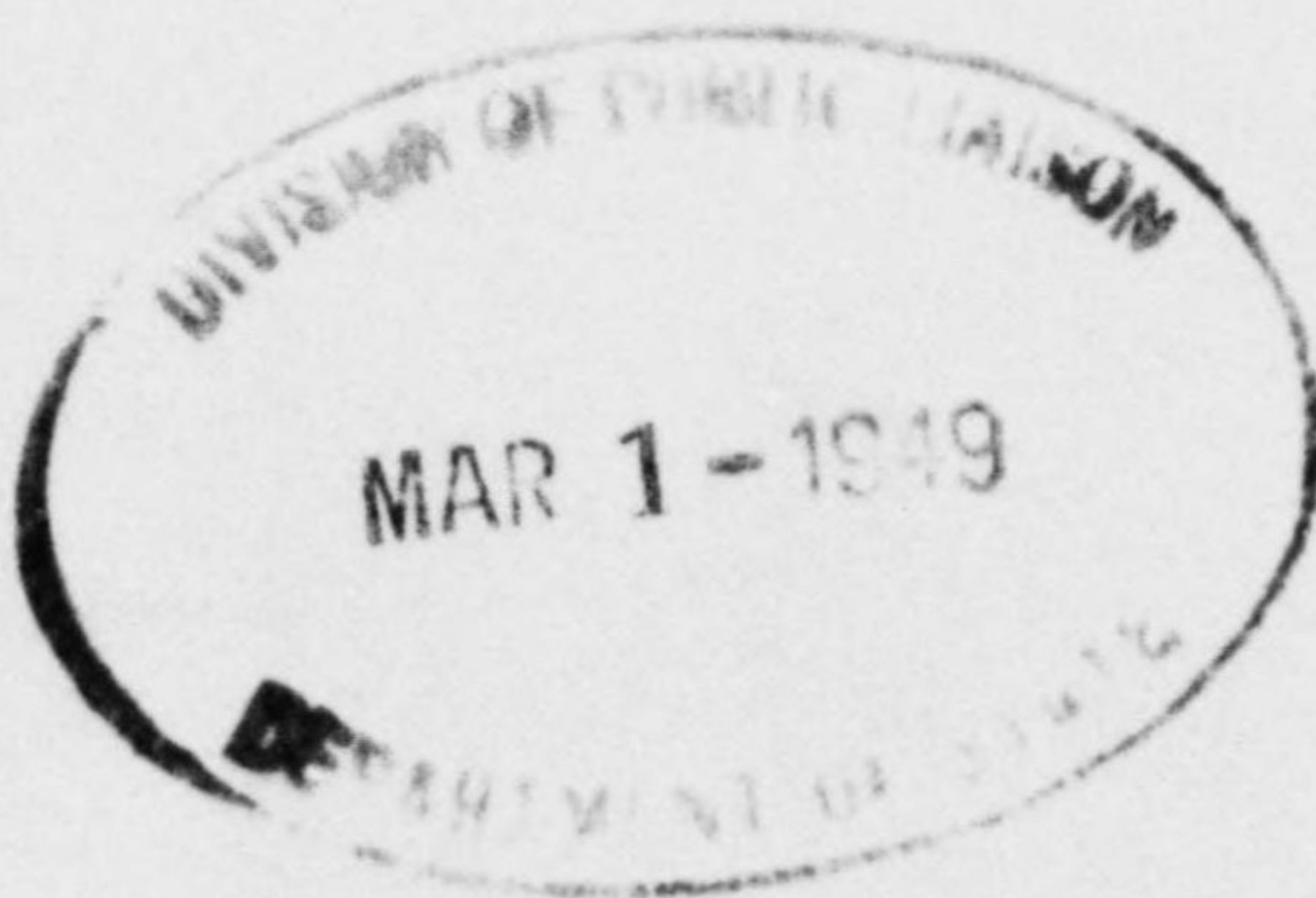
Although most of the work for this project has been done anonymously in the Department of State, both the Army Department and SCAP have been involved in planning and designing, and SCAP has provided some research assistance. In view of this background and in view of the Army's interest in this subject, it may be that State and Army might want to put out something along these lines if the House Committee should decide not to.

While we are waiting to hear the decision of the House Foreign Affairs Committee I thought you might want to have a look at this material, in view of the interest Dick Friedman showed in it today.

Enclosures:

As stated above.

EM/R
Anal
Rev. <i>WST</i>
Cat



OIR:DRF:WSHunsberger:aw

894/59/2-28-49

2/28/49

MRTC

Warren Hunsberger called me to say that last fall State and Army collaborated in the preparation of some material (largely statistical) on the degree of economic recovery in Japan for the House Com. on FA.

Howard Peiquet of the Leg. Ref. Service has suggested to Hunsberger that the Dept. now make this material available to the public. Hunsberger wanted to check with us before taking any position with Peiquet.

I said I hoped that the material was such that we could (after appropriate clearance) make it available to the public and suggested that Hunsberger tell Peiquet to call you re the whole thing and send down the material for our consideration.

You may wish to pass this to Ben Crosby.

RF

Mr. Crosby - PL

Please let me have
your comments

RRR

March 1, 1949

3

/

INCOMING AIRGRAM

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH
2808

AIRGRAM

2061

FROM: USPOLAD, Tokyo.

Date of mailing: March 5, 1949 *DC/R*

CONFIDENTIAL (FOR DEPT USE ONLY)

Rec'd: Mar. 9, 1949 12:22p.m

3
M
ACTION OFD
INFO
DC/R
L
O
FE
E
ITP
TRC

Secretary of State,
Washington.

A-50, March 4, 1949.

TOED
fill
MAR 10 1949
DIVISION OF INVESTIGATION AND ECONOMIC DEVELOPMENT
DEPARTMENT OF STATE
no action necessary
fill
MAR 10 1949
BAT
3/14/49

(This airgram supplements this Mission's A-40, February 25, 1949, and earlier airgrams in this series. Request distribution be limited to Department for reasons stated in A-21 of January 29, 1949.)

1. Indexes of Industrial Production Under Study. Considerable discussion has taken place recently in Japanese and Occupation quarters concerned regarding analysis of indexes of industrial production which use average output for 1930-34 as base. Many visitors to Japan have commented to effect that actual industrial output, from casual observation, appears greater than suggested by indexes issued by Economic and Scientific Section (ESS) of this Headquarters. Now reliably reported ESS reexamining weighting of these indexes and may soon release revised indexes which will reflect greater production than now indicated.

2. Question of Subsidies for Coal Mines Again Raised. Current discussions in Diet of 1949-50 budget and present need for payment subsidies to coal mines enable them meet current payrolls has reopened thorny question of whether official prices for coal are sufficient to enable operators to pay for materials, wages and required taxes--not to mention establishment of reserves for future expansion and profits. The principal mine owners insist that coal mining operations have long been performed at "loss," while labor factions and certain elements in ESS have insisted that owners' income derived from sale of coal at official prices, if administered in efficient manner, is sufficient for wages, taxes, supplies, reserves and reasonable profit. Suggestion now made in ESS that actual audit and analysis of

894.50/3-449

HH

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

CONFIDENTIAL

Tokyo's A-50,
March 4, 1949.

- 2 -

expenditures and receipts be made by "neutral" auditors in few selected mines to determine facts.

3. Survey Flight by Bharat Airways. Indian Liaison Mission in Japan informed March 1, 1949, by Adjutant General, this Headquarters, that application for survey flight by Bharat Airways Skymaster landing at Tokyo in March had been approved. It was stated, inter alia, that "authorization for this survey flight should not be construed to indicate approval of any future request or commitment for use of United States Air Force facilities in Japan. Further, no assurance can be given as to approval of any request by Bharat Airways to start scheduled airline operations into Japan." Reimbursement in United States dollars required for petroleum products furnished Bharat Airways from United States military sources.

4. Construction of Vessels for Indian Government. Indian Liaison Mission here several months ago expressed to ESS its desire to have 12 vessels aggregating 39,000 tons constructed in Japanese shipyards to replace 14 vessels of almost equal tonnage lost during Pacific War. ESS on February 24 informed Mission that action may now be taken to finalize contracts for approximately 20,000 gross tons of shipping.

5. BOSEY Winding Up Okinawan Activities. Officer this Mission visiting Okinawa February 14-18 informed there by representatives of BOSEY (Board of Supply of the Executive Yuan, Chinese Govt) that its operations on Okinawa being terminated with about 100 laborers sent recently to Taiwan and remaining 300 due to proceed either Shanghai or Taiwan in few weeks. BOSEY still has considerable useful equipment at its installation, including bulldozers, movable cranes, trucks, jeeps and tires. Officer unable learn how BOSEY plans dispose such equipment. Question informally discussed with Brig. Gen. John Weckerling, Chief, Ryukyuan Military Government Section, Far East Command, Tokyo, who said he will endeavor forestall shipment of equipment to Shanghai where it might fall into hands of Chinese Communists. As Department is aware, BOSEY operates on Okinawa under US-Chinese surplus property agreement of August 1946.

6. Deconcentration Progresses. Deconcentration Review Board now studying cases of seven Japanese spinning companies, with evidence

CONFIDENTIAL

Tokyo's A-50,
March 4, 1949.

- 3 -

pointing to release from designation. Anti-Trust and Cartels Section will finish detailed work under Deconcentration Law during March, while Deconcentration Review Board expects to conclude its deliberations in April or May.

SEBALD

500
DMN/CHB/EGS:rc

CONFIDENTIAL

Newsweek

NEWSWEEK BLDG., BROADWAY and 42nd STREET, NEW YORK



*6/28
Muller*

DIVISION OF
NORTHEAST ASIAN AFFAIRS

March 5, 1949

Mar 14 (23)
APR 13 1949
Letter to Mr. Board
4/13/49
DEPARTMENT OF STATE *MWB/par*

Mr. W. Walton Butterworth, Director
Office of Far Eastern Affairs
Department of State
Washington, D. C.

Dear Mr. Butterworth:

It was very pleasant indeed to lunch with you the other day and to explore further our ideas concerning Japan. It does seem to me that the Department of State and the members of our Council on Japan find themselves in very nearly complete agreement on most of the points involved. We will soon, I hope, be in a position to help create public interest and understanding for the policies which seem to us so suited to the advancement of the interest of the United States and to aiding the Japanese to develop along lines both in their interest and in ours. I will, in accordance with our conversation, pass on to you from time to time information and reports which seem of interest to us and which might also be of interest to the State Department.

I am attaching herewith a copy of a brief report sent to me by Mr. Pakenham, Newsweek's correspondent who is now in China. He stopped over in Tokyo for a few days on his way to Shanghai and gathered this information. While there is nothing unusual about it, it struck me as a balanced and interesting assessment. I am also attaching the account we discussed of the events of August 14, 15, 1945. Mr. Allison and Mr. Bishop might be interested in reading this too, and if you like, please pass it on to them. I will ask that it be returned to me when you have finished with it, since I have only two copies.

I am also attaching a copy of the report on the Japanese coal industry drawn up by Mr. Antonin Raymond, a member of our Council. While it would not be proper for the Council to advocate or support Mr. Raymond's commercial proposals, I feel that it is in the interest of all concerned for us to help such information reach the proper places, and it is in that sense in which I commend this to your attention. Mr. Raymond will

This Document Must Be Returned To
Central Files
894.50/3-549

894.50/3-549
CS/H

KR
894.6362

DC/R 7
Anal. _____
Rev. _____
C. _____

117286

Mr. W. Walton Butterworth
March 5, 1949
-2-

probably be in Washington in the near future, and if you would like to have him discuss his proposals with any members of the State Department, I know he would be very glad to do so. Mr. Raymond, of course, is well known to Mr. Allison and to others charged with responsibility for policy toward Japan.

With best regards, I am

Sincerely yours,

Harry F. Kern

Harry F. Kern
Foreign Editor

HFK:sr

Enclosures: 3

*not seen
D/R.*

Kern

April 14, 1949

Dear Mr. Kern:

I am returning, alas belatedly, the enclosures to your letter of March 5, which have been read by me and my associates with interest and appreciation. Thank you very much indeed for your thoughtfulness in sending them to me.

Incidentally, Mr. Raymond called at the Department recently and discussed at some length his proposal regarding coal industry in Japan. I must say I was impressed with his analysis and I hope and trust that the Department of the Army will be too.

With kind regards.

Faithfully yours,

W. Walton Butterworth
Director for Far Eastern Affairs

Enclosures:

1. Report by Mr. Pakenham.
2. Account of events of August 14-15, 1945.
3. Report by Mr. Raymond.

Mr. Harry F. Kern,
Foreign Editor, Newsweek,
Broadway and 42nd Street,
New York, New York.

DD/R
Apr 14 1949
Rev.
Cat.

675-8/50/3-549

2936

INCOMING AIRGRAM

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

A
ACTION: OFD
INFO:
DC/R
L
O
FE
E
ITP
TRC

AIRGRAM

4702
DIVISION OF INVESTMENT AND ECONOMIC DEVELOPMENT
no action at this time
MAR 23 1949
Millonetti
DEPARTMENT OF STATE

FROM: USPOLAD, Tokyo

Date of mailing: March 12, 1949

CONFIDENTIAL (FOR DEPT USE ONLY)

Rec'd: March 21, 1949
1:16 P.M.

Secretary of State,
Washington.

RECEIVED
OFFICE OF
FINANCIAL & ECONOMIC DEVELOPMENT
MAR 23 1949
DEPARTMENT OF STATE
file

A-58, March 11, 1949.

894.50/3-1149

(This airgram supplements this Mission's A-50, March 4, 1949, and earlier airgrams in this series. Request distribution be limited to Department for reasons stated in A-21 of January 28, 1949. On basis of present and six previous airgrams submitted in this series, Department is requested to indicate whether it has found reports of value and also whether it desires this Mission to continue submitting such airgrams.)

1. Opposition to Reduction of Japanese Government Personnel.
In its attempt to balance the 1949-50 budget, Japanese Government considering large-scale personnel cuts. However, certain divisions of Economic and Scientific Section (ESS) are raising strong objection to personnel cuts, in particular ministry or bureau of Japanese Government with which they are directly concerned. Such divisions, especially Price and Rationing, Labor, and Research and Reports, state sharp reductions in personnel will impair Japanese ability to furnish data needed to carry out aims of Occupation.

2. Employment of Japanese Abroad. Re Mission's A-52, March 7, 1949, preliminary telegram on Midzuno case not yet cleared by Chief of Staff, this Headquarters. However, G-1 Section reports willingness liberalize policy regarding employment of Japanese abroad, and plans call staff meeting about March 15 to discuss program. Check note and telegram formulating Mission's views on subject have been drafted and will be presented at that meeting. Application also informally received by Headquarters for employment three Japanese singers in Hawaii for six weeks. SCAP commercial account would receive their dollar salaries (\$1,000 each) and singers would be paid yen equivalent by Japanese Government. There are also applications, details for short-term employment of Japanese by Twentieth-Century-Fox. In view benefits accruing to SCAP commercial account, Mission has advocated

HH
APR 15 1949
GENERAL

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

CONFIDENTIAL

Tokyo's A-58,
March 11, 1949.

- 2 -

Liberal treatment of these applications.

3. Suggested SCAP Observer Attend London Whaling Conference.
Lt. Col. H. G. SCHENCK, Chief, Natural Resources Section, SCAP Headquarters, in presence officer this Mission, March 10 informally pointed out to Ambassador Gascoigne, head of United Kingdom Liaison Mission, desirability of having SCAP observer attend forthcoming Whaling Conference in London. Gascoigne stated that, while he personally agreed that such attendance by SCAP observer would probably be good thing, "frankly speaking the British are pretty well fed up with the entire business." Without elaborating, however, he said he would transmit suggestion to London to ascertain H. M. Government's views. Colonel Schenck later stated to officer this Mission that he had deliberately made suggestion orally as it would have been impossible to do so in writing, especially since invitation would have to come from British. Colonel Schenck subsequently told Gascoigne that attendance of SCAP observer without voting power would not interfere with Conference but would enable SCAP to present its views on international whaling question, and without such explanation by representative familiar with Japanese situation it would be difficult for Conference to have first hand information on that situation.

4. Japanese Membership in ILO. In conversation March 10 with officer this Mission, Mr. P. Ratnam, First Secretary of Indian Liaison Mission, stated he had lengthy argument with Mr. R. Rao, (Indian) Assistant Director General, International Labor Office (ILO), now in Japan to observe Japanese labor conditions, in which Rao had stated he would not favor having Japan resume its membership in ILO at present time. According Ratnam, Rao took position that attendance by Japan at this time would not be truly representative of Japanese labor inasmuch as delegate for Japan would be SCAP representative. Rao assertedly stated it would be better to wait until peace treaty signed after which Japan obtains some measure of independence so that it can send delegate truly representative of Japanese labor. Ratnam took opposite view, stating that better for Japan send SCAP representative rather than none for indefinite period.

5. Foreign Trade Developments. (1) Korean-SCAP trade talks opened March 10. Korean delegation reportedly hopes for trade totalling \$140,000,000 during period April 1, 1949 to March 31, 1950. Trade will probably be by dollar open account with quarterly clearance. (2) Review of SCAP-Sterling Area Trade Agreement due begin March 17. Preliminary surveys indicate each side has underbought. Sterling area coordinator foresees difficult inter-area payment problem, since now revealed that trade will not move as originally planned between Japan and any part of sterling area except possibly New Zealand. (3) Re Turkey's financial inability send delegation to Japan, SCAP sees no possibility

CONFIDENTIAL

Tokyo's A-58,
March 11, 1949.

- 3 -

possibility itself sending mission to Near East before next fall.
(4) SCAP has protested to Indian Government against restrictions imposed by Indian provincial governments on movement of Mathia cotton, pointing to difficulty and uncertainty of signing contracts for Indian cotton if policies of central and provincial governments inconsistent.

SEBALD

500
DMM/GHB/GW/EGS:ra

CONFIDENTIAL



THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

[Handwritten signature]

United States Political Adviser
for Japan

DIVISION OF
NORTHEAST ASIAN AFFAIRS
MAR 25 1949
DEPARTMENT OF STATE

Tokyo, March 14, 1949

*no action required
March 25, 1949
MS*

No. 149

UNCLASSIFIED

Subject: SCAP Announces New Procurement Policy.

REC'D
MAR 21

ACTION
FE

INFO
FR
DCR
OLI
OFD
ITP
POS
COM
TREAS
LABOR

The Acting Political Adviser has the honor to forward a copy of a SCAP press release of February 21, 1949, headlined, "Invoke Strict Economy Measures for Occupation Requirements". The enclosed press release outlines revised procurement procedures which have been established "with an eye to the stabilization of the Japanese economy."

Enclosure:

Copy of GHQ, SCAP Press
Release Regarding Procure-
ment dated February 21,
1949.

Parchment Mat to Department

400
EGSeidensticker, Jr.:mis

UNCLASSIFIED

894.50/3-1449

MAY 2 - 1949

FTJ

DMR

ACTION COPY

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

Enclosure No. 1 to Despatch No. 149
from the United States Political Ad-
viser for Japan, Tokyo, dated March
14, 1949, on the subject "SCAP Announces
New Procurement Policy".

UNCLASSIFIED

(COPY)

GENERAL HEADQUARTERS
FAR EAST COMMAND
Public Information Office

1330
21 February 1949

Press Release:

INVOKE STRICT ECONOMY MEASURES FOR OCCUPATION REQUIREMENTS

With an eye to the stabilization of the Japanese economy, SCAP has issued instructions to invoke a new and stiffer procurement policy.

A recent review of the current procurement policy has indicated that certain revision toward reduction of items of procurement and the institution of stricter controls will keep to a minimum the financial impact of the Occupation Forces on the Japanese economy.

In the future, directives to the Japanese Government will include only those requirements for the Occupation Forces which would normally be furnished Zone of Interior forces through the expenditure of appropriated funds. Any other procurement, unless specifically authorized by SCAP, will be on a reimbursable basis. No procurement demands will hereafter be initiated for the purpose of raising above existing standards of Occupation Force's services or facilities.

Procurement demands, when necessary, will be issued for essential requirements only when the requirements are such that they cannot be fulfilled from assets or means already available. Supplies, materials and equipment will not be procured from the Japanese economy when they can be obtained by requisition from the United States. Supplies, e-quipment and materials excess to the authorized needs of the Occupation will be released to the Japanese Government as soon as practicable.

Manning tables and manning levels for all types and categories of Japanese labor are being critically re-examined with a view to effecting substantial reductions. A review of the Japanese labor situation will be made whenever possible to effect a maximum reduction in numbers and to limit or eliminate entirely overtime payments except for domestic servants. Indigenous labor will not be employed to perform the functions of military personnel in combat organizations, except to the extent that the employment of civilian personnel by such organizations is authorized by regulations.

Any new constructions will be limited to only the most essential operational requirements of the Occupation Forces which cannot be met by any other expedient. Maintenance will be provided only for those facilities occupied by the Occupation Forces and standby maintenance for facilities definitely required for future occupancy. The number of dependent housing units in Japan is now firm and no additional construction will be authorized at the expense of the Japanese Government.

-0-

UNCLASSIFIED

Note:
Wording
conforms to
NSC policy

INCOMING AIRGRAM

45120

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

DIVISION OF FINANCIAL AFFAIRS

File no action
MAR 29 1949

AIRGRAM

6445

DEPARTMENT OF STATE

FROM: USPOLAD, Tokyo

1
A
ACTION: OFD
INFO
DC/R
L
EUR
FE
E
TRC
OLI
GA

CONFIDENTIAL (FOR DEPT USE ONLY)

Date of mailing: March 19, 1949

OFFICE OF FINANCIAL & DEVELOPMENT POLICY

Rec'd: March 28, 1949, 1:28 pm

MAR 29 1949
DEPARTMENT OF STATE

Secretary of State,
Washington.

A-65, March 18, 1949.

(This airgram supplements this Mission's A-58, March 11, 1949, and earlier airgrams in this series. Request distribution be limited to Department for reasons stated in A-21 of January 28, 1949.)

1. Paring Down of Yen-Dollar Ratio. Maximum ratio of yen-dollar exchange now employed for export goods is 450-1. It is anticipated this ratio will soon be pared down to 425-1 maximum in attempt to force rationalization in Japanese industries and to prepare way for further reduction. Such reduction needed in connection with plan establish single yen-dollar exchange rate.

2. Dodge Group Supporting Realistic Elements in ESS. Dodge, financial adviser to General MacARTHUR, is reinforcing more realistic group of economic experts in Economic and Scientific Section (ESS), General Headquarters, in discussions with Japanese officials regarding 1949-50 budget. In aligning himself with this group, which hitherto has frequently been in minority, Dodge is recommending adoption much stiffer attitude toward huge Japanese Government subsidies to industry and insisting subsidies be sharply reduced. He is also stressing importance of prompt, drastic measures for rationalization of Japanese industries. ICHIMADA Hisato, Governor, Bank of Japan, is reportedly in accord with Dodge's hard-boiled attitude. Dodge also indicated to officer this Mission that he was favorably impressed with IKEDA Hayato, new Finance Minister, regarding whom Dodge said that, unless Ikeda either consummate liar or exceptionally good actor, he is fully cognizant of Japan's present "hot-house" economy and need for sound financial policies.

3. Employment of Japanese Abroad. (Reference item 2, A-58, March 11.) At recent meeting in G-1 Section General Headquarters attended by representatives this Mission and by representatives of

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

NR
894.578

894.50/3-1849

HH

Tokyo's A-65,
March 18, 1949.

- 2 -

other HQ Sections, responsible G-1 officer indicated that general concurrence in his Section had been reached on more liberalized policy for employment Japanese abroad. Discussion was heretofore limited to technicians, but now phrase "employment of technicians" has been expanded to include general employment of services and skills of Japanese abroad as invisible item of export. Employment abroad of common laborers is not favored, specific reference being made by G-1 officer to informal request from French Mission in Japan for employment on contract basis of 5,000 Japanese workers in New Caledonian nickel mines where labor conditions considered notoriously bad, featured by poor living conditions resulting in heavy death and disease rates. G-1 Section is drafting policy paper on employment Japanese abroad which assertedly will no longer stress outstanding benefits to economies of Japan and of hiring country as primary consideration.

4. Foreign Trade Developments. ESS is now discussing with British Commonwealth representatives operational details of SCAP-Sterling Area Trade Agreement. Concurrently, ESS officials are holding discussions with Korean delegation, aiming at early conclusion SCAP-Korean trade agreement. ESS trade mission to Mexico expects to leave Tokyo March 26, 1949.

SEBALD

500
DMH/CHB/rc

CONFIDENTIAL

INCOMING AIRGRAM

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

*File no action
APR 5 1949
yjs*

AIRGRAM

814

FROM: USPOLAD, Tokyo

Date of mailing: March 26, 1949

Rec'd: April 4, 1949 12:23 p.m.

45315

CONFIDENTIAL (FOR DEPT USE ONLY)

Secretary of State,

Washington.

A-75, March 25.

OFFICE OF
FINANCIAL & DEVELOPMENT POLICY

APR 5 1949

DEPARTMENT OF STATE

(This airgram supplements this Mission's A-65, March 19, 1949, and earlier airgrams in this series. Request distribution be limited to Department for reasons stated in A-21 of January 28, 1949.)

1. Reduction of Yen-Dollar Ratio. In A-65, March 19, 1949, statement made that maximum ratio of yen-dollar exchange for export goods is 450-1 and that this ratio will soon be reduced to 425-1. Presently there are few exceptions above 450-1 ratio applicable to export commodities. However, these exceptions temporary and 450-1 rate considered basic.

2. Tentative Agreement on 1949-50 Budget. Tentative agreement on Japanese budget for fiscal year commencing April 1, 1949, reached during week by officials of Japanese Government and Economic and Scientific Section (ESS), this Headquarters. Practically all newspapers reported fact that budget "handed to Japanese Government by SCAP officials" on March 23, 1949. Budget is consolidated; although appreciably larger than original Japanese general budget it represents appreciable cuts from total which would have been derived from old-style general account budget plus supplementary budgets. When Japanese officials complained that certain budget items were contrary to political pledges of Democratic Liberal Party which won clear-cut mandate in January elections, Dr. Sherwood M. FINE, ESS economic and financial adviser, informed them that such pledges evidently made without regard to actual economic conditions in Japan. This Mission believes Premier Yoshida able force budget through Diet, using strong statements made by Joseph M. DODGE, SCAP economic adviser. With agreement in principle reached on budget, ESS now laying stress on need for decision re establishment of exchange rate. Although opinions in ESS differ, in accordance with varying economic schools of thought, now believed that exchange rate PERMANENT RECORD COPY.— This copy must be returned to DC/R central files with notation of action taken.

APR 11 1949

HH

894.50/3-2549

2
M
ACTION: OPD
INFO
DC/R
L
FE
E
ITP
T
TRC
OLI

Tokyo's A-75,
March 25, 1949.

- 2 -

officials concerned, relative low rate of 300 to 330 still favored.

3. SCAP Mission to Latin America. SCAP trade mission to Latin America leaving Tokyo March 28, fully cognizant of fact they will undoubtedly encounter much unfavorable criticism by United States trading interests which, especially during past eight years, have considered Latin America their normal trading orbit. Mission, which will follow policy of minimizing publicity, anticipates negotiating several bilateral trade arrangements as initial step toward negotiation multilateral trade arrangements.

4. Merchant Vessels Returned to Private Owners. During week this Headquarters and Transportation Ministry announced that, effective April 1, 1949, privately-owned Japanese merchant vessels would be operated on time-charter basis as opposed to bareboat charterage in effect since surrender. This move, originally scheduled for implementation in September 1948 (see this Mission's despatch No. 593 of September 9, 1948), reportedly involves 695 vessels totaling 1,921,000 deadweight tons. Change desired for many months by Japanese shipping companies and is essential first step toward normal operation of Japanese merchant fleet.

5. SCAP-KOREAN Trade Conference Completed. As reported this Mission's despatch No. 174 of March 24, 1949, trade and financial arrangements tentatively concluded by SCAP with Korean Government. These arrangements scheduled become effective April 1, 1949, upon confirmation by two parties. Conference minutes to be forwarded by despatch.

6. Sterling Area Trade Arrangement being Reviewed. Although statistical difficulties have delayed making any clear appraisal of trade position between Japan and Sterling Area, now appears that SCAP's payment problem, made acute by delays in Sterling Area purchases, has been alleviated by postponement of settlement of Indian open account to June 30 and by extension of additional credit by Chartered Bank of Hong Kong and Shanghai. Sterling Area representatives protested against several SCAP trade and financial policies, including prohibition against entry of foreign banks into yen trade and policy of requiring sterling purchase of raw materials to replace cotton textiles sold to Sterling Area. Later policy has effect of forcing up price of textiles sold to Sterling Area and is defended by SCAP on grounds of sensitivity to Manchester's complaints against Japanese dumping. Sterling representatives also asserted that Hong Kong entrepot being used to evade provisions of Overall Payments Arrangement. Problem of relation of entrepot

CONFIDENTIAL

Tokyo's A-75,
March 25, 1949

- 3 -

centers, particularly Hong Kong and Singapore, to Overall Arrangement due for consideration.

7. Employment of Japanese Abroad. (Reference item 3, A-65, March 18, 1949.) New G-1 Section's policy paper defines technicians broadly as any Japanese whose services may provide invisible exports for Japan but bans export of common labor. As now proposed, exit permit will be given only at request of government of inviting country; priorities in favor of technicians and commercial representatives directly aiding Japan's export industry have been abandoned; SCAP to review each case. G-1 proposed that salaries be commensurate with those paid Occidental technicians, etc., with similar qualifications but this Mission objected to such blanket provision, holding that SCAP's review powers will preclude unreasonably depressed wages. Meanwhile, this Mission received letter dated March 7, 1949, from P. S. LOKANATHAN, Executive Secretary, ECAFE, written Bangkok, inquiring as to present status question employment Japanese abroad. Lokanathan stated that he "most anxious" for early decision because ECAFE receiving specific requests from ECAFE countries for securing Japanese technicians for industrial and other development projects. From Indian Government, he stated, ECAFE received considerable list of technicians desired in fields of textiles, timber, glass, electrical engineering, printing and allied trades, paper and power. Lokanathan indicated that some technicians intended for employment by private firms for short terms while others to be employed directly in governmental projects. He wrote that similar requests received from other ECAFE countries.

8. Union Protests Application of Deconcentration Policy. Federation of Tokyo Shibaura Labor Unions March 22 presented petition to this Mission outlining what considered violations of basic deconcentration policy by Holding Company Liquidation Commission (HCLC) acting on orders of Deconcentration Review Board. Objections based on fact HCLC found Shibaura an excessive concentration and, instead of ordering breakup into two or more companies, ordered disposal of certain unprofitable and inefficient properties and subsequent amalgamation with Shibaura Rolling Stock Company, from which previously disassociated under Holding Company ordinance. According Federation, this action makes Shibaura stronger than before with added effect of throwing many workers out of jobs.

SEBALD

500
DMH/CHB/EGS:rc

CONFIDENTIAL

INCOMING AIRGRAM

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

45520

OFFICE OF
FINANCIAL & DEVELOPMENT
APR 13 1949
DEPARTMENT OF STATE AIRGRAM

NR

DIVISION OF FINANCIAL AFFAIRS
2707
File no action
APR 13 1949
DEPARTMENT OF STATE
OSPOLAD, Tokyo

CONFIDENTIAL (FOR DEPT USE ONLY)

Date of Mailing: April 2, 1949.

Rec'd: Apr. 12, 1949 2:24p.m

3
B
ACTION OFD
INFO
DC/R
FE
ARA
E
ITP
OLI

The Secretary of State,
Washington.

A-82, April 1, 1949.

(This airgram supplements this Mission's A-75, March 25, 1949, and earlier airgrams in this series. Request distribution be limited to Department for reasons stated in A-21 of January 28, 1949.)

1. Shipment of Salt from Tsingtao. In view critical situation prevailing in Tsingtao, believe Department will be interested to note that Chinese vessel Chong Shing, presumably chartered by Chinese Salt Administration, scheduled leave that port on or about March 25 with 6,800 tons of salt for unloading Kobe. Sale made Tokyo through Chinese Mission in Japan and Foreign Trade and Commerce Division, Economic and Scientific Section (ESS), this Headquarters.

2. Rationalization of Textile Industry Pleases Marquat. At weekly ESS staff meeting March 25, attended by officer this Mission, Major General W. F. MARQUAT, Chief, ESS, praised ESS Textile Division in glowing terms for "exceptionally fine work" done in connection with rationalization Japanese textile industry. While Marquat did not elaborate on what had been done, he held up ESS accomplishments in textile field as worthy of emulation by other ESS divisions.

3. Fear Criticism of SCAP Trade Mission to Latin America. Following departure several days ago of SCAP Trade Mission to Latin America, officer of this Mission informed by several ESS division chiefs, especially by chief of Textile Division, that American exporters likely be extremely critical of this Headquarters for sending Trade Mission into area in which American trade hitherto limited. As indicated our A-75, March 25, Trade Mission will attempt show publicity, a feat not likely of accomplishment. On other hand, however, it will, if deemed necessary, endeavor to point out need for expanding Japanese exports to reduce Occupation costs.

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

094.50/4-149

HH

Tokyo's A-82,
April 1, 1949.

-2-

4. Sterling Area Trade Position Clarified. Although statistics still incomplete, indications are that, contrary to original expectations, both Sterling Area and Japan have bought considerably more from each other than contemplated under Trade Plan. SCAP sales, it is estimated, exceeded purchases by 1.5 to 2.5 million pounds; such sales, together with postponement of clearance date for Indian Open Account, give SCAP favorable cash position. As believed before present review began, trade not moving to various parts of Sterling Area as planned. United Kingdom, Colonies and India have apparently bought more than their share, with remainder of Sterling Area correspondingly less. Indian purchases of Japanese textiles alone have been so heavy as to cause some consternation on part of Indian Government representatives in Tokyo; consequently now possible that future Indian purchases will have to be curtailed.

5. Japan Unable Deliver Agreed Upon Amounts of Textiles to Indonesia. Japan has not been able deliver 100,000,000 yards cotton textiles with 10 percent discount as agreed pursuant to SCAP-Indonesian Trade Plan (see this Mission's despatch No. 701, November 1, 1948). Agreement now reached between two parties, however, to effect that 10 percent discount will be allowed by SCAP, although only 66,000,000 yards have been delivered. In return, Indonesia will waive claims for allowances against late deliveries. Unshipped balance after April 30 will be considered cancelled.

6. Indian Government to Expedite Raw Cotton Exports to Japan. Indian Government, in reply to SCAP protest on Indian provincial interference with deliveries of raw cotton (see this Mission's A-58, March 11, 1949), has undertaken to expedite export licenses for all unfilled cotton contracts.

SEBALD

500
GHB/EGS:re

CONFIDENTIAL

SEP 20 1949 *ZC*

United States Political Adviser
for Japan
NORTHEAST ASIAN AFFAIRS

No. 206

APR 26 1949 Tokyo, April 5, 1949.

REC'D
APR. 11

UNCLASSIFIED

DEPARTMENT OF STATE

ACTION
FE_enc

Subject: Transmission of Excerpts from Diet Address by Director
General of Economic Stabilization Board.

INFO
FR
DCR
ITP_enc
OFD
OLI
POS
COM_enc
TREAS_enc
FRB
AGRI
TAR
LABOR
NSRB

The Honorable
The Secretary of State,
Washington.

*file no action required
May 1, 1949
mg.*

Sir:

I have the honor to forward a translation of significant excerpts from a policy address delivered to the Diet on April 4, 1949, by Mr. Takayoshi AOKI, Director General of the Economic Stabilization Board, covering the economic policies of the Yoshida Cabinet. This translation was published in the April 5, 1949 issue of the Nippon Times, Tokyo.

Mr. Aoki stressed the necessity of adhering to SCAP's Nine-point Economic directive of December 19, 1948. To attain a balanced budget, he said, "badly needed" expenditures for public works have been eliminated and price subsidies drastically curtailed. Every effort will be made to collect taxes "under the existing tax system," he is quoted as stating, while steps will be taken to equalize the tax burden and to utilize appropriated funds efficiently.

A yen counterpart fund will be established to cover all United States aid appropriations, Mr. Aoki said; the "original purport" of those appropriations had not been realized owing to their having heretofore been "used without restriction".

Mr. Aoki urged voluntary savings for the purpose of capital accumulation. With United States aid, he said, sufficient funds should be available for maintenance of capital and for economic rehabilitation, although, as the importance of the Reconstruction Finance Bank diminishes, measures must be taken to obtain the "voluntary cooperation" of private banks toward proper channeling of capital.

Regarding the price structure, Mr. Aoki said that no general upward revision is contemplated at present. Although subsidies are undesirable, he said, they are necessary to prevent severe dislocations and to cushion the initial shock of a single exchange

rate
SEP 27 1949
FILED

UNCLASSIFIED

ACTION COPY

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

894.50/4-549

FAP

Tokyo's Despatch No. 206,
April 5, 1949.

- 2 -

rate; subsidies will be kept to a minimum through industrial rationalization, however, and import subsidies will be considered "a transitional measure." Some upward revision of staple food prices will be necessary, he added, but the people should "bear the unbearable" for the sake of economic recovery.

Mr. Aoki continued his address with an exhortation to labor and management to increase production, and with a statement of the Government's determination to rationalize Japanese industry and to attract foreign capital. Rationalization is especially necessary in export industries, he said, since the Government intends to eliminate all subsidies upon the establishment of a single exchange rate. Rationalization is to take the form of lowered production costs, and that in turn means that wage rises must be accompanied by increased production. The unemployment that is likely to result from industrial rationalization will be countered by channeling labor into expanding export industries and into industries receiving foreign capital, and by "insurance and other unemployment measures...as far as permitted by the national economy." The Government, Mr. Aoki continued, desires "sound development of labor unions."

Mr. Aoki also requested farmers to spur production, and assured the Diet that the Government would work for 100 percent rice collections and for rice over-quota production and delivery. Improvements in production conditions, including land reform, will be pushed "as much as the national economy permits." Steps will be taken to supply fertilizers to farmers, and back payment will be made on the increased agricultural parity index growing out of 1948 price increases.

To promote exports and remove the Japanese economy from its unrealistic stilts, Mr. Aoki said, the Government will give top priority to procurement of materials for export industries, and will attempt to simplify trade procedures and to return trade to private hands. General Headquarters will be requested to promote export markets and to "improve trade terms."

With the decline of effective purchasing power that will probably result from rationalization, Mr. Aoki continued, and with "the gradually improving demand-supply situation of materials," economic controls will be simplified. The system of distribution Kodans will be revised to restore "the principle of competition," the list of controlled materials will be reduced, vegetables will be decontrolled, and "practical measures commensurate with reality" will be taken upon the reopening of restaurants.

Mr. Aoki concluded his address with a prediction that Japan will become self-supporting through the promotion of exports, the establishment of a single exchange rate, and the introduction of foreign capital.

Respectfully yours,

Enclosure:

W. J. Sebald

Five copies of translation of excerpts from Address by Director General of Economic Stabilization Board.

500

EGSeidensticket, Jr.:rc

Incl. to Despatch 206
 dtd April 5, 1949, from
 USPOLAD, Tokyo, on the
 subject "Transmission
 of Excerpts from Diet
 Address by Director Gen-
 eral of Economic Stabi-
 lization Board."

NIPPON TIMES

Apr 5, 1949

(1)

The text of Mr. Aoki's Diet speech on the nation's economic policy follows.

"After four years of difficult travel in the postwar period, the Japanese economy has at last come to show some signs of stabilization as evidenced by the gradual rise in production, slowing down of inflation, gradual rise in real income of workers. This has been made possible, thanks to the sympathetic assistance and guidance of the Allied Powers and to the efforts and cooperation of the whole nation for rehabilitation demonstrated in delivery of foodstuffs, increase production of coal and in other fields of economy, for which I take this opportunity to express my warm thanks.

Unhealthy Elements

"On the other hand, however, a careful scrutiny of our national economy will reveal that it still harbors not a few unhealthy elements, the worst of which being the foreign aid amounting to several hundred million dollars per year. We must not forget that the stabilization signs of our economy are based on the support of the citizens and enterprises of U.S.A. The production equipments of enterprises are getting worn out and their real capital is getting fast depleted. Enterprises depend for their operation on huge amounts of price adjustment subsidy and deficit financing for them is accumulating, thus losing their soundness and independence . . .

"In other words, the present Japanese economy must be said to be operating in excess of its real capacity by the subsidies and American aids. In case the present trend is left unchecked, an insecure economic prosperity will be built upon the precarious basis. It is, therefore, my conviction that the future economic policies must be geared to the real stabilization of economy.

"The Nine Point Economic Directive issued by SCAP in December last year clearly points to this direction and shows that the Allied policy toward Japan has reached the stage where it demands the stabilization and self-supporting of Japan's economy. With a view to establishing a self-supporting economy, the Nine Point Program aims at vigorously enforcing stabilization measures and carrying on a thoroughly rational operation of economy. For this purpose it purports to implement nine point measures as a preparation for the establishment of a single exchange rate

First Step

"I am convinced that the reconstruction of our country will not be achieved unless we achieve, despite difficulties, the economic stabilization which constitutes the first step toward economic self-support along the nine point directive. In this belief the Government will execute various economic measures by requesting enterprises to carry out forceful rationalization measures and by asking for our people to put up with strict austerity.

"The true balance of the consolidated budget referred to in the nine-point directive means a thorough elimination of inflationary factors on the side of public finance. For that purpose it becomes necessary to secure a real balance of consolidated revenues and expenditures inclusive of general and special accounts and other Governmental agencies. In formulating the balanced budget all sorts of economic requirements compete each other on the budget and the Government had to work very hard in adjusting them. On the expenditure side the Government had to slash the badly needed public works expenditure, enforce administrative adjustment, rationalization of special accounts, and reduce other expenditures. As regards the price adjustment expenditure which is needed for price stabilization, the items to be subsidized have been reduced and unit subsidy has been drastically curtailed, thus making it necessary for enterprises to enforce drastic rationalization. Import subsidies have also been reduced to the minimum which business accounting and household budgets permit.

No Alternative

"As regards national revenues, there is no alternative but to collect and secure tax revenues to realize a true balance in the consolidated budgets and the Government is determined to make every effort to secure as much tax revenue as possible under the current taxation system. The Government is of course well aware of the fact that the current tax burden is by no means light and is determined to double its efforts to improve the method of taxation in the course of the year so as to make the tax burden more equitable on one hand and to minimize the actual spending of the appropriation, to sell state properties, etc. on the other in order to alleviate the people's burden. But, at the same time, it is requested that the people will positive-

ly cooperate for securing tax revenues which are indispensable for putting Japan's economy on a self-supporting basis.

"Regarding the U.S. aid appropriations for Japan's economy, inasmuch as they have been heretofore used without restriction their original purpose has not been fully realized. Therefore, Government intends to specify in the budgets such aid in terms of Yen in order to putting the aid to the most effective use. That is to say, the Government will put all the aids in a special account called U.S. Aid Counterpart Fund for Japanese Stabilization and to put them to the most proper and effective use, that is, to economic rehabilitation, redemption of Government bonds, etc.

Spend Less

"In connection with the problem of financing, the Government wishes to make it clear to establish and carry out a sound financial policy. That is to say, along the principle that sources of funds should be found in the accumulated capital, the people are requested to minimize their personal expenditure and to maximize their savings, and enterprises are requested to procure their necessary funds through their own production efforts and capital accumulation within the framework of the so-called 'Three Principles of Enterprises' Thus, the Government tried to eradicate all potential inflationary factors both in public and private finances.

"It goes without saying, however, that even under such sound financial policy as stated above the Government has to see to it that funds really essential for the maintenance of production activities and for economic rehabilitation be fully secured. Inasmuch as a substantial portion of the U.S. aid has been made available for construction and rehabilitation purposes and for general industries through the redemption of Government bonds, R.F.B. bonds, etc., the industrial funds estimated to be available for the 1949 fiscal year both for equipments and for operation are not considered necessarily insufficient in total for the maintenance of estimated business activities. However, in proportion as the function of the Reconstruction Finance Bank is reduced and the relative importance of general financial institutions increases in consequence of their enlarged cash in hand through the redemption of Government bonds, R.F.B. bonds, etc., it becomes abso-

lutely necessary to obtain the voluntary cooperation to secure necessary funds for such fields as deemed essential from the standpoint of national economy.

Seek Fund Control

"The Government wishes to take some proper steps regarding fund control with due regard to future changes in situation and to promote the sound development of security market with a view to promoting self procurement of capital. Furthermore, such measures as will enable a rational amortization is under consideration in order to prevent any further depletion of capital.

"Next is the price policy at the present stage. The point at issue here is to stabilize prices at a low level corresponding to the aforestated sound financial policy and to make domestic price level approach the international level now that we are expected to participate in the international economy with the establishment of a single exchange rate, thereby paving the way toward stabilization of well-balanced economy. The current price structure established in June last year has been distorted due to subsequent economic changes to the detriment, in some respects, of reasonable operation of economy. Necessary adjustment will be made to remedy the situation. Overall raise of price level will, however, in so far as possible be avoided at this time. In particular, freight transportation changes and the prices of stabilization-band materials will be maintained at the current level and prices of consumption goods of which production conditions have improved will be reduced in order to contribute to the stabilization of household budget and balancing of price structure.

Subsidies Undesirable

"Substantial amount of price adjustment subsidies is included in the proposed budget in order to stabilize prices at low level. Fundamentally such subsidies are not desirable from the standpoint of rationalization of economy and independence of enterprises. However, to abolish all subsidies at one stroke at this moment is merely to cause unnecessary disturbance in our vulnerable economy. The amount of subsidies as appropriated is deemed to be the necessary minimum. We will see to it that the amount of subsidy per unit be slashed, that subsidy payment be cut down through rationalization

YFON TIMES

Apr 5, 1949

(2)

of enterprises, and that no unnecessary and unjustifiable subsidies be paid out.

"With regard to the problem of eliminating the discrepancies between domestic and international prices and adjusting the impact of exchange rate upon domestic price structure, it is urgently necessary for the normal development of our economy in the future that the domestic price structure which has long been secluded from international economy develop into a reasonable and natural one as an integral part of international economy. That is to say, we have first to endeavor to align our price structure to the international one in order that the Japanese economy gains self-support in the international economy.

"On the other hand, violent impact of the establishment of a single exchange rate and the alignment of domestic and international prices upon enterprises and household budget should be avoided as far as possible for stabilization of price level. The Government will, therefore, pay import subsidies as a transitional measure in order to mitigate such undesirable impact. It is needless to say that the import subsidy payment be minimized through the reduction of production costs.

"In spite of the aforesaid price policy aimed at stabilization at low level, it is unavoidable to raise consumer's price of staple foods on account of the rise in agricultural parity indices, passenger fare and communication charges for the realization of financial independence in Special Accounts. Again some price revisions of consumer goods is necessary in consequence of the abolition of some of the import subsidies. However, saving of consumption and accumulation of capital is indispensable for the self-support of national economy. The reconstruction of the Japanese economy can be attained only through saving and austerity on the part of the State, enterprises and household. It is

sincerely requested that the people will bear the unbearable to overcome an austere living which we have to get through.

Output Hike Essential

"It is needless to say that the basic measures to really stabilize our economy lie in securing and increasing production. It is for this reason that the Government calls for all-out efforts on the part of management and labor. The increase in production, however, can serve as a basis for sound economic development only when it is based on rational production management. It is in this respect that the Government has clearly established the 'Three Principles of Enterprises' and is prepared to carry out appropriate measures in conformity with the Nine Objectives in order to enforce rationalization of enterprises and to encourage induction of private foreign capital on thus stabilized economy.

"That is to say, as regards the basic industries, such as coal-mining and electricity, enterprises, are requested to operate profitably within the framework of the current price structure through rationalization of management. The policy with regard to such industries has tended to be based on a production-increase-first-principle, with the result that they have depended too much upon generous assistance of the Government, such as subsidy payment and deficit financing. Various unreasonable and unsound elements have, therefore, remained in these industries.

Export Rate Set

"As regards export industries, in particular, the rationalization of which is urgently called for in order to compete with foreign enterprises in the international market, the Government has set the maximum export price ratio at ¥425 on and after 1 April as another step toward the establishment of a single exchange rate, and will strongly promote their rationalization with the idea that export subsidies will entirely be abolished when a single exchange rate is established.

"As to the effect which the condition of fund supply has upon enterprises, enforcement of a strict sound financial policy as stated above will mean that the industrial fund has to be financed generally from accumulated capital. That is to say, no deficit financing

production increase and necessary construction within the framework of fund limited by sound financial policy. Enterprises, therefore, are requested to rationalize themselves through reduction of production costs. The Government on its part intends to take necessary measures to secure necessary funds.

"Such is the general policy toward enterprises. The Government is concerned about the possible effects of the enforcement of such policy upon medium and small enterprises. The Government is convinced that as long as medium and small enterprises endeavor to rationalize themselves in accordance with the Nine Objectives in cognizance of the part they play in the development of the Japanese economy. The Government will endeavor to nurture such medium and small enterprises.

"As the aforementioned policy of economic stabilization will be carried out rigorously, rise in real wages in future can be attained only through combined efforts on the part of capital and labor for the increase of production. It is needless to say that the Government will renew its efforts to stabilize the living of workers through the establishment of distribution order and securing of living necessities in cognizance of the fact that the working population bear the brunt of reconstruction. If an economy spoiled by deficit financing, subsidy payment, price raising, etc., be continued to be spoiled, inflation will proceed indefinitely and the national economy will never attain self-support and stabilization. The living of the working population will constantly be threatened. The Government is convinced that such is not in the interests of the working population. The Government is determined to take really constructive measures even though they might not be palatable. It is desired that enterprisers as well as workers cooperate with the Government in full understanding of the fact that the Japanese economy will be reconstructed and the living standard of the Japanese people raised only after we have overcome a severe trial now confronting us through our sweat and tears.

"With regard to unemployment which may arise in consequence of the enforcement

of the aforementioned policies, the Government will do its best to absorb them in industries which will expand in future, such as export industries, in particular, as well as in new enterprises to be financed from foreign assistance fund. Insurance and other unemployment measures will be extended as far as permitted by the national economy.

"At this critical juncture of the Japanese economy, the Government is desirous of seeing sound development of labor unions and relies upon the consciousness and all-out efforts of the working population.

"Now I am going to explain about problems concerning agriculture. The production increases in agriculture is of fundamental importance to the present Japanese economy from the standpoint of firmly establishing the basis for economic rehabilitation as well as of reducing the importation of foodstuffs. In view of the above fact, I request the farmers to make further efforts toward the production increase of foodstuffs at this critical moment. The fact that the food crisis our nation suffered in the postwar period has been finally overcome is largely attributable to the efforts made by the farmers, for which I do not know how to thank them. The Government has decided to take measures designed to have the rice quota system operated more efficiently and more fairly than ever, for which purpose nothing will be left untried to secure 100 per cent production and delivery by the farmers of the pre-planting delivery quota allocation for 1949 which has already been decided, while the production and delivery of foodstuffs over and above said allocation will be tried by all means.

"As for the improvement in production conditions indispensable for the strengthening of agricultural production capacity such as land reform, the Government will undertake to make efforts at expediting the said improvement as much as the national economy permits. At the same

NIPPON TIMES Apr 5, 1949 (3)

time the Government will minimize through the aforementioned maintenance of the present price structure financial burdens on the farmers both in agricultural management and household budget while taking measures to supply as much fertilizer and other reproduction materials as possible. As for the price of rice, wheat, barley, etc., back payment for the increase of agricultural parity index since the price revision in 1948, will be made along the policy determined by the Government to secure agricultural reproduction. On the part of farmers, however, I believe they must refrain from depending wholly upon measures to be taken by the Government, and minimize consumption and accumulate capital by their own hands through their own organization so as to invest it in agriculture so that the farmers themselves may open the way for the expansion of agricultural production.

"The next problem is about measures for export promotion. I have so far dwelt on the measures to stabilize domestic economy. In view of the present conditions of Japanese economy, that is, having a colossal population of 80,000,000 on a limited territory with poor natural resources, and barely maintaining the present production and living standard by the support of huge amount of funds and materials extended by the U.S.A., it is most urgent to promote export thereby enlarging the scope of economic circulation in order to secure the self-support and rehabilitation of economy.

To Boost Export

"For the purpose of wiping out the ill-fame of "economy stilts" and of achieving economic rehabilitation by our own efforts, the Government has determined to reduce domestic requirements as much as possible, to make efforts for the reduction of production cost and to develop and promote export as well as to increase invisible export. To realize the above, the Government has established the principle of top priority to export, along which efforts are being made for the preferential procurement of materials for export industries, smooth operation of trade financing, etc. In addition, the Government is trying hard to simplify the trade procedures and enlarge export and import on the private basis to the end of returning to normal trade while requesting GHQ for the adjustment of external relations such as the positive development of export markets and the improvement of trade terms.

"The Government has adopted the Export-First-Policy mentioned above and is going to exert its utmost effort to execute it successfully. However, the export encouragement measure by grant of export subsidy is not acceptable for international considerations. Therefore, it has become absolutely necessary for the Japanese economy to effect the rigid rationalization of enterprises and to improve technical level by developing scientific technique in order to secure a footing in the international competitive economy. Those who are engaged in export industries are hereby specially requested to do their best.

"In view of the expected decline in effective demand and general purchasing power, which will be brought about by rigorous execution of rationalization program and

austere national life, and the gradually improving demand-supply situation of materials, the economic control of material such as allocation and rationing of materials and price control will be simplified as far as possible and be strengthened in effectiveness of the enforcement in the reduced scope of control, thus contributing to the establishment of order in the distribution field. In promoting the rationalization of enterprises mentioned above, restoration of initiative and profitability of enterprises are required first of all. From this point of view, it is intended to abolish such control as requires unnecessarily complicated procedure and to devise strong measures to introduce principle of competition in case necessary controls are enforced. It is for this purpose that it is intended to readjust the distribution Kodans system, to reduce items of designated production materials and to abolish rationing control of fresh vegetables at this time. Furthermore as regards the pending reopening of restaurants practical measures commensurate with realities will be taken.

"When we rigorously execute the domestic economic stabilization measures in accordance with the Nine Objectives and promote economic rehabilitation through developing our export on the stabilized economy, the establishment of single exchange rate will be realized at an early date, the induction of foreign private capital will be encouraged in expectation of maintenance of the exchange rate, employment will be increased, living standard will be improved. Thus it is believed that self-support of Japanese economy will be realized. It is my belief that only by realizing the above, Japan will be recognized as a welcome member of international society and the way will be open for independence and peace.

STANDARD FORM NO. 64

~~TOP SECRET~~

Office Memorandum • UNITED STATES GOVERNMENT

TO : U - Mr. Webb

DATE: April 6, 1949

FROM : E - Mr. Thorp

SUBJECT: Interpretation of NSC 13/2: Japanese Zaibatsu Policy

Problem

It has become necessary to resolve the following major policy issues with respect to the Japanese reform programs:

1. To what extent does NSC 13/2 permit intervention by SCAP in the implementation of the reform programs and guidance of SCAP by Washington in connection with these programs?
2. Should steps be taken to assure that the program to prevent re-emergence of the Zaibatsu form of industrial organization, embodied substantially in existing legislation, be preserved in essentially its present form?

Discussion

1. Interpretation of NSC 13/2

Paragraph 12 of NSC 13/2 relating to the reform programs in Japan states that no new programs shall be initiated and that steps shall be taken to bring about as rapid assimilation as possible of existing programs by the Japanese, accompanied by a steady decrease of pressure by SCAP.

One interpretation of this paragraph is that there should be no further interference of any kind from Washington in the prosecution of the programs, and that SCAP should step in when but only when the reform programs are being carried out in such a way as to constitute in his judgment a danger of interference with the revival of the Japanese economy. It prohibits any communications between Washington and SCAP, such as requests for information, relating to the programs.

The other interpretation agrees that the Japanese should be given an increasing amount of freedom to carry out the programs on their own initiative. Intervention would have, in any case, to be by SCAP, but Washington might advise SCAP when, in their judgment, they felt that he was not carrying out the mandate of NSC 13/2 correctly. Intervention by SCAP would be proper when,

but

DC/R
71
Anal. _____
Rev. _____
Cat. _____

~~TOP SECRET~~

DECLASSIFIED
 E.O. 11652, Sec. 11
 NSC Ltr. Oct. 14, 1977
 By RJD NARS Date 3/13/88

APR 9 1949
 FILED

This Document Must Be Returned to
 894.50/4-649

894.50/4-649
 TOP SECRET FILE

*no. 250 from
 says SCAP should
 step in when
 Japanese compromise
 fundamentals of reform.*

~~TOP SECRET~~

-2-

but only when, it was necessary to prevent the aims of the reform programs from being subverted, whether due to too lax or too rigorous implementation. Washington should at all times be kept fully informed on the progress of the programs.

2. The Zaibatsu Program

Japanese industry has been characterized in the past by concentrations of economic power unique in character and unparalleled in any other industrial nation. They have been based in large measure on the social and political power of a few families and individuals, and have been maintained in part through extensive use of holding companies, intercorporate stockholdings and interlocking directorates in such a way as to unite large segments of industry in many different fields of manufacture and sale. Their strength has been enhanced through close relations with the leading banks and resultant favorable treatment in the granting of credit. The deconcentration program (set forth in the Basic Post-Surrender Directive and reaffirmed in detail in SWNCC 302/2) was instituted to correct this situation.

The Japanese Antitrust Law (Law No. 54) was passed by the Japanese Diet in March 1947. Its purpose is to prevent the re-emergence of the Zaibatsu form of industrial organization after completion of the deconcentration program.

The Deconcentration Review Board, a group of private U.S. citizens, was sent to Japan by the Army last spring to investigate the deconcentration program. At the time of its arrival, changes in the Antitrust Law were being drafted jointly by SCAP and Japanese Government agencies mainly for clarification. The DRB took an interest in this problem and subsequently made proposals for revision of the law. Amendments practically identical with the recommendations of the Deconcentration Review Board were later introduced in the Japanese Diet and are soon to be acted upon. Some of these changes would materially weaken the law, particularly those provisions which place limitations on intercorporate stockholdings and interlocking officerships and directorates.

The proponents of these changes would argue that revival of the Japanese economy is likely to succeed only if the Japanese assume real and effective responsibility for accomplishing that objective, and that this may require the re-emergence of social and business mechanisms similar to those existing prior to the war, which enabled Japan to assume leadership industrially, commercially and financially throughout the Far East. They also assume that the revisions of the

law

~~TOP SECRET~~

TOP SECRET

-3-

law proposed by the Deconcentration Review Board have been freely adopted by the Japanese with a genuine desire to permit combinations of business to be formed, in the belief that such combinations will increase productivity within Japan and improve Japan's competitive position in world markets. If this is the case, the United States cannot afford to impose on Japan unwelcome concepts of business fragmentation and inefficient business organization. To do so merely means to prolong the confusion now prevailing in the Japanese mind and to increase the burdens being borne by the American taxpayer for relief of the Japanese economy.

Those opposed to the trend toward weakening of the Zaibatsu program argue that the establishment and maintenance of a truly competitive business structure in Japan, far from delaying recovery, is the best means of assuring a substantial revival of the economy, because it is only through the stimulation of competitive activity that highly-efficient, low-cost production and technological advance will emerge. Not only will a competitive system create a stronger and more stable economy within Japan, it will in addition, through improving the quality of Japanese products, better Japan's competitive position in foreign markets. The opponents of the present trend argue further that the disruptive effect of the business reorganization is over-emphasized, and is a factor to be considered only in connection with the nearly-completed deconcentration program, not with administration of the Antitrust Law.

The opponents of the proposed changes in the Antitrust Law feel that they are largely of Deconcentration Review Board instigation and constitute an interference in the previously successful assimilation of the Zaibatsu program by the Japanese, in direct contradiction to the requirements of NSC 13/2. This activity of the Deconcentration Review Board can only be interpreted by the Japanese as a reversal of U.S. policy and will contribute to a conviction on their part that we are not sincere in our previously publicized intent to establish a democratic political and economic system in Japan. The recent growth of both Communist and extreme conservative strength in Japan has been alarming. If this conviction becomes firm, it would contribute materially to a further trend toward these extremes.

Recommendations

It is requested that you make a decision whether Paragraph 12 of NSC 13/2, relating to the reform programs, is to be interpreted as meaning that:

1. There

TOP SECRET

~~TOP SECRET~~

-4-

1. There should be no further interference of any kind from Washington in the prosecution of the programs and that SCAP should step in only when in his judgment implementation threatens to interfere with revival of the Japanese economy. There should be no official communication between Washington and SCAP relating to these programs.

2. Freedom of action by the Japanese should be granted increasingly as they give evidence of having assimilated the basic purposes of the reform programs. Intervention by SCAP, on his own initiative, or on the advice of Washington, should take place only when it is essential to prevent action which would materially prejudice the accomplishment of the basic purposes of the program. A formal means of communication between Washington and SCAP should be established whereby State may be kept fully informed on the progress of the programs.

If your decision is in favor of (2) above it is requested that you further decide, with respect to the Zaibatsu program, whether the Department should take a position against the current weakening of the program. If you decide affirmatively, I recommend that we approach the Army with a view to taking the following steps:

Strong public reaffirmation in Washington of our basic Zaibatsu policy;

Early withdrawal of the Deconcentration Review Board;

Appropriate publicity in Japan concerning these steps and a clear indication to the Japanese Government that revision of the Antitrust Law should await a thorough review of its desirability.

ITP:IR:^{RCD}RCDixon:osm

E
ITP

~~TOP SECRET~~

STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

TO : FE - Mr. Butterworth

FROM : E - Mr. Thorp

SUBJECT: Japanese Deconcentration

DATE: April 6, 1949

This Document must be Returned to the RMR Central Files

On March 1 a memorandum was submitted to FE by E analyzing and criticizing the Hutchinson reports on the activities of the Deconcentration Review Board and on the Japanese Antitrust Law. FE's reply seems to suggest that the points to which E's criticisms are directed are mainly of a technical nature worthy of corrective action only if the United States intends to insist upon an "airtight" deconcentration program in the purely economic sense.

We feel that FE is ignoring the fact that there is, and has long been, a basic difference in approach between E and FE on the policy itself as well as on the interpretation to be placed upon NSC 13/2 as related to the reform programs in general. Since this difference has not been resolved, I am forwarding to the Under Secretary the attached memorandum setting forth these two opposing viewpoints and asking that he resolve the issues. You will note that, with regard to the deconcentration program, we have placed primary emphasis upon whether the Japanese legislation to prevent re-emergence of the Zaibatsu form of organization should be preserved.

894.50/4-649 OS/MDR

*State Dept
International
Resources Division
From Dixon*

EC/A
APR 15 1949
By <i>[Signature]</i>
Cat. <i>[Signature]</i>

ITP:IR:^{RCD}RCDixon:osm

894.50/4-649

FORM 105-322
7-18-46

OUTGOING TELEGRAM

CLASSIFICATION

INDICATE
Collect

11 A.M.
CONFIDENTIAL
CONTROL

X Charge Department

Department of State
CONFIDENTIAL
Washington

1132

Charge to

SUPREME COMMANDER FOR THE ALLIED POWERS

APR 6 1949

TOKYO

INFO: ARMY CHIEF OF STAFF

FOR ACTING POLITICAL ADVISER.

Subject: Summary Steering/¹²⁹Comite Mtg
~~XXXXXXXXXX/XXXXXXXXXX/XXXXXXXXXX~~, Mar/29, 1949

Agrarian Reform in Japan (SC-335)

USSR member expressed dissatisfaction with bibliography of documents containing info/~~XXXXXXXXXX~~ on agricultural reform in Japan, SC-335/1, circulated by Secretariat and reintroduced res/~~XXXXXXXXXX~~ that SCAP be requested ~~XX~~ supply Com/~~XXXXXXXXXX~~ with necessary data and info/~~XXXXXXXXXX~~ concerning ~~XXXX~~ fulfillment of ~~XXXX~~ land reform program in Japan. USSR motion defeated by 6 to 1.

Steering/^{Comite}~~XXXXXXXXXX~~ accepted ~~XXX~~ amendment introduced by US ~~XX~~ Mar 22 to reword para 1 as follows: QTE In the view of the FEC ~~XXXX~~ ^{an} equitable and sound agrarian reform program is an important factor favoring the democratization of Japan. UNQTE ~~XXXXXXXXXX~~

U. S. Member proposed that as alternative to his amendment to delete para 3 c, he could accept para if worded as follows: QTE to these ends the basic principles underlying the measures set forth in para 2 above are approved. UNQTE ~~XXXXXXXXXX~~ He added his

GOVT would accept in place of first subpara ~~XX~~ para 2: QTE The following steps have been taken in Japan since the surrender in the field of agrarian reform. UNQTE ~~XXXXXXXXXX~~

Austral/~~XX~~ member stated ~~XXXX~~ US modification of para 3 c was unacceptable. It ~~XXX~~ his view ~~XXXX~~ present wording would have effect ~~XX~~ assisting SCAP in overcoming inertia in carrying out reform program which was to be expected from Japanese.

DISTRIBUTION
DESIRED
(OFFICES ONLY)

CR CLEARANCE

CONFIDENTIAL

894.50/4-649

CS/H

894.50/4-649

OUTGOING TELEGRAM

CLASSIFICATION

Department of State
CONFIDENTIAL
Washington

CONFIDENTIAL

Charge Department

Charge to

-2-

UK member tentatively suggested following revision of US modification ~~xx~~ para 3 c: QTE To these ends the FEC approves the basic principles underlying the measures of those measures. UNQTE set forth in para 2 and the intentions ~~thereof. XXXXXX~~ Further discussion postponed. Fishing and Aquatic Industries in Japan (SC-271/10)

US Member stated ~~XXXX~~ his Govt was reconsidering its position. Phil ~~xxxx~~ member called to ~~XXXXXXXXXX~~ ^{attn} ~~xxxxxxx~~ ^{Comite} ~~xxxxxxxxxxxxxxxx~~ report in Weekly Summary, No. 174 of Natural Resources Section that there were numerous violations ~~xx~~ authorized fishing areas by Jap ~~xxxx~~ fishermen. Action deferred.

Complaint Against SCAP by Deported German National (SC 330/6)

This paper with minor modifications was forwarded to ~~the Comm/xxxxx. xxxxxxxxxxx~~ ~~xxxxxxxxxxxx~~

Jap ~~xxxx~~ Assets in Neutral Countries (SC-295/6)

Fr ~~xxxx~~ member pointed out ~~that~~ his delegation does not understand why four-power machinery should be set up to marshal ~~//~~ assets. He felt ~~that~~ procedure adopted for Ger ~~xxxx~~ assets in neutral countries should be adopted, wherein three occupying powers were entrusted with task of marshalling assets. In case Japan, US ~~is~~ sole occupying power and should be entrusted alone to marshal ~~//~~ assets. Chi ~~xxxx~~ member challenged

Fr ~~xxxx~~ description ~~of~~ US as sole occupying auth ~~xxxx~~. Fr member indicated ~~that~~ it was a question of fact, not of principle. Action deferred.

DISTRIBUTION DESIRED (OFFICES ONLY)

CR CLEARANCE

CONFIDENTIAL

FORM DS-322
7-18-46

OUTGOING TELEGRAM

CLASSIFICATION

INDICATE

Collect

Charge Department

Charge to

Department of State
CONFIDENTIAL
Washington

CONFIDENTIAL

-3-

Replacement of Lost Cultural Objects (SC 272/12)

Removal of Aircraft and Private Munitions Plants from Japan (SC 312)

Retained on agenda.

Acheson
(9/24)

ACHESON

MWB *ald*
FE:NA:ALDunning/ikb
4/5/49

FE

1949 APR 6 AM 10 54
ACCEPTANCE DESK
DCT

DISTRIBUTION
DESIRED
(OFFICES ONLY)

CONFIDENTIAL

CR CLEARANCE

APR 6 1949

45631

INCOMING AIRGRAM

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

3536

AIRGRAM

FROM: USPOLAIR, Tokyo

Date of mailing: April 9, 1949

Date rec'd: April 18, 1949, 11:15 a.m.

CONFIDENTIAL (FOR DEPT USE ONLY)

Secretary of State

Washington.

A-84, April 8, 1949.

OFFICE OF FINANCIAL AND DEVELOPMENT POLICY
APR 10 1949
DEPARTMENT OF STATE

(This airgram supplements this Mission's A-82, April 1, 1949, and earlier airgrams in this series. Request distribution be limited to Department for reasons stated in A-21 of January 28, 1949.)

1. Hutchinson Statements Considered Inaccurate. SCAP's De-concentration Review Board (DRB) has refused accept responsibility for statements recently made by Mr. Walter HUTCHINSON, member of Board, before Far Eastern Commission. According to Chief of Anti-Trust and Cartels Division, Economic and Scientific Section (ESS), this Headquarters, Hutchinson's statements contain numerous inaccuracies. DRB argues Hutchinson speaking as private citizen; while Anti-trust and Cartels hold that Hutchinson's trip to Washington as reporting official for DRB implied that his statements could be considered as being official, and that DRB should accept responsibility therefor. Anti-Trust and Cartels Division especially disturbed by Hutchinson's charges of arbitrary and dictatorial enforcement of Anti-Trust Law, and maintains that enforcement now no more arbitrary than before arrival of Board. This question being investigated further with view possible preparation despatch to Department.

2. Letters of Interpretation for Korean Arrangements. Two letters of interpretation have been approved and will be appended to SCAP-Korean trade and financial arrangements (see this Mission's despatches No. 174 of March 24 and No. 203 of April 4) upon validation of those arrangements by both parties. First covers clearance of old Korean accounts and provides that financial arrangement is not to extend to payments on contracts outstanding on April 1, 1949. Those contracts are to be concluded within about 90 days under old open account arrangements. Settlement of credits outstanding April 1 to be made in cash, soonest possible, and status

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

DIVISION OF FINANCIAL AFFAIRS
Referred to IR for Yanking
APR 14 1949
Director
DEPARTMENT OF STATE

1
M
ACTION: OFD
INFO
DC/R
PE
E
ITP
OLI

IR
A dr. 4-27-49
JEF

LP
694.9531

894.50/4-849
CONFIDENTIAL FILE
MAY 18 1949
FILED HH

Tokyo's A-84,
April 8, 1949.

- 2 -

of accounts outstanding to be determined monthly and payment in cash to be made as promptly as possible. Second letter of interpretation provides that agreement in no way prejudices Korean reparations claims, et cetera, and has no bearing on problem repatriation Korean property in Japan. Third letter of interpretation, regarding free ingress and egress of vessels, not yet been approved because of possible legal complications arising from disputed ownership of Korean vessels.

3. Bizone Representatives in Tokyo. Representatives of German Bizone arrived in Tokyo during week and reportedly are conferring with Chief of Staff, this Headquarters; with Major General W. F. MARQUAT, Chief, ESS; and with Mr. Joseph M. DODG, SCAP financial adviser. They have thus far made no gestures for opening trade talks with trade and industrial leaders in ESS. Bizone group headed by Dr. Robert SIEBURTH, who assertedly has draft proposed SCAP-JEIA payments agreement and lists of materials available for export to Japan from Bizone.

4. Importance of Tax Collections Stressed by Marquat. General Marquat, at ESS staff meeting April 4 attended by officer of this Mission, stated that "if we fall down on tax collection program this year, entire 9-point economic stabilization program will go into tailspin." He said that the fiscal year 1949-50 (commencing April 1) was critical with respect to Japanese economic recovery, adding that "we don't want to be lenient or back-slide; we must keep hard-boiled attitude." General Marquat stated further that General MacARTHUR "very pleased" with tax collection report for 1948-49 fiscal year which now indicates that collection goals will be exceeded by comfortable margin.

5. Trade between Hong Kong and North Korea. At same staff meeting, General Marquat asked ESS division chiefs to watch closely development of trade relations between Hong Kong and North Korea, stating that he had received report regarding one vessel from Hong Kong proceeding to North Korea where, after initial suspicion and evasiveness on part of Korean Communists, latter agreed to barter contents of vessel for local products. (Details with regard to products were not reported by General Marquat.) Head of ESS Foreign Trade and Commerce Division then reported that ESS had received offer from North Korea for barter deal involving Japanese-made locomotives for graphite and soy beans from North Korea, and that offer still under consideration.

6. Government Section to Reply to FORTUNE Article. At April 4 ESS staff meeting, General Marquat referred to recent FORTUNE article

CONFIDENTIAL

Tokyo's A-84,
April 8, 1949.

- 3 -

criticizing economic rehabilitation in Japan under SCAP auspices and stated that Brig. Gen. Courtney WHITNEY, Chief, Government Section, SCAP, was drawing up reply thereto. General Marquat instructed all ESS division chiefs to give every assistance requested by General Whitney, with special regard to economic questions.

7. Need for Overall SCAP Controller. At same staff meeting General Marquat dwelt at length on need for overall SCAP controller to supervise all Occupation financial operations, including those of Occupation itself and of Japanese Government. He stated that Dodge had expressed great need for appointment such controller; Marquat said that Dodge would be ideal man for job but expressed opinion latter would probably not wish to remain in Japan after completing present mission.

8. Chinese Mission Repudiates Taiwan-Walker Agreement. This Mission recently informed of appointment by Taiwan Provincial Government of International Engineering Corporation, an American firm with George T. Walker as Vice President, as its agent for sale of Taiwan sugar to Japan. ESS received offer from Walker for 100,000 tons granulated sugar, with suggested payment to be made partly in dollars and partly in Japanese goods. ESS official in charge food importations informed this Mission April 8 that he had received memorandum from Chinese Mission here stating that Taiwan-Walker agreement unauthorized and that Taiwan Sugar Corporation, subsidiary of Chinese Government's National Resources Commission, alone qualified sell Taiwan sugar to SCAP. ESS official expressed opinion Taiwan-Walker deal probably concluded by Governor of Taiwan as means realize personal profits. He added that Richard H. ELY, American sugar consultant supplied to Taiwan Sugar Corporation by General American Transportation Company, Chicago, now in Tokyo to discuss possible sale of Taiwan sugar to SCAP. ESS official concluded by stating SCAP buying no sugar from any source until after July 1, 1949.

SEBALD

500
CHBoehringer/EGSeidensticker, Jr.:rc

CONFIDENTIAL

FORM DS, 323
7-18-46

OUTGOING AIRGRAM

CLASSIFICATION

Department of State

CONFIDENTIAL

NO. _____

Washington

USPOLAD,

1571

TOKYO.

A-82, May 13, 1949

Reference is made to paragraph 1 of the Acting Political Adviser's confidential airgram A-84, April 8, 1949, reporting the refusal of the Deconcentration Review Board to accept responsibility for statements made by Mr. Walter Hutchinson, member of the Board, before the FEC. It is stated that the matter is being investigated further with a view to the possible preparation of a despatch to the Department.

It would be appreciated if such a despatch could be prepared containing answers, inter alia, to the following questions:

1. Was it the DRB's desire in refusing to accept responsibility for Mr. Hutchinson's statements actually to repudiate the statements?
2. If so, what statements did the DRB desire to repudiate and what in its view is the correct situation?

ACHESON

Acheson
Good

DISTRIBUTION
DESIRED
(OFFICES ONLY)

WLS
WLB

CR CLEARANCE

ZIK

MAY 13 1949 P.M.

CONFIDENTIAL

FE:NA:RA Fearey :db

HE Fassberg

5/12/49

Cleared with Mr. Fearey by above RAY

Ray

894.50/4-849
CS/IC

894.50/4-849

X R
694.9531

894.50/4-849
1571
694.9531

FORM DS-323
7-18-46

OUTGOING AIRGRAM

CLASSIFICATION

Department of State

CONFIDENTIAL

NO. A.

Washington,

Ref

USPOLAD,

TOKYO.

paragraph 1 of the Acting Political Adviser's
Reference is made to ~~the~~ confidential airgram A-84, ~~dated~~ April 8, 1949, *reporting*
1949 from the Political Adviser reporting a number of items of interest
to the Dep't. Paragraph 1 therein refers to the refusal of the Decon-
centration Review Board to accept responsibility for statements made
by Mr. Walter Hutchinson, member of the Board, before the FEC. *It is stated that*

the matter is being investigated further with a view to the possible preparation of a
Even after Gen. McCoy's statement of Dec. 9 before the FEC *dispatch to*
stating the reasons for US withdrawal of support of FEC 230 the *the Department,*
Commission continued to take an active interest in the progress of
the Deconcentration program. Mr. Hutchinson, in his testimony before
the FEC, commented somewhat critically on the progress which had been
made before the DRB arrived on the scene, outlined the implementation
of the program under the aegis of the DRB and made some general
observations on the overall deconcentration policy. Mr. Hutchinson's
appearance before the Economics Committee of the FEC had been approved
by the Army Dep't. which agreed with the State Dep't. that every
effort should be made to persuade Commission members that further
policy action on the problem of deconcentration was unnecessary. Mr.
Hutchinson's remarks went far towards answering questions in the
minds of several Commission members who regarded his statement as
authoritative, particularly when there elapsed a period of 8 weeks
from the time when he met with the Commission to the time when he
notified the Secretariat to the Commission that their record of his
statement was correct and that he could approve it. Despite Mr.
Hutchinson's argumentation, however, members of the FEC continue to
indicate an interest in the Deconcentration program and are considering
an FEC policy on this matter which would, broadly speaking, endorse
the principles contained in existing Deconcentration and Anti-trust
legislation.

In the event that members of the FEC in considering Japanese
deconcentration solicit further comments from the US it is essential
that the status of Mr. Hutchinson's testimony be clarified. If
the report before the FEC is inaccurate, it is desirable
that the Dep't have the correct information. The Dep't.

would

DISTRIBUTION
DESIRED
(OFFICES ONLY)

CR CLEARANCE

CONFIDENTIAL

FORM DS-323
7-18-16

OUTGOING AIRGRAM

CLASSIFICATION

Department of State

CONFIDENTIAL

Washington,

NO. _____

- 2 -

would, therefore, appreciate receiving any information available regarding the DRB's refusal to accept responsibility for the Hutchinson statements. In particular, it is important to know:

of Mr. Hutchinson's report

1. Whether the DRB's disavowal covers all ~~the~~ testimony or only parts of it.
2. If only part, what sections does the DRB refer to?
3. Where the statements are inaccurate what is the correct situation?
4. Any other information available which would be helpful to the Dep't. in its statements before the REC.

The Mission's comments are requested.

F00894.50/4-27-49

Acheson (RCD)

It would be appreciated if such a dispatch could be prepared containing answers, inter alia, to the following questions:

1. Was it the DRB's desire in refusing to accept responsibility for Mr. Hutchinson's statements actually to repudiate the statements?

2. If so, what statements did the DRB desire to repudiate and what in its view is the correct situation?

CONFIDENTIAL

DISTRIBUTION DESIRED (OFFICES ONLY)

CR CLEARANCE

ITP:IR:HEFassberg:prg
4-27-49

ITP
(Martin)

UFD

FE

WA



THE FOREIGN SERVICE OF THE UNITED STATES OF AMERICA

[Handwritten signature]

894.50 / 4-1249 Conf. file

United States Political Adviser for Japan

No. 215

G DIVISION OFTokyo, April 12, 1949.
NORTHEAST ASIAN AFFAIRS

REC'D
APR. 21

CONFIDENTIAL
(For Department Use ONLY) 6 1949

*No action required
May 1, 49
Mg. file
DC/R*

ACTION
FE

DEPARTMENT OF STATE

INFO
FR
DCR
CFD
ITP
OLI
POS

Subject: Prime Minister's Policy Speech of April 4, 1949.

The Honorable
The Secretary of State,
Washington.

Sir:

E
1/

I have the honor to transmit to the Department five copies of the policy speech delivered by Prime Minister YOSHIDA Shigeru at the plenary sessions of both Houses of the National Diet on April 4, 1949.

The policy speech deals primarily with economic matters. The Prime Minister pledged his wholehearted effort to carry through the Nine-Point Economic Stabilization Program initiated by the Supreme Commander's letter of December 19, 1948 and further elaborated in the more recent statements of Joseph M. DODGE, financial adviser. In the realization of the recovery program, the Prime Minister emphasized the Government's effort to make the 1949-1950 fiscal year budget conform with the requirements of the Nine-Point Program and Mr. Dodge's statement. The Prime Minister expressed his full recognition of the heavy tax burden the new budget imposes, but stated that his Government will carry out drastic administrative reforms and improvements in the taxation system. As one specific method of easing the tax burden, Prime Minister Yoshida described his Cabinet's plan to dispose of certain government properties. He further stated that such primary requirements to curb inflation include the reduction of the government's subsidies, investments, and general expenses.

Throughout his address, the Prime Minister emphasized the growing crisis in Japan's economy and the consequent necessity for direct, drastic remedies to meet this situation. That rectification of Japan's economic maladjustment will inflict further hardships on the people is too obvious a matter to ignore, and the Prime Minister appealed for acceptance of further austerity with a spirit of "economic patriotism".

CONFIDENTIAL

ACTION COPY

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

This Document Must Be Returned To
DC/R
894.50/4-1249
Files

CONFIDENTIAL FILE
CS/H

FILED
JUL 14 1952

CONFIDENTIAL

-3-

The Prime Minister also took up a number of international and political questions. He expressed hope for the early repatriation of Japanese remaining abroad, "who are compelled to pass their fourth winter in cold countries". He also referred to current rumors of Japan's possible involvement in another war, and urged the people not to be misled "by such rumors emanating from abroad". In this connection, Mr. Yoshida expressed the conviction that there is a small ideological minority in Japan which seeks to obstruct national reconstruction and is "scheming to bring destruction and chaos upon the country".

While the Prime Minister's speech was of general nature and avoided discussion of specific measures to cope with the economic crisis, it nevertheless was a frank, forthright effort to explain the urgency of the economic situation and the unavoidably painful character of the corrective measures which will be required. The budget is, of course, the crux of the problem, from both the economic and political standpoints. As the Prime Minister stressed, the new budget "represents the obligation which the government of postwar Japan should have carried out, but which has happened to be neglected until this day".

Drafting of the 1949-1950 budget has raised important political problems having a direct bearing on the position of the Prime Minister and the Democratic Liberal Party of which he is head. During the political campaigns leading up to the general election of January 23, 1949 the Democratic Liberal Party made various campaign promises which cannot be fulfilled under the new budget, such as the elimination of the sales tax, no further increases in railway passenger fares, an expanded public works program, and continued subsidies and assistance to certain industries. Finance Minister Ikeda Hayato's first draft of the budget attempted to incorporate many of the Democratic Liberal Party's campaign promises. In reviewing the budget, however, the Economic and Scientific Section of General Headquarters found many of its provisions inconsistent with the requirements of the Nine-Point Economic Recovery Program. There consequently followed, during the last two weeks of March, a series of conferences between the Finance Minister and his assistants and the Economic and Scientific Section and Mr. Dodge, as a result of which many provisions incorporating the Democratic Liberal Party's campaign promises were eliminated or drastically scaled down.

These "adjustments" of the budget by General Headquarters have aroused certain members of the Democratic Liberal Party who have sought to place blame for the Cabinet's failure to meet the party's promises on Mr. Yoshida and the Finance Minister. To a considerable extent, Mr. Ikeda, a Finance Ministry bureaucrat and comparatively a newcomer in the party, is vulnerable to such attacks, some of which have called for his resignation.

Prime

CONFIDENTIAL

CONFIDENTIAL

-3-

Prime Minister Yoshida, however, has supported Mr. Ikeda without reservation and has stated that the advice received from General Headquarters on the budget must be viewed in the nature of a directive which must be carried out regardless of how party campaign promises are affected.

While party opposition to revision of the budget had no effect in securing adjustments more favorable to the Democratic Liberal Party's position, the issue has served to emphasize still further the heterogeneous character of the Democratic Liberal Party. Factional alignments were considerably intensified after the election when the Prime Minister's choice of cabinet members ignored the aspirations of some of the old-guard elements within the party. Controversy over the budget has served to accentuate these differences and has at the same time provided factional opposition within the party a very specific and live issue upon which to criticize the leadership of the Prime Minister.

There is little doubt that the government's efforts to implement the recovery program will provide additional issues upon which opposition elements within the party can attack Mr. Yoshida's leadership. The Prime Minister, however, enjoys the advantage of political stature and prestige, for no matter how much intra-party criticism and opposition he may face, the fact remains that at the present juncture the Democratic Liberal Party has no leaders competent to displace Mr. Yoshida.

While it is impossible to determine how successfully the Yoshida Cabinet can direct Japan's economic recovery, it is believed that the Prime Minister has sufficient ability and prestige to hold his party in line. If the Yoshida Cabinet fails in its effort to put the Nine-Point Economic Recovery Program into successful operation, difficulties of factional politics are less likely to be the cause than the more fundamental factors of an administrative, economic, and even international character, some of which lie beyond the Cabinet's control.

There is little doubt that the disagreement between the Yoshida Cabinet and General Headquarters over compilation of the budget puzzles or even displeases Japanese who have political consciousness. Before the election, it was fully apparent that the Democratic Liberal Party would be victorious, although the size of its actual victory was not anticipated. It was also apparent that, with some exceptions, Headquarters would be satisfied with a Democratic Liberal Party cabinet headed by Mr. Yoshida. If the party's campaign promises are now regarded as inconsistent with the actual state of the Japanese economy, these campaign promises were equally unrealistic before the election. The average Japanese is wondering therefore why Headquarters, which anticipated a Democratic Liberal victory before the election, raised no question regarding the party's campaign pledges at that time.

While

CONFIDENTIAL

CONFIDENTIAL

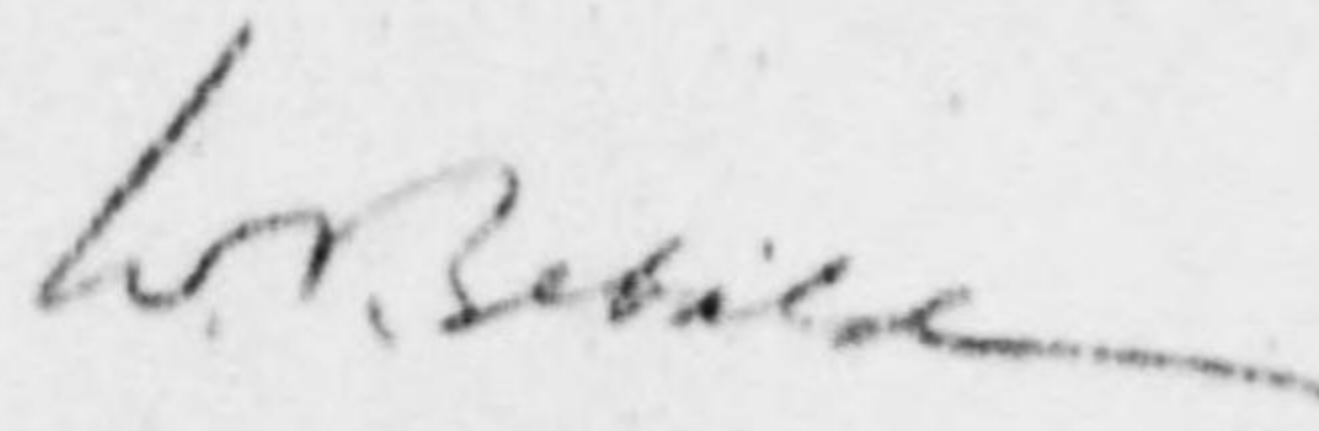
-4-

While there can be no doubt of the unrealistic character of the Democratic Liberal Party's position with respect to its pre-election pledges and the necessity for drastic steps to stabilize the Japanese economy, the course of the dispute over the budget affords another example of how action by General Headquarters has placed the Cabinet in power in an untenable position with respect to its political commitments. Prime Minister Yoshida has faced a similar situation in his two previous cabinets, and the undoing of the Katayama and Ashida cabinets can be attributed in good part to their being compelled to abrogate their parties' pledges to the electorate because of Headquarters insistence that a particular course of action be followed.

The opposition parties in the Diet have launched an attack against the Cabinet on the budget question. While there is considerable constructive and honest criticism of the provisions of the budget and the economic repercussions expected, it is only too apparent that the opposition is more concerned with making political capital of the Democratic Liberal Party's default on its campaign promises. For example, a spokesman for the Social Democratic Party charged that "the Democratic Liberal Party has cancelled all its election promises" at the first Diet session after the general election, and that "this deceptive activity of the party is a serious matter from the standpoint of parliamentary politics". Secretary General TOKUDA Kyuichi of the Japan Communist Party described the Prime Minister as "the worst traitor ever seen in the history of the world," and demanded the immediate resignation of the Cabinet.

There is little possibility that the present opposition in the Diet will be able to exert any influence on the government's policy with respect to the budget and the Nine-Point Recovery Program in view of the preponderant position of the Democratic Liberal Party. On the other hand, there is little doubt that the Prime Minister is concerned with the attitude and behavior of the factional elements within his own party, who desire to keep him reminded that their support is necessary to him and that they do not propose to be ignored.

Respectfully yours,



W. J. Sebald

Enclosure:

Five clippings of the Prime
Minister's Policy Speech,
April 4, 1949.

Copy to: American Embassy, London
Parchment Mat to Department
361.2
CNSpinks:mhp

CONFIDENTIAL

Enclosure No. 1 to Despatch No. 215 dated April 12, 1949 from the United States Political Adviser for Japan, Tokyo, on the subject "Prime Minister's Policy Speech of April 4, 1949".

THE MAINICHI: Apr 5, 1949

Japan's Ailing Economic Body Needs Major Operation, Says Prime Minister

'We Will Courageously And Patriotically Endure Pain; Country Must Get Along Without Outside Help As Soon As Possible'

TOKYO, Apr. 4.—Prime Minister Shigeru Yoshida delivered his administrative speech at the plenary sessions of both Houses of National Diet today.

The text of his speech follows:

Denies Rumors Re Japan's International Position

The outcome of last general elections has clearly demonstrated that the Japanese people were eager to have the political situation stabilized and that they wanted to put their Government in the hands of robust conservative parties.

My Government, brought into being by an overwhelming popular support, is now prepared to put its convictions into deeds and pursue vigorously its policies for national reconstruction. For only by so doing can the Government meet the people's expectations and trust and make Japan deserving of the generous assistance from the Allied Powers.

The reckless warfare of ten years has left this country in a condition of indescribable destruction and confusion. In order to clear the war's aftermath and to rebuild our country, we must squarely face the realities of the situation. We should boldly plan and embark upon a long-range program with a united and determined will.

This point was strongly emphasized in General MacArthur's letter to me of December 19, 1948 concerning the Nine-Point Economic Stabilization Program and also in the more recent statement of Mr. Dodge. I myself am convinced that without such a program there will be no reconstruction.

The budget about to be submitted to you is one which the Government has compiled on its own responsibility, but which accepts and embodies the substance of the Dodge statement as well as the Nine Principles. Resolved to achieve true economic independence and reconstruction, the Government has first of all drawn up a balanced budget in the face of serious difficulties.

It is a matter of grave concern that because of our stringent post-war economy and because of the exhaustion of resources our people are made to shoulder heavy taxes and suffer unparalleled hardships. The Government proposes therefore

to carry out drastic administrative reforms and effect improvements in the taxation system and the method of tax collection in the coming months, while on the side of expenditures, further cuts will be made.

It is planned to dispose of Government properties to lighten the people's tax burden. Accordingly, as these plans materialize the Diet will be convoked in an extraordinary session to take the necessary legislative action.

True economic stability and progress depend upon the disposition of national problem under sound fiscal and currency policies. Therefore, it is important that all policy decisions are linked to the national budget.

It is the Government which has been chiefly responsible for the aggravation of inflation in the past. Unless the Government now takes the steps to curb inflation, the country will be ruined. It is indeed very hard for the Government to cut down subsidies, investments and general expenses, but it must be done.

It is true our production index has risen with the large progressive increases in American aid funds. Export is expanding but import grows more rapidly so that our unfavorable balance of trade is increasing from year to year. And we are barely covering the deficits with American money. Obviously this situation cannot be allowed to continue indefinitely.

In order to stabilize our national economy permanently, to end inflation for all time, and to make the country self-supporting and prosperous, a drastic measure must be adopted even if it hurts. Japan's ailing body economic requires a major surgical operation. And we will courageously and patriotically endure the pain.

We are all very grateful for the sympathetic understanding and bounteous aid of the Allied Powers—

Enclosure to Tokyo's
Despatch No. 215
April 12, 1949.

-2-

especially of the United States of America. However, what is important is that we should as soon as possible become self-supporting and be able to get along without outside help. I earnestly hope that all Japanese will resolve to achieve national reconstruction without depending on Allied munificence alone but by dint of their spirit of self-reliance and by their willingness to submit to austerity and hard work.

In this respect I believe we should do well to emulate the British people who are so solidly united in their gallant struggle for economic independence.

I hope the strong and responsible policies the Government proposes to pursue will meet with whole-hearted support and cooperation on the part of the entire nation.

I should like to add here a word with reference to the single exchange rate which is soon to be set up. A single exchange rate is, needless to say, indispensable for the promotion of trade and the induction of foreign capital. Japanese economy today appears on the surface to have attained a measure of stability. But this stability rests upon American aid, and there lurks within it many a factor tending toward instability. We must first of all regain a healthy economic power. Otherwise, we shall not be able to maintain a single exchange rate even if one is established. Nor may we hope to attract foreign investments to our shores.

The Government's other programs for national reconstruction include:

Promotion of export industries; Promotion and improvement of agriculture; Unemployment counter-measures; Disaster relief measure; Renovation of education; Advancement of science; Enhancement of morality.

With respect to these individual programs, the respective competent Ministers concerned will give you detailed explanations in due course.

As Foreign Minister, I want to speak concerning the repatriation of overseas Japanese nationals. So far, more than 6-million have been brought home, but I regret to say that there still remain more than 400,000 of our compatriots who are compelled to pass their fourth winter in cold countries.

I desire to express my sincere sympathy for them and their families and friends at home. Thanks to the kind and tireless endeavors of the Allied headquarters, an understanding seems to have been obtained from the Government concerned, so that I believe we may expect the repatriation completed by the end of this year.

I avail myself of this occasion to touch on a subject of general concern. Rumors of various kinds are being circulated concerning the dangers involved in Japan's international position. Such is a usual phenomenon which arises in the wake of a great war. But the memory of last war is still too fresh in the minds of all nations, and no country wants war. I sincerely hope that our people will not be misled by such rumors emanating from abroad. On the other hand, it is most gratifying that Japan is coming to be invited to participate in international conferences in the field of science, religion, the Red Cross and labor, and she is being permitted to despatch trade missions to various quarters of the world.

We hear frequently nowadays of the "extreme right" or the "extreme left." But these epithets are used mostly by those who have an axe to grind. I am confident that a vast preponderant majority of Japanese strongly desire the economic reconstruction and rehabilitation of the country and are determined to work and cooperate toward that end. However, there are those, though a very small minority, who not only obstruct national reconstruction but are

also scheming to bring destruction and chaos upon the country. The existence of this latter group, regrettable as it is, is a fact which we must recognize.

To conclude, the budget we are submitting represents the obligation which the Government of postwar Japan should have carried out, but which has happened to be neglected until this day. Japan at this juncture needs unity. She needs economic patriotism. I fervently hope the nation will unite in an all-out effort to observe the Nine Principles as fully and faithfully as any other obligations imposed upon her by the Allied Occupation policy. That is the only way to win our goal of democratic government and of economic independence, so that Japan may be welcomed back by other Powers as an active member in the society of nations.