DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND # 760050

DIVISION OF
COMMUNICATIONS AND RECORDS
TELEGRAPH BRANCH

DEPARTMENT OF STATE

INCOMING TELEGRAM

MB ACTION COPY

Please follow → NH

7

CONFIDENTIAL

Action: FE
Info:
P
NEA
OLI
CIA
AAF
OFD
POS
DCR

DIVISION OF
NORTHEAST ASIAN AFFAIRS
APR 13 1949
DEPARTMENT OF STATE

Control 4729

Rec'd April 13, 1949
4:36 a.m.

Office of
FAR EASTERN AFFAIRS
APR 13 1949
DIRECTOR
Department of State

FROM: Tokyo

TO: Secretary of State

NO: 117, April 12

FROM SCAP TOKYO TO DEPARTMENT OF STATE

CITE 69213.

FW 894.50/4-1249

Reference 1103252, 11 February 1949 (State serial 49, February 10).

Case of Midzuno was considered in light of SCAP's C-63292 part three. Decision made that (A) employment of Midzuno would not be of special benefit to Japanese economy and (B) would not be of decided benefit to India's economy. This application is considered in nature of test case by general headquarters, particularly as Indian representative Tokyo indicates that there are some 200 such cases pending. General policy is still under consideration, and additional information for possible transmission to the Indian representative will be forwarded as available.

SEBALD

BB:RT

CONFIDENTIAL

894.50/4-1249

Confidential File

PERMANENT RECORD COPY: THIS COPY MUST BE RETURNED TO DC/R CENTRAL FILES WITH NOTATION OF ACTION TAKEN.

16—52918-1 U. S. GOVERNMENT PRINTING OFFICE

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

DO NOT DETACH THIS FORM

RECORD COPY

FILE NO. 894.50/4-1249

TOKYO TEL. 117 MB

THE ATTACHED COPY OF A ☐ DESPATCH ☐ TELEGRAM ☐ AIRGRAM

HAS BEEN DESIGNATED THE RECORD COPY TO REPLACE THE ORIGINAL ACTION COPY WHICH WAS NOT RETURNED TO THE CENTRAL RECORDS BY THE ACTION OFFICE.

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

SEP 23 1949

M-184
11-9-48

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

INCOMING TELEGRAM

DEPARTMENT OF STATE—DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

RECEIVED
DEPARTMENT OF STATE

7

CONFIDENTIAL

1949 APR 13 AM 10 40

Action: FE
Info:
P
NEA
OLI
CIA
AAN
OFD
POS
DCR

DC/R
RECORDS BRANCH

Control 4729

Rec'd April 13, 1949
4:36 a.m.

FROM: Tokyo

TO: Secretary of State

NO: 117, April 12

FROM SCAP TOKYO TO DEPARTMENT OF STATE

CITE 69213.

Reference 1103252, 11 February 1949 (State serial 49, February 10).

XR 845.50

Case of Midzuno was considered in light of SCAP's C-63292 part three. Decision made that (A) employment of Midzuno would not be of special benefit to Japanese economy and (B) would not be of decided benefit to India's economy. This application is considered in nature of test case by general headquarters, particularly as Indian representative Tokyo indicates that there are some 200 such cases pending. General policy is still under consideration, and additional information for possible transmission to the Indian representative will be forwarded as available.

SEBALD

BB:RT

DOE . IFP Unit
Ansl. WLS
Rev. mlo
Cat.
Dist.

CONFIDENTIAL

INFORMATION COPY

845.50/4-1249

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

STANDARD FORM NO. 64

CONFIDENTIAL

Office Memorandum • UNITED STATES GOVERNMENT

TO : NA - Mr. Bond

DATE: May 2, 1949

FROM : NA - Mr. Green

SUBJECT: Tokyo's 215 of April 12, 1949

Yoshida's policy speech before both Houses of the Diet on April 4 was a forthright effort to explain the unavoidably painful character of the corrective measures required to overcome the present economic crisis.

Mr. Spinks observes that Mr. Dodge and ESS forced the present government to eliminate or drastically reduce many of its campaign commitments, such as elimination of sales tax, no increases in rail fares, continued subsidies, expanded public works program. These "adjustments", forced on the Democratic Liberals in the interest of balancing the budget, have placed Yoshida and particularly Finance Minister Ikeda in a difficult position, particularly with respect to the numerous factions within the Democratic Liberal Party. Yoshida has, in self-vindication, stressed publicly that the "advice" of GHQ ~~with~~ budget must be viewed in the nature of a directive to be carried out regardless of how campaign promises are affected.

It is true that the budget issue has exposed Yoshida to the attacks of strong opposition alignments within his own party, but the Prime Minister's stature and prestige are such that no one is likely to displace him.

If the Democratic Liberal Party's campaign promises are now regarded as inconsistent with the actual state of the Japanese economy, ~~their~~ promises were equally unrealistic before the election. The average Japanese is therefore wondering why GHQ, which anticipated a Democratic Liberal victory before the election, raised no question regarding the party's campaign pledges at that time. Like his two predecessors (Katayama and Ashida), Yoshida has been compelled, by Headquarters' insistence that a particular course of action be followed, to abrogate his party's pledges. This insistence of GHQ was in good part responsible for the undoing of the Katayama and Ashida regimes.

Attachment:

Despatch #215 of April 12, 1949

NA:MGreen:br

CONFIDENTIAL

CONFIDENTIAL FILE

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

DCIR

United States Political Adviser
for Japan

G-DIVISION OF
NORTHEAST ASIAN AFFAIRS
APR 20 1949
DEPARTMENT OF STATE

Tokyo, April 13, 1949.

No. 370.

UNCLASSIFIED

rec'd
APR. 18

ACTION
FE ENC

INFO
FR
DCR
ITP ENC
OLI ENC
LABOR ENC

C

Subject: Transmitting Pamphlet on Population Problems of Japan.

The Acting Political Adviser has the honor to transmit herewith for the Department's information five copies of a pamphlet entitled Japan's Population Problem, prepared by the Japanese Foreign Office and published under date of June 1948. As stated in the introduction, the pamphlet considers in brief outline the population problem as related to economic conditions and standards of living, and the suggested solutions of birth control, higher industrialization, and emigration.

Enclosures:

Five copies of pamphlet,
Japan's Population Problem,
June 1948.

570.1
MWeatherby:hh

Parchment Mat to the Department.

UNCLASSIFIED

894.50/4-1349

MAY 10 1949
BUREAU OF FMR

ACTION COPY

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

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

D-220 Tokyo

JAPAN'S POPULATION PROBLEM

FOREIGN OFFICE

JAPANESE GOVERNMENT

JUNE 1948

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

CONTENTS

		Page
I.	Introduction	1
II.	Existing Conditions of Japanese Population	1
	1. General Trend of Japanese Population	1
	Table I. Changes in Japan's Population	3
	Table II. Comparison of Population Density in Japan and Other Countries	5
	Chart. Declining Trends of Birth and Mortality Rates in Japan, and England and Wales ...	7
	Table III. Japanese Population Movement	9
	Table IV. Reproduction Rate of Japanese Population...	11
	Table V. Future Japanese Population	13
	2. Characteristics of Post-War Population Increase ...	15
	Table VI. Estimated Data of Population Classified by Sex and Age Group as of October 1, 1947	17
	Table VII. Estimated Data of Population Increase between 1946 and 1950 Classified by Sex and Age Group...	19
III.	Japan's Economic Reconstruction and the Limits of her Feeding Capacity...	21
	1. Absorption of Increased Population in Japan	21
	Table VIII. Changes in Distribution of Population to Respective Industries	23
	Table IX. Increase in Population of Principal Prefectures	25
	Table X. Statistics of Emigrants	
	(1) Japanese Residents in Foreign Countries	27
	(2) Japanese Residents in Former Japanese Possessions	29
	(3) Total	29

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

2. Economic Reconstruction and Limits of Employment 31
Table XI. Statistics of Employment Based on the Census Returns of 1940 and 1947 ... 33
Table XII. Comparison of Population for Employment and Employed Population 35
Table XIII. Estimated Annual Personal Expenditures. 37

With her ter
their adjacent isl
ever, which is be
triates from abro

The problem
conditions and (2
scribed for over
and (3) emigrati
taining to Japan

It may be a
tacked not only
of quality. For
the people cons
the qualitative
report.

II. EXIST

1. General

The census
1947, was 78,6
Stabilization Boa
October 1st, 195

A populati
1900, when Jap
trade: 48 per c

The density
1,405 in Japan,
lands and 763
be accentuated,
lands and Belgi

Note: This being

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

Employment 31
based on the
1947 ... 33
for Employ-
ion 35
xpenditures. 37

I. INTRODUCTION

With her territory reduced to Honshu, Hokkaido, Kyushu, Shikoku and their adjacent islands, Japan faces a population problem more acute than ever, which is being doubly aggravated with the influx of numerous repatriates from abroad.

The problem of population is inseparably bound up with (1) economic conditions and (2) standards of living. Three antidotes are generally prescribed for over-population: (1) birth control, (2) higher industrialization and (3) emigration. The present report will deal with these questions pertaining to Japanese population in brief outlines.

It may be added that Japan's population preblem will have to be attacked not only from the numerical point of view, but also from the angle of quality. For instance, the character and the abilities and attitudes of the people constitute the key that opens the door to emigration, although the qualitative phase of the problem is not touched upon in the present report.

II. EXISTING CONDITIONS OF JAPANESE POPULATION

1. General Trend of Japanese Population

The census returns show that Japanese population as of October 1st, 1947, was 78,627,000. But the Statistical Study Group of the Economic Stabilization Board estimates that it will have attained 81,618,000 as of October 1st, 1950 (Note).

A population of 81,618,000 will represent 86 per cent over that of 1900, when Japan has no colonial possessions and depended little on foreign trade: 48 per cent over 1920: 28 per cent over 1930. (See Table I.)

The density of population per square kilometre of cultivated area is 1,405 in Japan, which compares with 907 in Britain, 803 in the Netherlands and 763 in Belgium. The significance of this comparison may still be accentuated, if the fact is taken into account that Britain, the Netherlands and Belgium have vast overseas territories. (See Table II.)

Note: This being considered underestimate, another calculation is currently being made.

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND [redacted] 760050

The birth rate of Japanese people is generally believed to be extremely high. As a matter of fact, since 1920, when Japan's economy entered the stage of high industrial development, the birth rate has steadily fallen. This exactly coincides with the situation in Britain where the rate began to decline with 1876 as the turning point, when the country attained the full stature of colonial empire. (See Chart.) The decline may be accounted for advance in marriage age, and wide-spread practice of birth control as a result of concentration of population in urban areas and advanced industrialization. The sharp drop in the period immediately after the termination of the war and the subsequent sharp advance caused by the return of numerous repatriates including ex-servicemen may be considered as transient phenomena, and it is believed that the declining trend will reappear before long, with further urbanization and industrialization. (See Tables III and IV.)

Population increase is influenced also by the decline in the death rate through the promotion of public health. Whereas the hard living during the closing days of the war and thereafter drove the death rate upward for a brief period, a comparative stability has been regained recently at a level slightly lower than the pre-war rate. It is expected that improved health measures in the future would bring about a further reduction in the death rate of this country, making up the fall in birth rate to that extent. But there will be the limit to the decline in death rate. It is believed, therefore, that with the diminishing birth rate the rate of natural increase of Japanese population is bound to decline. (See Table III.)

In fact, Japan has already passed the peak of population increase. Some Japanese demographers predict that within a certain period of time (20 to 50 years), the country's population will attain its maximum of 88,000,000 to 112,000,000 and will thereafter either remain stable or begin to decrease. (See Table V.) Japan's population problem is, therefore, not of tomorrow but of to-day. It is the present situation that calls for an immediate solution.

Table I

Date	
Jan. 29, 1872	
Jan. 1, 1900	
Oct. 1, 1920	
Oct. 1, 1925	
Oct. 1, 1930	
Oct. 1, 1935	
Oct. 1, 1940	
May 1, 1946	
Oct. 1, 1947	
Oct. 1, 1950	

(Remarks) 1. Fi
ti
2. F
T
r
3. F
4. F
F
c

(Note) Same fi
in perce

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND [redacted]# 760050

ved to be extremely
conomy entered the
has steadily fallen.
ere the rate began
untry attained the
may be accounted
of birth control as
and advanced in-
y after the termi-
sed by the return
be considered as
rend will reappear
. (See Tables III

in the death rate
rd living during
h rate upward for
ecently at a level
t improved health
tion in the death
that extent. But
elieved, therefore,
rease of Japanese

opulation increase.
period of time
aximum of 88,-
table or begin to
therefore, not of
calls for an im-

Table I

Changes in Japan's Population

Date	Total Population	Population in Areas where Census was Taken on April 26, 1946	Estimated Population Increase by 1950 in Areas Designated over Each Year Named (in 1,000 and in percentage)	
Jan. 29, 1872	34,806,000	(See Note.)	46,812	134%
Jan. 1, 1900	43,847,000	(See Note.)	37,771	86
Oct. 1, 1920	55,963,053	55,153,578	26,464	48
Oct. 1, 1925	59,736,822	58,946,440	22,672	38
Oct. 1, 1930	64,450,005	63,639,731	17,978	28
Oct. 1, 1935	69,254,148	68,427,340	13,191	19
Oct. 1, 1940	73,114,308	72,324,658	9,293	13
May 1, 1946	74,024,000	74,024,000	7,594	10
Oct. 1, 1947	78,627,000	78,627,000	1,991	3
Oct. 1, 1950	81,618,000	81,618,000	0	0

(Remarks) 1. Figures for the years from 1872 to 1947 are those published by the Statistics Bureau of the Cabinet.
2. Figures for the years 1920, 1925, 1930, 1935 and 1940 are the census returns. Those for 1872 and 1900 are estimated figures, compiled in the light of the returns of censuses taken after 1920.
3. Figures for 1946 and 1947 are based on the censuses.
4. Figures for 1950 are estimation by the Economic Stabilization Board as published in August, 1947 and subject to modification upon the completion of recalculation currently being made.

(Note) Same figure as for "Total Population" is taken, and the increase in number and in percentage is estimated accordingly.

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

Table II

Comparison of Population Density in Japan and Other Countries

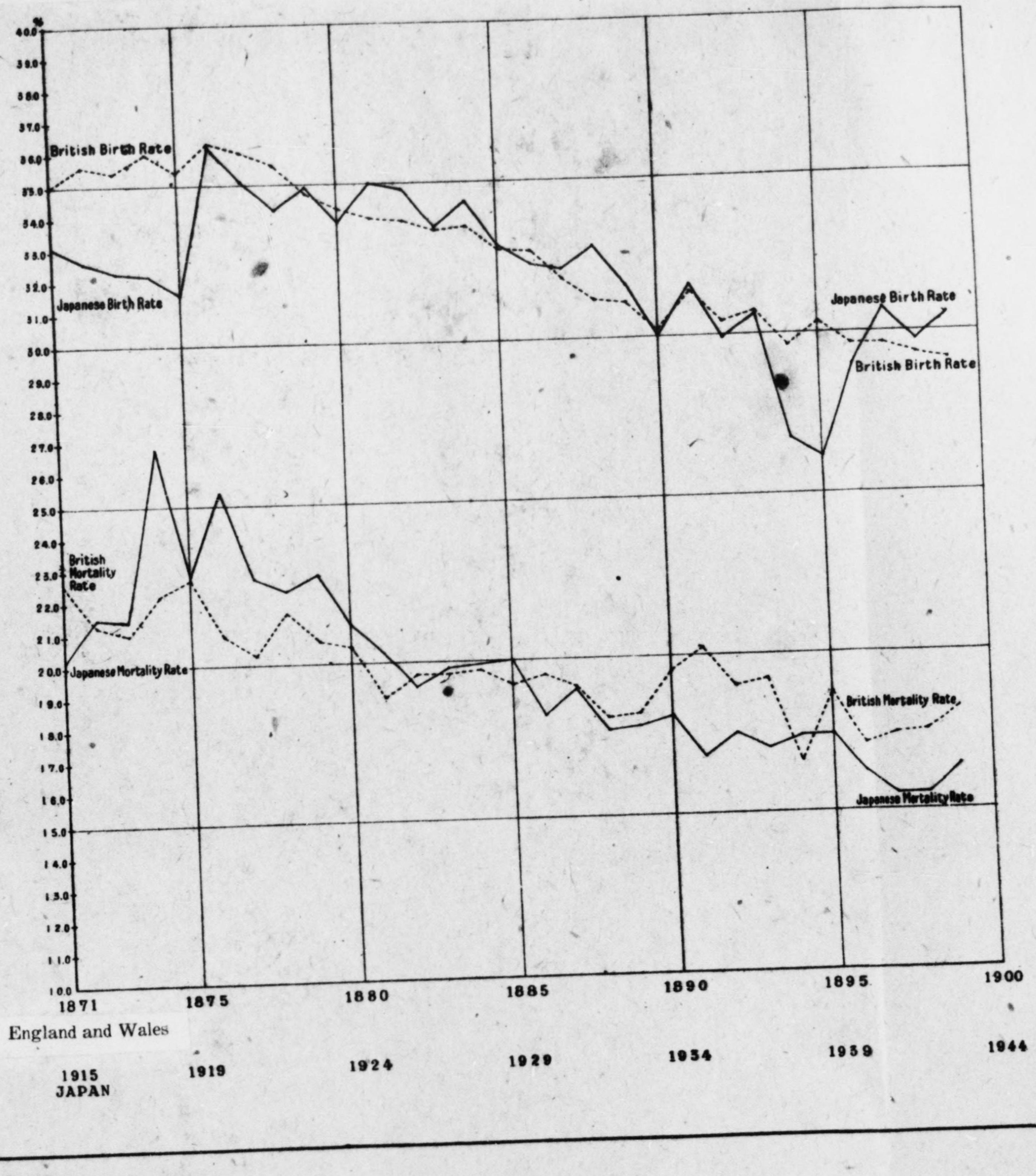
(Unit: Density Per Square Kilometre)

	Density for Total Area	Density for Cultivated Area	Cultivated Area in Percentage of Total Area
Japan	222	1,405	16%
United Kingdom	196	907	22%
Netherlands	268	803	33%
Belgium	271	763	35%
France	76	183	41%
U.S.A.	17	92	18%

(Remarks) 1. Figures are those compiled by the Institute of Population Problems, Welfare Ministry.
2. For population of Japan the estimated figure compiled by the Economic Stabilization Board for 1950 is employed, and her cultivated area then is deemed same as in 1930.
3. Densities for total and cultivated areas in U.S.A. are those for 1940 and 1938 respectively.
4. Densities for total and cultivated areas in Britain are those for 1939/40 and 1938 respectively.
5, Figures for both Belgium and Netherlands are those for 1940.
6. Densities for total and cultivated areas in France are those for 1939 and 1936 respectively.

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

DECLINING TRENDS OF BIRTH AND MORTALITY RATES IN JAPAN, AND ENGLAND AND WALES



DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

Table III

Japanese Population Movement
(Per 1,000)

Year		Census Returns Birth Rate	Death Rate	Increase Rate
1900		31.69	20.31	11.38
1905		30.49	21.09	9.40
1910		33.91	21.07	12.84
1915		33.05	20.09	12.96
1920		36.19	25.41	10.78
1925		34.92	20.27	14.65
1930		32.35	18.17	14.18
1935		31.63	16.78	14.85
1940		28.94	16.23	12.71
1941		30.75	15.52	15.23
1942		29.74	15.53	14.21
1946	Jan.—Mar.	17.60	18.26	(−) 0.66
	Apr.—Jun.	25.23	19.13	6.10
	Jul.—Sep.	30.87	18.36	12.51
	Oct.—Dec.	31.56	15.16	16.40
1947	Jan.—Mar.	29.36	16.53	12.83
	Apr.—Jun.	38.60	15.44	23.16
	Jul.—Sep.	39.96	13.47	26.49
	Oct.—Dec.	34.52	13.60	20.92
1948	Jan.—Mar.	31.24	12.74	18.50
	Apr.—Jun.	37.77	13.31	24.46
1950		(26.50) (24.00)	(16.42) (16.22)	(10.08) (7.78)

(Remarks) 1. Figures for the years, 1900 to 1942, are based on the "Vital Statistics" compiled by the Statistics Bureau of the Cabinet.
2. The quarterly figures for 1946, 1947 and 1948 have been computed by the Institute for Population Problems, Welfare Ministry, in terms of annual rates.
3. Figures for 1950 are estimation by the Economic Stabilization Board, as published in August, 1947.

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

Table IV

Reproduction Rate of Japanese Population

Year		Gross Reproduction Rate	Net Reproduction Rate
1925		2.491	1.548
1930		2.301	1.524
1937		2.117	1.483
1950	Estimate I	1.679	1.175
	Estimate II	1.520	1.064

(Remarks) 1. The rate of reproduction is calculated by R. R. Kuczynski's method and represents the probability of a mother giving birth to female who in the next generation will become a mother. The gross rate is compiled without deducting mortality, while the net rate is obtained by deducting mortality from the gross rate.

2. Figures for 1925 to 1937 are based on census returns as compiled by the Statistics Bureau of the Cabinet.

3. Figures for 1950 are calculated on the basis of birth and death rates of the estimated population as published in August, 1947, by the Economic Stabilization Board.

4. Source: Institute of Population Problems, Welfare Ministry.

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

Table V

Future Japanese Population

Year	Dr. Teijiro Ueda's Figures	Dr. Tomonaga Nakagawa's Figures
1935	68,108,000	69,254,000
1940	71,846,000	73,939,000
1945	75,261,000	78,986,000
1950	78,355,000	84,336,000
1955	81,144,000	90,107,000
1960	83,582,000	95,956,000
1965	85,776,000	101,609,000
1970	87,723,000	106,858,000
1985	—	118,554,000
1995	—	122,328,000
2005	—	122,187,000
2015	—	118,493,000
2025	—	111,777,000

(Remarks) 1. Dr. Ueda's figures are quoted from his work "Japan's Population Policy," published in 1937.

2. Dr. Nakagawa's figures are quoted from the chapter on "Future Population on the Basis of Proposition II" of an article entitled "On the Estimation of Future Population," which appeared in the May, 1940 number of the periodical "Studies in Population Problems."

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

2. Characteristics of Post-War Population Increase

As stated above, the Japanese population has registered a marked increase since the termination of the war. This increase is due to two factors: firstly, the repatriation of overseas Japanese residents amounting to 5,842,000 persons (as of April 29, 1948) and secondly, the temporary advance in birth rate after the war's end, coupled with a relatively rapid decline in death rate.

Now what will be the effects of a population increase of this kind? In the first place, let us study the trend of increase according to sex. It is estimated by the Economic Stabilization Board that during 4 years and 5 months from April 26, 1946 to October 1, 1950, the increase in the male population will account for 64 per cent, nearly twice that of female population. Of the male increase, repatriates from abroad represent about 60 per cent, while female repatriates account for some 30 per cent of the increase in female population.

In the second place, breakdown of the estimated increase by age groups will show: 14 year olds and under account for 12.8 per cent: 15 to 59 year olds who belong to the generative age account for 81 per cent: and 60 or more year olds form 6 per cent. Namely, the increase in the generative age group occupies an overwhelming proportion. As regards the changes in each age group, a slight increase is shown each year in the aged group, while the youngest group undergoes a gradual decrease, reflecting the decline in the birth rate. On the other hand, in the generative age group accounting for 81 per cent of the total increase, the increase in male population ranging from 20 to 39 years represents some 40 per cent of the total increase. This is largely due to the fact that repatriates from abroad mainly belong to this age group. Thus, apart from the change in the current birth rate, an annual increase of some 600,000 to 700,000 in the generative age group may be expected for ten years to come, owing to the repatriation of overseas Japanese and the maturing of the now youngest age group. (See Tables VI and VII.)

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

Table VI

Estimated Data of Population Classified by Sex and Age Group as of October 1, 1947 (in 1,000)

	Classification	Total	Male	Female
Population in Each Group	Total	77,564	37,964	39,601
	0-14 Years old	27,042	13,678	13,364
	15-59 Years old	44,609	21,686	22,924
	60 or more Years old	5,913	2,600	3,313
Percentages	Total	100.0%	48.9%	51.1%
	0-14 Years old	34.9%	17.6%	17.2%
	15-59 Years old	57.5%	27.9%	29.6%
	60 or more Years old	7.6%	3.4%	4.3%

(Remarks) Figures are derived from "Data Relative to Recent Trend of Population" of the Institute of Population Problems, Welfare Ministry, and are compiled by deducting foreign nationals from the adjusted total published by the Economic Stabilization Board.

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

Table VII

Estimated Data of Population Increase between 1946 and 1950
Classified by Sex and Age Group (in 1,000)

Classification		Total	0-14 Years old	15-59 Years old	60 or more Years old
Total	Apr. 26, 1946	72,876	26,184	40,920	5,771
	Oct. 1, 1950	80,922	27,212	47,475	6,236
	Increase	8,046	1,028	6,555	465
	Percent of Total Increase	100%	13%	81%	6%
Male	Apr. 26, 1946	34,749	13,234	18,986	2,529
	Oct. 1, 1950	39,938	13,782	23,405	2,751
	Increase	5,189	548	4,419	222
	Percent of Total Increase	64%	7%	55%	2%
Female	Apr. 26, 1946	38,126	12,950	21,934	3,242
	Oct. 1,. 1950	40,985	13,431	24,070	3,484
	Increase	2,859	481	2,136	242
	Percent of Total Increase	36%	6%	27%	3%

(Remarks) Figures are based on the data of estimated population, as published by the Economic Stabilization Board in August, 1947.

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

III. JAPAN'S ECONOMIC RECONSTRUCTION AND THE LIMITS OF HER FEEDING CAPACITY.

1. Absorption of Increased Population in Japan.

From the early years of Meiji to 1930, during which the population of this country increased from 33,000,000 to 64,450,000, it was only through the progress of industrial technique and accumulation of capital that not only the increased population could be fed, but also the standards of living could be raised gradually. If we compare the returns of the censuses taken in 1920 and 1930, it will be seen that the agricultural population remained almost unchanged, while the total population increase by 8 million during the decade was wholly absorbed by occupations other than agriculture. In order to make this possible, it was necessary to import raw materials from abroad to eke out the slender domestic resources as well as to develop a large scale export industry and overseas markets. (See Table VIII.)

The depression of 1929-1930 diminished the scale of economy to such an extent that it created a large amount of surplus population. This census of 1930 revealed the existence of some 300,000 unemployed population, in addition to which it was estimated some 2,000,000 were laid off. The surplus population did not show directly in the unemployment statistics, but most of those who lost their work sought refuge in agriculture as well as small and medium scale commerce and industry.

This meant that both rural and urban areas were loaded with an excess supply of labor, bringing down the general wage level and standard of living. After the war's end, economic chaos and decline of industry gave rise to a large scale exodus of urban population to farming areas. Moreover, sizable number of repatriates are making their way into agricultural communities. Meanwhile, some portion of the surplus continues to remain in cities, inflating urban employment (Note). (See Table IX.)

(Note) "The creation of a labor market in Japan was marked by the formation of a reservoir of potential stagnant labor drawn largely from a dispossessed peasantry whose absorption into industries was retarded by the slower pace in the development of large-scale industry. That such absorption took place is not denied, but the extent to which a surplus population was left stagnating in the countryside and in the cities is an important factor limiting the standard of living and the wage level of Japanese labor." ("Japan's Emergence as a Modern State" by E. Herbert Norman; Page 159)

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

The development of overseas labor markets toward the close of the 19th century served to solve the population problems in some of the European countries. In the case of Japan, the number of overseas residents, which amounted to only 230,000 around 1905, gradually increased. During the thirties the Government took active measures to encourage emigration for the solution of her population problem, but, on account of restrictions imposed on Japanese immigration by sparsely-populated countries, the result fell far short of expectations.

As shown in Table X, the principal areas where the Japanese immigrants have settled in the Western Hemisphere are the continental U.S., Hawaii, Canada, Brazil and Peru; while in Asia they are China, Manchuria, the Philippines, British Malaya and Dutch East Indies. Under the Gentleman's Agreement between the United States and Japan of 1908, and also the so-called Lemieux Agreement of the same year, Japanese immigration into the continental United States, Hawaii and Canada was limited to the extreme. In particular, after the enforcement of the Immigration Act of the United States in 1924, the continental United States and Hawaii have been entirely closed to Japanese immigrants. Therefore, any increase or decrease in the number of Japanese in these areas (including Canada), since then is accounted for by natural growth, and transmigration or repatriation. A marked increase in the number of Japanese immigrants was registered in Brazil, due largely to the subsidies which were given by the San Paulo State Government from 1908 to 1922. The Japanese Government also gave subsidies and provided preparatory training to the prospective emigrants, so as to adapt them beforehand to the manners and customs of a receiving country.

The sudden increase in the number of Japanese residents in China and Manchuria in 1940 is attributable to the political developments on the continent during the preceding years. (See Table X.)

Table VIII Changes in Distribution of Population to Respective Industries

Increase or Decrease in

ward the close of the
in some of the Euro-
of overseas residents,
lly increased. During
encourage emigration
ecount of restrictions
d countries, the result

the Japanese immi-
the continental U.S.,
re China, Manchuria,
Under the Gentle-
of 1908, and also
panese immigration
was limited to the
mmigration Act of
and Hawaii have
re, any increase or
ding Canada), since
gration or repatria-
migrants was regis-
given by the San
anese Government
to the prospective
rs and customs of

ents in China and
nents on the con-

Table VIII

Changes in Distribution of Population to Respective Industries

Classification	Population			Percentage			Increase or Decrease in comparison with 1920	
	1920	1930	1940	1920	1930	1940	1930	1940
Total Population	55,963,053	64,450,005	*71,380,643				8,486,952	15,417,590
Employed Population	27,260,784	29,619,640	32,482,516	100.0%	100.0%	100.0%	2,358,856	5,221,732
Agriculture	14,286,592	14,131,025	13,841,576	52.4	47.7	42.6	(-) 155,567	(-) 445,016
Aquatic Industry	536,604	568,436	542,958	2.0	1.9	1.7	31,832	6,354
Mining Industry	447,717	315,476	597,755	1.6	1.1	1.8	(-) 132,241	150,038
Manufacturing Industry	5,138,758	5,875,991	8,132,314	18.9	19.8	25.0	737,233	2,993,556
Commerce	3,661,649	4,905,655	4,881,538	13.4	16.6	15.0	1,244,006	1,219,889
Transportation & Communications	951,863	945,116	1,364,596	3.5	3.2	4.2	(-) 6,747	412,533
Public Service & Profession	1,516,765	2,005,192	2,194,893	5.6	6.8	6.8	488,427	678,128
Household Work	662,072	802,167	708,945	2.4	2.7	2.2	140,095	46,873
Others	58,764	70,582	218,141	0.2	0.2	0.7	11,818	159,377
Unemployed Population	28,702,269	34,830,365	38,898,127				6,128,096	10,195,858

(Remarks) Figures are derived from "Data Relative to Recent Trend of Population" of the Demographical Research Institute of the Welfare Ministry.
* Figures do not include men in military service.

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

Table IX

Increase in Population of Principal Prefectures (in 1,000)

Prefecture	Population as of			Increase in Population of Principal Prefectures over 1920 in Number and Percentage		Percent of Total Increase	
	1920	1930	1940	1930	1940	1930	1940
Hokkaidō	2,359	2,812	3,273	453 (19.2)	914 (38.7)	5.3%	5.3%
Tokyo	3,699	5,409	7,355	1,710 (46.2)	3,656 (98.8)	20.1	21.3
Kanagawa	1,323	1,620	2,189	297 (22.4)	866 (65.5)	3.5	5.0
Aichi	2,090	2,567	3,167	477 (22.8)	1,077 (51.5)	5.6	6.2
Kyoto	1,287	1,553	1,730	266 (21.4)	443 (34.4)	3.1	2.6
Osaka	2,588	3,540	4,793	952 (36.8)	2,205 (85.2)	11.2	12.9
Hyogo	2,302	2,646	3,221	344 (14.9)	919 (39.9)	4.1	5.4
Fukuoka	2,188	2,527	3,094	339 (15.5)	906 (41.4)	4.0	5.3
Miyazaki	651	760	840	109 (16.7)	189 (29.0)	1.3	1.1
Whole country	55,963	64,450	73,114	8,487 (15.2)	17,151 (30.6)	100.0	100.0

(Remarks) 1. Figures are based on census returns compiled by the Statistics Bureau of the Cabinet.

2. The Prefectures enumerated are those having populations above the national average. Increases in the populations of Hokkaido and Miyazaki Prefecture may be accounted for by the progress of land reclamation in these areas. Some of the other Prefectures include such cities and towns as developed modern manufacturing and mining industries.

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

Table X

Statistics of Japanese Emigrants

(1) Japanese Residents in Foreign Countries

	Far Eastern Territory of U.S.S.R.	China	Manchuria	Hongkong (incl. Amoy)	Siam	French Indo-China	British Malaya (incl. British North Borneo)	British India and Burma	Dutch East Indies
1904		8,550		2,170	109		1,635	384	
1909	3,600	16,607	31,427	856	185		2,611	792	780
1916	5,148	27,770	58,852	1,478	224	339	7,103	1,021	3,956
1920	6,238	54,544	81,385	1,780	261	289	8,278	1,368	3,559
1925	721	47,613	97,179	1,561	293	287	6,950	1,219	4,195
1930	2,970	54,391	112,137	2,219	336	346	7,427	1,916	6,325
1935	2,383	56,106	322,394	1,402	412	239	7,357	1,507	6,598
1940	840	365,412	819,614	702	587	206	8,839	1,134	6,384

	Mexico	El Salvador	Cuba	Panama	Venezuela	Colombia	Peru	Bolivia	Chile	Braz
1904	456						1,486			
1909	2,465						4,560		145	60
1916	2,737						6,767	5	324	16,55
1920	2,284		191	170			5,910	815	429	33,45
1925	3,632		636	241			10,969	657	556	49,40
1930	5,832		787	228	12	122	20,535	551	610	116,56
1935	5,470	8	771	328	13	174	22,570	369	658	192,82
1940	5,030	7	658	355	39	293	21,200	641	595	202,51

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

Siam	French Indo-China	British Malaya (incl. British North Borneo)	British India and Burma	Dutch East Indies	Philippines	Australia and Oceania	Continental U.S.A.	Hawaii	Canada
109		1,635	384		2,652	3,469	48,354	65,008	3,838
185		2,611	792	780	2,156	3,960	76,709	65,760	8,850
224	339	7,103	1,021	3,956	6,263	6,041	100,955	96,060	13,279
261	289	8,278	1,368	3,559	9,339	5,548	125,285	108,109	17,688
293	287	6,950	1,219	4,195	8,995	3,883	133,080	125,764	19,670
336	346	7,427	1,916	6,325	19,572	3,948	99,552	120,908	20,835
412	239	7,357	1,507	6,598	25,528	3,072	112,418	151,285	20,183
587	206	8,839	1,134	6,384	28,793	2,422	94,731	91,764	22,065

Venezuela	Colombia	Peru	Bolivia	Chile	Brazil	Argentina	Paraguay	Uruguay	Others	Sub-Total
		1,486			5	5			468	138,591
		4,560		145	605	27			1,231	223,189
		6,767	5	324	16,555	750	6	8	2,964	349,287
		5,910	815	429	33,456	2,027	7	4	1,398	470,401
		10,969	657	556	49,400	2,609	6	6	3,498	523,748
12	122	20,535	551	610	116,562	4,027	8	36	3,521	605,471
13	174	22,570	369	658	192,823	5,691	20	65	3,145	937,970
39	293	21,200	641	595	202,514	7,095	674	86	3,807	1,696,230

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

(2) Japanese Residents in Former Japanese Possessions

	Saghalien	Korea	Formosa	South Seas Islands	Kwantung Territory	Sub-Total
1906	12,361		71,040		16,613	100,014
1910	31,017	171,543	88,048		62,338	362,944
1916	66,280	320,938	142,452		51,129	580,799
1920	105,899	561,384	166,621	3,671	137,914	975,494
1925	189,036	424,326	189,630	7,430	184,001	810,097
1930	295,196	501,867	232,299	19,839	233,158	1,246,352
1935	331,943	588,428	269,793	51,861	384,923	1,621,948
1940	415,981	*650,104	346,663	84,478	202,827	1,700,013

(Remarks) * In the absence of a figure for 1940, the 1939 figure is given above instead.

(3) Total

1906	238,731(1)
1910	586,133(2)
1916	930,086
1920	1,445,895
1925	1,333,490
1930	1,851,823
1935	2,559,063
1940	3,396,243

(Remarks) (1) Figures for emigration to foreign countries are those for the year 1904, while emigration to former Japanese possessions is given in figures of 1906.
(2) Figures for emigration to foreign countries are those for the year 1909, while those showing emigration to former Japanese possessions are figures of 1910.

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

2. Economic Reconstruction and Limits of Employment.

According to the returns of the national census taken on October 1st, 1947, the unemployed numbered only 670,000. Comparing these returns with those of October 1st, 1940, it will be seen that, while the total population had registered an increase of some 6,100,000 during the interval, the percentage of the employed against total population declined from 44.78 to 43.02 per cent only. In spite of a marked fall in the level of production, the ratio between the unemployed and the employed remained almost unaltered.

Next let us examine the distribution of the employed population among various branches of industry. Notwithstanding the reduction of agricultural production in 1947, estimated at about 90 per cent of 1940, the farm population showed an increase of 23 per cent. Also in the mining and manufacturing industries, despite the sharp decrease in production to about 20 per cent, the employment was maintained at as high as 90 per cent. Taking the productivity during the years 1935 to 1937 as 100, the indices as of October, 1947 were only 28 in mining industry and 33 in manufacturing industry respectively, on the basis of the average production per person employed. The excessive absorption of population by agriculture as well as the presence of redundant labor in mining and manufacturing industries in the post-war period, as mentioned above, have caused a sharp decline in the productivity of labor throughout all the industrial branches, as compared with the pre-war level, resulting inevitably in the lowering of real income and standards of living, which stand at 54 per cent of 1930-34 level. (See Table XI.)

If those in the ranks of latent unemployment were added to statistical figure, the number of the jobless would, it is said, reach 4,000,000. (cf. Draft I of Economic Reconstruction Plan dated May 17th, 1948, of the Economic Stabilization Board.) And it is estimated that if the inflated employment in 1947 has been trimmed down on the basis of a real wage corresponding to that for 1930-34, it would have thrown out of work as many as 15,300,000.

With increased production in the course of reconstruction of Japan's economy, the situation is expected to turn gradually for the better. But

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

according to the Economic Rehabilitation Plan annouced by the Economic Stabilization Board in May, 1948, even if in 1952 the mining and manufacturing production will have been raised to more than three times over 1947 (122.4 per cent of 1930-34 level), the export to more than nine times (95 per cent of 1930-34 level), the import to more than three times (82 per cent of 1930-34 level), and even if the productivity of labor is increased to twice the level of 1947 (90 per cent of 1930-34 level), the living standard of the people will still remain at 90 per cent of the 1930-34 level, with an estimated jobless population approaching 2,000,000. (See Tables XII and XIII.) The increased production as mentioned above can only be attained provided that the difficulties pertaining to transportation, power supply and currency inflation will have been removed at the start of the first year of the plan and that overseas market conditions will have gradually turned for the better, enabling both import and export to expand. But it is feared that the attainment of these objectives is no easy matter. The presence of a surplus of population, during the period of economic reconstruction of this country, handicaps accumulation of capital, and accordingly retards economic recovery. Measures that can conceivably be taken for the solution of this problem would be: (1) to raise the level of industrialization, accompanied, as stated in the foregoing, with a wider practice of birth control; and (2) to encourage emigration abroad. The former question will be dealt with in detail at another opportunity, while as to the latter question it may be said, as has been pointed out by Professor W. Thompson of Miami University, that in a country like Japan where the rate of population increase has shown a sure sign of lowering, the emigration will most effectively contribute to relieving the pressure of over-population and consequently checking the fall in living standard (Note).

(Note) ....."The birth rate in Japan is declining faster than the death rate, and the chance is that her population will grow less and less rapidly during the next few decades. .....This decline in the birth rate is likely to be accelerated by any considerable migration which would lead to improvement in the living.....Only after a country has reduced its death rate to reasonable low limits so that migration does not of itself lead to further reduction and after it has begun to control its birth rate can migration on a large scale furnish any permanent relief to population pressure. There is reason to believe that Japan has reached or soon will reach this condition." ("Population and Peace in the Pacific" by Warren S. Thompson: Page 327)

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

d by the Economic
nining and manufac-
ree times over 1947
han nine times (95
hree times (82 per
bor is increased to
he living standard
0-34 level, with an
Tables XII and
only be attained
power supply and
the first year of
adually turned for
But it is feared
The presence of
struction of this
retards economic
solution of this
n, accompanied,
ontrol; and (2)
l be dealt with
tion it may be
Miami Univer-
n increase has
vely contribute
checking the

e, and the chance
ext few decades.
ny considerable
after a country
on does not of
s birth rate can
lation pressure.
this condition."
ge 327)

Table XI

Statistics of Employment Based on the Census Returns of 1940 and 1947 (in 1,000)

Classification	Oct. 1. 1940	Oct. 1, 1947	Increase	Increase in Percentage
Total Population	72,540	78,627	6,087	8%
Total Employed Population (Total Population for Employment)	32,483	33,881	1,398	4
Agriculture	13,549	16,622	3,073	23
Forestry	292	480	188	64
Aquatic Industry	543	710	167	31
Mining	598	667	69	12
Building Industry	955	1,320	365	38
Manufacturing Industry	7,033	5,722	(-) 1,311	(-) 19
Public Utilities	143	191	48	34
Commerce	3,508	2,190	(-) 1,318	(-) 38
Finance	238	240	2	1
Transportation & Communications	1,364	1,507	143	10
Service Trade	1,845	838	(-) 1,007	(-) 55
Profession	1,555	1,127	(-) 428	(-) 28
Public Service & Organization Management	639	1,271	632	99
Others	218	444	226	104
Unemployed Population	—	672	672	—
Non-Employment Population (Population not for Employment)	40,057	27,251		
9-Year Olds and Under		16,823	4,017	10

(Remarks) 1. Classified figures for the year 1947 are unadjusted values, the total of which does not agree with the total employed population.
2. Comparison given above is approximate, because of the differences in the definitions of categories between 1940 and 1947.

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

Table XII

Comparison of Population for Employment and Employed Population
(in 1,000)

Classification	1948	1950	1952
Population for Employment	36,395	37,871	38,978
Employed Population	32,584	35,004	36,983
Population Employed in Each Branch			
Agriculture	16,216	16,613	16,863
Aquatic Industry	661	707	742
Mining Industry	503	512	519
Manufacturing Industry	4,279	5,565	6,386
Civil Engineering	1,538	1,887	2,076
Transportation & Communications	1,633	1,696	1,758
Commerce	4,576	4,840	5,449
Public Service & Professions	2,325	2,329	2,333
Others	853	855	857
Non-Employment Population	43,595	43,747	43,994
Unemployed Population	3,811	2,867	1,995

(Remarks) Figures are based on the Draft I of Economic Reconstruction Plan, published in May, 1948, by the Economic Stabilization Board.

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

Table XIII

Estimated Annual Personal Expenditures
(1930-34 Average Prices)

Classification	1948	1949	1950	1951	1952
Personal Expenditures (in million Yen)	6,835	7,506	8,313	8,941	9,628
Index	79	87	97	104	112
Per Capita Personal Expenditures (in Yen)	85.4	92.8	101.8	108.6	116.0
Index	69	72	79	84	90

(Remarks) 1. Figures are based on Draft I of Economic Reconstruction Plan, published by the Economic Stabilization Board.
2. 1930-34 level is taken as 100 for the indices in the table.

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND # 760050

INCOMING AIRGRAM

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

4576

AIRGRAM 4239

From: USPOLAD, Tokyo

Date of mailing: April 16, 1949

Date Rec'd: April 21, 1949 1:47 p.m.

2
Z
ACTION:
OFD
INFO
DC/R
FE
E
ITP
OLI

CONFIDENTIAL
(FOR DEPT USE ONLY)

OFFICE OF FINANCIAL & DEVELOPMENT POLICY APR 21 1949 DEPARTMENT OF STATE

DIVISION OF FINANCIAL AFFAIRS APR 21 1949 DEPARTMENT OF STATE

Secretary of State,

Washington.

A-92, April 15, 1949.

(This airgram supplements this Mission's A-84, April 8, 1949, and earlier airgrams in this series. Request distribution be limited to Department for reasons stated in A-21 of January 28, 1949. This series of airgrams will be continued, in accordance with the Department's air mail instruction No. 51 dated April 5, 1949, made in response to a query contained in the introduction to A-56, March 11, 1949.)

1. Progress Report Under 9-Point Stabilization Plan. Dodge Mission about 10 days ago requested Economic and Scientific Section (ESS), General Headquarters, SCAP, for a report on economic work done by ESS in effort to implement 9-point economic stabilization program contained in SCAP's December 19, 1948 letter to Prime Minister YOSHIDA Shigeru. This Mission has now made arrangements to receive copy of this progress report; copies thereof will be transmitted to Department with comment within few days. At weekly ESS staff meeting April 18, 1949, attended by officer of this Mission, Major General W. F. MARQUAT, Chief, ESS, referred to report and indicated he was not altogether satisfied with it, mainly because ESS division chiefs had not clearly demarcated projects undertaken to implement program as opposed to work carried on as part of regular functions.

2. General Marquat on Japanese Government Personnel Cuts. At weekly ESS staff meeting cited above, General Marquat took up so-called Honda plan for overall 30 percent reduction in Japanese Government personnel. He stated ESS must study question carefully; that it could not agree to general 30 percent reduction which would reduce personnel in key Japanese Government agencies required

894.50/4-1549 Confidential File

APR 26 1949

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

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

carry out provisions of stabilization program; that even increases in certain agencies might be desirable (mention being made of agencies in tax and labor fields); and that need existed for united and uniform SCAP policy on this question. General Marquat stated that Japanese officials concerned apparently were following policy of playing one section of this Headquarters against another, and even of doing same thing with respect to various divisions in certain sections. He urged that ESS division chiefs avoid giving instructions or making commitments individually to Japanese officials, adding that all such instructions and commitments, informal or otherwise, be coordinated under him. Referring specifically to the personnel cut question, he said "problem is to point out to Japanese Government how to economize," adding that, as general rule, there "are far too many people doing too little."

3. British Protests May Bring New Trade and Financial Developments. British here have again voiced strong objections against what they consider prime disabilities for foreign traders, they being especially unhappy about restrictions on yen transactions by foreign banks. ESS Finance Division has pointed out that Washington unwilling to allow foreigners to compete against Japanese banks, but ESS has agreed to press for permission to allow yen financing by foreign banks for United Nations nationals as well as for Japanese juridical persons owned by such nationals. British have also asked that traders be allowed to receive commissions through letters of credit in Japan. Present program allows payment of such commissions in acceptable currencies abroad and receipt in Japan only through bank transfers. ESS foreign trade officials assert that new policy awaits consent of Washington. Third reform suggested by British would allow individual merchants and firms to act as importers in their own right rather than through the Boeki Cho (Japanese Board of Trade); this suggested change in policy presently under consideration in SCAP and will probably be implemented shortly.

XR
694.0031

4. Foreign Trade Notes. (a) Talks here regarding conclusion of new Trade Arrangement or extension of present Arrangement with Sterling Area have been set for July 15. Although present Arrangement expires June 30, its provisions will be considered in force until such time as new Arrangement can be made effective, provided London agrees. (b) Representative of Belgian Foreign Ministry expected to arrive Tokyo next week for talks regarding conclusion of Financial Arrangement for Trade between Belgium and Occupied Japan. (c) Korean Trade Arrangement approved by SCAP's Chief of Staff but, in spite of press reports to contrary, date of actual signature has not yet been set. (d) French Mission has informed

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

SCAP that, since Djibouti has been made a free-exchange area, French Somaliland is no longer party to the French Union-Occupied Japan Financial Arrangement (our despatch No. 298 of May 24, 1948).

5. Power Situation Considered Very Good. General Marquat stated at April 18 ESS staff meeting he had informed General MacArthur day previous that Japanese power situation presently "very good"; that dependence on thermal power plants, requiring coal much needed in other fields, had fortunately not been great in recent months. W. S. VAUGHAN, Chief, ESS Industry Division, thereupon stated that "when we came in here" about 2 percent all power being generated by thermal plants, many of which had been destroyed during war; that presently total such power around 7-1/2 percent; and that figure gradually being raised to 10 percent which considered maximum required for stand-by purposes during period low water levels in reservoirs for hydroelectric stations. Vaughan added that ESS now working with Japanese on 29 hydropower projects, which in varying stages of completion.

XR
894.5151

6. Advance Notice on Single Exchange Rate. At same meeting General Marquat indicated that agreement had been reached between SCAP, ESS and Dodge Mission on single yen-dollar exchange rate which apparently due for public announcement soon. While he did not state what rate had been agreed upon, General Marquat brought up question of desirability of giving advance notice to British, French, Dutch and others as to when it would become effective. He added that General MacArthur favored making simple public announcement of new rate, without advance notice beihg given to any other governments; General Marquat said he had expressed favor for advance notice and presumably that will be done soon. General Marquat explained his stand on this point by stating that SCAP might be criticized for unilateral action in such an important matter which also concerned other Allies, especially Britain.

SEBALD

500
CHBoehringer/EGSeidensticker, Jr.:rc

CONFIDENTIAL

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

Action Assigned to
Action Taken Background info
United States Political Adviser for Japan
Date of Action 5/9
Action Office Symbol
Name of Officer
Direction to DC/R file

REC'D
MAY 3

ACTION
ITP ENC

INFO
FR
DCR
FE ENC
OFD
OLI
COM ENC
TREAS ENC
LABOR
AGRIC
TAR
NSRB
FRB

m

No. 238

Tokyo, April 30, 1949

UNCLASSIFIED

Subject: Transmitting copies of Memoranda on Japanese Economic Situation Prepared by Economic Stabilization Board

OFFICE OF INTERNATIONAL TRADE POLICY
MAY 6 1949
DEPARTMENT OF STATE

The Honorable
The Secretary of State,
Washington.

Sir:

1/ I have the honor to forward five copies of a Memorandum entitled "Analysis of Current Economic Situation of Japan", dated January 1949 and prepared by the Economic Stabilization
2/ Board of the Japanese Government, as well as five copies of a revised version thereof issued on March 12, 1949, and to summarize the contents of these two studies. Generally referred to as "White Papers", they differ chiefly in that the March version incorporates information as of the end of 1948, while the January paper in general does not go beyond October.

1. General

Both studies note that, although there are certain signs of approaching industrial stabilization, Japan's foreign trade deficit and badly depleted natural and capital resources are indicative of a basically unsound economy. Isolation from international realities assertedly has hidden these problems from the nation, which must now face the necessity of finding a solution for them.

Encl. No. 2

Enclosure to be forwarded when received in CS/R

2. Signs of Economic Stabilization

a. Rise in production:

The March study finds that production by the end of December 1948 had climbed to 135 percent of the figure for December 1947. Processing of imported materials led in the rate of increase, railway car production between April and December, 1948, being 4.5 times that for the corresponding period in 1947. The January report, covering only the period from April to October, shows slightly different figures, though equally impressive. Excluding textiles, the production index had by December reached 94 percent of the 1930-34 level; production of textiles during the period April-December, 1948, however, was only 24.2 percent of the 1930-34 level. The increased industrial production is attributed in both reports

MAY 10 1949
FILED
DMR

894.50/4-2049

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

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

reports to increased coal production, unusually high hydro-electric power output in late 1948 (it should be noted that statistics in this connection are inconsistent in the two reports), increased imports of critical raw materials, improved rail transportation (tonnage carried being 13 percent above the previous year) and sea transport (61 percent above 1947), decreased Occupation demands (particularly noticeable in the case of cement required by Occupation forces), increased labor productivity, and upward price revisions.

Agricultural production was equally impressive, surpassing that for the preceding year by about 10 percent. 1948 was thus the third successive bumper crop year. Rice delivery quotas were completed on February 17, since black market prices no longer were especially attractive, and since higher prices for farm necessities and consequent need for cash forced farmers to deliver their produce through legal channels.

b. Slowing of inflation:

A second "superficial" sign of stability is found by both papers in the slowing down of inflation. Rate of increase in Bank of Japan note circulation was slower in 1948 than in 1947, while in January and February, 1949, it actually fell. Black market prices were stable after August, 1947, while the consumer's price index rose in July and August, 1948, because of an upward revision of official prices. Although both reports note that the rate of increase in the index slowed down after August figures for late 1948 indicate that the index actually rose rather sharply late in 1948. No explanation is given of the phenomenon, which is probably due principally to further official price increases.

The second of the two studies dwells in somewhat more detail on the causes for the slowing down, and concludes that restrained note issue resulting from decreased deficits in government finance was largely responsible. Excessive disbursements in the special account are dismissed as predominantly payments for rice collection, while long term bonds, it is noted approvingly, were fully taken up. Increase in general deposits, the reports note, also contributed to the slowness of currency expansion. The ratio of public to industrial finance decreased from the preceding year, while the proportion of "fund supply" (deposits, cash in hand) to "fund demand" rose sharply in 1948. Other factors bearing on the slowing down of inflation are listed as increased supplies of materials, especially staple foods, and such psychological factors as "a sense of stability" accompanying the decline of the black market.

c. Rise in real wages:

A third indication of economic stabilization is found in the rise of real wages, which by November, 1948 had risen to a level of 70 percent above the figure for November, 1947. The 1948 figure,

however

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND # 760050

however, is based on surveys in large industries, and the conclusions would not be so favorable, both reports state, if smaller industries were represented. The rise in real wages is partly explained by changes in income distribution, working households having gained while other urban households remained static and rural income fell. Although wages per unit product in November, 1948, were 80 percent above the figure for November, 1947, official prices had risen fourfold, and industries were therefore relatively in a better position as regards wages than in 1947. Household budget deficits, prevalent in 1947, were almost wiped out in 1948. The effect of the rise in real wages, both reports conclude, has been to increase labor efficiency.

3. Actual Condition of the Economy

a. Export deficit:

The reports then turn to the basically unsound situation underlying these superficial signs of economic stabilization. First among the disturbing conditions, the reports find, is the export deficit, which in 1948 totalled more than $400 million, in spite of a sharp rise in exports at the end of the year. Imports and exports in 1948 in terms of the 1930-34 base were 34.3 percent and 13.5 percent respectively. The content of exports did not differ markedly from the prewar pattern, while imports were weighted heavily toward foodstuffs. Although trade with non-dollar areas was balanced, the March report notes, a return to the prewar pattern would require a sterling excess to make up for a dollar deficit.

One of the causes of the slowness of exports, the reports state, is the unwillingness of sterling countries to risk having import surplus under the present convertibility agreement. Other factors making for the discouraging slump in exports early in 1948 are listed as ignorance of foreign markets, short supplies of materials and funds for export industries, over-complicated export procedures, and poor quality of goods. Conditions brightened somewhat in late 1948, partly because of the conclusion of bilateral arrangements circumventing dollar payments. Although only cotton textiles have made any notable revival, even they are hampered by unwillingness on the part of traditional customers to buy, and inventories have therefore amounted to several months' production.

b. Unsound management:

A second cause for worry is found in the unsoundness of industrial management and in the whittling away of industrial capital. Present tax policy, it is noted, makes inadequate provision for amortization, so that enterprises are able to maintain capital only by illegal juggling of accounts. Enterprises are moreover extremely dependent on borrowed funds, and are unable to enlarge their capital. Subsidies constitute another deterrent to sound management. Proportion of labor cost to total cost, it is noted, has risen and "is also an important factor for unsound management". It should be noted, however, that earlier in the report it was concluded that

labor

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

labor costs had proportionately declined in 1948. The present statement apparently has reference to increases from prewar costs.

The time has come, the reports continue, to promote the rationalization and independence of industries in accordance with the Three Economic Principles (no deficit financing, no subsidies, no price rises). It is noted, however, that certain industries cannot become entirely self-supporting, and it will therefore be necessary to "set aside an indiscriminate application" of the program for making industry self-reliant. The extent to which aids should be continued is not elaborated upon.

c. Deterioration of resources:

The compilers of the reports find a third cause for dismay in the deterioration of natural and capital resources. Because an increasingly large proportion of public works funds is going for rehabilitation rather than for prevention, flood damage is mounting year by year. Overcutting of forests continues at an accelerating pace. Replacement of housing is lagging because of low-rent policies, while low steel allocations to railroads make adequate repair impossible. Communications have suffered similarly.

d. Low standard of living:

Finally, cause for concern is seen in the "stalemate in standard of living". Real household expenditures, a survey in Tokyo reveals, were for the period July-September, 1948, only 46 percent of the 1934-36 level. The decline is most marked in expenditures for clothing and housing. The rise in real wages, the reports note, does not mean that consumption levels in general have risen; non-laboring city dwellers as well as farmers have suffered.

4. New Problems Anticipated

a. Unbalance between domestic and international price structures:

Certain problems are anticipated by the reports with regard to the enforcement of the Nine Point Economic Stabilization Program. Thus wide variations in export dollar-yen ratios, and even wider variations between import and export ratios, are viewed with alarm. The yen-dollar ratio for exports, it is noted, becomes higher as the list progresses from unprocessed to finished materials; this is attributed to a declining efficiency of labor and to the necessity of obtaining raw and semi-processed materials through the black market. The spread between import and export ratios is accounted for by "subsidies" in the form of artificially low internal sales prices, by the practice of paying c.i.f. prices for imports and charging f.o.b. prices for exports, and by internal subsidies to bolster the domestic price structure. It will be necessary, the reports conclude, to rationalize industry and improve labor productivity. However, no specific suggestions are given for accomplishing these ends.

b. Problems

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

b. Problems resulting from decline of inflation:

The reports then proceed to dwell on the decline in purchasing power as evidenced by increasing inventories and declining department store sales. It is not made clear, however, how much the phenomenon is actually due to decreasing purchasing power and how much to increasing production and decreasing demand. The decline in purchases of consumers goods is noted with approval in view of the necessity of concentrating on export production; the decline in purchases of producer's goods, however, is found to be indicative of inadequate capital accumulation and therefore cause for alarm.

The plight of farmers and small and medium enterprisers is expected to become more acute as economic stabilization progresses. Farmers are already suffering from a decline in agricultural prices accompanied by an increase in prices of manufactured goods, and are moreover confronted with a rapidly mounting rural population and a corresponding decrease in the size of the average farm. Small and medium enterprisers are similarly faced with financial problems as inflation slows down and the position of the large manufacturer improves with increases in production. The plight of the small manufacturer is evidenced by the increasing number of wage disputes in small industries and by the decline of wages in small industries as compared with those in large industries.

c. Economic controls:

The reports then note that, with economic stabilization, material controls should give way to monetary controls, and price controls should be made elastic enough to "make possible an effective adjustment" to demand and supply. The current vegetables market is pointed to as offering an opportunity for the institution of these elastic controls. The controls required by the Nine Point Program, however, are to be carried out vigorously, though "without interfering with the principle of free competition." How this is to be managed is not explained, although it is pointed out that the present cost-plus system of price determination must be eliminated.

d. Pressures for continued inflation:

In spite of the earlier conclusion that enterprises are relatively better able to pay wages now than in 1947, wage increases at a time when currency and prices "are showing a sign of stabilization" may be a cause for inflation in view of the close margin under which certain industries, notably coal and electric industries, are operating, the reports state. It is therefore feared that upward revision of wages may lead to a demand for upward revision of prices; why downward revision is not possible in those industries presently operating with considerable margin is not explained.

The reports continue with a survey of the difficulties of public finance and the pressures for deficit finance. Tax collections, especially of self-assessed taxes, have lagged, and revenue sources have almost been exhausted. It is therefore concluded that a [redacted]nced budget

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

budget can be attained only through curtailed expenditures, chiefly by elimination of subsidies and cuts in the government payroll.

Finally, the reports note that excessive expenditures for rehabilitation constitute a third potential source of inflation. It is noted that rehabilitation and stabilization are in a sense opposed to one another, stabilization requiring that rehabilitation take place only as fast as capital can be accumulated.

Respectfully yours,

Wm J. Sebald

Encls. in Bulky File

Enclosures:

1. Five copies of a Memorandum entitled "Analysis of Current Economic Situation of Japan" dated January 1949, prepared by Economic Stabilization Board of the Japanese Government.

2. Five copies of a revised version thereof issued on March 12, 1949.

Parchment Mat to Department

500
EGSeidensticker, Jr.:lee

UNCLASSIFIED

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND # 760050

894.50/4-2149

THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

United States Political Adviser
for Japan

DIVISION OF
NORTHEAST ASIAN AFFAIRS
MAY - 9 1949
DEPARTMENT OF STATE

No. 245 Tokyo, April 21, 1949

REC'D
MAY 2

RESTRICTED

10 xR'S

no action necessary
May 16, 1949
JMG

ACTION
~~FE~~

INFO
FR
DCR
ITP
OFD
OLI
POS
COM
TREAS
FRB
LABOR

Subject: Implementation of the Nine Point Economic Stabilization Program in Japan

The Honorable
The Secretary of State,
Washington

894.50/12-2748

Sir:

I have the honor to refer to this Mission's despatch No. 804 dated December 27, 1948, transmitting a copy of a letter sent December 19, 1948, by General MacARTHUR to Prime Minister YOSHIDA Shigeru regarding an interim directive from the United States Government establishing a series of objectives designed to achieve fiscal, monetary, price and wage stability in Japan as rapidly as possible.

m

Prime Minister Yoshida on December 19, 1948, acknowledged General MacArthur's letter and stated in part:

> "As you have pertinently pointed out in your letter under reference, speedy economic rehabilitation of my country has become a common objective both to Japan and the Allied Powers, particularly the United States of America.
>
> "The objectives set forth in interim directive of the United States are those which you have hitherto repeatedly indicated to my government and I am happy to say that their importance is fully appreciated by my government.
>
> "Fully realizing that the sacrifice and determination of the Japanese people can alone solve this situation, my government determines to respond to your faith in the ability of the Japanese people in the achievement of these objectives."

The objectives set forth in General MacArthur's letter are generally referred to as the Nine Point Economic Stabilization Program, the implementation of which, in so far as General Headquarters, SCAP, is concerned, being entrusted to the Economic and
1/ Scientific Section (ESS) of this Headquarters. Enclosed is a copy of an

FILED
MAY 31 1950

RESTRICTED

ACTION COPY

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

894.50/4-2149 MB 894.50/4-2149

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

of an ESS memorandum dated January 29, 1949, which contains the outline of a program to achieve economic stabilization in Japan pursuant to the United States interim directive. According to a responsible ESS official, this memorandum was classified RESTRICTED owing to the tentative nature of certain statements contained therein which make it imperative that no publication thereof be permitted.

Reading of this memorandum reveals that many of the projects listed therein have regularly been undertaken by various divisions of ESS as part of work normally carried on. Their inclusion in the memorandum obviously points to the need for more intensive work in the directions cited, together with the undertaking of new projects to provide for broad implementation of the Stabilization Program in each field of endeavor.

Information regarding the results achieved by ESS under the Stabilization Program is contained in two progress reports dated February 12 and April 5, 1949, prepared by ESS for the Dodge Mission which arrived in Tokyo in February this year. Copies of these re-
2/3/ ports are enclosed.

According to Dr. W. L. REID, economist in the Dodge Mission, not all of the items listed in the February 12 progress report should properly be considered as being achievements under the Stabilization Program, although there is no question but that the achievements cited contributed toward the attainment of the objectives of that Program. The achievements which Dr. Reid believes should be credited to implementation of the Program include the following:

x R'S
894.5041

1. Announcement by the National Public Service Authority that its regulations called for a 48-hour week as from January 10, 1949, the former work week being 40 hours;

894.512
894.5123

2. Effective work in carrying out vigorous criminal prosecution of tax evaders;

894.51
894.5161

3. Tightening of the Bank of Japan's loan policy, effective February 15, 1949, by adjustment of the graduated bank rate system so as to reduce the spread between the rediscount rate and banks' loan rates as loans from the Bank of Japan increase relative to deposits;

894.5045

4. Utilizing the publication of the Stabilization Program as their chief weapon, officials of the ESS Labor Division were able to persuade representatives of the Electric Power Workers' Union, Coal Workers' Union, Seamen's Union, Shipbuilding Workers' Union and Private Railway Workers' Union to call off threatened work stoppages and reach

amicable

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

amicable settlement of outstanding wage negotiations at terms compatible with the overall stabilization objectives;

xR's
894.5018

5. In conference with Japanese officials December 23, 1948, instructions were issued by ESS authorities concerned to permit no price increases which will upset the existing general price level during the 1949-50 fiscal year and to balance increases which cannot be avoided with decreases in other items;

800.5D3194

6. Issuance January 14, 1949, of a new SCAP circular and a directive to the Japanese Government which broaden scope of business activities permitted foreigners and allowing limited investment and acquisition of business properties where they contribute to Japanese economic rehabilitation;

694.0031

7. Announcement January 15, 1949, that foreign import-export firms desiring to open branch offices in Japan are now authorized to do so on a non-discriminatory basis;

894.111

8. SCAP approval January 22, 1949, of a plan for entry of tourists for conducted tours up to 25 days, the former maximum being seven days.

According to Dr. Reid, the February 12 progress report might well have included reference to the SCAP decision to permit 60-day visits to Japan by relatives of Japanese nationals and the SCAP decision to permit the Japanese to reopen stock markets.

Dr. Reid stated that he had no suggestion with regard to possible additions or deletions from the April 5 progress report which, he said, had been drawn up by ESS officials concerned following consultation with members of the Dodge Mission. This report contains a significant list of solid achievements, highlighted by the drawing up of a consolidated, balanced budget for the 1949-50 fiscal year, which is about to be passed by the Diet. Careful reading of this progress report is recommended.

According to Dr. Reid, ESS is being asked to make similar progress reports on a monthly basis, this suggestion assertedly emanating from Washington where the Department of the Army and the Department of State reportedly are giving close attention to the full and vigorous implementation of the Nine Point Program.

The interest of the Department in receiving information

regarding

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

regarding the implementation of the Program is appreciated by this Mission which will undertake to report on the subject at periodic intervals.

Respectfully yours,

W. J. Sebald

Enclosures:

1. Copy of memorandum entitled "Program to Achieve Economic Stabilization in Japan....";

2. Copy of memorandum dated February 12, 1949, subject: "Progress Report on Program to Achieve Economic Stabilization";

3. Copy of memorandum dated April 5, 1949, on same subject.

Parchment Mat to Department

500
CHBoehringer:rc

RESTRICTED

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

RESTRICTED

Enclosure No. 1 to Despatch No. 245, dated April 21, 1949, from United States Political Adviser for Japan, Tokyo, on the subject "Implementation of the Nine Point Economic Stabilization Program in Japan."

(COPY)

PROGRAM TO ACHIEVE ECONOMIC STABILIZATION IN JAPAN
PURSUANT TO INTERIM DIRECTIVE OF THE UNITED STATES GOVERNMENT

(Collated January 29, 1949)

1. 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.

a. The Japanese Government has been advised that in all future budgets government expenditures must not exceed anticipated revenue.

b. (1) In the Japanese Fiscal Year 1949-50 budget the General Account subsidies to the government railways and communication enterprises will be eliminated by increases in rates for their services sufficient to make such operations self-sufficient. In effecting these rate increases every effort will be made to minimize increases in the Consumer Price Index.

(2) Government outlays for capital improvement of government enterprises will be limited to amounts necessary to maintain existing plants and provide for necessary expansion and the rate increases in sub-paragraph b above will be based on estimates for repair and maintenance costs in addition to operating expenses.

(3) Government expenditures in other capital programs such as public works will be limited to restricted priority projects which directly contribute to enhancement of the national productivity except as noted in (8) below.

(4) All foreign trade subsidies will be financed by the Foreign Trade Fund and will be of temporary duration. Subsidies for imports will be limited to:

(a) Cost of living items (principally foods, fertilizers, and cotton for domestic consumption.)

(b) Strategic industrial raw materials essential to production where price increases would have a major disrupting impact upon the entire price level.

(5) Subsidies for indigenous production will be financed from the General Accounts budget and will be limited to

the

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

the minimum level needed to:

(a) Maintain the general industrial price level.

(b) Prevent increases in the Consumer Price Index.

(6) In conformity with (5) above, from the beginning of JFY 1949-50 certain non-ferrous metals will be eliminated from domestic subsidy and per unit subsidies will be substantially reduced on most of the remaining items.

(7) The operating costs of government will be reduced through the institution of personnel reductions and increased efficiency of governmental operations.

(8) All non-self-liquidating programs of democratic and social reform will be limited to the present scale or reduced.

c. Reduce government inventories by accelerating disposition of excess government property and foreign trade stocks.

d. Rent ceilings of commercial and industrial properties will be revised upward to accord with general price levels and tax assessments thereof will similarly be increased.

e. A gasoline tax will be introduced into the next Diet session.

2. <u>Accelerate and strengthen the program of tax collection and insure prompt, widespread and vigorous criminal prosecution of tax evaders.</u>

a. The National Tax Service is being reorganized into one centrally controlled and directed, semi-autonomous, professional system.

(1) A career-merit system for tax collectors is being put into effect in order to attract the best available qualified personnel.

(2) A small unit whose primary function is the screening of prospective tax personnel and the investigation of tax personnel suspected of corruption is being established in the central office.

(3) The

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

(3) The tax employee-training program is being intensified.

b. Major revisions in the interest of securing greater efficiency are being made in the administrative, assessment, collection and accounting procedures of Japanese tax offices.

c. The recently established field enforcement arm, the National Tax Inspectors, has been instructed to concentrate on larger tax delinquencies, blackmarket and criminal prosecution cases and to operate independently of other field offices of the tax service.

d. The activities of the recently appointed special tax procurators, who are now assigned to all regions and prefectures, are being greatly expanded and intensified.

e. Legislation will be presented in the next Diet session providing more effective penalty provisions both for taxpayer evasion and for corruption of tax officials.

f. Military Government surveillance over Japanese Government tax administration is being strengthened.

g. An overall survey of the tax structure is being conducted with the objective of revisions to (1) effect more equitable distribution of the tax burden, and (2) re-allocate tax revenue sources among national, prefectural and local governments.

h. Legislation will be presented in the next Diet session to revise corporation and excess profits tax laws including correction of present inequities.

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

a. The Bank of Japan is strengthening its tight loan policy in order to force private banks to use their own funds discreetly, thus preventing escape from other credit controls (by resort to the central bank).

b. Present interest and rediscount rates will be maintained for the balance of the fiscal year subject to periodic review with a view to determining the desirability of increases as a means of tighter credit control.

c. Legislation is being prepared for enactment which will require a deposit reserve system requiring all banks to maintain reserves with the Bank of Japan in accordance with ratios to

be

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

be set within limitations fixed by law. This legislation will give the Bank of Japan greater over-all control of the leading activities of all Japanese banks and will permit tightening fund positions at any time in conformity with credit limitation policy. Reserves will be required in cash and bonds to the extent necessary to control credit expansion.

d. The loan priority schedules approved on 4 January 1949 will be adjusted periodically to meet changing conditions:

(1) High priorities have been limited to specific key industries, thus reducing all industries not specifically listed to the lowest class.

(2) Whenever supplies of critical materials improve, or whenever the item being produced has lost importance, priorities will be adjusted continuously giving highest priority to those key industries where shortages are most acute.

(3) Within the priority system loans to exporters and manufacturers of export items will be given highest priority. This includes discount of bills arising out of manufacturing for export or originating from transactions involving procurement of raw materials for export.

(4) Loans by trust companies will be made subject to loan priority regulations.

(5) Loans by agricultural cooperative associations will be restricted to members only since these associations are not subject to loan priority regulations.

(6) A complete review of priority classifications will be made at the end of the fiscal year.

e. The Temporary Money Rate Adjustment Law will be revised to make loans by trust companies subject to the legal maximum rate plus trust fees.

f. The loan limit plan covering increases in new bank deposits is being continued. This plan currently apportions the use of monthly increases in deposits between government finances

and

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

and loans guaranteed by the Reconstruction Finance Bank (40%) and industry (60%). The portion directed into government finance will be increased if possible as a step in overcoming inflation.

g. The reorganized Industrial Bank is being encouraged to participate to a greater extent in the equipment loan field, thereby relieving the Reconstruction Finance Bank to some extent and subjecting borrowers to more careful scrutiny.

h. Legislation is being prepared for submission to the next Diet for a reorganization of the Reconstruction Finance Bank providing for the following:

(1) More drastic limitation of funds available for loans.

(2) The elimination of deficit loans and operating fund loans.

(3) Limitation of loans for equipment to most urgent rehabilitation projects and requiring participation by commercial and special banks, and subject to offering of adequate security.

(4) Limitation to the industrial field eliminating loans for agriculture, public works, public welfare, etc.

4. Establish an effective program to achieve wage stability.

a. The Japanese Government will adopt and announce as formal policy the following three principles:

(1) No increase in official prices for wage increases;

(2) No deficit financing for wage increases;

(3) No government subsidies for wage increases.

b. To enforce these principles insofar as government employees are concerned all future appropriation bills (except subsidy bills covered by available revenue) will include the following rider:

"No part of any appropriations contained in this Act shall be used for subsidizing industries in order to provide wage increases,

loans

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

loans to cover deficits occasioned by wage increases, or salaries to government officials who, as part of their functions, grant increases in official prices for the purpose of increasing wages."

c. For labor in private industry control is being exercised by withholding approval of price increases and thereby limiting wage increases to proceeds of increased production, higher efficiency, lower unit costs, etc.

d. In the event of dispute in key industries management and labor relations committees have been instructed to insure that collective bargaining is carried on equitably within the framework of the "three principles."

e. Labor and management support of this program is being mobilized through special ESS-sponsored nationwide labor-management conferences beginning 27 January 1949.

f. In the event application of the "three principles" fails to achieve wage stability a program of direct wage control must be instituted legally freezing all wages as of a given date pending establishment of criteria for permissible wage increases and necessary administrative and enforcement machinery.

(1) Criteria:

(a) Enterprises will be permitted, without prior approval, to grant increases up to the industry-area average.

(b) Increases above the industry-area average will be permitted if approved in advance by the administrative agency on the basis of sound criteria, primarily increased productivity.

(c) All enterprises will be required to increase individual wages to a statutory minimum wage established under provisions of the Labor Standards Law.

(d) In case of significant increases in cost of living, the administrative agency will periodically authorize wage increases to secure maintenance of real wages.

(2) Administrative

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

(2) Administrative Machinery:

(a) A National Wage Stabilization Board will be created with full legal powers to establish criteria, act on applications for wage increases, order wage adjustments, make necessary inspections, and ensure compliance with wage regulations through enforcement of penalty provisions.

(b) Members of the Board will consist of representatives of Finance Ministry, Labor Ministry, Commerce and Industry Ministry, and ESB with a chairman appointed by the Prime Minister.

(c) The Board will establish regional or prefectural boards.

(d) Adequate professional, technical, and clerical staff will be provided to carry out the Board's responsibilities.

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

a. The Japanese Government has been instructed to permit no price increases which will upset the existing general price level during Japanese Fiscal Year 1949-50 and to balance increases which cannot be avoided by decreases in other items.

b. The Japanese Government has been instructed to permit decontrol of prices only under certain criteria including a balanced supply and demand relationship when such action will not be inflationary and to expand coverage whenever the free price of an uncontrolled item tends to increase the Consumer Price Index.

c. During JFY 1949-50 prices of certain imported cost-of-living and industrial raw material items will be held by subsidies (paragraph 1.b.(4)).

d. During JFY 1949-50 domestic price increases will not be allowed for providing funds for wage increases (4.c.).

e. In

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

e. In effecting rate increases to provide government revenue during JFY 1949-50 every effort will be made to prevent increases in the Consumer Price Index (1.b.(1).)

f. Prices of indigenous commodities are being gradually realigned with world market prices. Temporarily, however, domestic prices must be held. An intermediate step will be a price-pooling arrangement to enable domestic producers to cover costs of production and at the same time to hold or lower the Consumer Price Index.

g. Enforcement of legal prices is being strengthened by means of further operational efficiency of the Economic Inspection Board and intensive procuratorial efforts on economic crimes. (see 7.c)

6. 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.

a. The Japanese Government will be directed to reorganize and regularize control procedures with a clear allocation of functional responsibilities among agencies of the Japanese Government.

b. The Japanese Government will be directed to establish a Foreign Exchange Control Board independent of existing ministries to:

(1) Maintain administrative control of all Japanese Government funds resulting from international trade or exchange transactions.

(2) Establish administrative procedures for and coordinate clearance of all international trade and exchange transactions.

(3) Make recommendations on foreign exchange policy.

(4) Maintain complete and current records of foreign exchange holdings, movements and commitments.

c. The Japanese Government will be directed to integrate Japanese and foreign banks into established control procedures.

d. The Japanese Government will be directed to utilize fully

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

fully the Customs Service in the application of foreign exchange controls.

e. Upon the establishment of the Foreign Exchange Control Board and effectuation of the above instructions, the Japanese Government will be instructed to terminate Boeki-cho and its Kodans as commercial operating agencies.

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

PART I - CONSUMER PRODUCTS

a. Rationing of scarce subsistence items will be continued to provide the minimum requirements on a non-discriminatory basis, and additional distribution of scarce items will be made to those who contribute most to the advancement of economic rehabilitation.

b. The Japanese Government has been instructed to eliminate the "ghost population" on ration lists estimated at about 2 million for the August 1948 census. The Japanese Government has also been instructed to correct misclassification of self-suppliers as partial suppliers and partial self-suppliers as non-suppliers, under supervision of military government in order to rectify erroneous distribution.

c. Special follow-through supervision will be applied to the following ration systems which have either been low recently or are newly instituted.

(1) Fish and vegetable.

(2) Textile distribution.

(3) Charcoal and firewood.

(4) Soap.

d. The Japanese Government has been instructed rapidly to distribute accumulated firewood and other home fuel stocks and eliminate domestic use of electricity as fuel during the dry season.

e. The Japanese Government has been instructed to improve the effectiveness of its distribution system, particularly the distribution of scarce items as incentive for production goals by special groups, e.g. fishermen, miners, charcoal and firewood producers, etc.

f. Enforcement

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

f. Enforcement of existing regulations is being strengthened by:

(1) Careful staffing of the Japanese Economic Investigation Board so as to enable it to execute administrative inspection over agencies responsible for the administration of economic controls.

(2) Close liaison with procurators and clear instructions to Japanese agencies enlisting the support of various governmental and civic agencies to prevent distribution of rationed items outside authorized ration channels or at higher than official prices.

(3) Concerted drives against blackmarketing at all levels.

PART II - INDUSTRIAL RAW MATERIALS

g. The programming operations of the Economic Stabilization Board will be revised so that:

(1) Programs are prepared quarterly in advance of the beginning of the allocation period and provision be made for reviewing the actual performance of each program on a current basis.

(2) Such programs be prepared on the basis of realistic evaluation of available supplies rather than based upon summaries of allocation applications.

h. Instructions in process of formulation be issued by the Economic Stabilization Board to the responsible ministries requiring:

(1) Submission of programs to the Economic Stabilization Board based on estimated end item requirements and realistic estimates of materials availability, segregating end item requirements into export and indigenous consumption. Export programs will in every instance be accorded preferential treatment and be set at maximum possible levels.

(2) Ministerial bureaus will present their material requirements on an end item basis only for those supplies coming within their competence.

(3) The Ministry of Construction will be designated as the competent Ministry for the allocation of all materials for new construction and major rehabilitation.

(4) Insofar

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

(4) Insofar as is practicable each manufacturing plant shall be assigned to a single competent bureau responsible for evaluation of the in-put and out-put patterns and the co-ordination of such out-put patterns with the programs set up for the entire industry. Allocation tickets will be issued directly to the plant operator. Specific delineation of delegations of responsibility shall be made by the various Ministries to the local and district offices along with procedure for the control of allocations.

i. A vigorous enforcement program designed to eliminate materials deliveries to unauthorized industrial consumers is being initiated utilizing the facilities of the Economic Investigation Board.

j. An intensive drive is being conducted to eliminate theft of electric power.

k. Allocation of materials will be coordinated with the credit priority system and where appropriate with allocation of foreign exchange.

8. Increase production of all essential indigenous raw materials and manufactured products.

a. Increased production is being programmed in detail, based upon:

(1) Maximizing production of coal, ores, petroleum and other minerals.

(2) Channeling basic materials into production of semi-finished products, such as iron, steel, heavy chemicals, coke, etc.

(3) By careful allocation of basic raw materials and semi-finished products maximize production of end items which contribute to economic recovery, with increased quotas for export.

b. Maximize generation of electric power through completion of largely finished hydro plants and rehabilitation of damaged hydro facilities.

c. Restrict non-essential construction and encourage industrial, residential and public works construction and rehabilitation which definitely contribute to economic stabilization by

enforcement

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

enforcement of building license system and allocation of building materials.

d. Require more efficient operation and improved quality of end products by:

(1) More effective cooperation within and between existing Japanese research and technical agencies.

(2) Development and use of worthwhile inventions and techniques.

(3) Improving the development and use of technical standards.

(4) Utilization of the technical developments of other countries through the services of expert consultants, technical documents and patents.

(5) Concentration of production in efficient plants by denying power and essential raw materials to inefficient producers and to those whose end products do not meet required specifications.

(6) Use of special SCAP-employed technical consultants on key industrial operations such as hot and cold strip mills.

e. Importation of specialized modern machinery in key industries.

f. Encourage investments by means of exchange controls in essential basic and foreign trade industries.

g. Secure maximum cooperation between labor and management by:

(1) Stressing the importance of industrial peace through bargaining in good faith; requiring contracts to contain peace clauses and grievance machinery.

(2) Provision of [illegible]e housing and rations, including incentive goods and extra rations for special categories.

(3) Improving

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

(3) Improving working conditions with particular stress on safety and sanitation.

(4) Encouraging extra shifts whenever possible, particularly for making up production losses due to holidays.

9. Improve efficiency of the food collection program.

a. The Japanese Government has been directed to amend the necessary laws to provide for revision upward of pre-planting quotas at harvest time when harvest conditions permit.

b. The crop reporting service will be improved in order that accurate crop estimates may be obtained and quotas assigned at the highest practicable level.

c. Monetary bonuses and incentive goods for over-quota deliveries will be continued, and the incentive goods distribution system will be strengthened.

d. Collection and production of indigenous oils, particularly difficult because of the multitude of small producers of oil-bearing seeds and fish oil, will be increased.

e. Control over the transportation and sale of staple foods will be vigorously enforced.

f. The Rural Information Program will be continued stressing the importance of maximizing food production and crop collection, and furnishing technical information and guidance.

g. Agricultural food production will be increased by

(1) Insuring availability of materials, equipment, and supplies (emphasis on fertilizer and pesticides),

(2) Improving agricultural techniques, including

(a) Development of new plant varieties, and research on new agricultural practices,

(b) Control of rice insect pests,

(c) Land reclamation and reforestation, to prevent damage to

agricultural

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

agricultural land and to repair damage which has occurred (erosion, floods and earthquakes),

(d) Increased production and utilization of root crops by control of insects and diseases, preservation and storage.

(3) Compulsory crop insurance,

(4) Strengthening farm credit,

(5) Cobtrolling livestock program,

(6) Continuing Japanese agricultural reform program.

h. Efficiency of the fishing industry will be increased by:

(1) Insuring availability of vital materials essential to production; effective allocation and deliveries to insure adequacy and efficient utilization;

(2) Strengthening the credit situation to enable fishermen to obtain needed materials;

(3) Developing methods of handling and processing fisheries products to reduce waste from spoilage and maximize utilization;

(4) Applying sound conservation and good management policies to effect sustained high yield of aquatic products.

i. The third Antarctic whaling expedition will provide most products as food and alleviate critical shortages of fats and oil.

******

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

RESTRICTED

Enclosure No. 2 to Despatch No. 245, dated April 21, 1949, from United States Political Adviser for Japan, Tokyo, on the subject "Implementation of the Nine Point Economic Stabilization Program in Japan."

(COPY)

GENERAL HEADQUARTERS
SUPREME COMMANDER FOR THE ALLIED POWERS
Economic and Scientific Section

MEMORANDUM 12 February 1949

SUBJECT: Progress Report on Program to Achieve Economic Stabilization

Specific actions taken subsequent to the receipt of the U. S. Government Interim Directive on Economic Stabilization and pursuant to its terms are indicated below. In addition, implementation of the Directive has taken the form of more forceful effectuation of instructions issued and policies transmitted to the Japanese Government previously. Certain measures implementing the Directive require legislative action of the Japanese Diet. The first Diet session subsequent to the receipt of the Directive began 11 February 1949.

GENERAL

19 December 1948

General MacArthur transmitted Interim Directive to the Japanese Government pointing out that the fundamental objective of the Directive is the prompt achievement of that degree of economic self-sufficiency which alone can justify and insure political freedom.

Prime Minister Yoshida acknowledged receipt of the Directive and replied that his government, fully realizing that the sacrifice and determination of the Japanese people can solve their problem, was determined to respond by achievement of the objectives.

22 December 1948

First major contract under Siam-Japan trade agreement completed, involving exchange of manufactured products for Siamese rice allocated to Japan.

30 December 1948

Netherlands-Japan $89 million trade pact finalized.

22 January 1949

French Union-Occupied Japan trade talks resumed.

- - - -

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

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

1 January 1949

The National Public Service Management Committee commenced studies of the possibility of effecting reduction of government employees.

10 January 1949

The National Public Service Authority announced that its regulations now called for a 48-hour work week (up from 40 hours).

1 February 1949

The yen-dollar price ratio on textile commodities was reduced from approximately 20 ratios to 4, with a top ratio of 420-1.

A draft budget is in preparation providing for elimination of deficits in railway and communications accounts through rate increases.

- - - -

2. To accelerate and strengthen the program of tax collection and insure prompt, widespread and vigorous criminal prosecution of tax evaders.

Over thirty new tax evasion cases have been referred to the procurators for criminal prosecution from 15 December 1948 to 15 January 1949. This compares with fifteen referred in the preceding nine months, and none before that in the modern history of Japan.

- - - -

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

Effective 15 February 1949, the Bank of Japan bank loan policy will be tightened further by adjustment of the graduated bank rate system so as to reduce the spread between the rediscount rate and banks' loan rates as loans from the Bank of Japan increase relative to deposits.

The loan priority schedules, giving special consideration to export, coal and fertilizer industries, approved on 4 January 1949 went into effect at the end of January and will be adjusted periodically to meet changing conditions.

Pursuant to the program of limiting funds available for loans, the Reconversion Finance Bank loan schedule for the fourth quarter of the 1948-1949 fiscal year was reduced on 29 January 1949, after review, by 1.6 billion yen.

- - - -

4. To

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

4. To establish an effective program to achieve wage stability.

Utilizing the publication of the Stabilization Program as their chief weapon, the Labor Division, ESS, was able to persuade representatives of the Electric Power Workers Union, Coal Workers Union, Seamen's Union, Shipbuilding Workers Union and Private Railway Workers Union to call off threatened work stoppages and reach amicable settlement of outstanding wage negotiations at terms compatible with the overall stabilization objective.

The Japanese Government has been instructed that it will follow the following three principles with respect to wage rates:

a. No increase in official prices for wage increases.

b. No deficit financing for wage increases.

c. No government subsidies for wage increases.

27-30 January 1949

A Labor-Management Conference was held under SCAP sponsorship. Firm line expressed by SCAP pointing out that if labor and management are unable to reach harmonious agreement through the adoption of realistic and mutually acceptable policies and practices for increasing production and stabilization of wages pursuant to the "Three Principles Program," then the adoption of a direct wage control program is unavoidable.

- - - -

5. To strengthen and, if necessary, expand the coverage of existing price control programs.

23 December 1948

Raw silk prices announced. Guaranteed as minimums until 31 March 1949.

In conference with Japanese officials instructions have been issued to permit no price increases which will upset the existing general price level during the fiscal year 1949-1950 and to balance increases which cannot be avoided with decreases in other items.

- - - -

6. To 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.

31 December 1948

Announcement made that beginning February 1 Japanese manufacturers of cotton and woollen textiles will be permitted to

purchase

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND # 760050

purchase raw materials from Boeki Cho instead of Boeki Cho retaining title. This step tends to place textile industry on a true cost basis.

14 January 1949

New SCAP circular and directive to the Japanese Government issued broadening scope of business activities permitted foreigners and allowing limited investment and acquisition of business properties where they contribute to Japanese economic rehabilitation.

15 January 1949

Announcement made that foreign import-export houses desiring to open branch offices in Occupied Japan are now authorized to do so on a non-discriminatory basis.

22 January 1949

SCAP approved entry of tourists for conducted tours up to 25 days, the former maximum being 7 days.

25 January 1949

Directive issued ordering revision of controls governing movement of property including currency and financial instruments which individuals, other than members of the Occupation Forces, may carry on entering and leaving Japan.

1 February 1949

The Japanese Government was directed to reorganize existing exchange controls and establish a foreign exchange control board to coordinate administration of foreign trade and exchange controls.

- - - -

7. To improve the effectiveness of the present allocation and rationing system, particularly to the end of maximizing exports.

28 December 1948

The Economic Stabilization Board submitted allocation tables allocating scarce materials based on availability to users with highest priority based on essentiality. The period of validity of allocation tickets was reduced to prevent diversion to non-essential users.

9 February 1949

Informal memo of Chief, ESS, to Ministry of Commerce and Industry and ESB Director General requested immediate promulgation of ESB regulations centralizing allocation and rationing system of motor vehicle supplies, including petroleum products, tires and tubes, in the Ministry of Transportation.

Distribution

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

Distribution of firewood has been accelerated in January and February. Ration has been raised to dispose of stockpiles and discourage use of electricity for heating.

- - - -

8. To increase production of all essential indigenous raw material and manufactured products.

1 January 1949
A program for the procurement of technological literature from Rehabilitation Funds was initiated.

4 January 1949
An additional 75 Japanese business and industrial concerns removed from listing as restricted concerns.

17 January 1949
SCAP Foreign Investment Board and standards for foreign business activity announced.

25 January 1949
Announcement made that 30,000 long tons of Austrian pig iron will soon arrive in Japan for use in steel products for export.

Washington has been requested to recruit three consultants (a hot strip roller and two coal mining engineers). These consultants have been recruited and should arrive in Japan shortly.

- - - -

9. Improve efficiency of the food collection program.

21 December 1948
NRS official in ceremonies held at Tokyo's symbolic Rice Bridge pointed out that to justify continuation of the incentive program farmers must do their best to maintain the 2.7 go ration level.

24 December 1948
The Japanese Government was directed to amend the necessary laws to provide for revision upward of pre-planting quotas at harvest time when harvest conditions permit.

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

RESTRICTED

Enclosure No. 3 to Despatch No. 245, dated April 21, 1949, from United States Political Adviser for Japan, Tokyo, on the subject "Implementation of the Nine Point Economic Stabilization Program in Japan."

(COPY)
GENERAL HEADQUARTERS
SUPREME COMMANDER FOR THE ALLIED POWERS
Economic and Scientific Section

MHH/lf

5 April 1949

MEMORANDUM

SUBJECT: Progress Report on Program to Achieve Economic Stabilization

Listed below are some specific actions taken subsequent to progress report of 12 February 1949. Paragraph numbers refer to appropriate paragraphs in the nine-point program.

1. A budget for the Japanese Government which provides for a true balance in the consolidated government accounts has been informally transmitted by GHQ SCAP to the Japanese Government and is to be submitted to the Diet. This budget provides for the elimination of the Government as a contributing factor to inflationary trends.

5 March 1949 the Japanese Government was instructed to eliminate two of the four foreign trade Kodans and to curtail drastically the functions of the remaining two Kodans. In addition to being a curtailment of expenditures, this action also paves the way for elimination of governmental trade operations.

Instructions have been issued for liquidation of the Petroleum Distribution Kodan effective 1 April.

2. Results in the field of criminal prosecution of tax evaders are encouraging. Since last December there have been 78 indictments in the District Courts and 13 prison sentences have been imposed. In the first income tax evasion cases to reach the High Court prison sentences were imposed in two major cases. These two cases are being cleared for review by the Supreme Court and it is anticipated that the two individuals involved will be the first income tax evaders in the modern history of Japan to have been imprisoned.

3. The Japanese Government has been instructed to prohibit further issuance of RFB debentures during the 1949-50 fiscal year.

4. Up to date there has been no break in holding the wage line. In accordance with the "three principles", there have been no price increases, no deficit financing and no government subsidies

for wage

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

for wage increases and there have been no substantial work stoppages since the previous report. During this period, disputes on the part of metal mine workers, seamen and electric power workers have been settled. Direct action has been taken to effect discontinuances of payment of union officials and other substantial expenses by management as provided for in the Trade Union Law.

5. Numerous requests for upward revision of key commodity and manufactured item prices have been rejected by ESS. Claims for price adjustment have been denied on the score that they would be inflationary. Instead, existing policy is to force rationalization and more efficient utilization of existing capacity to obviate the need for price increases and to improve the utilization of existing scarce resources.

6. The Foreign Exchange Control Board (to coordinate administration of foreign trade and exchange controls) was activated by the Japanese Government.

Procedure was formalized for permitting foreigners in Japan, who are legally entitled to possess foreign exchange, to purchase Japanese export type goods.

The Japanese were instructed to permit the processing of export documents supported by assignable letters of credit.

Procedure was formalized permitting foreign buyers to act as their own shippers.

The Japanese Board of Trade has announced effective 1 April a yen-dollar ratio of 330 to 1 for imports and a maximum yen-dollar ratio of 425 to 1 for exports.

A financial and trade plan has been negotiated with the Republic of Korea (South Korea), contemplating a volume of trade aggregating $78 million (subject to ratification by the Republic of Korea and SCAP).

7. On 15 March 1949, the Japanese Government issued an order which in effect was a step toward rationalization of the textile industry. It required that a priority list based on efficiency and performance be established for mills and factories and that the allocations be based on top priority to the most efficient mills. Under this order, the number of mills receiving allocations will be reduced from some 1,500 to less than 100.

8. On 10 March 1949 a formal directive was issued to the Japanese Government on the subject of stabilization of the coal industry. This directive pointed out the essentiality of improvement in efficiency in order to provide 42 million tons of coal for the fiscal year 1949-50 without increase in the consumer coal price or subsidies and without resorting to deficit financing. The memorandum further listed necessary steps which should be taken by the Japanese Government in order to reach this goal.

In order

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

In order to increase availability of power, the Hirohata Thermal Power Company with a capacity of 23,000 KW was placed in operation. Hydroelectric additions were made amounting to approximately 60,000 KW.

Contracts were signed for the construction of ships for export totaling 78,610 dead weight tons; dollar value $14,800,000.

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

INCOMING AIRGRAM

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

DIVISION OF FOREIGN AFFAIRS
file no action
APR 24 1949
DEPARTMENT OF STATE

5595 45921

AIRGRAM

2
A
ACTION: OFD
INFO
DC/R
FE
E
ITP
OLI

FROM: USPOLAD, Tokyo

Date of Mailing: April 23, 1949

Date Rec'd: April 28, 1949 11:12 a.m.

OFFICE OF FINANCIAL & DEVELOPMENT POLICY
APR 28 1949
DEPARTMENT OF STATE

CONFIDENTIAL
(For Department Use Only)

Secretary of State,

Washington.

A-96, April 22, 1949.

(This airgram supplements this Mission's A-92, April 15, 1949, and earlier airgrams in this series. Request distribution be limited to Department for reasons stated in A-21 of January 29, 1949.)

1. Pope Report Controversy. Publication by Newsweek April 18, 1949, of the article entitled "What's Wrong in Japan? Plenty, Blasts Survey Expert," was featured here by the following developments: (1) receipt by SCAP of telegram from Colonel Frederick POPE, quoted in the Newsweek article and now enroute to the United States after making a survey of the Japanese chemical industry, stating he had been seriously misquoted and had nothing but admiration for rehabilitation progress in Japan under direction of General MacARTHUR, and (2) release by General Headquarters, SCAP, on April 20 of a 17-page press release purporting to be complete Pope report. Copies of latter being transmitted to Department; effort also being made to determine whether press release contains complete report. If not, will endeavor obtain copy complete report from Economic and Scientific Section (ESS) for transmittal to Department.

2. BOTRA Equipment Offered to SCAP. At weekly ESS staff meeting April 18, attended by officer this Mission, Mr. Theodore COHEN, Special Assistant to Chief, ESS, and SCAP delegate to recent ECAFE conference, Bangkok, stated he had been approached by Chinese delegates to conference regarding possible SCAP interest in purchase certain equipment from BOTRA, Chinese Government Board of Trustees for Rehabilitation Administration, specific mention being made of 15 Diesel-engined fishing boats (possibly of American origin) supplied to China under UNRRA program. Cohen stated Chinese assertedly unable operate vessels due lack Diesel oil. Next day Mr. W. S. VAUGHAN, Chief, ESS Industry Division, asked officer this

894.50/4-2249
MAY 5 1949
[redacted]

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

CONFIDENTIAL

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

Mission whether complete list of BOTRA supplies available for sale could be procured. Officer informed him that doubtful whether BOTRA itself had complete list of its equipment and that this question now being investigated in China by representative J. G. White Corporation under ECA China program. Question arises as to propriety BOTRA offering sell to SCAP equipment received free from UNRRA. Admitted, however, present developments in China might make it advisable not to raise issue with Chinese, provided they willing sell equipment to SCAP at reasonably low figures. Added consideration involves denial equipment to Chinese Communists and USSR. Matter discussed here April 22 with J. Franklin RAY, enroute from Washington to Seoul where he will be with ECA Korean Mission, who was in charge UNRRA operations in China in 1946 and later with UNRRA Washington office handling China operations. Ray expressed opinion that it was "fantastic" of Chinese to attempt to sell materials received gratis from UNRRA, adding such materials in excess of requirements should rightly be returned to donor nations or given to nation, subject to BOTRA approval, able to make effective use of them. He stated, however, matter might well be investigated further by ESS.

3. SCAP-Trizonia Trade Talks Commenced. Talks between Dr. Robert SIEBURTH, Offide of Assistant Secretary of Army, and ESS foreign trade officials regarding trade between Japan and American, British and French zones of Germany began April 21. Dr. Sieburth's preliminary proposals would set up trade under "offset account," apparently similar in operation to present SCAP-Hong Kong open account. Would call for quarterly clearance, with additional clearance on demand if credit balance exceeds million dollars. SCAP officials would prefer straight dollar trading under statistical controls, similar to arrangement at present in force with Sterling Area. Possible sales by Japan, for which no accurate estimates of quantity or value are available, include raw silk, gray and other cotton piecegoods, vegetable and fish oils, drugs, textile machinery, canned foods, and tobacco; imports from Trizonia, equally indefinite, may include industrial chemicals and dyestuffs, non-ferrous metals and metal products, machinery, potash, and clays. Consideration also being given to possible barter of Japanese copper, aluminum, zinc, and mercury for pig iron with which to fill German orders for textile machinery. Dr. Sieburth adopted rather unusual procedure of going first to Japanese industrialists, and approaching SCAP foreign trade officials only after canvassing Japanese opinion for about two weeks. SCAP officials somewhat annoyed, pointing out that there may be considerable disparity between what Japanese wish

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

to trade and what they can trade, since responsibility for meeting dollar-transfer problem rests with SCAP and final determination of import-export program must therefore be made in General Headquarters, SCAP.

4. Signing of SCAP-Korean Trade and Financial Arrangements. Dr. Sherwood M. FINE, financial and economic adviser to General Marquat, presently in Seoul scheduled sign SCAP-Korean Trade and Financial Arrangements for SCAP this weekend. Letters of understanding as reported in previous airgrams in this series and in our despatch No. 203 of April 4, 1949, have been approved by General Headquarters, SCAP, and will be appended to arrangements if accepted by Koreans.

5. Japan-Latin American Trade. At weekly ESS staff meeting April 18 General Marquat referred to telegram received from Mr. Frank H. PICKELLE, Chief, ESS Foreign Trade and Commerce Division and head of SCAP Trade Mission to Latin America presently in Mexico, and stated that "it doesn't look as if we are going to get much business from Mexico." On April 19, Mr. Russell W. HALE, acting chief of Foreign Trade and Commerce Division, stated to officer of this Mission that he had received personal airmail letter from Pickelle in which latter assertedly expressed optimism for negotiation multilateral as opposed to bilateral trade agreements with Latin American countries, this being in line with Department's recommendations on subject as stated in recent telegram to this Headquarters.

6. First Member of Shoup Mission Here. Dr. Jerome B. COHEN of New York University, first member of Shoup Mission being sent here to study Japan's tax structure, attended April 18 ESS staff meeting. General Marquat commented on his arrival, stating that many Japanese believe that work of Shoup Mission will result in lower taxes. General Marquat added that he had informed certain key Japanese financial authorities that no reduction in taxes will be made in 1949-50 fiscal year commencing April 1, 1949.

7. Relaxation of Japanese Tax Collection Efforts Disturbs Marquat. At same ESS staff meeting, General Marquat stated to Mr. L. H. MOSS, Chief, ESS Internal Revenue Division, that he "very much disturbed" to receive reports indicating that Finance Ministry's Taxation Bureau had eased up on tax collection drive for 1948-49 fiscal year by calling back to tax offices large numbers

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND 760050

of tax collectors, previously in field, to work on tax accounts. Moss stated that during past seven or eight weeks practically all personnel in local tax offices in field with tax accounts being ignored for time being. General Marquat observed that he would prefer to have tax money in Bank of Japan rather than detailed and accurate records "of how much is due from whom."

8. Setting up of ESS Allocations Board. At recent ESS weekly staff meetings, attention directed to need for high-level ESS allocations board to adopt clear-cut policies regarding allocations raw materials imported under SCAP auspices and vigorous and constant follow-up to see that such materials actually utilized by Japanese manufacturers for production export goods with diversion such materials or manufactured goods to domestic market being kept at absolute minimum. In urging that division chiefs concerned come up soon with final plan for allocations board, General Marquat April 18 pointed out that "we cannot depend on loyalty or integrity of Japanese Government agencies," and that "surveillance is required to prevent scandals, for we will get blamed if things go wrong after we turn materials over to Japanese."

SEBALD

500
CHBoehringer/EGSeidensticker, Jr.:rc

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

INCOMING AIRGRAM

46109

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

DIVISION OF FINANCIAL AFFAIRS
file no action
MAY 6 1949
DEPARTMENT OF STATE

AIRGRAM

1006

1
BA
ACTION: OFD
INFO
DC/R
EUR
FE
E
ITP
OLI

CONFIDENTIAL
(FOR DEPT USE ONLY)

FROM: USPOLAD, Tokyo

Date of Mailing: April 30, 1949

Date Rec'd: May 5, 1949, 12: 4 P

FINANCIAL & DEVELOPMENT POLICY
MAY 6 1949
DEPARTMENT OF STATE

The Secretary of State,

Washington.

A-100, April 28, 1949.

(This airgram supplements this Mission's A-96, April 22, 1949, and earlier airgrams in this series. Request distribution be limited to Department for reasons stated in A-21 of January 21, 1949.)

1. More about Pope Report Controversy. With reference to first item in A-96, April 22, this Mission has forwarded to Department despatch No. 260 dated April 27, 1949, entitled "Transmitting Report on Japanese Chemical Plants Prepared by Pope Chemical Mission to Japan." Now ascertained that SCAP press release forwarded with that despatch contains verbatim copy of introduction to complete report, remainder including series of graphs showing production of principal chemicals, data regarding same, and reports of visits to 42 Japanese chemical plants. While most important part of report is material contained in SCAP press release, believed Department may wish have additional material as well. Accordingly, ESS being requested supply this Mission with copy complete report for transmittal to Department.

2. Indians Desire to Study Japanese Cottage Industries. Commercial Counsellor, Indian Liaison Mission, Tokyo, under date February 18, 1949, sent memorandum to Economic and Scientific Section (ESS), GHQ, SCAP, stating that Indian Government proposes send official delegation for studying Japanese organization of cottage and minor industries sometime coming summer; that delegation, in addition to their study, "would also explore possibilities of organizing similar industries in India by indenting necessary machineries from Japan." ESS asked to inform Indian Mission at early date "whether delegation of this type may expect full cooperation from Japanese minor scale industrial organizations at various centres in Japan." ESS, under date April 21, 1949, replied to effect that cottage industries in Japan have no industrial organization and that

894.50/4-2849
FILED
MAY 12 1949
HH

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

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND 760050

Japanese Government has very little information concerning number, locations and method of operation of such industries. For these reasons, ESS pointed out, some question whether proposed delegation would be able secure all information desired, adding, however, that should Indian Government still wish send delegation to Japan, Indian Mission invited to submit names and other necessary personal history information required for clearance of entrants to Japan to Assistant Chief of Staff, G-1, this Headquarters.

3. Seek Greater Revenue from Tourist. Major General W. F. MARQUAT, Chief, ESS, at weekly staff meeting April 25 attended by officer this Mission, stated that Japan's income from tourists much too low and that ESS must pay more attention to encouragement tourist travel to Japan as means increasing invisible income.

4. ESS Pricing Policies Criticized. At same meeting General Marquat referred to recent complaints made to him personally by American buyers of Japanese export goods regarding prices fixed for such goods. He said frankly that present pricing policies followed by ESS were "lousy" and that greater care must be exercised to make prices realistic, in line with world markets, and designed to bring greatest possible return. Case cited of one American buyer who assertedly stated to General Marquat that he was prepared to pay 30 percent more for a given product than price at which ESS and/or Board of Trade has sold goods to another American buyer. Latter apparently successful in buying up entire output of product for extended period. In connection with investigations made by officer this Mission regarding Japanese knitted wool gloves and mittens (see our despatches No. 204 dated April 4 and No. 261 dated April 27, 1949), question of pricing not clearly explained by ESS official concerned. Matter being pursued with view to more accurate information being sent to Department.

5. ESS Finance Division to Handle Counterpart Fund. Controversy within ESS apparently settled when General Marquat announced at staff meeting April 25 that Finance Division of ESS had been selected to handle this Headquarters' work in connection with Counterpart Fund, concerning which despatches recently submitted to Department. At previous staff meetings discussions brought out point that several other ESS divisions had hoped to be assigned this work which presumably appears to be proper function of Finance Division.

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

6. New Exchange Rate for Desubsidization. Announcement April 23 of the new 360-1 yen-dollar single exchange rate (concerning which despatch being prepared) discussed briefly at ESS April 25 staff meeting. Mr. F. L. WHITTINGTON, Chief, Price and Distribution Division, stated that Finance Adviser DODGE now desires to have a "desubsidization" program enforced on basis new rate. General Marquat commented to effect that subsidies to industries must not only be eliminated but that program assertedly envisaged by Dodge must be accompanied by exercise greater controls over industries.

7. Foreign Trade Developments. (1) Draft of Trade and Financial Arrangements with French Union (see our despatch No. 77 of February 5, 1949) finally concluded. Contemplate Open Account trade to extent of about $13 million each way. Texts to follow by despatch. (2) ESS telegram to Department of Army regarding German trade now being drafted. Japanese imports calculated at $6 to $11 million, predominantly potash, pig iron, machine parts. No value yet set on Japanese exports, although view here is that they must at least compensate imports. Trade Arrangement to cover year 1 June 1949 to May 31, 1950, and to be financed through ordinary banking instruments rather than Open Account. Dr. Robert SIEBURTH, representative of Assistant Secretary of Army, continues to annoy SCAP officials by inviting queries and offers directly from Japanese. (3) Talks re Belgian Financial arrangement to take place next week, and Finnish trade talks expected to run concurrently. View here is that results of latter may be similar to Swedish agreements, though it is hoped that cumbersome back-to-back letter of credit procedure may be avoided. (4) Re request received from Cairo (Cairo's telegram No. 403 of April 24 relayed by Department), it is not usual practice for SCAP representatives to "conclude" agreements, which require signature of Adjutant-General before being considered final. Mr. Carl CAMPBELL of the SCAP Textile Division, who will be in Cairo early in May, will discuss problems but will not be empowered to finalize agreement for SCAP. Considered unlikely that any roving SCAP official would be so empowered.

8. Attitudes of Trade Negotiators Toward Japanese: Believe it worthwhile to call Department's attention to wide variations in attitude of foreign missions toward Japanese Government as indicated in recent trade negotiations. At one extreme have been French, who have appeared generally tolerant of Boeki Cho's vagaries, and who

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

have set a precedent by allowing representatives of Japanese Government to observe trade negotiations. At other [redacted] British, who have repeatedly denounced "Nipponese affrontery," and who have characterized Boeki Cho's machinations as "intolerable." It may be noted that Dominion representatives are considerably less vocal on the subject than are United Kingdom representatives.

SEBALD

500
CHBoehringer/EGSeidensticker, Jr.:rc

CONFIDENTIAL

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND # 760050

STANDARD FORM NO. 64

Office Memorandum · UNITED STATES GOVERNMENT

DIVISION OF NORTHEAST ASIAN AFFAIRS JUL 11 1949 DEPARTMENT OF STATE
OFFICE OF FAR EASTERN AFFAIRS MAY 6 1949 DIRECTOR DEPARTMENT OF STATE

TO : Mr. W. W. Butterworth - FE

FROM : David K. Eichler - FEC

DATE: May 5, 1949

SUBJECT: Suggested Visit of Mr. Joseph Dodge to the Far Eastern Commission

1. In recent weeks, members of a number of FEC delegations have expressed to me informally the desirability of a visit to the Far Eastern Commission by Mr. Joseph M. Dodge, adviser to General MacArthur on Japan's economic stabilization program. FEC delegations have, I gather, been greatly impressed with Mr. Dodge's forthright public statements while in Japan and feel that he could throw a great deal of valuable light on the present economic situation in Japan and on the outlook for Japanese economic recovery.

2. I understand that Mr. Dodge is on his way back to the United States by boat, and although I do not know when he is expected in Washington I thought I might pass along to you the suggestion that he visit the Commission while in the city. Since the subject of economic stabilization is at present before both the full Commission and Committee No. 2: Economic and Financial Affairs, it would seem quite appropriate for him to appear before either body.

3. In talking with delegates here, I have not intimated that I am aware of Mr. Dodge's imminent return to this country, having merely indicated that if he should return I would be glad to make inquiry concerning the possibility of his visiting the Commission.

845.50/5-549

Dodge Mission

This is probably a good idea. Dodge could give the FEC some pertinent truths and at the same time make them feel they were getting in on things a bit more efficient.

JDA

NH

Please see

[illegible] letter in DE

Mr Dodge [illegible]

[illegible] with the U.S Govt

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

OUTLINE OF MATTERS FOR DISCUSSION WITH MR. DODGE

1. Does the stabilization program suffer from a lack of incentive on the part of the Japanese Government to take initiative in economic matters? Does the Government receive adequate information re aid appropriations, foreign exchange balances, etc., to enable it to act intelligently and forcefully for stabilization and recovery? Is there too much interference by lower echelons of Headquarters? If so, how can this best be ended? Has NSC 13/2 been more widely disseminated since declassification of most of paper?

2. Would an ECA take-over of GARIO and ERCA be practical and desirable? What other organizational changes in the economic field may be desirable?

3. Is production being concentrated increasingly in the most efficient plants? Is deconcentration interfering with recovery? Is the purge interfering with recovery? Should taxes be reduced, coincident with a reduction of subsidies?

4. What are present popular Japanese attitudes toward the stabilization program? Do the bulk of the people feel it is something imposed by the occupation to their disadvantage, or do they perceive long run and fairly immediate benefits to themselves from the program? Do they perceive incentives to make them bend their efforts to its success? Have austerity factors possibly been overemphasized? Is there need for more popular education as to the benefits of the program? What is the unemployment situation?

5. How, in broadest terms, have political alignments been affected by the program?

6. What progress is being made in putting the occupation on a pay-as-you-go reimbursible basis? Could the occupation forces be required to live within a fixed yen appropriation provided in the budget?

7. Should foreign banks be permitted to engage in domestic banking business in Japan under normal Japanese regulations?

8. What action should be taken to wind up claims for compensation of U.S. property holders for damages suffered by their properties during the war?

FE:NA:HAF/db

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

Enclosure No. 1 to Despatch No. 238 dated April 20, 1949 from the United States Political Adviser for Japan, Tokyo, on the subject "Transmitting copies of Memoranda on Japanese Economic Situation Prepared by Economic Stabilization Board".

ANALYSIS OF CURRENT ECONOMIC SITUATION OF JAPAN

January 1949

Economic Stabilization Board.

894.50/4-2049

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

Table of Contents

1. Foreword

2. Signs of economic stabilization

(1) Rise of production level and its causes..

a. General observation of the increased production of mining and manufacturing industries.

b. Causes for production increase.

c. Bumper crop of major agricultural products.

(2) Slowing down of inflation.

a. Indices showing the slowing down.

b. Reasons for the slowing down.

(3) Rise of real wages

a. Movement of wages.

b. Reasons for the rise of real wages.

c. Effect of the rise of real wages.

3. Actual situation underlying the superficial improvement.

(1) Accumulation of import excess.

a. Outline of export and import.

b. True picture of export slump and its causes.

c. Other factors for accumulation of import excess.

(2) Unsound management of enterprise.

a. Real state of unsoundness.

b. Turning point for sound management.

c. Limit of self-supporting management.

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

(3) Deterioration of national land and eating up of national wealth.

a. Cumulative increase of rivers calamities.

b. Exhaustion of forestry.

c. Underreplacement of housing.

d\ Insufficient repairing of transportation and communication facilities.

(4) Privation sustained by the Japanese people.

a. Present standard of living as compared with that in pre-war period.

b. Recent trend.

4. Newly arising problems.

(1) Unbalance between domestic and international price structures.

(2) Emergence of new phase with the progress of economic stabilization.

a. Insufficient purchasing power.

b. Problems of farmers and small and medium enterprisers.

(3) New problems of economic control.

a. Economic control in general.

b. Problems of price control.

(4) New spur for inflation.

a. One-sided wage-rise.

b. Difficulty of achieving a real balance of the national finance.

c. Requirement of funds for rehabilitation.

5. Conclusion.

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

1. Foreword

On 18 December 1948 the State and War Departments of the United States issued a directive to General MacArthur concerning the stabilization program of the Japanese economy, and the Public Relations Office of the General Headquarters, Supreme Commander for the Allied Powers released the following day a letter of General MacArthur addressed to Premier Yoshida based on the directive. The aim of the directive is to cause the Japanese Government to stabilize the Japanese economy in the fiscal, monetary, price, wage and other aspects and to enhance to the maximum the production of export goods. The letter of General MacArthur specifically points out that "there can be no political freedom so long as a people's livelihood is dependent upon the largess of others" and calls for vigorous efforts on the part of the Japanese people.

Three years after the termination of hostilities, the world economy is steadily making progress toward recovery in spite of the underlying basic conflicts. The production level of the majority of European countries, for instance, has come to surpass the pre-war level, and their economy is in a stage in which, freed from the state of emergency when they were pre-occupied with food, coal and transportation, efforts are being made to maintain and develop the economic circulation on the sound currency and credit system.

Under such circumstances of the world economy, the Japanese economy has come to show some signs of stabilization,

E. G.,

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

e. g., relatively steady increase of production, slowing down of inflation, gradual rise of real wages of workers, etc. However, a close observation of the Japanese economy will immediately indicate that there are lots of unsound elements underlying the current economic situation. One and the foremost of them is the trade deficit which runs into $500,000,000 yearly, which means that the signs of economic stabilization are sustained by nothing but this large amount of foreign assistance. On the other hand, the deterioration of the national resources has not ceased in the form of the consumption of the real assets of enterprises and the increased damages from natural disasters. Prompt increase of production and exports, and the stopping of inflation as its prerequisite, is essential and indispensable in order to eliminate those unsound elements. The inherent contradictions of the Japanese economy have, since the termination of the war, been hidden from our eyes on account of the progress of inflation and the isolation from the international economy. Now that the time is coming when a single price system internally and externally applicable be established, bold efforts should be launched upon to find out wherein lie essential problems and to seek for their fundamental solution.

2. Signs of economic stabilization

As stated before, the Japanese economy in 1948 is showing signs of economic stabilization in (1) the steady increase of

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

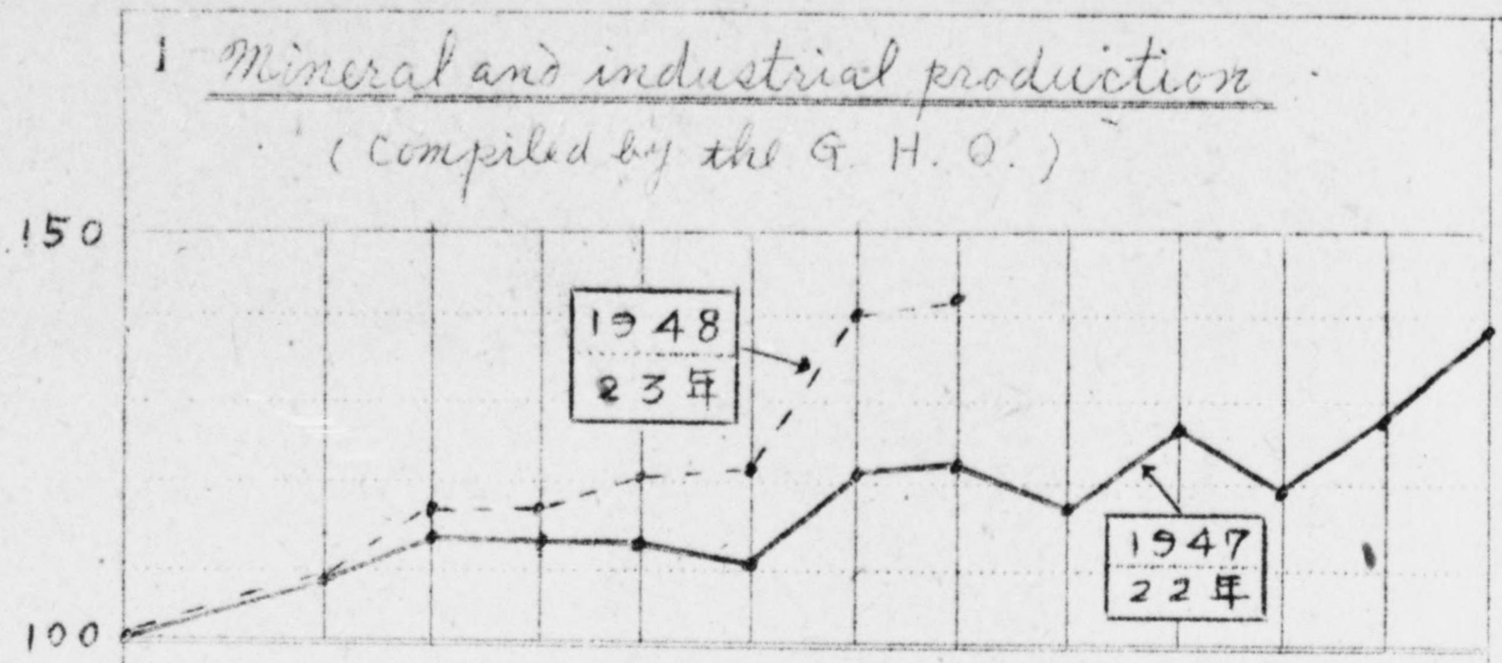
production, (2) the slowing down of inflation, and (3) the rise of real wages.

The following chart shows the trend of these three indices for the years 1947 and 1948, e. g., the production index of the mining and manufacturing industries shows the trend of (1) above, the month-end outstanding issue of Bank of Japan notes and the Tokyo blackmarket consumers' goods price index show the trend of (2), and the national average industrial wages (tax deducted) divided by consumers' price index show the trand of (3). (Average January-March being 100)

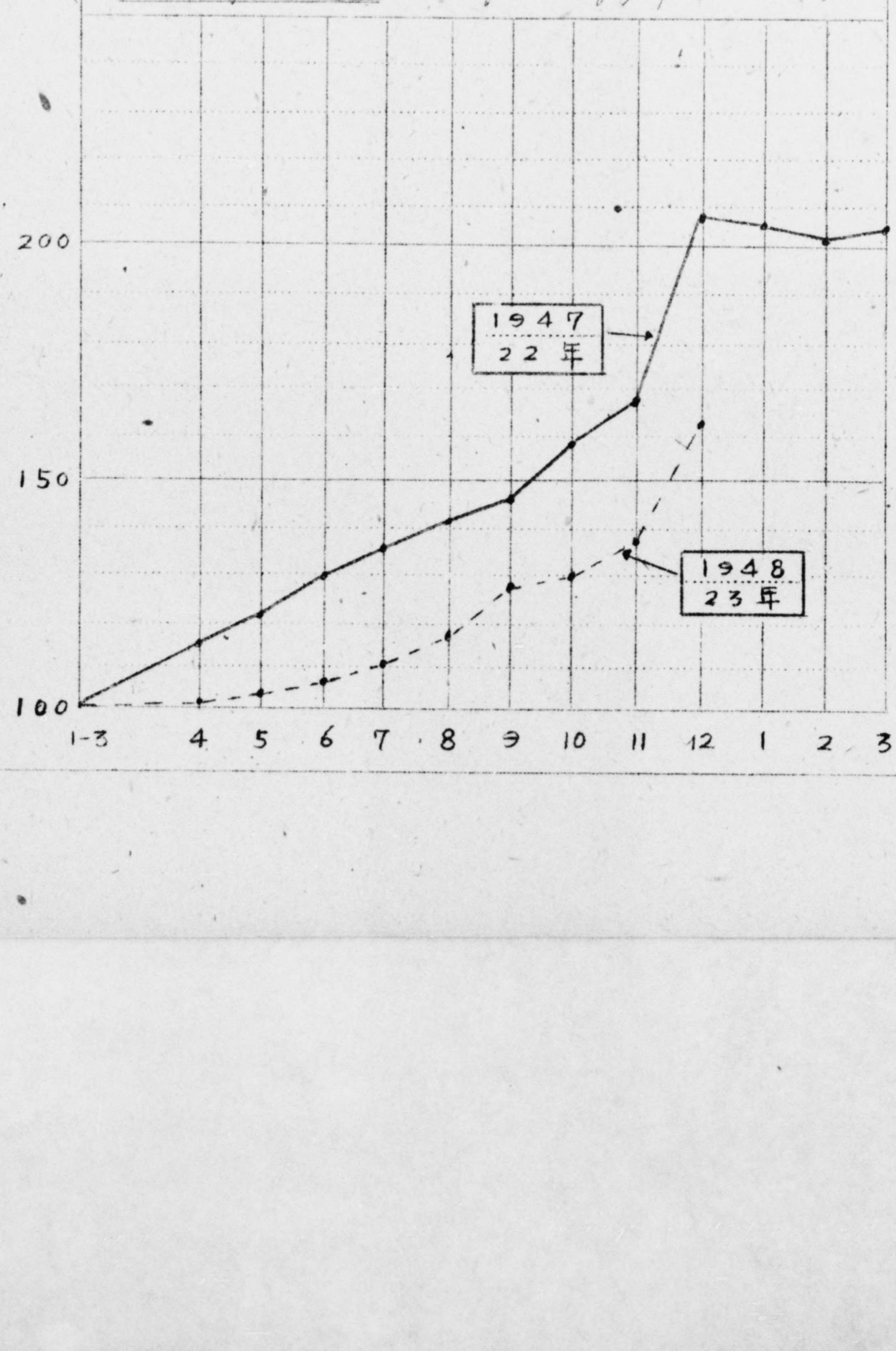
DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

1 Mineral and industrial production

(Compiled by the G. H. Q.)



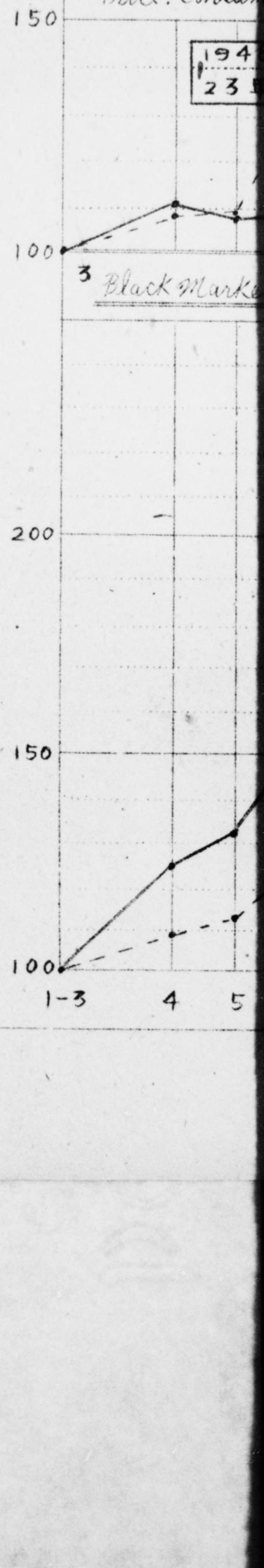
2 Currency: issuance (Issue of Bank of Japan' note)



4 Real Wa

Wage: Monthly

Price: Consum

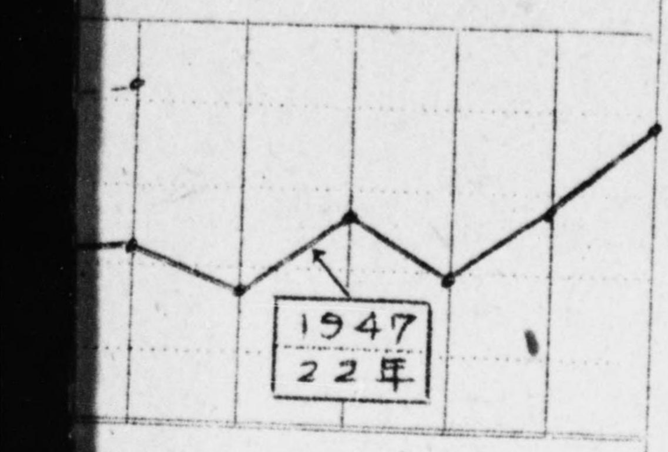


3 Black Marke

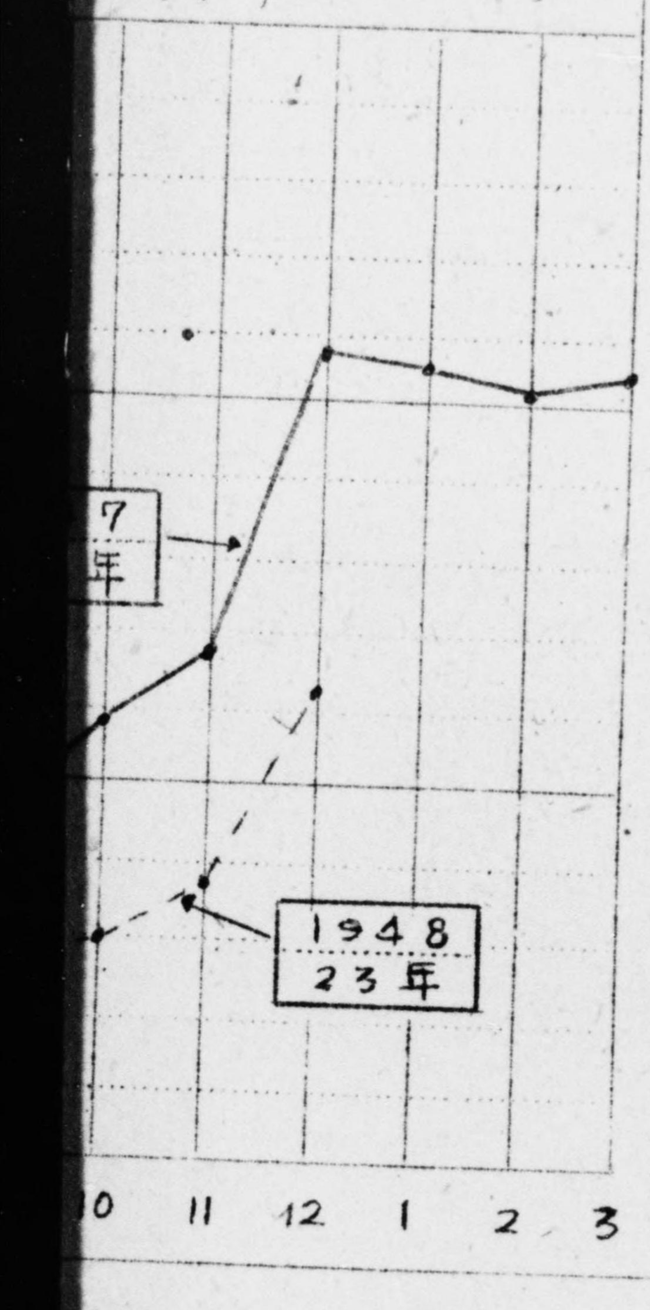
DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

roduction

. Q.)



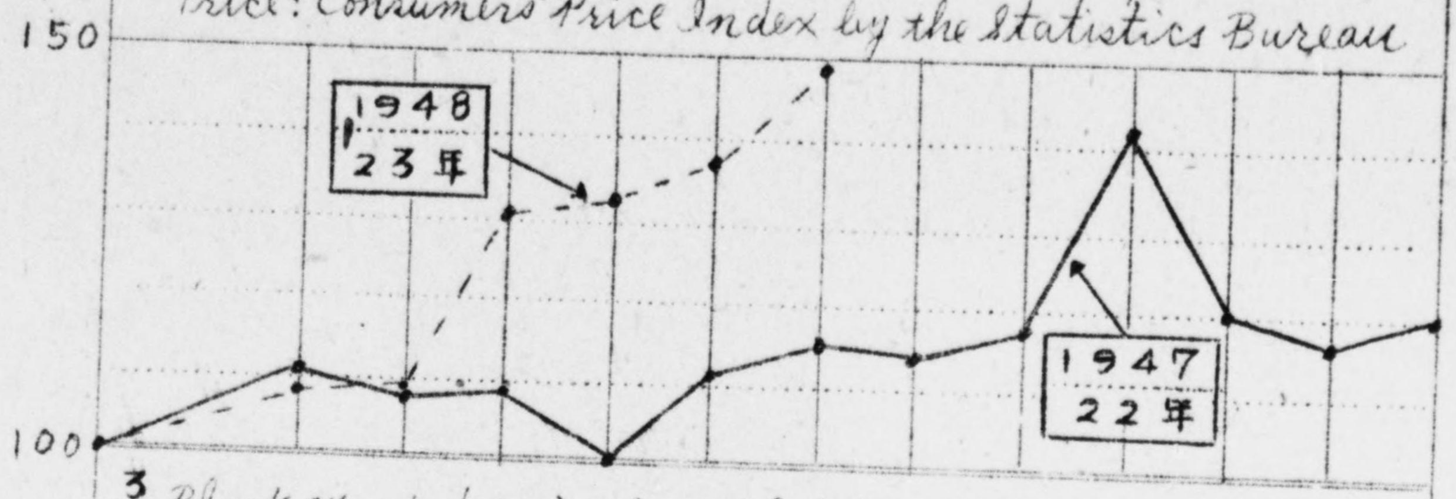
nk of Japan' note)



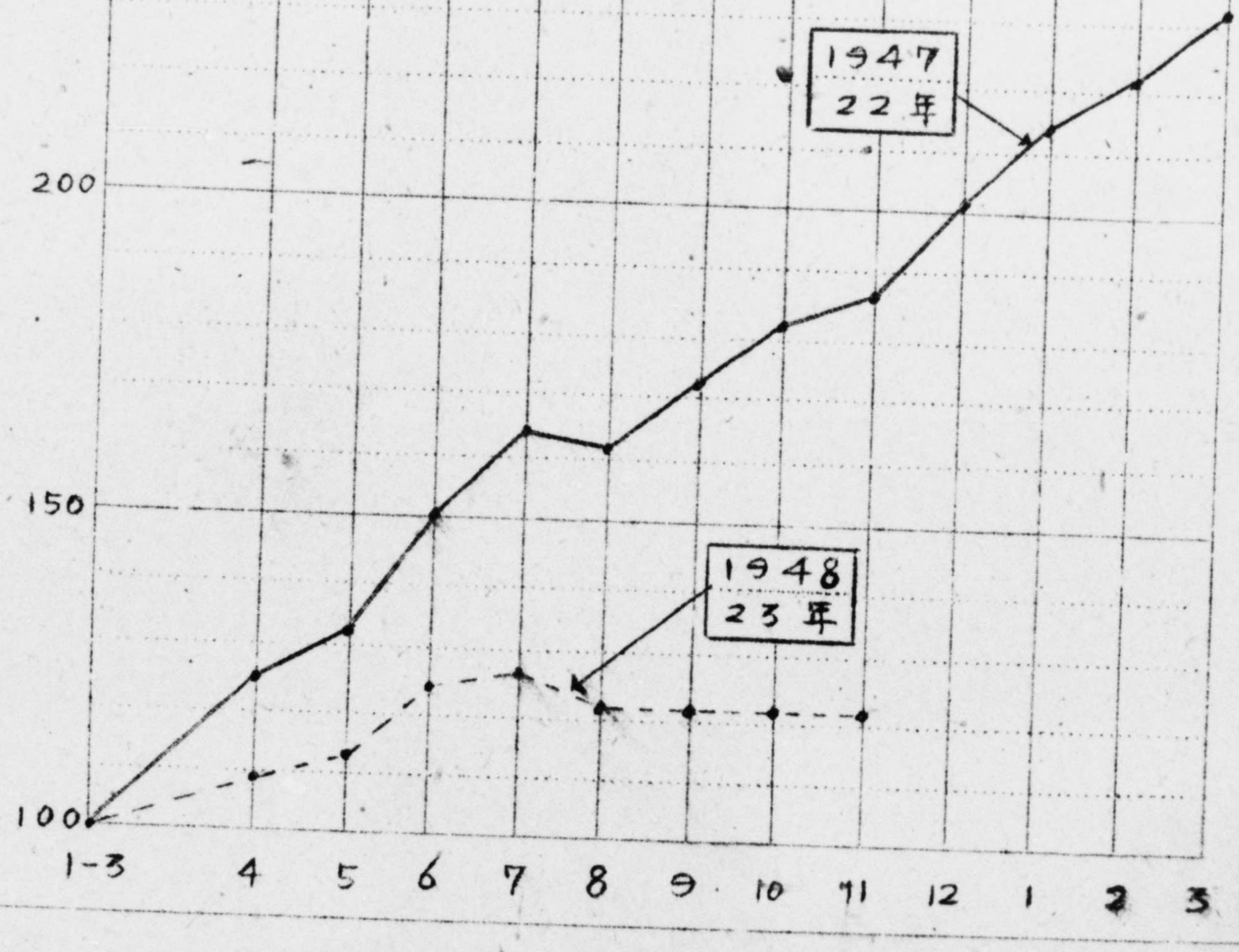
4 Real Wages

wage: Monthly Labor Statistics by the Labor Department

Price: Consumers' Price Index by the Statistics Bureau



3 Black Market price (compiled by the Bank of Japan)



DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

(1) Rise of production level and its causes.

a. General observation on the increased production of mining and manufacturing industries.

The production of the mining and manufacturing industries in recent months shows a steady increase as seen in the following table. There has been no stagnation as experienced in the fall to winter of the preceding year, and the production has reached the level some 30% higher than a year ago.

Production Index of mining and manufacturing industries.

(Monthly average 1930-34 = 100.)

F.Y.	April	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
1947(A)	39.9	42.2	42.3	41.7	41.3	43.1	43.6	41.8	44.6	42.5	45.5	49.3
1948(B)	49.8	51.7	52.9	55.1	55.6	60.6	61.0	61.1				
B/A(%)	125	123	125	132	135	141	140	146				

The comparison of the actual production in the months April to October with that in the corresponding period of the preceding year shows that there was a considerably great increase of production in most branches with only a few exceptions, such as cotton yarn, rayon fabrics, lumber, railway passenger car, etc. The following are the branches which showed large increase.

Railway

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

Railway freight car	4.5 times
Aluminum	2.8
Pig iron.	2.7
Caustic soda.	2.4
Rayon yarn.	2.2
Ordinary finished steel	2.2
Ship.	2.1
Soda ash	1.9
Truck.	1.9
Bicycle	1.8
Pyrites.	1.6
Ordinary paper	1.4
Electvolytic copper	1.4
Zinc	1.4
Cement	1.4
Electric motor.	1.4
Cotton fabrics.	1.3
Carbide.	1.3
Ammonium sulphate	1.3
Raw Silk.	1.2

The rate of increase in the above table may not necessarily reflect the actual state of industry as the production in the preceding year itself was extremely unbalanced and irregular. It is to be noted, however, that the processing of imported materials (iron and steel, soda, etc.) and the production

of

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

of related industry (railway freight car, ship, truck, rayon yarn etc.) are among the branches which showed great increase.

As seen above, the textile industry showed a relatively slow recovery on account of the stalemate of the cotton spinning industry caused by the insufficient import of raw cotton and the lack of purchasing power in the foreign markets, while the metal, chemical, machinery and other industries showed marked increases as seen in the following table.

Industrial Production Index (1930-34 =100)

	Mining.	Textiles	Metal	Machinery	Ceramics	Chemical	Food	Others
Apr.-Sept. 1947(A)	82.5	21.1	37.2	43.5	43.1	47.6	44.2	85.5
" 1948(B)	96.7	23.5	63.7	63.5	58.3	77.6	59.5	101.6
B/A(%)	127	111	171	157	137	163	135	119

As to the textile industry, not only its rate of increase of production low but the production level itself is also low. It makes the general production index low as it occupies 45 in the weight of the 1930-34 general index. If the textile industry is excluded from the general index, the monthly production index is as follows, reaching some 90% of the 1930-34 level in last September.

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

Industrial Production Index Excluding
Textile Industry.
(1930-34 = 100)

	April	May	Jun.	Jul.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
1947(A)	54.0	57.9	58.8	58.3	59.9	63.3	63.9	62.5	67.7	64.4	66.5	72.0
1948(B)	71.8	75.2	78.4	81.3	81.8	89.3	90.6	90.2				
B/A	132	130	134	133	137	141	141	144				

b. Causes for production increase.

(a) Improved supply of fuel and power.

The production of coal and the generation of electricity for the first half of this fiscal year (April -September) were 125% and 104% respectively of those of the corresponding period of the preceding year, and the allocation of coal and electric power to the mining and manufacturing industries was 137% and 108% respectively.

As to the electric power supply, a marked decrease was experienced in the hydro power generation during the summer and autumn seasons in 1947. However, due to the fact that the river-water increased to an exceptional degree during the autumn and winter months last year, the hydro power generation this winter has come up to 135% of the average level. Furthermore, a favorable result in the thermal power generation is being brought about by an increased supply of coal. And the situation has been much improved in the electric power

supply.

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

supply. At the same time, the consumption of electricity has been rationalized thereby causing the rate of production increase to be greater than the rate of electricity supply increase.

	F.Y. 1946(A)	F.Y. 1947(B)	1948(C) (Apr.-Sept.)	B/A	C/B
Production index of mining and manufacturing industries.	35.5	43.1	54.3	121	126
Electricity generation index.	184.0	193.9	215.5	106	111.

(1930-34 = 100)

(b) Increased import of raw materials.

The imports of iron ore and coal and coke which had been practically nil in the last year were 210,000 tons and 610,000 tons respectively in the first half of this fiscal year, resulting in the increase of the iron and steel production.

The same thing is true with the imports of salt for the soda industry. The import of salt in the first half of the last fiscal year was 454,000 tons while it was 527,000 tons in the first half of this fiscal year. The chemical fibre industry and other industries which use soda prospered as a result. The three-fold increase of the aluminum production was caused by the increased import of bauxite. Meanwhile the import of raw cotton in the first half of this fiscal year was 74,000,000 lbs. or 91% of the import in the corresponding period of the preceding year, which was one of the reasons

why

DECLASSiFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

why the cotton industry remained stalemate.

(c) Improvement of transportation.

The goal of the railway transportation for this fiscal year is 130,000,000 tons. The volume of transportation in the first half of this fiscal year was 60,871,000 tons i.e. 95% of the goal and 3% more than the volume of transportation in the corresponding period of the preceding year. The increase was even greater with respect to the maritime transportation. The domestic transportation by steam-boats in the first half of this fiscal year was 6,520,000 tons or 104% of the transportation target and 63% more than that in the preceding year. The increase of marine transportation of coal was especially remarkable, showing an effective shifting of coal transportation from land to sea.

(d) Other causes.

One of the other causes was the decreased demand of the Occupation Forces. In case of coal, for instance, the allocation for the Occupation Forces diminished to 1.6% of the entire supply, in the first half of this fiscal year, compared with 3.2% in the corresponding period of the preceding year. As to cement, the demand was only 13% of the entire supply in the first half of this fiscal year, compared with 68% in the corresponding period of the preceding year.

Further causes which increased the production were the improvement of labor efficieney and stability induced by the improved

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

improved food situation and the rise of real wages as stated below. The effect of the price revision in July is clearly observed in the increased production of, for example, non-ferreous metals and others. The release of stock of materials following the upward price revision no doubt gave favorable effect upon production.

●. Bumper crop of major agricultural products.

The major agricultural production has surpassed the production in the preceding year by 10% due to the favorable weather and the increased supply of fertilizer and agricultural implements. The production increase of wheat and sweet potatoes was especially remarkable. The crops in the three consecutive years of 1946, 1947 and 1948 no doubt contributed a great deal to the recovery of the Japanese economy.

	Unit	1948(A)	1947(B)	A?B
Rice	10,000 koku	6234	5865	106
Wheat	"	1947	1496	122
Sweet potatoes	1,000,000 kan.	1617	1177	136
Potatoes	"	572	584	98
Total	In terms of rice, 10,000 koku.	9054	8128	111

The delivery has been made very satisfactorily. The ratio of delivery to the collection quota at the middle of November was as follows:-

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

	1946	1947	1948
Rice	29%	28	48
Wheat	90	108	102
Sweet potatoes	45	36	75
Potatoes	78	90	107

The rate of delivery of rice and sweet potatoes is almost twice as high as that in the preceding year, and the over-quota delivery is also being made steadily. The reasons are that the delivery price including various incentives approached the level of the blackmarket price, that the pre-planting allocation caused farmers to prepare for delivery, that the blackmarket profit has been reduced due to the improvement of the urban food situation, and that farmers were forced to deliver their products on account of the cash shortage caused by the rise of tax and price.

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

(2) Slowing down of inflation

a. Indices showing the slowing down

The Bank of Japan note issue which did not show increase in the first six-months began to increase after July and reached ¥- 355,300,000,000 by the end of December. The monthly rate of increase, however, is lower than that of the preceding year as shown below, and the increase in a year of 1948 was 62% as compered with 135% of 1947. As to the issuance during each month, normal pattern is gradually reappearing i.e. the issuance decreased in the middle of the month and increased in the latter part of the month.

	Month-end issue of Bank of Japan note	Percentage increase over the preceding month	Percentage increase over the preceding month in the preceding year
April 1948	¥ 220.4 billion	0.8	5.8
May	223.5	1.4	6.0
June	230.6	3.2	5.1
July	241.4	4.7	5.4
August	254.2	5.3	4.8
September	262.1	3.1	3.8
October	279.5	6.6	7.3
November	294.7	5.4	6.2
December	355.3	20.6	23.0

The blackmarket price which had tended to be stagnant since about August 1947 has almost been pegged at the level 60% higher than the 1947 average as to the productive materials and 80% higher as to the consumer's

foods

DECLASSiFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

goods on account of the aforementioned currency situation, increase of production, elimination of delayed or dishonored rationing, reduction of blackmarket margin caused by price revision, etc. While the rate of price rise of productive materials was greater than that of consumer's goods in the preceding year, the rate of price rise of the latter was greater in 1948 as price of staple food and other consumer's goods showed seasonal rise while the price rise of productive materials were less remarkable because of the increase of production, the effect of the price revision, and the difficult financial condition of enterprises.

The official price was raised from June to October by some 90% as to productive materials and some 80% as to consumer's goods. The difference between the official and blackmarket prices was thereby greatly reduced, and in some instances the blackmarket prices became even lower than the official prices..

The effective consumers' price (CPI) which had gradually come to be stagnant since August 1947, keeping pace with the blackmarket price, rose temporarily around July and August due to the revision of the official price, but the rising tempo became slow thereafter due to the increase of the staple food rationing and other circumstances.

	Official price index		Blackmarket price index		Effective price index	
	Bank of Japan; Tokyo-Wholesale	Bank of Japan; Tokyo-Retail	Bank of Japan; Tokyo-Productive materials	Bank of Japan; Tokyo-Consumer's goods	Bank of Japan; Productive materials	Statistics Bureau; CPI (Tokyo)
April 1948	187	210	158	164	158	166
May	189	219	157	173	152	164
June	196	222	158	186	156	187
July	275	277	158	191	222	200
August	331	336	160	183	255	208
September	356	383	162	183	275	209
October	375	409	161	184	292	199
November	404	428	164	185	292	217
December	408	430	165	189	-	225

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

Rate of rise after April	118%*	104*	4*	15*	85**	36*
Rate of rise in the corresponding period of the preceding year	186%	172	81	60	108	106

** till the end of November

* " December

b. Reasons for the slowing down

(a) Effect of the anti-inflation financial measures

The national budget of this fiscal year including the supplementary budget runs as high as ¥ 473,100,000,000 for the General Account revenue and expenditure, and the net amount runs as high as ¥1,018,300,000,000 if the Special Accounts are included. The balance of General account, however, has been improved as compared with that in the preceding year due to the increase of tax collection and the restraint of payment, and the outstanding treasury bill at the end of November was ¥18,000,000,000. In the Special Accounts, the net increase of the bond and long term loan from April to November were ¥22,200,000,000 and ¥4,700,000,000 respectively as compared with the corresponding figures of the preceding year of ¥31,300,000,000 and ¥14,400,000,000. Reflecting such financial situations, the demand for the financial fund for the first half of this fiscal year was not more than ¥47,000,000,000. The industrial finance increased a great deal in the second quarter on account of the increase of working fund resultant from the revision of official price. The financing from private financial institutions together with that from the Reconstruction Finance Bank was increased by ¥180,000,000,000 during the period from April to September. On the other hand, the increase of general deposit which ran only ¥48,900,000,000 in the first quarter went up to ¥106,900,000,000 in the

second

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

second quarter, and showed net increase of ¥145,200,000,000 in the first half of the fiscal year even after deducting the withdrawal prior to July of ¥10,600,000,000 of the First Blocked Account, thereby contributing a great deal to the slowing down of the increase of the currency issuance. The July-September increase of the general deposit is attributed to the fact that the tendency to save was stimulated due to the slowing down of inflation, that the First Blocked Account was released in July and transferred into general deposit, and that the substantial part of loan for the working fund which was increased after the price revision of July was entered temporarily as deposit. As a result, the rate of return of fund was 70% in the period from April to September, which considerably surpasses the corresponding figure of 47% of the preceding year. Moreover, the time deposit proportionately increased even though slowly. The following table shows the monthly balance of the demand and supply of fund. The ratio of financial and industrial funds is 21 to 79, showing the decrease of financial fund as compared with the preceding year.

(In Billions of yen)

	Apr.	May	Jun.	Jul.	Aug.	Sept.	Total	Apr.-Sept. 1947
A. Public Finance	2.1	5.4	2.9	11.1	10.0	16.1	46.9	26.3
National Finance (Expenditures in excess of revenues)	0.3	2.8	0.3	11.0	6.2	12.3	32.3	26.0
Increase of Local Bonds	1.8	2.6	3.2	0.1	3.8	3.1	14.6	0.3
B. Industrial Loans	4.7	13.3	30.5	27.6	52.8	50.9	179.8	60.0
Increase of R.F.B. Loans	4.8	6.1	5.7	5.7	7.4	2.7	32.4	22.8

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

Increase of Loan by General Financial Inst.	7.0	6.3	19.7	23.2	30.4	25.8	115.4	53.2
Increase of other Industrial Loans	x7.1	0.9	5.1	x1.3	15.0	19.4	32.0	x16.0
c. Net Increase of Funds	8.0	16.5	32.6	29.6	48.3	61.2	196.2	49.4
Net Shortage of Funds (A-B-C)	x1.2	2.2	0.8	9.2	14.5	5.1	20.6	36.9
Increase of Issue of Bank of Japan Notes	1.6	3.1	7.1	10.8	12.8	7.9	43.3	40.6

Note: a) In "Net Increase of Funds" are included "Deposits by Public Bodies", "Increase of Unpaid advance for Food Purchase" etc. in addition to the net increase of general deposits.

b) X shows decrease.

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

(b) Increased supply of materials, especially of rations.

The increase of production as stated above increased the supply of productive materials and consumer's goods, thereby contributing to the slowing down of inflation. In particular, the full rationing of staple food in the seasonal deficit period, the 2.7 go rationing after November, the increase of supplementary rationing to the workers, the strengthening of the control of perishable foods, etc. are the contributing factors to the slowing down of inflation.

According to the consumers' price survey (CPS), the percentage of expenditure for rationed foodstuff in the household food expenditure was only 32% in July 1947 when the delay and dishonor of rationing was worst but it rose to 40-45% in 1948. As to the staple food, the percentage rose from 57% in July 1947 to 70% recently.

(c) Increase of the sense of psychological stability.

The shrinkage of blackmarket and the slowing down of price rise have given a sense of stability to the general public. The decrease of the movement of rush for goods, rise of the propensity to save, increased activity of capital market, relative decrease of cash transaction — these contributed to the slowing down of inflation. It is noteworthy that such sound circulation has come to be seen.

(3) Rise of real wages

a. Movement of wages.

The movement of the national average per capita monthly wages of industrial employees as shown in the "Monthly Labour Statistics" of the Ministry of Labour is as follows.

	1947 average	Jan.-Mar. 1948	June	Oct.	Nov.
Wages of industrial employees (A)	1,819 yen	3,050	4,395	6,574	6,921
(A')	100	168	242	361	381

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

Consumers' effective price (all cities) (B)	100	158	180	213	227
Real wages (A'/B)	100	104	137	176	171

Note: A' is the index of A tax deducted.

while the average nominal wages increased from ¥1,819 in 1947 to ¥6,921 or 3.8 times as high by November 1948, the price level went up during the same period only 2.1 times so that the real wages went up by 70%.

It is to be noted, however, that "Monthly Labour Statistics" is based on the research mainly on large enterprises (all plants with more than 100 employees and 10% of plants with not less than 30 nor more than 99 employees) and that the movement of wages in the smaller enterprises is not represented therein. The real wages above-mentioned denote those mainly in large enterprises.

b. Reasons for the rise of real wages.

The fact that the nominal wages rose more than the price level did is examined in details below.

(a) Trend of wages

The wages rose 3.2 times during the half a year period immediately after the war. Since then the rate of rise has steadily been 8 to 9% every month (1.6 times in half a year; 2.8 times in a year) regardless of the pace of price rise. When the rise of price level surpassed that of nominal wages the real wages went down, and vice versa.

(b) Demand of household budget

The remarkable rise of nominal wages was due to the fact that the real wages in the immediate post-war period was as low as 10% of the

pre-war

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 760050

pre-war level and there has been very strong demand from the household economy for the wage rise. While the curve of price rise was sharp, however, the rise of wages necessarily lagged behind the price rise. As the tempo of price rise gradually slowed down, the real wages gradually increased, especially after August 1947. The tempo of the rise of real wages has recently been remarkable.

(c) Changes in income distribution

The slowing down of inflation reduced the inflation income in favor of the earned income. This is one of the important reasons why the price level remained stagnant in spite of the rise of nominal wages. The household budget of the working class showed some 30% improvement in the last one year while the level of consumption of the urban ordinary household in CPS remained practically unchanged. It is to be noted also that the decrease in income of the rural population contributed to the improvement of the real wages of the urban workers. As stated below, the widening difference of wages in the large enterprises and those in the medium and small enterprises served to raise the real wages as seen in the "Monthly Labour Statistics".

(d) Capacity of enterprises to pay wages

The changes of wages as seen from the accounting of enterprise are as follows.

	1947 average	Jan.-Mar. 1948	Apr.-Jun. 1948	Jul.-Sept. 1948	Oct. 1948
Average per capita wages (A)	100	168	217	299	361
Volume of employment (B)	100	100	101	104	106
Volume of production (C)	100	129	169	221	213
Wages per unit of products (AE/C)	100	130	130	141	177