

Tokyo's Despatch No. 690,
October 4, 1949.

- 4 -

- 1/ In this connection, it is believed that the Department will find of interest the enclosed copy of a memorandum entitled Report on Economic Stabilization Program, dated August 29, 1949, and prepared under the direction of Dr. Fine by the ESS Programs and Statistics Division. As indicated, this report was prepared for presentation to Under Secretary of the Army Tracy S. VOORHEES, who visited Japan several weeks ago. The concluding paragraph, given below, contains a summary of the statements made in this report:

"It is apparent, then, that the stabilization measures and the Dodge Mission recommendations have been successful in stabilizing the economy and providing a more sound structure from which a self-supporting economy may be built, though inflationary elements are by no means eliminated. Continued adherence along these lines will facilitate the necessary rationalization of industry and create favorable internal conditions for expansion of exports and achievement of a balanced economy. Vigilant surveillance must be continued to anticipate any changed conditions that might contribute to renewed inflationary tendencies."

- 2/ As of possible additional interest, there is also enclosed a copy of a memorandum dated August 15, 1949, prepared in ESS on the subject "Progress Report on Program to Achieve Economic Stabilization." This memorandum was originally drawn up for reference to ESS division chiefs, who were directed to submit to the ESS Executive Office any proposed additions, amendments or corrections, with the end view of preparing a final document for presentation to Under Secretary Voorhees. Although the ESS Executive Office finally decided not to submit to Mr. Voorhees a memorandum of this type, the decision being made to prepare instead the above cited Report on Economic Stabilization Program, it is thought that the Department will find the memorandum of some interest, especially since it supplements previous progress reports, copies of which were transmitted as enclosures to this Mission's despatch no. 245 dated April 21, 1949, entitled "Implementation of the Nine Point Economic Stabilization Program in Japan."

Japanese officials, in private conversation with officers of this Mission, have generally expressed satisfaction with the progress made under the economic stabilization program. For instance, Finance Minister Hayato IKEDA, with whom I discussed the program recently, stated frankly that it was being carried out successfully but that implementation thereof had given rise to a serious currency shortage, a matter of considerable concern in Japanese financial and business circles. Minister Ikeda, however, expressed the opinion that increased allocation of counterpart aid funds would provide welcome relief by increasing circulation of currency notes and thereby stimulate economic activity generally. He added that, from the Japanese side, it would prove helpful if ESS were to permit the Japanese to play a greater part in reaching decisions with respect to the use of these funds.

Questioned with respect to the Yoshida Cabinet's attitude toward the economic stabilization program, Mr. Atsushi UYAMA, Chief, Economic

Affairs

CONFIDENTIAL

Tokyo's Despatch No. 690,
October 4, 1949.

- 5 -

Affairs Section of the Political Affairs Bureau, Ministry of Foreign Affairs, recently stated to the Economic Counselor that Premier Shigeru YOSHIDA had directed various ministries to give full support to plans for implementation of that program. Mr. Uyama, who said that he had read copies of various directives sent by the Premier to his ministry, said that the only official opposition to the program that he was aware of was generated almost entirely by certain individuals in the Economic Stabilization Board. He said that these officials were disgruntled because Premier Yoshida had not been satisfied with their ideas of economic planning which, Mr. Uyama said, at times had been diametrically opposed to provisions of the economic stabilization program and the Dodge recommendations. Mr. Uyama volunteered the information that the majority of Japanese Government officials were sympathetic with the objectives of the stabilization program, and were giving their support toward its implementation.

It is not the intention of this Mission to minimize Japanese opposition to the stabilization program. Opposition does exist, and has been expressed in the past by special interests, by various political parties intent upon ousting the present Yoshida administration, and by malcontents who dislike the trend toward increasing austerity which has been set up by implementation of that program. On balance, however, this opposition appears now to be less vocal and virulent than was the case several months ago. With this change in popular attitude there has come a greater appreciation of the work of the Occupation in attempting to make Japan a self-supporting nation, an appreciation that appears to be the result of sober realization that American aid is bound to decrease and that Japan must take urgent and drastic steps to put its economic house in order as soon as possible.

In closing, it should be stated, as my considered opinion, that the economic stabilization program has been and is being successfully carried out, that General Headquarters, by following this program consistently has raised the prestige of the Occupation, and that the majority of Japanese are willing to concede that Japan's economic position is sounder now than it was before the program was put into effect.

Respectfully yours,

W. J. Sebald
W. J. Sebald

Enclosures: *att 4*

- 1/ ✓ Copy of memorandum dated August 29, 1949, entitled Report on Economic Stabilization Program;
- 2/ ✓ Copy of memorandum dated August 15, 1949, on subject "Progress Report on Program to Achieve Economic Stabilization."

Parchment sent to the Department.
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CONFIDENTIAL

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Enclosure No. 1 to Despatch No. 690,
October 4, 1949, from the Office of the
U. S. Political Adviser for Japan, Tokyo,
on the subject "Comments on Status of
Nine Point Economic Stabilization Pro-
gram in Japan".

(COPY)

GENERAL HEADQUARTERS
SUPREME COMMANDER FOR THE ALLIED POWERS
ECONOMIC AND SCIENTIFIC SECTION

REPORT ON ECONOMIC STABILIZATION PROGRAM

(Prepared for The Honorable Tracy S. Voorhees, Under Secretary,
Department of the Army, by the Programs and Statistics Divi-
sion, Economic and Scientific Section.)

29 August 1949.

In the last several months the post-war inflation in Japan has been substantially halted. Supplies of many basic commodities which had previously been critical have achieved an approximately balanced position with apparent surpluses existing in certain areas. The rising cycle of wages and prices came to a halt and selective declines occurred. A reversal of governmental fiscal policy and improved tax collections tightened the previous easy money supply and put pressure on industry to rationalize its operations. Currency issue has declined 20% from its post-war high. The volume of export trade has been well sustained but has not been increased sufficiently to take up the slack created by reduced domestic demand in many lines. Future prospects for trade expansion are encouraging though somewhat clouded by currency difficulties and increased competition in world markets.

Despite the apparent disinflationary nature of the above-mentioned factors, the basic conditions for inflation have not been entirely eliminated in Japan. The domestic supply of food, clothing and other necessities are still below that required for minimum living standards and without adequate price and distribution controls lower income groups would be deprived of their minimum requirements of goods and services.

The establishment of the three principles for the stabilization of prices and wages, (no additional subsidies, no deficit financing to finance wage increases, and no price increases) last November was the first step in stabilizing wage and price trends. Japanese employers were no longer in a position to readily accede to demands for wage increases with the expectation of relief from the government in the form of increased prices, subsidies or loans. Coupled with the concurrent improvement in the supply and distribution of food and other basic commodities, a resultant leveling off of the effective consumer price level and lessened real pressure for wage increases, the upward spiral of wages and prices was broken and a period of relative stability ensued.

Subsequently, the implementation of the nine-point stabilization directive issued in December 1948, the work of the Dodge Mission in

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RESTRICTED

Enclosure No. 1 to
Tokyo's Despatch No. 690,
October 4, 1949.

- 2 -

the spring of 1949 and a strengthened tax collection program resulted in a balanced governmental budget, reduced government expenditures and a siphoning off of excess money thereby completely changing the financial atmosphere of the economy.

Currently, the economic situation is characterized by stability in wage trends accompanied by only moderate increases in effective consumer prices. The average monthly wage for employees in manufacturing industries was ¥ 8,363 in June, only 4 percent greater than the January average. For employees in mining industries, the June average wage, ¥ 8,599, showed practically no change from the beginning of the year figure. This stable wage picture reflects stabilization in living costs, and increased opposition on the part of employers to wage increases supported by inability of both government and industry to resort to various deficit finance measures. In addition, the pressures on industry to rationalize its costs also acts to prevent widespread wage increases. A continuation of the present general wage level may be expected as long as general price stabilization measures are effective and workers are not confronted with increased living costs.

The effective price index for urban consumers has risen at an average monthly rate of one and one-half percent since the beginning of the year. Most of this moderate increase was planned as part of the austerity program to siphon off excess purchasing power. Staple food prices were increased in April by 13 percent in order to balance the food account in the new budget. Other price actions during this period resulted from the elimination of subsidies and the general price level established during the summer and fall of 1948 still remains substantially in effect. A continuation of stabilized consumer prices during coming months depends in great measure on problems currently under discussion both in the Headquarters and in Japanese Government circles. Most important of these are establishment prior to 1 November of the price for this year's rice crop, repercussions of subsidy removals and pressures for elimination of price controls on various commodities. With regard to the rice price, continuation of the application of the parity method of pricing indicates an increase over last year's price of less than 15 percent, part of which might be absorbed in the margin currently existent between producer and consumer prices. Strong political pressure is being exerted, however, for a substantially greater increase, repercussions of which might well upset the entire stabilization program.

Current programs for elimination or reduction of price subsidies are centered on coal subsidies to special industries and steel which do not exert a direct effect on living costs in Japan. The principal subsidy areas requiring continuing attention from the consumer standpoint are those effecting imported staple foods and fertilizers.

Important price decontrol actions effecting consumers have been the removal of official prices for fresh vegetables, firewood, and silk. Each of these commodities was handled by government distribution with the resulting inflexibility in price when supplies appear to approximate demand. Price controls were removed when government purchasing and distribution of these commodities was terminated. The

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RESTRICTED

Enclosure No. 1 to
Tokyo's Despatch No. 690,
October 4, 1949.

- 3 -

vegetable prices rose immediately upon decontrol but subsequently levelled off at slightly higher than pre-decontrol prices. The test of firewood decontrol will be during the coming winter season, although it is expected that consumer prices for firewood will not rise above pre-decontrol prices and distribution should be improved.

As of 16 September all coal and coke prices, distribution and allocation controls will be terminated. This action is by far the most important decontrol action taken in Japan. Heretofore, the government distribution agency, subject to a balanced budget limitation, could not adjust prices to stimulate demand. Production of coal in this fiscal year has improved, while manufacturers have suffered from decreased domestic and export sales. The removal of coal controls will eliminate government handling, remove limitations on uses to which coal may be put, and should result in more balanced production and consumption.

Price controls will be eliminated from copper, lead, and zinc. In addition to these major decontrol actions, thousands of miscellaneous producers' and consumers' goods have been decontrolled. This action it is estimated will have no appreciable effect on either the cost of production or the cost of living and should facilitate the strengthening of continuing controls on those commodities remaining in short supply.

The impact of subsidy removal on industrial operations, however, will continue to be severe. Current plans contemplate a fifty percent increase in the consumer price of steel as the first step in removal of subsidies from iron and steel costs. Assuming no improvement in efficiency total desubsidization would result in a tripling of consumer steel prices. The actual price results will depend on the ability of the steel industry and steel processors and manufacturers to absorb increased costs through rationalization of operations. Similarly, removal of or reduction in subsidies from coal, soda, and other basic materials will tend to raise manufacturing costs throughout industry. Japanese industry, particularly metal fabrication, is being placed under severe pressure to reduce manufacturing costs as the result of removal of subsidies from raw material costs. At present rates of production little margin exists in end product prices to compensate for increased raw material costs. Substantial increases in end product prices will result in sharp curtailment of domestic demand and also price many items out of the world market.

In evaluating the effect of the nine-point stabilization program in Japan, consideration must be given to the statement frequently made that the program has caused or will cause large-scale unemployment.

The number of totally unemployed persons in Japan for the week beginning 11 June 1949 was 360,000. In addition, about 90,000 government employees were discharged in July and August 1949 and private industry lay-offs were sporadic. Even if no person discharged in July or August obtained another job, the total number of unemployed would probably not increase beyond half a million by the end of August 1949. It may therefore be said that total unemployment is not serious at the present time, and that no foreseeable developments are likely to increase it to a point where it constitutes a critical problem.

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RESTRICTED

Enclosure No. 1 to
Tokyo's Despatch No. 69C,
October 4, 1949.

- 4 -

It should be emphasized, however, that reliance on figures for unemployment as an indicator of economic conditions is not as appropriate in Japan as in the United States. In the United States, the great majority of workers are paid employees in non-agricultural industries, and in times of recession or depression in the United States, persons who are discharged from such employment rapidly create a substantial pool of unemployed.

In Japan, on the other hand, small proprietors and unpaid family workers constitute the majority of employed persons, and a recession or depression does not lead to a decline in the number of employed persons of this type. In fact, under such conditions the number tends to increase, for the following reasons: (1) Economic pressure upon family income leads to substantial re-entries into the labor force of persons who previously withdrew. (2) The wide variety of small scale family enterprises to be found in almost any community in Japan provides opportunities for marginal employment of some kind, if only for a brief period, for a family member who has been discharged from a job as paid employee in some other enterprise. (3) Paid workers in non-agricultural industries who lose their jobs may in many cases establish themselves as small independent entrepreneurs.

Japan's foreign trade picture during the first half of 1949 has developed at a better rate than programmed. Exports for the six months totalled \$266.7 million and imports \$471.2 million. Necessary imports of food and of critical raw materials have been available in sufficient quantities and at competitive prices only from dollar areas and have been balanced only in part by exports of textiles and other manufactured goods, largely to sterling and soft currency areas. The dollar problem has accordingly been more critical than the gross data reveal and stresses the importance of two divergent factors in foreign trade. One has been the necessity to purchase from the United States the raw materials that would lead to exports to rebuild Japanese financial self-sufficiency; the other has been the negotiation of trade agreements with countries outside the dollar area to maximize overall trade and to stimulate the flow of raw materials to Japan to be paid for in sterling or under open account with soft currency countries.

The effect of the single exchange rate of 360 Yen to one dollar established on 27 April 1949 has been far happier than generally anticipated. Careful analysis of trends in groups of commodities arranged according to the various exchange ratios previously in effect leads to the definite conclusion that the new exchange rate has produced the desired effects both with respect to reinforcing the stabilization effort and forcing rationalization. The slump in new contracts following the setting of the rate hit low-ratio commodities in most cases to the same degree as those with high ratios. Just prior to the setting of the rate, forward buying reached peaks entirely out of reason with relation to the consistent upward recovery trend. Since such purchases could not be maintained many items took serious drops.

It should be noted that through July actual exports demonstrated none of the panic spread among Japanese government sources. All-time post-war highs have been made.

Of

RESTRICTED

Enclosure No. 1 to
Tokyo's Despatch No. 690,
October 4, 1949.

- 5 -

Of much greater concern have been the world-wide decline and return to a buyers' market in many commodities together with the unbalance in sterling area trade. Pending the negotiation of a new sterling area trade agreement, sterling purchases have been cut back sharply. This has been reflected in the total of new contracts negotiated in the late spring and summer. The first affect in reduced actual exports may be felt in August and September. Telegraphic advanced returns for the first twenty days of August appear to reflect a dip. But the chance scheduling of even one or two export vessels may so effect the totals reported that positive conclusions must await further reports.

By now it is fairly generally recognized that Japan's foreign trade prospects have been and will continue to be linked in large measure with the political and economic fate of East Asia as a whole. There will continue to remain a trade deficit so long as large amounts must be purchased at distant points instead of from nearby sources. The resulting high costs can only mean difficulty in competition in world markets. At the same time the loss of Manchuria and China as natural markets for Japan have limited recovery prospects in the same serious way as the decline of the world raw silk market has created an unfilled void. Some other foreign markets have not particularly welcomed Japanese goods, owing to the animosities growing out of a bitter war.

To date, a limited trade with North China has begun through Hong Kong but it is very precarious with the Nationalist blockade, the unknown temper of the new Communist overlords and the havoc caused by war.

The impact of the nine-point stabilization program and the Dodge Mission recommendations have been profound and far-reaching on the financial situation in Japan. Declines in the note issue outstanding, a balanced governmental budget and improved tax collections are evidence of a radically changed situation.

The success of the entire stabilization program depends in large measure on the ability of the Japanese Government to stay within the limits established by its 1949-50 budget. Although the fiscal year is still young, performance thus far has been good in terms of budget objectives.

Principal factors contributing to the improved budgetary situation are: (1) Adoption of quarterly budget allocations and reporting of obligations incurred has forced observance of 1949-50 budget limitations. For the first time in Japanese history, the Government has been obliged to keep its records on a commitment basis. This regulation applies not only to the government proper but also to government enterprises, Kodans, and Reconstruction Finance Bank. While the obligations system is not yet perfect, it is performing exceedingly well. If the allocations and obligations system continues to function during the rest of the year as well as it has in the first quarter, there should be no carry-over of unpaid obligations as has occurred in previous years.

(2) A surplus at least as great as that budgeted seems likely. It is not only likely that a ¥ 110 billion surplus will be realized but that even greater balances may result.

RESTRICTED

(3) Debt

Enclosure No. 1 to
Tokyo's Despatch No. 690,
October 4, 1949.

- 6 -

(3) Debt retirement will proceed as scheduled in the budget. This program is not reflected in current debt figures since retirements are to become effective in the third and fourth quarters -- the periods of highest revenue receipts.

(4) There should be no supplemental budget this year. This is in marked contrast to 1948-49 with its four supplemental budgets and 1947-48 with its twenty supplemental budgets. This does not imply that the budgetary procedure has been so perfect this year that some adjustment will not be necessary. Such adjustments will, however, be handled within the 1950-51 budget in the course of its presentation to the Diet in December of this year.

(5) Estimated subsidies can be met by budget quotas. Although import subsidies will be greater than budgeted estimates, primarily because of early shipments of U.S. wheat (normally scheduled to arrive in Japan during fiscal year 1950), this increase will be more than offset by a decrease in subsidies for indigenous goods.

(6) Kodans (government controlled producing, purchasing and distributing organizations) for the first time are subject to financial regulation and planning. Incorporation of the Kodans into the budget has contributed significantly to stabilization. For the first time they have had to gauge their borrowings to a pre-conceived plan; they now are required to regulate their cash position to budgetary-imposed limitations. Such restrictions have avoided many activities that might otherwise have found their way into governmental activities. Such restrictions have also made it possible to avoid actions which were certain to create deficits.

(7) The potentialities of the Counterpart Fund as a stabilizing element are great. There are currently about ¥ 21 billions in cash in the Counterpart Fund; this does not yet reflect deposits for any imports received since 30 May. About ¥ 7 billions of the Counterpart Fund have already been released to the Railways and Communications Accounts and a second release of ¥ 5.7 billions is scheduled for an early date. The potentiality of the Fund is further evidenced by the fact that ¥ 25 billions are being set aside as a reserve for direct counter-deflationary measures should the situation change sufficiently to require these funds.

(8) Local governments have not exceeded their allotment for borrowing. Local governments were permitted by the budget a net increase in a long-term debt of ¥ 18 billions. Their net long and short-term borrowings from the Deposit Bureau (their prime source of credit) amounted to only ¥ 3.2 billions for the period April 1 - July 31 compared with a budgeted net amount of ¥ 6.0 billions and an increase during the same period last year of ¥ 7.7 billions.

(9) Treasury funds are being managed so as to stimulate commercial lending. The government, encouraged by SCAP, and implemented by action on the part of the Bank of Japan is following a policy of shifting lending functions from the government to the banks. Some of the moves notable in this connection are:

- (a) Reduction in interest rates.
- (b) Augmenting the portion of Treasury deposits known as "designated deposits."
- (c) Distribution of treasury balances among commercial banks.
- (d) Picking up by the Bank of Japan before maturity dates of bank-held RFB debentures.

Tax

RESTRICTED

Enclosure No. 1 to
Tokyo's Despatch No. 690,
October 4, 1949.

- 7 -

Tax collections are favorable in relation to estimates. During the first four months of fiscal year 1949-50, collections amounted to 22.3 percent of budget tax receipts as compared with 16.6 and 14.1 percent in the two preceding years. The favorable showing this year results largely from an intensified enforcement program including prosecution of a substantial number of tax evasion cases.

The amount of note issue outstanding on 29 August, ¥ 296 billion, had declined by ¥ 72 billion from the December 1948 peak. While some of this decline resulted from the concentration of tax collections in the beginning months of the year, the overall trend reflects the reversal of inflationary factors previously dominant.

Generally speaking, industrial production in Japan has reached adequate levels to support the current volume of export sales and to meet the demands which the domestic economy can afford. The physical volume of output is no longer the major bottleneck in the general economic recovery program. Major emphasis is currently directed toward more efficient operation and reduction of costs, improvement of quality standards, particularly for export products, and intensified efforts toward expansion of export sales.

The overall level of industrial production has shown only moderate gains since the beginning of the year and has tended to level off in recent months. Certain of the durable goods industries such as rolling stock and communication equipment have been largely dependent on government purchases and were hard hit by the reduction in government expenditures under the new budget. Such industries must look to export sales as a means of regaining their previous level of output.

The textiles industries are depressed relative to the general average and have enjoyed only minor increases. This situation can be expected to continue for the foreseeable future without significant improvement. Increased competition in world markets, currency difficulties, and large stockpiles of finished goods are some of the factors hindering expansion of Japan's textile activity.

It is apparent, then, that the stabilization measures and the Dodge Mission recommendations have been successful in stabilizing the economy and providing a more sound structure from which a self-supporting economy may be built, though inflationary elements are by no means eliminated. Continued adherence along those lines will facilitate the necessary reorganization of industry and create favorable internal conditions for expansion of exports and achievement of a balanced economy. Vigilant surveillance must be continued to anticipate any changed conditions that might contribute to renewed inflationary tendencies.

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Enclosure No. 2 to Despatch No. 690,
October 4, 1949, from the Office of the
U. S. Political Adviser for Japan, Tokyo,
on the subject "Comments on Status of
Nine Point Economic Stabilization Pro-
gram in Japan".

(COPY)

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

15 August 1949

MEMORANDUM

SUBJECT: Progress Report on Program to Achieve Economic
Stabilization

1. TO 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 REVENUE MEASURES AS MAY BE NECESSARY AND APPROPRIATE.

All attempts to increase the reduced expenditure programs included in the 1949-50 budget have been successfully withstood.

In the budget for JFY 1949, there is provision for price subsidies totalling ¥183.5 billion, exclusive of carry-over.

The subsequent deletion and addition of particular items to the subsidy list have on balance saved an estimated ¥9.5 billion.

2. TO ACCELERATE AND STRENGTHEN THE PROGRAM OF TAX COLLECTION AND INSURE PROMPT, WIDESPREAD AND VIGOROUS CRIMINAL PROSECUTION OF TAX EVADERS.

The National Tax Inspectors organized in August, 1948, now have 290 active employees. During the first six months of 1949, indictments were made on 105 direct tax evasion cases. During the same period in 1948 the number of cases referred to the procurators was negligible. Three prison sentences have been upheld by the high courts, and appeals are pending in the Supreme Court. The activities of this group contributed greatly to the 30 billion surplus revenues recorded in the fiscal year 1948-1949.

3. TO ASSURE THAT CREDIT EXTENSION IS VIGOROUSLY LIMITED TO THOSE PROJECTS CONTRIBUTING TO ECONOMIC RECOVERY OF JAPAN.

To assure rigorous limitation of credit extension the Policy Board has been established in the Bank of Japan. One of the purposes of this Board is to formulate credit policies for the Central Bank in order to harmonize the interests of all government agencies and the banking system to serve the best interest of the national economy.

Since 1 April 1949, no new loans have been made by the Reconversion Finance Bank, the funds being employed to meet RFB guaranteed obligations of commercial banks, and the retirement of RFB debentures falling due.

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RESTRICTED

Enclosure No. 2 to
Tokyo's Despatch No. 690,
October 4, 1949.

- 2 -

The sale of Zaibatsu securities and capital stock, and sale from required divestitures under the Anti-Monopoly Law, totalling over ¥40 billion, have been an important factor in the stabilization program as it increases productive facilities and decreases bank credit expansion.

4. TO ESTABLISH AN EFFECTIVE PROGRAM TO ACHIEVE WAGE STABILITY.

In the past six months, strict adherence to the "three principles" of no price increases, no deficit financing and no government subsidies for wage increases has proved effective in stabilizing wages and has demonstrated that direct wage controls are not necessary in Japan. Strict adherence to these principles has brought a more realistic approach into labor relations. Labor and management have recognized that wage issues are to be resolved within the framework of ability to pay and relative bargaining strength.

A prime example of stabilization occurred in the agreement signed without resort to dispute tactics or third party conciliation on 4 July 1949 between the All-Japan Seamen's Union and the Japan Ship-owners Association.

5. TO STRENGTHEN AND, IF NECESSARY, EXPAND THE COVERAGE OF EXISTING PRICE CONTROL PROGRAMS.

An important phase of the pricing policy designed to assist the stabilization program has been through removing price controls from commodities which are in balanced supply and effect a transfer of administrative effort to more critical elements of the price structure. Favorable supply situations relative to demand have developed primarily in the hard goods fields, such as machinery, electrical equipment and pots and pans. In soft goods and foods supplies have generally remained relatively short, with the notable exception of silk which was decontrolled in April.

The ¥40,000,000,000 realized from the sale of Zaibatsu securities and capital stocks and sale of new securities through reorganization of 4,573 major corporations, has contributed to siphoning off purchasing power and reducing pressure upon consumer prices.

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.

On 25 May 1949 the Ministry of Commerce was reorganized to integrate trade control with industrial control.

A directive was issued 24 June 1949 authorizing the Japanese Government to permit exporters to retain varying percentages, depending upon the product, of the foreign exchange proceeds of their export transactions. Such foreign exchange will then be available for foreign travel, sales promotion, etc. incidental to increasing export sales.

7. TO IMPROVE THE EFFECTIVENESS OF THE PRESENT ALLOCATION AND RATIONING SYSTEM, PARTICULARLY TO THE END OF MAXIMIZING EXPORTS.

On 21 April 1949, the Japanese were instructed not to permit allocations of critical materials to export manufacturers, or the use of

previously

Enclosure No. 2 to
Tokyo's Despatch No. 690,
October 4, 1949.

- 3 -

previously allocated critical materials for export production, until the foreign buyer had furnished a letter of credit or the equivalent.

A procedure of rationalizing allocation of designated raw materials and necessary auxiliary materials was established for the wool industry on 19 April 1949. A priority list of individual mills was established to permit mills to operate at least 50% of operable capacity. If deemed desirable, mills whose operations fall below 50% capacity may become ineligible for participation in further allocations. Similar arrangements have been made in other phases of the textile field.

8. TO INCREASE PRODUCTION OF ALL ESSENTIAL INDIGENOUS RAW MATERIAL AND MANUFACTURED PRODUCTS.

A program has been prepared maximizing production in 110 basic commodities embracing indigenous raw materials, semi-finished products, and manufactured end-products. In scheduling these industrial programs careful attention has been given to the requirements of the accelerated export production program to insure maximum percentages without impairing the essential needs of the Japanese economy or the Occupation Forces. Actual production for the period ending 30 June 1949 has shown all production goals met and quotas exceeded in basic commodities such as steel, chemicals and heavy machinery.

A program to maximize generation and transmission of hydro-electric and thermal electric power has been placed in operation. This program has been placed in operation using the surveillance facilities of the local Civil Affairs Teams.

As subsidies were withdrawn from various industries, rationalization in all industries was started in an effort to reduce production cost of industrial commodities. This has resulted in reduced commodity prices and greater volume of export trade.

Non-essential building construction has been curtailed and the public works construction program is screened to insure that all projects will be definite contributions to the rehabilitation of Japan.

The revised Unfair Competition Law will be ready for presentation to the next Diet session.

9. TO IMPROVE EFFICIENCY OF THE FOOD COLLECTION PROGRAM.

SCAPIN 1978, 3 March 1949, directed the Japanese Government to take several specific measures to strengthen the staple food rationing system including the elimination of the "ghost" ration population. The first month of the nation-wide "ghost" drive eliminated 175,000 ghosts. In addition, 430,000 individuals who grow part of their food requirements have been reclassified from normal ration consumers to partial self-suppliers.

Enforcement activities have been concerned primarily with the enforcement of existing regulations, the operational efficiency of the

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RESTRICTED

DEC 1 1949

Enclosure No. 2 to
Tokyo's Despatch No. 690,
October 4, 1949.

- 4 -

Economic Investigation Board and intensive procuratorial efforts on economic crimes. During April and May the EIB started investigations on 11,096 cases and made routine checks in about 22,690 cases. The procurators have been indicting blackmarket cases at the rate of about 20,000 per month, the bulk of these being staple food and price control violations.

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INCOMING AIRGRAM

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TELEGRAPH BRANCH

DIVISION OF
NORTHEAST ASIAN AFFAIRS

OCT 14 1949

DEPARTMENT OF STATE

Date of mailing:

USFOLAD, Tokyo.

October 8, 1949.

Rec'd: Oct. 13, 1949, 4:16 p.m.

AIRGRAM
OCT 14 1949
DEPARTMENT OF STATE
DEPUTY DIRECTOR
Department of State

RAF AH

file DCIP

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ACTION: FE
INFO
DC/R
SA/M
EUR/X
EUR
NEA
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Secretary of State,

Washington.

No. A-256, October 7, 1949.

Action Assigned to *NA*

Action Taken *No action*

Date of Action *Oct 14*

Action Office Symbol *FE:NA*

Name of Officer *W*

Direction to DC/R *file*

894.50/10-749

(This airgram supplements this Mission's A-249, September 29, 1949, and earlier airgrams in this series. Request distribution be limited to Department for reasons stated in A-21 of January 28, 1949.)

1. Considerable Japanese Interest in Indonesia. At luncheon by head of Netherlands Mission in Japan, Oct. 5, Baron E. J. LEWIS VAN ADUARD, Deputy Chief of that Mission, stated to Economic Counselor that many Japanese with prewar and even wartime interests in Indonesia have been in touch with his Mission with respect to economic developments there. He said that prior to departure to Batavia on Sept. 22 of Mr. P. MIJNAREND, Economic Adviser in Netherlands Mission, considerable number of Japanese called upon Mijnard, Mijnard was surprised to learn that Japanese concerned were well acquainted with developments in Java and elsewhere in Indonesia, and were anxiously looking forward to time when they may return to Indonesia. In response to question by Economic Counselor, he said that "quite a few" interested Japanese had first gone to Indonesia during the war, when they presumably had made connections which they now seek to develop.

2. Tobacco Monopoly Question not Closed Issue. Reference item (4), A-249, Sept. 29, headed "Shoup Tax Recommendations and Tobacco Monopoly Question." At social function Oct. 4, Economic Counselor had occasion to ask Mr. Kaneshichi MASUDA, Cabinet Secretary, whether Premier YOSHIDA was still interested in having tobacco monopoly transferred to private enterprise, reference in this connection being made to Shoup tax report. Masuda said that Premier positively still interested; that Premier did not think that Shoup's comments on tobacco revenue and monopoly operations served to shelve matter indefinitely; that question of revenue admittedly in need of solution; and that such solution could undoubtedly be reached by having private tobacco companies produce better and cheaper products.

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OCT 21 1949

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Tokyo's A-256,
October 7, 1949.

- 2 -

which could be levied to approximate present revenue. Masuda confirmed statement made in Mission's despatch no. 612, Sept. 6, 1949, subject "Discussions between China-American Leaf Tobacco Company and the Japanese Monopoly Public Corporation," to effect that British-American Tobacco Company had stopped negotiations with JMPC last spring. Masuda intimated that Premier might have legislation introduced in regular Diet session which opens in Dec., 1949, providing for turn-over of tobacco monopoly to private enterprise. Meanwhile, Economic Counselor informed by concerned officials in Economic and Scientific Section (ESS) that negotiations with JMPC conducted by Mr. Emile BARUCH, representative of China-American Leaf Tobacco Company, still alive but not progressing to any extent.

3. Question of Possible Shipments of Copper to Satellites. Reference despatch no. 682, Sept. 30, 1949, entitled "Status of Investigation of Possible Shipments of Japanese Copper to Iron Curtain Countries," and preceding reports on this question. Report following complete investigation made in ESS now presumably in hands of Chief of Staff, GHC, SCAP, but no indication yet received by this Mission as to decision which General Headquarters may make with respect to having investigations extended to London, Brussels and The Hague.

4. Financing of New Dependent Housing Studied. At weekly ESS staff meeting on Oct. 3, attended by Economic Counselor, Major General W. F. MARQUAT, Chief, ESS, discussed at length question of financing construction of 4,000 houses for use by Occupation personnel. Marquat rejected proposal made in ESS to have construction financed by use of Counterpart Aid Fund. Instead he instructed acting chief of ESS Finance Division to draw up plan providing for establishment of Japanese Govt-owned corporations to build and rent houses to Occupation personnel, who will soon be paid commutation allowances under new Dept of Army pay increase bill. Marquat suggested that 2,000 houses might be constructed during remainder of Japanese fiscal year (which commenced April 1, 1949), with same number built in next year. He pointed out that rental payments could be made in dollars (with Japanese getting yen equivalent) into SCAP commercial account, and that withdrawal of Occupation personnel from hotels would also serve to increase dollar receipts since hotel facilities could be thrown open to tourists and others with acceptable non-yen currencies.

5. Marquat Comments on Foreign Investment Board. At same meeting, General Marquat, referring to report on activities of ESS Foreign Investment Board submitted to him by Mr. Frayne BAKER, Executive Chairman of that Board, noted with approval that Board had acted upon 290 applications. He added that Board "functioning very well" but apparently in need of reorganization. Marquat continued by stating that "too many philosophers are sitting around trying to figure out why some guy should or should not sell the rights to a book to a Japanese;" he elaborated by stating that

Tokyo's A-256,
October 7, 1949.

- 3 -

too much time was consumed by having various ESS division chiefs participate in discussions on applications involving minor matters, and that these chiefs could spend their time elsewhere to better advantage.

6. ESS Hopes to Sell Iron and Steel to P.I. General Marquat, at Oct. 3 meeting, referred to reports of current labor strike in U. S. steel industry, and expressed opinion Occupied Japan should take advantage of situation by attempting to expand sales of iron and steel to Philippines. He added that there was no need to send Japanese salesmen to P.I., where they would undoubtedly not be welcomed, but that exports could be handled through local American traders. Mr. F. E. PICKELLE, Chief, ESS Foreign Trade and Commerce Division, commented to effect that Japanese steel prices were about 25 per cent higher than corresponding American prices, and that Japanese steel imports were subject in P.I. to 20 per cent import duty while American steel imports were duty-free. Marquat replied that, granted Pickelle's statements were true, efforts should nonetheless be made to sell more iron and steel to P.I., especially since European countries which have been able to make sales there in recent months would now attempt to expand their sales.

7. Economic Stabilization Board Under Fire. At same ESS staff meeting, General Marquat referred to recent press reports concerning personnel retrenchment in Economic Stabilization Board (ESB), concerning which comments made in despatch no. 669 dated Sept. 26, 1949, subject "Forwarding Translation of Economic Rehabilitation Report." Marquat directed Mr. Calvin O. VERITY, Deputy Chief, ESS, to ascertain whether, within the Japanese Govt, there was any other more permanent agency with which ESS might work on economic questions, especially surveillance. Discussion brought out fact that, under direction of Premier Yoshida, ESB greatly weakened and even referred to by Japanese as "SCAP-created monstrosity." However, several ESS division chiefs defended ESB, stating that it was only organ in Japanese Govt which had come up with plan to support Nine Point Economic Stabilization Program or had otherwise shown positive indication to cooperate with General Headquarters in working out plans for Japan's economic rehabilitation. Conclusion reached, however, that ESB plans for continued control of Japanese economy are in direct opposition to Premier's plan for decontrol, and that Premier is following policy of emasculating ESB to point where it will have no significant functions to perform. Marquat said that ESS would have to discuss with Japanese authorities as to what agency in Japanese Govt ESS would work with actively on economic matters. Interesting to note in this connection that Ministry of International Trade and Industry not once mentioned as possibility, inference being that ESS has scant regard for that agency.

8. Propose Returning Customs Controls to Japanese. ESS has drafted revision to SCAP Circular covering exit and entry of cargo and property, which revision will, if adopted, return large measure of customs administration to Japanese. Except for property of Occupation personnel, or certain categories

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Tokyo's A-256,
October 7, 1949.

- 4 -

of individuals, such as diplomats, accredited to the Occupation, the Japanese Govt will be required to take steps for establishing customs control over all property and cargo movements. This Mission, in capacity as Diplomatic Section, GHQ, has given concurrence to proposed revisions. May be pointed out in this connection that 8th Army has taken steps to return immigration work (as opposed to customs) to Japanese control from Nov. 1.

9. MITI Balks at Imports, Finds Inventories. Ministry of International Trade and Industry (MITI) is showing increasing reluctance to invite bids for numerous commodities (most conspicuously iron and steel products) which had been included in procurement program for 1949-50 U.S. fiscal year. ESS foreign trade officials press for maximum procurements as only way of selling Japanese goods, particularly to such areas as Korea, sterling area, and Belgian Monetary Area, where trade has lagged; MITI argues, however, that, in view of present stockpiles and falling off of exports, further imports of slow-moving commodities would be unwise. ESS officials note bitterly that, now that Counterpart Fund makes MITI to certain extent responsible for careful use of relief funds, Ministry is suddenly discovering inventories that had gone unnoticed since end of war.

10. Sterling Trade Prospect Remains Dubious. ESS negotiators now speak bravely of purchases from sterling area to total 55 million pounds. In view of MITI recalcitrance noted in previous item, and of ESS's reluctance or inability to enforce compliance with (U. S.) FY 1950 procurement program, however, figure appears increasingly unrealistic. Evidence has reached this Mission and ESS that sterling area authorities intend to discriminate against American companies with regard to supplying crude oil to Japan; SCAP officials alarmed at possibility that such a step may lead to discontinuance of oil procurement in Tokyo, which eventuality would wreck trade plan. Meanwhile, private trade representatives in Tokyo agree with sterling area negotiators that SCAP need have no immediate fear of losing sterling market for textiles; textiles going through Singapore entrepot, it is said, sell at markup of as much as 100 per cent.

11. Other Foreign Trade Notes. (1) SCAP has suggested that trade mission be sent to Siam in mid-November for renegotiation of Trade Arrangement and Plan. Hope voiced that total trade figure can be raised to \$60 million. (2) Proposed mission to Pakistan has been informed that, because of fact that missions also expected from France and Russia, some delay may be necessary before clearance can be granted. ESS expresses some concern over possibility, pointing out that French and Russians will thereby get prior chance at Pakistan cotton and jute. (3) SCAP delegation at present in Korea searching for way to expand trade. Most prevalent explanation for disappointing trade results is that Korea simply has nothing to sell to Japan at the moment.

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OCT 13 1949
FOR DCIT USE ONLY

Supreme Commander for the Allied Powers,

Tokyo,

Info: Army Chief of Staff,

For Acting Political Adviser.

503
JAP ECON Weekly reports JAP Ministry INTERNATL Trade Industry has proposed system similar prewar FOR^N trade ASSOCs be established after abolition floor prices to control activities exporters.

DEPT believes return to control by private ASSOCs in preference to JAP GOVT supervision unwise. Private controls, as attested by prewar ASSOCs, may open way to elimination competition, price-fixing to protect least efficient producer and imposition production quotas, making difficult maximization JAP exports and in long-run diminishing JAP ability compete effectively FOR^N markets. UR comments requested.

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Anal.	<i>WSS</i>
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OCT 13 1949 *P.M.*

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INCOMING AIRGRAM

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

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AIRGRAM

DIVISION OF
NORTHEAST ASIAN AFFAIRS FROM:

USPOLAD, Tokyo.

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OCT 20 1949

Date of mailing: October 15, 1949.

DEPARTMENT OF STATE

Rec'd: Oct. 19, 1949 2:51 p.m.

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Secretary of State,
Washington.

Action Assigned to *NA*
Action Taken *notation*

No. 267, October 14, 1949.

Date of Action *Oct 20*
Action Office Symbol *NA*
Name of Officer *not*
Direction to DC/R *file*

(This airgram supplements this Mission's A-256, October 7, 1949, and earlier airgrams in this series. Request distribution be limited to Department for reasons stated in A-21 of January 28, 1949.)

1. Japan Presently Not Interested in KMA Coking Coal. Mr. Wilfred PRYOR, general manager of Kailan Mining Administration (KMA), British mining concern which has developed rich North China coal deposits near Tangshan, Hopei Province, visited Tokyo Oct. 7-13 for primary purpose of investigating possibilities for sale of KMA coking coal to Occupied Japan. Pryor assertedly informed in Economic and Scientific Section (ESS), General Headquarters, that whereas there did not appear to be any particular political considerations which would prevent ESS from authorizing Japanese Govt to purchase KMA coke, there did exist economic factors which made it impossible for Japan presently to acquire such coke. Pryor stated to officers of this Mission that he was told by ESS officials concerned that Japan now has supply of American and other coke sufficient for about 12 months' consumption, and that ESS had recently cancelled several contracts with American coke suppliers, which action involved payment of penalty charges. Pryor indicated that he had greatly hoped Japan would be able to take minimum of 60,000 tons of coking coal valued at about 200,000 pounds, which sum urgently needed for purchase of stores and supplies, debt service and payment of salaries. He said that future prospects of KMA were exceedingly unfavorable, with Administration now being forced to make decision with respect to future operations in North China. Special despatches concerning conversations with Pryor being submitted to Dept separately.

2. Telegram Sent Regarding Copper Shipments to Europe. Reference item (3), A-256, Oct. 7, concerning possible transshipments from London and Antwerp of Japanese copper to satellite countries. GHQ, SCAP, on Oct. 8 sent telegram

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Tokyo's A-267,
October 14, 1949.

- 2 -

to Dept of Army requesting "that the pertinent data herein be referred to the State Dept for investigation through commercial attachés at London and Brussels and a report of the results thereof made to SCAP in order that if proof is adduced of contract violation by trading firms involved appropriate action may be taken." All material contained in telegram previously reported to Dept by this Mission with exception of names of consignees at Antwerp and London.

3. Question of MFN Clause in Trade Agreements. At weekly ESS staff meeting on Oct. 10, attended by Economic Counselor, Major General W. F. MARQUAT, Chief, ESS, brought up question of ESS insisting that most-favored-nation clause be inserted in SCAP-negotiated trade arrangements with foreign countries, specific reference being made to recently drafted agreement with sterling area (see item 9.). Mr. W. J. LOGAN, Director General, Joint Export-Import Agency (JEIA) for Western Germany, stated that JEIA had kept discreet silence on this question in connection with trade agreements concluded by Western Germany and other areas. Mr. Frank E. PICKELLE, Chief, Foreign Trade and Commerce Division, said ESS had likewise followed policy of "less said the better". He referred to statement assertedly made to him by head of sterling area trade negotiators recently to effect that if ESS insisted upon insertion of MFN clause in Japan-Sterling Area agreement "we might as well pack up and go home." Pickelle added that some progress in having Japanese exports receive MFN treatment in sterling area markets might well be made by having ESS conduct negotiations on that point separately with individual sterling areas.

4. ESS and British Annoyed at Leak by Japanese Observers. Reference made to various reports submitted by this Mission regarding desire of ESS to have Japanese observers participate in trade arrangement negotiations with foreign countries. At concluding meeting between ESS and sterling area negotiators held last week, four Japanese observers permitted to attend, this being arranged by ESS upon promise of Japanese, made both to ESS and to sterling area representatives, that all points under negotiation would be treated in strict confidence. Following day fairly complete summary of discussions, including details of trade agreement, published in local papers, and attributed by ESS and sterling area representatives directly to Japanese observers. General Marquat, at Oct. 10 ESS staff meeting, expressed considerable annoyance and regret over incident, especially since it is considered to be setback to his plans to have Japanese take greater part in future trade discussions with representatives from foreign countries. Marquat added that ESS position especially uncomfortable with regard to sterling area case, with British at al having been unfriendly to idea of having Japanese observers at trade meetings.

CONFIDENTIAL

Tokyo's A-267,
October 14, 1949.

- 3 -

5. Plan for Japanese Representation Abroad Approved. Reference this Mission's secret despatch no. 577 dated August 25, 1949, entitled "Japanese Representation Abroad." It will be recalled that this Mission, in its capacity as Diplomatic Section of General Headquarters, prepared plan providing for establishment of Japanese offices overseas for trade promotion and limited consular functions. Chief of Staff has now approved plan, and proposed telegram to Washington on this subject being sent out by this Mission in nearest future. Dept may be interested to know that Dr. Robert SIEBURTH, from Office of Under Secretary of Army now in Tokyo on temporary detail, interested in project and assertedly anxious to have appropriate officials in Dept of Army give enthusiastic support for implementation of plan.

6. American Business Men discuss Taxes with Japanese. Representatives of American Chamber of Commerce in Japan currently carrying on negotiations with Finance Minister Hayato IKEDA regarding recommendations contained in Shoup Tax Mission Report which said by American business men to provide for taxes so severe as to force them out of business in Japan. Chamber has proposed to Ikeda that, as important step to attract foreign investments to Japan, first \$6,000 of income received by foreign business men in Japan be tax exempt, this figure estimated as amount required to cover local living costs. Ikeda assertedly indicated that similar plan being considered in Finance Ministry, and that appropriate legislation providing for such exemption might be introduced into extraordinary session of Diet scheduled to convene Oct. 25. Meanwhile, it may be noted that American Chamber, at suggestion of Mr. L. H. MOSS, Chief, ESS Internal Division, decided some time ago to stop publicity campaign in local press against Shoup tax recommendations, especially as they affect foreigners. Moss is reported as pointing out that such publicity is unwise, especially since it might give Japanese cause for stating that foreigners in Japan demand tax treatment which discriminates in their favor; Moss also reported as suggesting that American Chamber consult with Japanese authorities on tax matters on basis that mutually satisfactory solution should be sought.

7. Abolition of Floor Prices Still Pending. Early in week announcement of abolition of all floor prices except silk was momentarily expected. Now, apparently awaiting word from Washington on general problem of export prices and exchange rate, announcement appears less immediate, though still high on priority list. Check on prices, it is planned, will at first be applied by Ministry of International Trade and Industry when export license is granted; subsequently, and no doubt after much maneuvering in ESS, hope to revert to post-check through customs notifications.

8. Interim Plan for Private Imports Dropped. Apparently at instance of Freile Advisory Mission on International Trade, interim plan for limited return to private imports has been abandoned in favor of long-range program

CONFIDENTIAL

Tokyo's A-267,
October 14, 1949.

- 4 -

which would place administration of fiscal controls in hands of private banking system, subject to surveillance by Foreign Exchange Control Board and SCAP. Interim plan would have retained present fiscal controls, and added to present system provision for programming and allocation to consumers of private imports. Two plans believed not to be inconsistent; if interim plan had been adopted, it would have constituted step toward long-range plan now under consideration. ESS Foreign Trade and Commerce Division still favors adoption of interim plan if it appears that establishment of new fiscal operations will entail long delay; ESS planning officials state privately, however, that they are opposed in principle to any plan that would keep present fiscal control authorities in business for protracted period.

9. Press Reports Conclusion of Sterling Arrangement; Chief of Staff Slower. Japanese press (see item 4 above) has reported that draft Sterling Area Trade Arrangement, copy of which was forwarded with despatch no. 708 of October 10, 1949, is to be signed within week. Chief of Staff has given no indication of his views, however, and it appears unlikely that draft will be finalized within immediate future. For Dept's information, should be pointed out that ESS planning officials confidentially express dissatisfaction with Trade Plan appended to Arrangement, holding that figures for SCAP procurement are highly unrealistic. Official policy of ESS, however, is that procurement must be maximized to break trade log-jam, and that optimistic programming constitutes first step toward that end. Evidence of need for more aggressive procurement furnished recently by action of Belgian Mission in suspending validation of contracts for purchases of all except highly essential Japanese goods; Chief of Belgian Mission in Japan states that, while he sees hope in policy of higher procurement, he cannot authorize further dollar expenditures until concrete evidence is given of Japan's good intentions.

10. Other Foreign Trade Notes. (a) After considerable visa trouble, SCAP trade mission left for Pakistan on October 13, with SCAP-approved version of Trade Arrangement. Final Trade Plan contemplates purchases by Japan to total \$20 million, and sales to total \$26.4 million. (b) Economic Adviser in Netherlands Mission has returned from Batavia, with generally optimistic reports on economic situation and trade outlook. Review of trade between Japan, Netherlands, and Indonesia to take place shortly.

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STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

TO : NA - Mr. Allison

DATE: October 21, 1949

FROM : NA - Mr. Hemmendinger ^{lit}
Mr. Fearey ^{RAO}

SUBJECT: Turnover of Economic Responsibilities for Japan to ECA.

E's proposal is that we discuss with the Army and ECA the desirability of a take-over by ECA before July 1950 of the Army's responsibility for the Japanese recovery program, including GARIOA, and that agreement to this be sought before the FY 1951 appropriation request is submitted to the Congress in January.

When a treaty of peace does come into effect, which could conceivably be soon after July 1950, the ECA will doubtless be called upon to administer a continuing U.S. aid program. It is therefore desirable in any event that the appropriation act contain language allowing a transfer of funds to ECA in the event a treaty during FY 1951.

Since ECA will eventually takeover aid responsibilities in Japan, there would seem to be decided advantages to its doing so as soon as possible: a) in easing the transition when the regime of control changes b) in placing aid program responsibility in a single Washington agency c) in giving SCAP an able economic adviser, such as Mr. Dodge, who has the confidence of both SCAP and this Government d) in helping to get GHA, SCAP out of detailed control of the Japanese economy.

The question is whether SCAP would look with favor upon a drastic change in his headquarters and responsibilities before the treaty, with the Army unlikely to favor the change unless SCAP approves. The advantages are not so great that the Department of State would wish to engage in a time-consuming controversy (not that Mr. Thorp has necessarily suggested that), if it can prevail only with difficulty or not at all.

If the Army and SCAP should agree, the ECA representative will have a delicate task in controlling and reorganizing the existing SCAP economic staffs. In view of SCAP's loyalty to his staff, it is hard to imagine replacement of Gen. Marquat and the top members of his staff while SCAP is still there. The introduction of another agency into Washington policy-making will also have its complications, though the Army would step out of the recovery field as ECA stepped in. This raises the question whether the State Department should take over the remaining non-military occupation responsibilities in Washington from Army if there is an ECA take-over. The possibility of a treaty next spring or summer makes it doubtful, however, whether this would be worthwhile.

To avoid a division of responsibility and to induce General MacArthur to accept the turn-over to ECA, it must remain clear that he is the supreme U.S. authority in Japan. The appointment of General MacArthur as ECA representative with an ECA Deputy, as suggested by E, may be the best way of effecting this.

July 1, 1950, the commencement of FY 1951, appears a reasonable date for the turn-over if the necessary agreement can be achieved.

Conclusions

State Dept Turnover of economic responsibilities for Japan from Army to ECA would have definite
Northeast Asian Affairs Division
From Hemmendinger and Fearey

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definite advantages, but not so great as to justify a struggle by the State Department against Army and SCAP objection.

Rather than send letters to ECA and Army, as recommended by E, it is suggested that Mr. Butterworth should discuss the matter with Mr. Voorhees and obtain his reaction. If generally favorable, ECA and then SCAP can then be brought into the discussions.

Attention should in any case be given to the use of sufficiently flexible language in the appropriation act to allow transfer of funds to ECA during FY 1951.

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INCOMING AIRGRAM

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

Handwritten initials/signature

Office of
Far Eastern Affairs
OCT 25 1949
Department of State
4301

AIRGRAM

Action Assigned to *NA*
Action Taken *Location*

FROM: USPOLAD, Tokyo

Date of mailing: October 22, 1949

Rec'd: Oct. 27, 1949; 2:41 p.m.

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Date of Action *10/28/49*

Action Office *NA*

Name of Director *file*
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Secretary of State,
Washington.

A-276, October 20, 1949.

(This airgram supplements this Mission's A-267, October 14, 1949, and earlier airgrams in this series. Request distribution be limited to Department for reasons stated in A-21 of January 28, 1949.)

1. Foreign Trade Advisory Mission Concluding Work. Special mission headed by Mr. Ormond FREILE, Chief, Industry Division, Far East Branch, Office of Under Secretary of Army (see item 4, A-233, Sept. 15, 1949), has been engaged during past four weeks studying various aspects of Occupation's trade policies. Mission, which expects to complete its work by Oct. 28, does not intend to produce single report of its findings but merely to submit to Economic and Scientific Section (ESS) recommendations on various matters in memorandum form. According to Mr. Edward W. DOHERTY, State Dept representative in Mission, principal recommendation will be one favoring elimination of export floor prices, this recommendation lending support to decision apparently already reached in Washington. However, members of Mission reportedly in disagreement over nature and extent of controls to be substituted to prevent flight of capital and so-called "dumping". Mission has also been asked for its recommendations on an ESS proposal to introduce a special yen currency for use of foreign business community in Japan. Commerce Dept representatives in Mission, it may be noted, are studying procedures designed to facilitate expansion of private foreign trade. Members of Mission, according to Doherty, confess to having some feeling of frustration over their work, this being attributed to lack of precision in preparation of Mission's terms of reference and agenda, which not even chairman of Mission has been in position to supply.

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Tokyo's A-276,
October 20, 1949.

- 2 -

2. SCAP Announces Maintenance of Yen-Dollar Rate. General Headquarters, SCAP, on Oct. 15 issued statement to effect that no change in yen-dollar rate of exchange was contemplated. This announcement apparently prompted by news despatches from U. S. which gave conflicting reports as to attitude of U. S. Govt officials in Washington regarding question of yen devaluation. Particularly disquieting was United Press despatch from New York which quoted unnamed "highly-placed bank executive" as stating that "my guess is that sooner or later it (i.e., yen-dollar rate) will be devalued about 20 to 30 per cent." Statement linked up with speculation regarding return to Japan of Mr. Joseph M. DODGE, SCAP's adviser on financial matters, in such a way as to give impression Dodge held similar views. Receipt of UP despatch here caused General Headquarters to issue statement to effect that "General MacARTHUR today announced unequivocally that no devaluation of the Japanese yen is contemplated." Personal radiogram sent on priority basis Oct. 15 by Major General W. F. MARQUAT, Chief, ESS, to Under Secretary of Army VOORHEES, indicated that decision to issue statement taken "as a consequence of the slanted and prejudicial report carried by the United Press from New York today and the resulting bewilderment, confusion and disorder which such erroneous American despatches propagate in Japan..." Generally expected here that announcement of no change in yen-dollar rate would be coupled with announcement of elimination of export floor prices; no mention, however, made regarding floor prices. Export business has been largely in doldrums since devaluation of sterling; it remains to be seen whether SCAP's Oct. 15 statement will suffice to dispel uncertainty among traders. Meanwhile, it may be noted that maintenance of present yen-dollar rate will afford powerful stimulus to further much-needed rationalization in Japanese export industries.

3. Japanese Propose Treating SOVEXPORTFILM as Private Firm. Reference item (3), A-173, July 2, 1949, entitled "SOVEXPORTFILM Hopes to Acquire Property in Tokyo." Japanese Govt's Foreign Investment Board has, during past months, carried on fruitless discussions with Soviet Mission here as to whether SOVEXPORTFILM should be considered Soviet Govt agency or private firm. Soviet Mission has steadfastly maintained that film company is not official agency of Soviet Govt, but has not supplied documents supporting that claim requested by Japanese authorities. According to statements made to Economic Counselor by Mr. Atsuh UYAMA, Chief, Economic Affairs Section of Political Affairs Bureau, FONOFF, Foreign Investment Commission has now decided to validate SOVEXPORTFILM's application upon receipt by Japanese Govt

CONFIDENTIAL

Tokyo's A-276,
October 20, 1949.

- 3 -

of formal note from USSR Govt through General Headquarters, SCAP, to the effect that: (a) USSR Govt shall not claim for SOVEX-ORTFILM or its personnel any rights, privileges or immunities generally accorded under international law to foreign gov agencies or personnel attached thereto, and (b) USSR Govt shall not claim for SOVEX-ORTFILM or its personnel any special treatment in relation to all business activities including, but not limited to, taxation, legal disputes, property rights, other than the treatment which is accorded in like cases, under Japanese laws and regulations, to United Nations nationals engaged in business activities in Japan. Reaction of Soviet Mission to Japanese proposal awaited with considerable interest.

4. Deconcentration Orders Suspended Pending Reconsideration.

Mission has learned confidentially that deconcentration orders transmitted to Imperial Fiber Company and Hokkaido Dairy Cooperative (despatch no. 576 of August 25, 1949) have been suspended pending further investigation, as result of petitions to General MacArthur. One of two petitions was transmitted by Minister of International Trade and Industry (MITI) with strong recommendation for favorable action. Both deconcentration orders involve near monopolies, and were approved, it is reliably reported, by unanimous vote of Deconcentration Review Board. Fact that action should be suspended after such elaborate and apparently final review interesting indication of way wind is blowing; MITI may now perhaps be expected to go into action for some of its other lost causes, such as revival of export associations.

5. MITI Seeks Control over Foreign Trade Pricing. With abolition of floor prices imminent, MITI has approached SCAP with draft bill which would give Ministry complete control over export pricing, with absolute power to prohibit goods from being exported. With proposal for re-establishment of export associations momentarily discredited, MITI has apparently hit upon present proposal as next best thing. With regard to associations, reply to Dept's telegram no. 503 of Oct. 13 now under preparation. Possibility that forthcoming Diet may attempt to take action exempting exporters' associations from provisions of Trade Association Law is not excluded.

6. Target Dates Set for Export Reforms. Jan. 1, 1950, has been set as target date for return to private imports, as outlined in Mission's A-267 of Oct. 14, 1949; Dec. 1 has been set as date for removal of export licensing system. Contemplated that, as of latter date, export goods, with exception of specified list of strategic materials, will be controlled only by customs check. MITI and ESS

Tokyo's A-276,
October 20, 1949.

- 4 -

will not be consulted prior to shipment of unrestricted commodities, and will exercise only post-surveillance through customs reports.

7. Korean Trade Tied to Private Import Program. As reported to Dept by Amembassy, Seoul, SCAP trade negotiators made important concessions to Koreans in recent conference, on assumption that adoption of interim program for private imports was imminent. Now that interim program has been discarded, and Jan 1 set as target for return to private imports, procedure outlined in Seoul conference probably impracticable. Question of possible effects on trade therefore arises, and ESS foreign trade officials who participated in conference are conspicuously pessimistic, feeling that shift in policy brings them back to pre-conference impasse. Whether or not situation that unfavorable, it appears unlikely that trade with Korea will now reach proportions contemplated in recent talks.

8. Sterling Area Overall Payments Arrangement to be Amended. Possibility of revising Overall Payments Arrangement not considered during recent sterling area trade conference. Now, however, it appears that provision will be inserted to effect that only balance above 10 million pounds required for near-term commitments will be converted. For time being, such conversion is to take place only on conversion dates; since new amendment would restrict SCAP's conversion rights, however, ESS foreign trade officials state that they will press for more general revisions, allowing conversion at any time balance exceeds specified figure.

9. Basic Disagreement over Procurement Policy. As reported previously in these airgrams, ESS Foreign Trade and Commerce Division is committed to policy of maximum procurement of raw materials as step toward expanding exports. ESS Industry Division, however, has taken position that, with new stockpiles constantly coming to light, policy should be one of restricting imports to minimum requirements. Meanwhile, MITI has announced that, even in absence of specific invitations to bid, consideration will be given to any offer to supply foodstuffs from any area coming under trade arrangements. Measure is designed to pay for foodstuffs with compensating exports to maximum extent possible, so that appropriated funds can be released for cotton purchases in United States. In similar vein, MITI has announced that any barter proposition involving goods from Latin American trade arrangement countries will be considered; hope is that trade with that area, which has so far failed to come to life, will thereby be set in motion.

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STANDARD FORM NO. 64

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Office Memorandum • UNITED STATES GOVERNMENT

TO : FE - Mr. Allison

DATE: October 24, 1949. *SGK*

FROM : NA - Mr. Carwell *Carwell*

894.50/9-2949

SUBJECT: Tokyo's 679 of September 29, 1949.

A summary of Japan's economic problems was prepared by Mr. E. R. Lingeman, Minister (Commercial) United Kingdom Liaison Mission in ~~Japan~~ for Mr. Malcolm MacDonald, Commissioner General for the United Kingdom in Southeast Asia. Lingeman observes that Japan is "hag-ridden" by the problem of feeding an increased population. The improved economic conditions since 1946 and the steady rise in industrial production are due to

"the four-fold increase of U.S. procurement as between 1947 and 1948 . . . and deriving, of course, from increased Congressional appropriations."

In commenting on the Dodge Mission, Lingeman stated that the results of the Mission have "been remarkably rapid with a reduction in note issue, the flattening of the price spiral, and the inauguration of a policy of financial retrenchment and strict control of credit, intended to provoke the rationalization of industry" as well as the establishment of an official exchange rate of yen 360 to 1. Mr. Lingeman comments that the successes now visible may be attributed to "the shrewdness and determination of Mr. Dodge."

There is a campaign on foot, backed by the Japanese Economic Stabilization Board to reverse the stabilization program. Mr. Lingeman, however, does not think that Japan will be able to begin to live off its own resources as early as 1953 without considerable assistance from the United States.

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INCOMING AIRGRAM

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DEPARTMENT OF STATE

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FROM: USPOLAD, Tokyo.

Date of mailing: October 29, 1949

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Secretary of State,

Washington.

A-282, October 27, 1949.

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(This airgram supplements this Mission's A-276, October 20, 1949, and earlier airgrams in this series. Request distribution be limited to Department for reasons stated in A-21 of January 28, 1949.)

1. Chinese Mission Offers Narcotics to ESS. Reference made to item (2), A-249, Sept. 29, stating that Chinese Mission here has offered stock of restituted opium and morphine to Merck & Co., well-known American pharmaceutical firm with head office at Rahway, N.J. On Oct. 22, Mr. Ely M. BRANDES, Office of Civil Property Custodian, GHQ, SCAP, informed Economic Counselor that Chinese Mission, apparently not optimistic over possible sale to American firm, had offered narcotics to Economic and Scientific Section (ESS) at price of \$0.05 per gram with 10 per cent anhydrous morphine content or \$500 per kilogram on basis of 100 per cent anhydrous morphine content. Brandes said that offer made to ESS on tentative basis, with provision that, if offer accepted, payment be made to Chinese Mission by dollar check payable in any one of three local branches of American banks. As indicated in despatch no. 674, Sept. 27, 1949, entitled "Narcotics in Japan Restituted to China," ESS has been insisting that all proceeds from sale, estimated at about \$400,000, be used for partial settlement of money owed by Chinese National Govt to Japan for excess exports to China. Chinese Mission has desired to have entire sales proceeds, or substantial portion thereof, turned over to Mission, allegedly for use as operating expenses. Remains to be seen whether ESS is in position to find buyer for narcotics and whether it is willing to compromise on matter of use of sales proceeds.

2. SOVEXPORTFILM to be Treated as Official Concern. Reference made to item (3), A-276, Oct. 20, stating that Japanese propose treating SOVEXPORTFILM as private concern in connection with its desire purchase property in Tokyo for erection apartment houses for use by members of that film corporation. According to officials of Legal Section, GHQ, SCAP, and Foreign

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CONFIDENTIAL

Tokyo's A-282,
October 27, 1949.

- 2 -

Investment Board, Economic and Scientific Section (ESS), SOVEXPORTFILM, which they consider agency of USSR Govt, cannot legally be treated as private firm despite its willingness to accept conditions proposed by official Japanese Foreign Investment Commission. ESS Foreign Investment Board now drawing up statement to be used by this Mission, in its capacity as Diplomatic Section, General Headquarters, informing Soviet Mission that SOVEXPORTFILM must file its application for permission to acquire property under terms of SCAP Circular no. 9 dated May 14, 1949, which governs acquisition of real estate, et cetera, by foreign governments and their agencies.

3. Question of Stocks of Exportable Goods. At weekly ESS staff meeting on Oct. 24, attended by Economic Counselor, Major General W. F. MANQUAT, Chief, ESS, commented on statement assertedly contained in first paragraph of report submitted to ESS by Dept of Commerce group in Advisory Mission on International Trade (see item 1, A-276, Oct. 20) to effect that Japan has stocks of goods valued at about 62 billion yen which are not being used for export or for improvement of domestic economy. Mr. F. E. PICKELLE, Chief, ESS Foreign Trade and Commerce Division, stated that these stock-piles have during past two years been repeatedly investigated by foreign traders who have long since declared remainder non-exportable. With respect to items which might be diverted to domestic economy, discussion at meeting limited to cotton textiles of which 170,000,000 linear yards said earmarked for domestic sale but movement into retail outlets slowed down by difficulties encountered by rationing coupons and financing of sales. Various reports submitted to ESS by Advisory Mission now being mimeographed by ESS and copies thereof to be made available to this Mission for despatch to Dept.

4. Adoption of CIF Export Procedure Delayed. At same ESS staff meeting, Mr. P. A. McDERMOTT, Director for Foreign Trade, stated that official Japanese Foreign Exchange Control Board had drawn up much too complicated procedure for use of CIF quotations for export trade. McDermott said he asked Japanese officials concerned to draw up simplified procedure by Oct. 28 with view early adoption, if approved by ESS.

5. Pickelle Questions Japan's Adherence to Wheat Agreement. Pickelle at same meeting brought up question of Japan's adherence to International Wheat Agreement. He suggested that, although question has been approved in principle by Japanese and General Headquarters personnel concerned, matter be reconsidered in light of recent report that Thailand in 1950 assertedly will be in position to offer Japan 1,000,000 tons of rice and that Occupied Japan, under various trade arrangements, including that with Thailand, may be in position within next few years to acquire foodstuffs more advantageously than through Wheat Agreement. In any event, he added, it seemed questionable whether Japan should undertake to buy 1,200,000 tons of wheat

CONFIDENTIAL

Tokyo's A-282,
October 27, 1949.

- 3 -

during next four years under that Agreement. Discussion inconclusive with other ESS officials expressing opinions to effect that escape clause based on lack of foreign exchange might be used by Japan should it be found unwise to buy amount of wheat indicated.

6. Netherlands Trade Review Begins. Review of trade between Japan and Netherlands and Indonesia began in Tokyo on Oct. 25. Chief business to be drawing up commodity plan, based upon Japanese procurement from Netherlands and Indonesia. Unlike last year, Netherlands cannot commit self to adverse trade balance, in view of non-availability of ECA funds to cover deficit. Netherlands representatives have indicated availabilities totalling approximately \$20 million; until such time as ECA funds become available, purchases from Japan must also be limited to that figure, which, depending upon Japanese demand, may be reduced as talks progress. Regarding payments arrangement, it is proposed that current arrangement remain in force, but that so-called "swing account" be instituted, whereunder any open-account balance over specified figure automatically becomes available in cash. As in case of sterling area, it appears possible that availabilities will not coincide with Japanese demands; near-stalemate may thus result unless ECA funds used.

7. Misgivings Expressed at Acquisition of Outstanding Stocks by Foreign Companies. Foreign Investment Board has under consideration applications by Goodrich Rubber, Tidewater Oil, and Babcock-Wilcox for acquisition of outstanding stocks in Japanese concerns, and has already approved application of Standard-Vacuum to purchase stocks. Conversation with official of Japanese Foreign Investment Commission indicates that Japanese, while convinced of necessity of allowing such acquisitions, have misgivings regarding manner in which present cases being handled. Specifically, it is believed that Standard-Vacuum case does not conform to SCAP criteria for foreign investment (see our despatch no. 48 of January 24, 1949), and that political implications of such non-conformance may be considerable. Considered particularly unfortunate that oil company, always particularly liable to charges of economic imperialism, made first exception, and that foreign investment criteria not changed prior to decision on case.

8. Problem of Stockpiles Continues to Hamper Foreign Trade. Swiss have again protested to SCAP fact that Japanese purchases are excessively slow, while Swiss purchases continue at 1948 level. Similarly, Belgians are becoming reluctant to approve licenses for imports from Japan in view of \$4 million adverse balance which has accrued since conclusion of Financial Arrangement. Two cases add fuel to argument of ESS Foreign Trade and

CONFIDENTIAL

Tokyo's A-282,
October 27, 1949.

- 4 -

Commerce Division that Japan must buy before she can sell. Ministry of International Trade and Industry, however, continues to be reluctant to sanction additions to already heavy stockpiles, while Japanese Government's Economic Stabilization Board holds that only way to solve problem of stockpiles is through sharply increased capital investments. Board is reluctant to say whether or not latter program would involve revision of Dodge line. Despatch now under preparation will discuss views of Board, and less directly those of Social Democratic Party, on this problem and on fiscal policies in general.

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United States Political Adviser
for Japan

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Tokyo, November 4, 1949.

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No. 767

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DIVISION OF
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Subject: Views of Social Democratic Party and Economic Stabilization Board with Regard to Economic Stabilization.

The Honorable
Secretary of State,
Washington.

Sir:

I have the honor to report on the views of the Economic Stabilization Board and the Social Democratic Party with regard to the economic stabilization program and the so-called "Dodge Line" for fiscal retrenchment. In so far as possible the material below is based on studies and commentaries elucidating those views; the Department will note, however, that, in view of the fact that the Social Democratic Party's program is vague in the extreme, much reliance has been placed on interpretation and, to some extent, speculation.

In brief, the announced position of economists in the Economic Stabilization Board (ESB) and the Social Democratic Party is that the Yoshida Government has gone beyond the Dodge program in proposing debt retirement, and that, within the framework of a balanced budget, steps should be taken for increased public works, unemployment relief, and the provision of equipment funds to basic industries. Officially, therefore, the two groups advocate changes in the implementation of the program rather than a revision of the program itself. For reasons which will be indicated later, however, it is not unlikely that they would welcome a revision of the "Dodge Line" itself, but avoid a direct statement of that aim for obvious political reasons.

Views

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Tokyo's Despatch No. 767,
November 4, 1949.

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-2-

Views of the Economic Stabilization Board

1/

For a competent summary of the ESB's position as contrasted with that of the Ministry of Finance, which presently has the upper hand, there is enclosed a memorandum prepared by Mr. Leonard FELSENTHAL, economist in the Division of Research for the Far East, Office of Intelligence Research, who recently completed a period of temporary duty in Seoul and Tokyo. As appraised by Mr. Felsenthal, stabilization "Plan A," which has the support of the Finance Ministry and of the Prime Minister, "is based primarily on the elimination of inflationary factors and the discouraging of expansion of investment by the government". "Plan B", which is supported by the ESB, "is based on a gradual expansion of investment as a prerequisite of final stabilization".

The differences between the two programs, it will be seen, revolve around the following points: both propose industrial rationalization, but Plan B advocates spreading the costs over a long period; Plan A would freeze wages, while Plan B, sanctioning limited price rises if world prices rise similarly, would presumably also allow limited wage rises to prevent a fall in real wages; Plan A would discourage capital accumulation by the Government and limit public works severely, while Plan B would encourage Government investment and advocates public works to a minimum total of 100 billion yen for Japanese fiscal year 1950; Plan A tightens Government and private credit, while Plan B advocates government loans and long-term agencies for extending credit to medium and small enterprises. Although it is not explicitly so stated in Mr. Felsenthal's summary, Plan B also contemplates wider direct investment of U. S. Aid Counterpart Funds than has so far been the case, and would not oppose in principal credit expansion through some agency similar to the now inactive Reconstruction Finance Bank.

2/

A somewhat more detailed statement of the Economic Stabilization Board's position is provided in a study dated August 1, 1949, and entitled "Analysis of Economy in Transition", five copies of which are enclosed. In brief, the study analyzes the deflationary effect of the 1949 budget, and notes possible countermeasures which can be taken within the framework of the balanced budget.

The heart of the deflationary problem is seen in the balanced budget, which on the one hand produces a flow of money into the Bank of Japan and a consequent

shrinkage

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Tokyo Dispatch No. 10,
November 4, 1949.

CONFIDENTIAL

-3-

shrinkage in industrial funds, and on the other reduces purchasing power by increasing the tax burden and forces prices up by reducing subsidies. The trend is aggravated by the reluctance of banks to extend long-term equipment loans, or to provide credit to small and medium enterprises, and by the suspension of Reconstruction Finance Bank loans, which have hitherto been the mainstay of such essential industries as coal mining. U.S. Aid Counterpart Funds, moreover, assertedly have not been made available to fill the gap between supply and demand for equipment funds.

The slump in Japan's exports, the study continues, is of course largely the result of factors beyond Japanese control, but may in part be explained by internal pressures. Thus, export financing becomes difficult as the credit situation tightens; production declines as stockpiles accumulate (and the accumulation of stockpiles in turn is in part due to the lessening of effective demand and the shortage of equipment funds), and production costs consequently rise; and, finally, export industries, except in the cases of a few large and favored companies, are unable to obtain funds with which to carry out rationalization programs.

As a result, stockpiles accumulate, payments lag, real wages fall, medium and small enterprises face increasing financial difficulties, and, for want of long-term credit, dismissal of employees becomes the only possible way of adjusting the situation. Thus the economy stagnates, and, the study concludes, "it is feared that the adjustment of economy for the short-term profitability /i.e., abrupt fiscal retrenchment/ may result in the vicious circle of economic shrinkage bringing about further economic shrinking. From the long-range viewpoint of economic self-support, Japan's economy should not be of such small scale as to consume not more than three million tons of coal or a hundred and fifty thousand tons of steel per month."

After this detailed analysis of deflationary trends and potentialities, the study concludes with the relatively mild suggestions that Counterpart Funds become available, and that government investment be increased "within the framework of the balanced budget". "In short", it is noted, "an expansion of investment in the basic industries at present will result in an eventual saving of aid to Japan".

No attempt is made here to indicate more than the barest essentials of the Economic Stabilization Board's thesis. As a well-organized statement of a dissident, if not hostile, view of present economic policies, the study is considered worthy of more than perfunctory attention.

Other

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Tokyo's Despatch NO. 707,
November 4, 1949.

CONFIDENTIAL

-4-

Other Statements

With the announcement of Mr. Joseph DODGE's expected return to Tokyo, the Japanese press and periodicals devoted an increasing amount of space to appraisal of the so-called "Dodge Line", and to predictions and suggestions regarding its future application. Of particular interest was a series of articles by leading economists published in the Nihon Keizai Shimbun under the title "What we Hope for from Mr. Dodge". Among the contributors were a number of economists whose views in general coincide with those outlined above, who are more or less closely identified with the Social Democratic Party, and who have carried considerable weight with the Economic Stabilization Board. Translations of three of the more significant articles are enclosed; a brief statement of the views contained therein follows.

3/ Mr. WADA Hiroo, former director of the Economic Stabilization Board and at present director of the Policy Investigation Bureau of the Social Democratic Party, expresses doubts as to whether implementation of the program by the present Government conforms to Mr. Dodge's intentions, and points to the "super-balanced" budget as evidence that those intentions have been perverted. To counteract the decline in production and the accumulation of stockpiles, he recommends maximum use of the Counterpart Fund for public works, unemployment countermeasures, and assistance to local finance, as well as curtailment of the present program of redeeming Government and Reconstruction Finance Bank bonds, and, of course, abandonment of the "super-balanced budget". To increase effective demand, he proposes lightening of the income tax burden and raising of the wage base for public servants. Assailing the present program as "financial and big-business stability", he calls for a more even distribution of the sacrifices.

4/ Mr. INABA Hidezo, former Economic Stabilization Board economist who resigned upon the announcement that the Economic Rehabilitation Planning Committee's "Five Year Plan" (this Mission's despatch no. 669 of September 26, 1949) would not be published, notes the same general evidences of economic stagnation as did the ESB in the study summarized above. Additionally, he points out certain indications that actual unemployment has increased much more sharply than would be indicated by relief statistics. While believing the economic stabilization program to be necessary and unavoidable, Mr. Inaba suggests the following modifications in its operation: increased public investment, and increased direct investment from the Counterpart Fund, together with loan guarantees as required;

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Tokyo 3 Dispatch No. 707,
November 4, 1949.

CONFIDENTIAL

-5-

minimum retirement of debentures, with an expanded public works program, and adjustment in the timing of Government payments; international cooperation toward the expansion of foreign trade and the improvement of trade terms; the adoption of a social security program; and, finally, the consideration by Mr. Dodge of problems not strictly fiscal and financial.

5/ Mr. TSURU Shigeto, Professor in the Tokyo University of Commerce, who has been closely associated with the Economic Stabilization Board, generally agrees that the Japanese economy is stagnant, and that stabilization at such a low level cannot really be considered stabilization in the best sense of the term. In Mr. Tsuru's opinion, however, more important than the technical problem of raising the production level is the problem of making the Japanese Government responsible for economic recovery. Mr. Tsuru would therefore ask from Mr. Dodge a clear delineation of the aid to be expected from America, and, within that frame of reference, would make the Japanese Government entirely responsible for stabilization.

Significance

To all intents and purposes, the economists mentioned above, and the Economic Stabilization Board in its study of the economy in transition, do not propose revision of the "Dodge Line". Officials of the Economic Stabilization Board state that the program they propose, including expanded public works and aid to medium and small businesses, can be accomplished within the framework of the balanced budget, and in essence simply implies more effective use of American aid, plus somewhat milder credit policies.

There are indications, however, that the Economic Stabilization Board and the Social Democratic Party would favor relaxation of the "Dodge Line" itself. The enclosed report on the economy in transition notes at one point that there can be seen "a conflict between the balanced budget and the decrease of purchasing power commensurate with the deflationary trend" which statement in effect lays all the blame for the deflation on the budget itself, rather than only on the Government's implementation program. The Department's attention is also called to the concluding paragraphs of the study, which, while admitting the need for stabilization, recommend that "overall measures covering not only economic but also social aspects of the problem be put into practice". Attention is also invited to the following statement in Mr. Felsenthal's

Memorandum

CONFIDENTIAL

November 4, 1949.

CONFIDENTIAL

-6-

memorandum: "The questions raised by the 'planners' are whether Japan will be able to achieve this stabilization at the level indicated above without the stimulant of rising prices, and within the mechanism of private enterprise and free competition".

Although completely up-to-date statistics are not available, there is some evidence that real wages have declined slightly in recent months. The Social Democratic Party must in the final analysis support wage increases, and, whether or not declining wages are a necessary result of the Dodge program, it is very unlikely that wages can rise unless the inflationary spiral is resumed. Therefore, while it is no doubt true, as Mr. Felsenthal points out in the enclosed study, that there is general agreement on the principle of stabilization, that agreement probably does not extend to absolute acceptance of the "Dodge Line". It is possible that the economists noted above, as well as the Social Democratic Party itself, have concentrated their attack on the Government's enforcement of the Dodge program in the knowledge that it would be politically inexpedient to attack the program itself, and perhaps in the belief that some relaxation must inevitably come if present wage trends continue. In any event, it is difficult to believe that the Party, in view of the policies to which it is committed, can be a devotee of the Dodge plan; and, in view of its position as the leading non-Communist opposition to the present Government, and as the most important single element resisting the polarization of Japanese politics, it is believed that the Party's views on economic stabilization should be recommended to the Department for close and continued observation.

The Department is invited to give particular attention to Mr. Tsuru's enclosed article which recommends that, within a very clearly defined framework of American aid, the Japanese Government be given complete responsibility for economic recovery. Should that recommendation be adopted, it would obviate the present unfortunate situation whereunder the Cabinet avoids responsibility for unpopular policies, however much it may approve of them. It is not improbable that the Government would be unwilling or unable to face the political opposition that would result from continued enforcement of the present line if its sole responsibility were made clear.

Respectfully yours,

W. J. Sebald
W. J. Sebald

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Enclosures:

Tokyo's Despatch No. 767,
November 4, 1949.

CONFIDENTIAL

-7-

Enclosures:

1. Mr. Felsenthal's memorandum, "Divergent Views on Implementation of Economic Stabilization Program".
2. Five copies of ESB's study, "Analysis of Economy in Transition", 1 August 1949.
3. Translation of article from Nihon Keizai Shimbun October 25, 1949.
4. Translation of article from Nihon Keizai Shimbun October 21, 1949.
5. Translation of article from Nihon Keizai Shimbun October 28, 1949.

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Enclosure No. 1 to Despatch No. 767 dated November 4, 1949 from the United States Political Adviser for Japan, Tokyo, on the subject, "Views of Social Democratic Party and Economic Stabilization Board with Regard to Economic Stabilization."

(COPY)

Subject: Divergent Views on Implementation of Economic Stabilization Program.

The publication of the nine principles of the Stabilization Plan for the Japanese economy on December 18, 1948 has called forth a discussion on the methods of implementing stabilization objectives. While there is general and enthusiastic agreement on principles, there are differences of opinion on the most efficient methods of achieving the desired objectives. The Economic Planning Committee of the Economic Stabilization Board has been particularly active in expounding its "investment expansionist" views on the implementation of the stabilization program.

The following publications are of special interest.

- 1) Report of the Economic Rehabilitation Planning Committee (Part I), May 10, 1949 (Economic Rehabilitation Planning Committee, Economic Stabilization Board).
- 2) Economic Condition of Present Day Japan, July 1949, Institute of World Economy, Tokyo.
- 3) Analysis of Economy in Transition, August 1, 1949, Research Section, Economic Stabilization Board.
- 4) Shigeto TSURU, Post-war Economy of Japan - Toward Stability and Viability, unpublished draft.
- 5) Industrial Capacity, article in the Oriental Economist, September 24, 1949.
- 6) Counterpart Fund Utilization, Oriental Economist, September 10, 1949.

Assumptions and Objectives

For purposes of discussion, two general programs of stabilizing the Japanese economy have been evolved by the Japanese Government. Both plans depend on the assumption that U.S. economic aid will be terminated by 1953, the target year for "self-support". The general assumptions which are used are the following:

- 1) Stabilization

CONFIDENTIAL

Enclosure No. 1
to Tokyo's Despatch No. 767,
November 4, 1949

CONFIDENTIAL

-2-

- 1) Stabilization of the international political situation, with a gradual "easing" of the East-West tensions and an increase of trade between Japan and the Southern areas.
- 2) After a period of continued currency and foreign trade controls, free exchange of currencies will be restored, or multilateral clearing agreements will ease present exchange restrictions.
- 3) Foreign trade will be freed from restrictions and considerably expanded.
- 4) Trade terms and conditions will be considerably improved and foreign investments will be stepped up, expediting modernization of industries.
- 5) Domestic industries will be well rationalized, productivity of labor raised, and Japanese industry will be competitive on the international market without the use of subsidies.

A set of more specific economic assumptions used in the argument includes the following points:

- 1) Population will reach almost 88 million in 1953. *This is valid!*
- 2) Net terms of trade for Japan will improve by 13 per cent between 1948 and 1953 in favor of Japan.
- 3) Private capital formation will be as high as 15 to 17 per cent of national income each year after 1949.

On the basis of these assumptions, the targets for a "stable economy" by 1953 have been set as follows by the Economic Stabilization Board:

	FY 1949	FY 1953	Percentage
National Income (millions of 1930-34 Yen)	11,230	14,922	32.9
Industrial Production (1949 = 100)	100	180.9	80.9
Coal (million tons)	42	50	19.1
Finished steel (thousand tons)	1,920	3,050	58.9
Cotton yarns (million pounds)	341.3	760	122.7
			Agricultural

CONFIDENTIAL

Enclosure No. 1
to Tokyo's Despatch No. 767,
November 4, 1949.

CONFIDENTIAL

-3-

	FY 1949	FY 1953	Percentage
Agricultural production (1949=100)	100	120.5	20.5
Exports (millions of 1949 dollars)	599	1,511	152.3
Productivity of labor in manufacturing (1949=100)	100	169.0	69.0

It should be noted that industrial production which was 61.1 per cent of the 1936 level in April 1949 and has levelled off since then, will have to be raised by 80 per cent within four years, largely on the basis of an increase of labor productivity (70 per cent in four years), that agricultural production is to be increased by 20 per cent, and exports are to be almost tripled by 1953.

The questions raised by the "planners" are whether Japan will be able to achieve this stabilization at the level indicated above without the stimulus of rising prices, and within the mechanism of private enterprise and free competition. Or are the targets set in the Plan too high, particularly when considered in the light of an assumed increase of the standard of living by 1953 to approximately 90 per cent of the 1930-34 level?

Alternative proposals

The two plans which have been evolved by Japanese economists to implement the stabilization program are given below in general form only. Both plans are based on the same assumptions. While Plan A is based primarily on the elimination of inflationary factors and the discouraging of expansion of investment by the government, Plan B is based on a gradual expansion of investment as a prerequisite of final stabilization.

Plan A, according to the experts of the Economic Stabilization Board, envisages the following major policies:

- a) Rationalization of industry to a paying basis.
- b) Emphasis on the development of industries which produce for export.
- c) No increase in wage levels.
- d) Limited public works program.
- e) Discouragement of capital accumulation by government.

f) Tightening

CONFIDENTIAL

Enclosure No. 1
to Tokyo's Despatch No. 767,
November 4, 1949.

CONFIDENTIAL

-4-

- f) Tightening of government and private credit policies.

Plan B, considered to be the alternative to Plan A, includes the following points:

- a) Rationalization of industry, with costs spread over long period, and emphasizing the rationalization in export industries.
- b) Prevention of deflationary trends: Retirement of public debt at a maximum rate of ¥ 30 million in FY 1950. Slight rise in prices (about 5 per cent) acceptable, depending upon international price level, internal credit policies etc (in case prices in U.S. decline, there should be no price increase in Japan). Easing of private and governmental credit policies.
- c) Investment activities by government to be increased, either through government grants (subsidies) or through government loans. This investment activity is to compensate for the decline in counterpart funds arising from U.S. economic aid as U.S. aid tapers off.
- d) Increased public works program, as part of (c), in order to provide employment for the increasing number of unemployed. A minimum of ¥ 100 million for public works in FY 1950 is considered to be indispensable.
- e) Establishment of long-term financial institutions to meet the needs of small industrial, commercial and agricultural enterprises.
- f) Utilization of the Counterpart Fund for long-term investment to replace and modernize equipment, especially in export industries, and to recover "disinvestment" in public works which took place during and after the war.

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Enclosure No. 3 to Despatch No. 767 dated November 4, 1949 from the United States Political Adviser for Japan, Tokyo, on the subject "Views of Social Democratic Party and Economic Stabilization Board with Regard to Economic Stabilization".

Translation from Nihon Keizai Shimbun,
October 25, 1949

WHAT WE HOPE FOR FROM MR. DODGE

by WADA Hiroo,
Chairman of the Policy Investigation Council
of the Socialist Party

What has been the result of the enforcement by the Yoshida Cabinet of the Dodge Program as conceived by Mr. Dodge in implementation of the 9 principles for economic stabilization? Has it been what Mr. Dodge expected? We want him to study the attained results calmly and scientifically. First, the points aimed at by Mr. Dodge were to balance the total budget, to prevent currency inflation, and to stabilize prices, and then to increase production and to promote exports. However, a close study of the approved budget reveals that it is a super-balanced budget, and, although the currency continues to contract and prices tend to fall, production has recently tended to fall off, stocks are accumulating and exports stagnate. As against the government's goal of counter-inflation, we are actually running headlong into deflation.

The 140 billion yen counterpart fund, designed to prevent such a development, has been released to a total of only 20 billion yen up to the present, even though more than half of the fiscal year has elapsed. Therefore, in order to bring the deflationary trend back to the line of dis-inflation, it is imperative to readjust the super-balanced budget by limiting to the minimum the redemption of national bonds and Reconstruction Finance Bank debentures and by increasing expenditures for public works, unemployment relief, and aid to local finance, and at the same time, to reduce income taxes and to stimulate effective demand by raising the wage base. The counterpart fund must also be put to suitable and timely use.

Secondly, General MacArthur, in recommending the 9 principles for economic stabilization, stressed the necessity of equalizing the burden of sacrifice over the whole nation, in order that the impact on the individual might be minimized. But what has resulted from the enforcement of the stabilization program by the Yoshida Cabinet? On the one hand, we see a stabilization of big enterprises through rationalization, and a strengthening of the position of financial capital; and, on the other hand, we note a shortage of funds and a progressive elimination of smaller enterprises, delayed payment and reduction of wages,

stagnation

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Enclosure No. 3
to Tokyo's Despatch No. 767,
November 4, 1949.

UNCLASSIFIED

-2-

stagnation or decline of real wages, dismissal of employees, the increase of open unemployment, the existence of an army of latent unemployed, and the impoverishment of farmers.

In other words, economic stabilization as enforced by the Yoshida Cabinet is stabilization for capital and not stabilization for the masses. The burden resulting therefrom is one-sided. We urge that this inequality be rectified, and that policy be shifted to one which confirms the principle that economic stabilization is nothing other than stabilized living for the masses. The prevention of unemployment and of major fluctuations in the level of currency holdings is the direct responsibility of the government. Moreover, the importance of smaller enterprises and agriculture in Japan's economy should particularly be borne in mind.

Thirdly, the promotion of foreign trade, under the single exchange rate of 360 yen to the dollar, is of course one of the main props for the stabilization and self-sufficiency of Japan's economy under the Dodge program. In order to break in the deadlock Japan is now facing, further rationalization may be necessary, but the situation will not easily be taken care of by that alone.

I hope that Mr. Dodge, to attain the goals of his program, will deliver Japan's foreign trade from the present "blind trade" and take effective measures to change it in the direction of independence and autonomy. Otherwise, the deadlock in export trade may force devaluation of the yen.

Lastly, I wish to point out that there exists, for the stabilization and reconstruction of Japan's economy, the qualitative problem of the relative structure of capital goods, in addition to the quantitative problem of the rapid accumulation of capital. This essential problem is often neglected or ignored under the guise of budgetary equilibrium and economic autonomy, causing a deviation from the proper path for Japan's economy, and even tending to obstruct the development of economic democracy. For these reasons, we want Mr. Dodge to recommend all-round measures toward self-sufficiency, autonomy, and economic circulation, in order to make economic stabilization contribute to the livelihood and welfare of the masses, rather than to the stabilization of capital. It may be said that this will give a finishing touch to the Dodge Program.

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Enclosure No. 4 to Despatch No. 767 dated November 4, 1949 from the United States Political Adviser for Japan, Tokyo, on the subject "Views of Social Democratic Party and Economic Stabilization Board with Regard to Economic Stabilization"

Translation from Nihon Keizai Shimbun
October 21, 1949

WHAT WE HOPE FOR FROM MR. DODGE

By INABA Hidezo
Director of the National Economic Research
Association (Kokumin Keizai Kenkyu Kyokai)

The latest trend in Japan's economy seems to show two contrasting aspects. The bright side is seen in the brisk and self-reliant activities of enterprises, in the improvement in quality of commodities, in the lowering of costs and in efforts toward rationalization. But, on the other hand, it is undeniable that the following tendencies are now generally present:

1. a general stagnation and decline in production, and the appearance of internal industrial instability,
2. the intensification of the pressure for funds; the accumulation of stocks of manufactured goods, and the increase of accounts payable and receivable, accompanying the lack of effective demand,
3. the unfavorable progress of equipment and long-term funds,
4. acceleration of the above trends, stagnation of exports, and accumulation of stocks, brought about decisively by changes in the external situation.

The reason I point out these tendencies is that, assuming that no shift in present economic policies is to be expected, these downward trends will continue to accelerate, and any conditions which may reverse them through the "automatic" operation of the economy, will be difficult to find. Another reason is that, since the Japanese economy has a peculiar structure whereunder the indications of crisis do not appear openly but remain latent and dormant, maladjustments should be looked for under the surface. A classic illustration is shown in the following figures: actual visible unemployment remains around 400,000, but, according to the labor force survey of the Cabinet Statistics Bureau, during the year ending July, 1949, the employed agricultural population increased by 2,500,000, while, during the same period, the employed population in manufacturing, construction, and mining decreased by 700,000 (12 per cent).

400,000

Enclosure No. 4
to Tokyo's Despatch No. 767,
November 4, 1949.

UNCLASSIFIED

-2-

400,000 (30 per cent) and 150,000 (25 per cent) respectively. Viewed from other angles, innumerable other indications of latent maladjustment can be noted.

I admit it to be inevitable for us to pass through the course marked by Mr. Dodge, if Japan's economy is to be stabilized and independent. However, to face the situation created at present and in the future, by changes in internal and external conditions, it is believed imperative that the following suggestions be considered so that the stabilization and reconstruction of the country's economy may be more effectively carried out; these suggestions contain my minimum expectations, without including too much thought of reforming the present situation, and I earnestly hope that they be carried out:

1. more positive measures toward raising long-term funds; the increase of financial investments; the direct investment of counterpart funds; and, depending upon circumstances, application guarantees of private loans;
2. minimum redemption of government debts particularly under the 1950 budget; speedy and appropriate use of counterpart fund; expansion of public works, railways and communications installations; more energetic consideration to be given to seasonal adjustments in budgetary revenues and expenditures;
3. more effective foreign policy toward the improvement of trade conditions and the promotion of exports if the present exchange rate is to be maintained;
4. the adoption of a social security system to bring unemployment into the open, and financial assistance to the unemployed, as the reverse side of industrial rationalization;
5. lastly, what we expect of Mr. Dodge is his valuable advice concerning the general direction of the Japanese economy, from other than financial and monetary points of view.

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Enclosure No. 5 to Despatch No. 767 dated November 4, 1949 from the United States Political Adviser for Japan, Tokyo, on the subject "Views of Social Democratic Party and Economic Stabilization Board with Regard to Economic Stabilization".

Translation from Nihon Keizai Shimbun,
October 28, 1949

WHAT WE HOPE FOR FROM MR. DODGE

By TSURU Shigeto
Professor in the Tokyo University of Commerce
Hitotsubashi University

The main points aimed at by Mr. Dodge during his first visit to Japan may be listed as two. One was to stabilize Japan's economy and the other was to make the Japanese conscious of the economic situation as their own problem. His remarks struck us sharply at that time: "I am surprised to note that most Japanese understand almost nothing of the real situation in their own country". (His statement of April 15.)

As to the first point, it would appear from statistics that the goal has been attained. The effective price index has stayed at nearly the same level since January of this year and the note issue of the Bank of Japan is stabilized at around 300 billion yen. But, on the other hand, industrial production has not shown any sign of improvement since last March, and is stagnant at 60 per cent of the 1936 level. This 60 per cent production level as against the 1936 level is far from true stabilization, if the fact that the population has grown by 20 per cent since that time is taken into consideration. The problem remains as to how the present modest level can be raised to the next stage.

We consider, however, that the second point is more important. A sick man must have the determination to recover, and the same may be said of a nation and its economy. The true solution to Japan's problem can never be arrived at unless the Japanese themselves seek it. In a sense, Mr. Dodge's second visit reveals a contradiction. We are most grateful to welcome such an authority as Mr. Dodge to Japan for the second time in one year, and to have his advice regarding the delicate situation which Japan's economy is now facing; this may be interpreted, however, as evidence of the inability of the Japanese government to solve problems by itself. I am afraid that it may become usual practice for the Japanese government to rely upon foreign experts to solve its masses of difficult problems.

From my

UNCLASSIFIED

Enclosure No. 5
to Tokyo's Despatch No. 767,
November 4, 1949.

UNCLASSIFIED

-2-

From my own professional point of view, I have many thoughts on the reconstruction of Japan's economy, which I have expressed on several occasions. But to indicate my concrete views under the heading of "What We Hope for from Mr. Dodge" would, I think, run counter to the principle of "solution through our own efforts" devised by Mr. Dodge. If I am to say anything on this occasion, it is only to request Mr. Dodge to consider the case of Japan in the light of the statement made by Mr. Eugene BLACK, President of the International Reconstruction Bank, with regard to western European nations, on the occasion of the Bank's annual meeting last September. In a word, the limit of American aid to Japan should be defined as exactly as possible, as to both its duration and its volume; within that limit, the Japanese should be made responsible for their own problems of stabilization and reconstruction.

If we are not resolved to settle our own problems by our own efforts, I think that Japan's economy cannot be saved and that, moreover, the political aim of democratic practices toward national independence will be unattainable.

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1 Aug. 1949

Analysis of Economy in Transition

Research Section
Economic Stabilization Board

678-11/25-468
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CONTENTS

1. Preface
2. Analysis of Deflationary Factors.
 - a. Factors in the Field of Public Finance, Money and Banking.
 - (1) Nature of the Budget for the F.Y. 1949 and their Enforcement.
 - (2) Deflationary Factors in the Field of Money and Banking.
 - (3) Contraction of the Bank of Japan Notes.
 - b. Factors in the Field of Foreign Trade.
 - (1) Actual Records of Export Shipment and Export Contracts.
 - (2) Problem of 360 yen Rate.
 - (3) External Factors affecting Our Exports.
 - (4) Other Factors hampering the Expansion of Exports.
3. Impact of Deflation on Industry.
 - a. Production
 - b. Indices showing the Shrinkage of Effective Demand.
 - (1) Increase of Stockpiles.
 - (2) Increase in Uncollected Proceeds and Accounts Payable.
 - (3) Fall in Blackmarket Price.
 - c. Enterprise Management.
 - (1) Industries which depend heavily on Public Finance.
 - (2) Basic Industries.
 - (3) Export Industry, etc.
 - d. Future Problems.
 - (1) Problem concerning Subsidies and Price Structure.
 - (2) Problem concerning Kodans.

CONTENTS

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2. Analysis of Deflationary Factors.
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 - (3) External Factors affecting Our Exports.
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 - (1) Industries which depend heavily on Public Finance.
 - (2) Basic Industries.
 - (3) Export Industry, etc.
 - d. Future Problems.
 - (1) Problem concerning Subsidies and Price Structure.
 - (2) Problem concerning Kodans.

- 2 -

(3) Problem concerning Distribution System and Price Control.

4. Social Impact of Deflation.
 - a. Increase of the Unemployed.
 - b. Stoppage of Wage Rise.
 - c. Difficulties of Medium and Small Industries.
 - d. Stagnation of Urban Living Standard.
 - e. Deterioration of Farm-Village Economy.
5. Conclusion

reface

The chronic inflation after the war has been finally arrested by the enforcement of the balanced budgets and the establishment of the single exchange rate, and thus Japan's economy has made a long stride toward normalization. Our next target is to expand quickly production and exports on the basis of the stabilised economy in accordance with economic principles.

In the meantime a chain of deflationary factors such as contraction of currency, stagnation of production, drop in prices, shortage of money in enterprises, lack of purchasing power, increase of unemployment, etc. has started to manifest themselves recently. It is only natural that such deflationary factors have come to appear in the wake of the long chronic inflation, and it would be almost impossible to normalize Japan's economy without a transition period of this kind.

Inasmuch as, however, the frailty of Japan's economy-surplus labor, shortage of indigenous resources, poor accumulation of capital, high dependency on foreign trade, etc. -has been accentuated in postwar, it would be as much or even more dangerous than inflation if the present deflationary trend following the stabilization develops beyond the limits of normal adjustments. In other words, if Japan's economy which has lost much of its flexibility after the war because of the extremely low income level were exposed to a severe deflation it is very likely that the basis of Japan's economy itself on which enterprise rationalization is to be attained collapses by the impact of increasing social conflicts.

~~In 1948 Sir Stafford Cripps, Chancellor of the Exchequer, stated in his address on the budgets to the effect that it would be necessary to prepare themselves so that they might be able to catch the moment when a deflationary trend replaces the fading inflationary pressure and to take immediate steps for the adjustments of economic and fiscal policies.~~

~~The present Japan's economy may be likened to a serious patient to whom a big operation has been just administered. We have to endeavor to avoid the advent of crisis by analyzing the changing economic trend promptly and carefully and taking appropriate counter-measures commensurate with the changing circumstances.~~

Hereunder we tried to grasp the recent economic trend from various angles. In this connection, however, it is noted that although the compilation of various economic statistics has greatly improved after the war it still takes about two months thus hindering very much our efforts for fact-finding analysis, especially under the present circumstances in which economic conditions are changing at a very quick tempo. Although we were thus forced to use some estimated figures and description by examples, hereunder we tried to make an observation as objectively as possible.

2. Analysis of Deflationary Factors.

a. Factors in the Field of Public Finance, Money and Banking.

The key-note of the recent deflationary trend in the financial field is reflected in the contraction of currency, which is mainly attributable to the budgets for the 1949 fiscal year. Although it is very plain that the tight-money situation has been aggravated by such factors as strict loan policy of general financial institutions, suspension and promotion of collection of the Reconstruction Finance Bank loans, the fundamental cause of the tight-money situation may be found in the formulation of the new budgets.

(1) Nature of the Budgets for the F.Y. 1949 and their Enforcement.

The budgets for the F.Y. 1949 is noteworthy in their attainment of a true balance but they contain a possibility of causing a deflationary trend. The deflationary factors of the said budgets consist of currency contraction to be found in the composition of the budgets themselves (~~over-balanced budgets~~), reduction of the purchasing power through tax collection and substantial decrease in government investment.

(a) *Nature of the* ~~over-balanced~~ Budgets

As much as 92 billion yen of government funds consisting of 56.1 billion yen of the redemption of RFB bonds held by the Bank of Japan (70.3 billion yen of RFB bonds held by the Bank of Japan at the end of last March minus 14.1 billion yen thereof redeemed with delivery bonds), repayment of 25 billion yen of money borrowed from the Bank of Japan by the Foreign Trade Special Account and 5 billion yen of estimated surplus is expected to flow back directly to the Bank of Japan, while approximately 41 billion yen of government funds estimated to flow into the general financial institutions through the redemption of RFB bonds and national bonds held thereby, interest payment, etc. may return to the Bank of Japan away from the industrial field very much in need of funds, depending on the industrial conditions prevailing and the attitude of bankers thereto.

* Factors causing Currency Contraction
Contained in the Budgets for the FY 1949

(In Millions of Yen)

1. Funds flowing back to the Bank of Japan

1. Redemption of RFB Bonds.

RFB bonds held by the Bank of Japan (as of the end of March)	70,304
Delivery bonds	-14,114
National bonds held by the Bank of Japan	1,452
Excessive Redemption of Charcoal and Fire Wood Certificates	300
Total	57,942

2. Surplus

Surplus in the General Account	267
Increase of Funds in the Special Accounts	28,057
Issue of Local Bonds	-23,300
Total	5,024

3. Repayment of Borrowed Money

General Account	458
Special Accounts	
Printing Office	845
Precious Metal	500
property Tax & Other Revenues	877
Food Control	5
Foreign Trade	25,000
Governmental agencies such as People's Finance Bank, etc.	1,273
Total	28,958
Grand Total (1 + 2 + 3)	91,924

2. Funds flowing to General Financial Institutions (possible factors of deflation)

1. Redemption of RFB bonds held by General Financial Institutions inclusive of Deposit Bureau	38,796
2. Redemption of National Bonds (exclusive of those held by the Bank of Japan)	1,836

3. Excessive Redemption of Food Certificates 285

Grand Total 40,918

(b) Increase of Tax Burden

Under the present circumstances in which the family budgets are still suffering from deficits the increase of people's burden or the increase of income tax as well as other indirect taxes immediately affects the people's power to buy consumer goods, thereby aggravating the shortage of money. The tax burden as against the national income in the F.Y. 1949 is estimated to increase from 18.9% in the last fiscal year to 25.8%. As no revision was made to the Income Tax Law including the basic allowance at the time of formulation of the budgets for the present fiscal year the income tax burden was increased in substance to the extent that the price level was raised. The average burden of earned income tax of government workers and employes in manufacturing industry is compared as follows with that at the time when the budgets were finally formulated in the last fiscal year. The burden of married workers especially increased substantially.

Burden of Earned Income Tax in Yen

(Unit: Yen)

	June 1948			April 1949		
	Average income	Tax	Rate	Average income	Tax	Rate
Government Workers (single)	3,791	312	8.2	6,307	792	12.6
" (With 2 dependents)	3,791	12	0.3	6,307	492	7.8
Employes in Manufacturing Industry (single)	4,395	420	9.5	8,329	1,242	14.9
" (With 2 dependents)	4,395	120	2.7	8,329	942	11.3

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In the field of local taxes, their rates are very heavy (15% in the business tax, 20% in the real estate acquisition tax) and the revenues of amusement tax, land tax, house tax and inhabitant tax are expected to be increased respectively by 300%, 150%, 100% and 60% in the present fiscal year as compared with those in the last fiscal year. The tax burden of farmers and smaller entrepreneurs also is thus increased thereby aggravating their financial plight as stated below and resulting in increasing the pressure on the effective demand for not only consumer goods but also producer goods. In the meantime the above circumstances naturally affect tax collection and it is estimated that if no special efforts were made the collection of local taxes would be about 20% below the target (150 billion yen).

(c) Substantial Reduction of Government Investment

The principal construction expenses included in the budgets for the F.Y. 1949 are compared as follows with those in the budgets for the F.Y. 1948.

Government Investment (In Millions of Yen)

	F.Y 1948	F.Y 1949
Public Works Expenses (inclusive local bond issue therefor)	82,019	78,844
Construction Account (National Railway)	21,298	16,548
Profit & Loss Account (")	23,352	28,271
Sub-total	44,650	44,820
Construction Account (Communication)	17,634	18,862
Profit & Loss Account (")	3,609	8,798
Sub-total	21,243	27,860
Grand Total	147,912	151,524
	(100)	(100)

As the price rise in the above period is estimated to be about 20-30%, the construction expenses for the F.Y 1949 are decreased to that extent in substance as compared with those for the F.Y 1948.

As stated above the deflationary nature of the budgets for the F.Y 1949 is manifesting itself in that the increase of fiscal revenues tends to press down the purchasing power for consumer goods while a part of the national income siphoned up by the Government is likely to flow back to and remain in the national treasury or the Bank of Japan through the repayment of national debts such as RFB bonds and money borrowed from the Bank of Japan and as fiscal surplus without returning to the national economy in the form of industrial investment or in the form of individual income.

How these deflationary factors in the budgets for the F.Y 1949 are manifesting themselves so far will be seen herebelow.

(d) Enforcement of the Budgets

71 billion yen of taxes or 13.8% of the target, as against 9% in the corresponding period for the last fiscal year was collected by the end of June.

(In Millions of Yen) Tax Collection by End of June 1949

	Collection by End of June	Budgets	Rate	Rate in Corres- ponding period in Last Fiscal Year
Income Tax	36,915	310,202	11.9%	9.1%
With holding	28,308	120,202	23.6	18.7
Self assessment	8,607	190,000	4.5	3.8
Corporate Tax	8,993	27,271	33.0	9.9
Liquor Tax	8,888	65,035	13.7	8.1
Textile Consumption Tax	2,158	17,313	12.5	13.4
Article Tax	2,832	26,999	10.5	10.2
Transaction Tax (Cash revenues)	4,332	42,155	10.3	--
Others	6,875	25,685	26.7	--
Total	70,993	514,660	13.8	9.0

The total sale of tobacco by the end of June was 35,505 million yen or 3.2% below the target, while the railway fares (both passenger and cargo) in the month of May decreased as compared with those in April and especially with respect to passenger fares the original estimates of revenues are forced to be reduced by 20 - 30% on account of the unexpected decrease in the number of passengers following the upward revision of passenger fares. Thus, the decrease of revenues in the form of passenger fares coupled with the delayed commencement of operation of the US Aid Counterpart Fund (5.6 billion yen for the purchase of railway bonds as late as July 1 for the first time) has been adversely affecting the Railway Special Account to the extent that almost no payment was made for construction in the month of June because of the shortage of money in the Account in spite of the fact that 10 billion yen was transferred from the General Account. In the above is seen the conflict between the balanced budgets and the decrease of purchasing power commensurate with the deflationary trend. Should the present deflationary trend become more pronounced in future the pressure of tax burden would become more heavy as production decreases and as the size of national income dwindles and it would become very difficult to secure the whole amount of tax revenues estimated in the budgets.

In the meantime the disbursement of government funds became very active in and after the last 10 days of April and during the 1st quarter 23.4 billion yen of termination of war expenses, 30.7 billion yen of price adjustment subsidies, 10.7 billion yen of public works expenses, 8 billion yen of government investment, etc. were disbursed in the General Account while in the Special Accounts 10.7 billion yen (railway) and 29.2 billion yen (foreign trade) were disbursed. Thus as shown in the following table the disbursement of government funds exceeded the collection thereof by 29.1 billion yen during the 1st quarter.

Disbursement and Collection of Government Funds

(In Millions of yen)

	Disbursement	collection	Excessive Disbursement
End of April	127,827	115,038	12,789
End of May	142,565	120,657	21,908
End of June	113,227	118,733	(-) 5,506
Total	383,619	354,428	29,191

Let us look at the effects which the ^{present} deflationary budgets for ^{this} ~~the present~~ fiscal year have brought about during the 1st quarter. Out of 15.1 billion yen of RFB bonds redeemed during the 1st quarter 12.6 billion yen was of those held by the Bank of Japan and the redemption thereof was made with delivery bonds while the remainder or 2.5 billion yen was of those held by city banks. Thus the contraction of currency was not so substantial. Inasmuch as, however, in and after July an increasing amount of RFB bonds held both by the Bank of Japan and by the general financial institutions is expected to be redeemed in accordance with the RFB bond redemption program, deflationary effects from this side are ^{expected} ~~feared~~ to become conspicuous in and after 2nd quarter. With respect to the Foreign Trade Special Account its borrowing is increased by 15 billion yen instead of making the repayment of 25 billion yen as originally scheduled. Herein lies another factor of deflation in future.

(2) Deflationary Factors in the Field of Money and Banking

(a) Financial Conditions in the 1st Quarter.

The ~~tight~~-money situation caused by the tax collection campaign and the delay in governmental payments was substantially eased up from around the end of April when the new budgets was put into operation with the result that a remarkable progress was made in governmental payment connected with price adjustment, termination of war, Foreign Trade Kodan, etc. while the bank deposits increased and the collection of bank loans was improved. As shown below the amount of bank loans increased steadily in the months of May and June and the ratio of time deposits as against the total

deposits outstanding has recovered from 17.2% at the end of January to 19.1% in April, 19.5% in May and 20.5% in June following the recovery of confidence in currency.

Increase or Decrease of Bank Deposits

January-March 1948	22,699 million yen
April-June	35,468
January-March 1949	53,200
April	x 20,253
May	22,707
June	21,640
April-June 1949	23,984

In spite of the fact that the fund situation of city banks was very much eased as seen above the banks were extremely careful in their credit extension initially and in the months of April and May 9.6 billion yen was repaid to the Bank of Japan albeit as much as 10 billion yen of governmental deposits were withdrawn in the same period. In the month of June while the amount of bank deposits continued to increase, the attitude of city banks became somewhat more positive and their credit extension substantially increased with the fund requirements for the purchase of imported goods such as raw cotton, soy bean, whale oil, raw wool, soy bean cake, etc., fund requirements for the clearance of outstanding debts of coal mines, and fund requirements for the purchase of cocoons coupled with the fund requirements for settlement at the end of the quarter; and thus, the amount of borrowing from the Bank of Japan also increased by approximately 9 billion yen during the month of June. Thus the increase of bank loans in April-June 1949 amounted to 50.9 billion yen showing a substantial increase as against those in the corresponding period last year and January-March this year.

The total supply of industrial funds during April-June this year as calculated by each big supply route such as banks, the Reconstruction Finance Bank, bond floating, and stock payment (in this connection it is noted that

some duplications may exist) amounted to 70.5 billion yen (excluding the collection of RFB loans with delivery bonds) as in the following table showing a slight increase over those in the corresponding period last year and January-March this year.

It is noted, however, that the deflationary trend is being expedited from the following two factors despite the increase in total fund supply as seen above. Firstly, although the big enterprises of high credit standing are favored in obtaining bank loans, floating their bonds or increasing their capital those enterprises other than the above are suffering from the extreme shortage of money; and secondly following the suspension of RFB loans those enterprises used to obtain equipment funds from RFB heretofore are in the plight.

Supply of Industrial Funds

(In Millions of yen)

	Increase of Bank Loans	Increase of R.F.B. Loans	Floating of Deben- tures	Stock Payment	Total
Jan.-Mar. 1948	27,848	15,251	80	3,737	46,916
Apr.-Jun. 1948	30,366	16,622	0	10,010	56,998
January 1949	x 147	6,751	140	4,093	10,837
February	9,693	5,993	200	4,170	20,056
March	17,350	8,059	280	4,433	30,122
Total	26,896	20,803	620	12,696	61,015
April	7,007	x 14,222 (x 108)	345	4,904	x 1,966
May	10,626	x 693	220	6,289	16,442
June	33,274	x 734	725	8,691	41,936
Total	50,907	x 15,649 (x1,535)	1,290	19,884	56,432 (70,546)

The figures in parenthesis in the column of R.F.B. loans show the collection minus the delivery bonds of 14,114 million yen.

While the city banks are taking up such loans of good terms as for the big enterprises of high credit standing, short-term trade bills the collection of which are assured, the purchase of imported goods, etc. as their fund situation is eased they are extremely careful in extending their credit to converted enterprises, smaller enterprises of dubious management etc. which have barely survived the post-war inflation. In other words, unless "pre-financing" conditions so to speak, such as the expansion of exports, expansion of domestic market by some means, etc. be improved, the funds for rationalization, nothing to say of working funds, would not be furnished without State guarantee even if the fund supply to the smaller enterprises were created specially by the Bank of Japan. Following the aggravation of shortage of money the amount of dishonored bills has sharply increased recently. That is to say the monthly average of approximately 400 million yen of dishonored bills in the Tokyo Clearance in June-July last year increased to 1,000 million yen (10,000 bills) in recent months. The term of bills was usually 30-60 days in the past but recently it has been extended to 90-100 days or longer in many cases.

On the other hand, with regard to the loans of good terms a considerable competition is appearing as the fund situation of city banks is eased. Especially with regard to the discount of trade bills, advances of trade funds, funds for the purchase of imported petroleum, etc. they are competing with each other in obtaining customers even by lowering their interest rate. The normal fund requirements of those big enterprises of high credit standing are also adequately covered.

Under such circumstances the local branches of major banks are sending their funds to their head offices and the local banks are either increasing their deposits in major banks or trying to find profitable transactions in big cities. It is also noted that the investment in debentures and local bonds is being welcomed in anticipation of the stop in rise of the interest rate.

(b) Suspension of RFB Loans and Accommodation of Equipment Funds

The suspension of RFB loans has affected greatly the industries in the supply of equipment funds. As shown in the following table 22.1 billion yen or two thirds of the total supply of equipment funds was supplied by the Reconstruction Finance Bank during the January-March period 1949. Although the suspension of RFB loans was anticipated to be covered by the operation of the US Aid Counter-part Fund during the 1st quarter 1949 fiscal year, it was not started during the said quarter with the result that the total supply of equipment funds during the said quarter decreased to approximately one half of that during the 4th quarter 1948 fiscal year.

Accommodation of Equipment Funds (In Millions of Yen)

	City Bank Loans	RFB Loans	Debentures	Stocks	Total
January 1949	2,517	5,646	27	708	8,898
February	2,441	5,600	38	721	8,800
March	3,864	10,951	54	766	15,635
Total	8,822	22,197	119	2,195	33,333
April	2,651	0	66	1,348	4,065
May	3,398	0	42	1,729	4,169
June	5,391 (estimated)	0	139	2,390	7,920
Total	11,440	0	247	5,467	19,154

As seen in the above, though the city banks have tried to supply as much equipment funds as possible by themselves, through syndicates or by investing in the debentures of the Industrial Bank of Japan with the funds accruing from the sale of RFB bonds to the Bank of Japan, the record improved only by about 30% as against the preceding quarter, mainly because of such factors as the risks involved, profitability or the composition of deposits (the ratio of time deposits is very low). Although the supply through debentures and stocks doubled as against the preceding quarter, the absolute amount thereof was not great. Inasmuch as the operation of the US Aid Counterpart Fund was delayed the syndicate loans of city banks with the good offices of the Bank of Japan played a big role in the supply of equipment funds and as shown in the following table they sharply increased in the months of May and June.

It is noted that as regards such fund requirements as may be unwelcomed from the standpoint of sound banking (long-term funds for the construction of large-sized steel ships and for the reinstatement of spinning industry) the accommodation was extremely difficult even with the good offices of the Bank of Japan, however important it may be from the standpoint of national economy. Herein is disclosed the restricted nature of good offices for adjusting the private banking interests with the interests of whole national economy.

Loans made under good offices of the Bank of Japan

	Equipment Funds	Working Funds	Total
April-June 1948	--	--	10,975
January-March 1949	2,225 (508)	14,068 (213)	16,193 (721)
April 1949	787 (130)	6,893 (0)	7,680 (130)
May	1,271	10,137	11,408
June	1,568	12,522	14,090
Total	2,626	29,552	33,178

(Figures in parenthesis show the amount of loans guaranteed by RFB). It cannot be denied that such reduction in the supply of equipment funds as stated above has produced the decrease of effective demand for producer goods on one hand and has adversely affected the rehabilitation of equipment. The fund requirements other than 3 billion yen for coal of 6.6-6.8 billion yen of essential equipment funds estimated by the Bank of Japan and the Economic Stabilization Board to be required for the 1st quarter as a stop-gap up to the commencement of the US Aid Counterpart Fund operation have been almost fully covered by the syndicate loans (inclusive of the so-called stop-gap loans), by floating debentures or increasing capital or by the Industrial Bank of Japan, as they have been mostly the requirements by those enterprises of high credit standing.

As regards the equipment funds required by the coal mines they would be partly covered by the city banks, should the so-called merit system be adopted and the problem of adjusting new loans with the old RFB loans in connection with their securities be solved. In this connection it is noted that while the production is affected by the decrease in the supply of equipment funds, the requirement of equipment funds itself tends to decrease as the effective demand decreases entailing the accumulation of stockpiles and the consequent reduction of production.

(3) Contraction of the Bank of Japan Notes.

Let us take a look at the movement of currency issue as the summary of the deflationary trend stated above. (cf graph 1)

In spite of the fact that the amount of the Bank of Japan Notes in circulation usually takes a turn for the increase after April every year it continued to decrease month by month this year even after April and it contracted by 11.9 billion yen during the 1st quarter.

Issue of the Bank of Japan Notes (In Millions of Yen)

At the End of January 1949	341,575 (100)
" February	322,448 (94)
" March	312,547 (92)
" April	315,932 (93)
" May	305,937 (90)
" June	300,628 (88)
" July	295,492 (87)

While the net excessive disbursement of government funds during the 1st quarter was 2.4 billion yen (the total excessive disbursement of 29.1 billion yen stated above minus the absorption of national bonds and debentures and the withdrawal of government deposits) the credit extension by the Bank of Japan during the 1st quarter contracted by 13 billion yen (contraction of currency by other reasons amounts to 1.2 billion yen). This means that the city banks held down their credit extension to that extent.

16

As regards the clearance of bills it decreased after March as shown below.

Clearance of Bills.

	Number (In thousands)	Sum (Million Yen)
January 1949	1,195	171,893
February	1,449	198,821
March	1,703	253,991
April	1,565	243,375
May	1,662	235,885
June	1,606	234,848

As seen above, the fact that the currency continues to decrease at the time when it takes a seasonal upward turn, in spite of the fact that direct deflationary factors in the field of public finance have not yet fully appeared, is feared to portend the advent of a full-scale deflationary crisis in future.

b. Factors in the Field of Foreign Trade

In order to realize the normal circulation of Japan's economy by covering a considerable decrease in the domestic purchasing power expected to be brought about by the budgets for the F.Y. 1949 our exports would have to be substantially expanded over and above the present export target by developing foreign market. Although the export record so far including the amount of export contracts concluded prior to the establishment of a single exchange rate is not so unfavorable we cannot be too optimistic even about the attainment of the present export target of 600 million dollars in view of the recent trend of export contracts. Meanwhile the stockpiles of export goods are accumulating and those of textiles alone amount to as much as 50 billion yen. The simple reduction of cost is considered not sufficient to solve this problem.

The shortage of funds in export industries is being aggravated and the credit extension is being hampered in fear of the sluggish exports in future. Thus it is noted that, contrary to the general expectation that the export trade would play a big role in preventing deflation, it is becoming a deflationary factor second in magnitude to the financial factor stated above.

Herebelow we will show the recent export records and the various reasons hampering a substantial export expansion.

(1) Actual Records of Export Shipment and Export Contracts.

In 1948 our imports amounted to 683 million dollars while our exports amounted to 259 million dollars with the unfavorable balance being 414 million dollars. In 1948 the imports amounted to approximately 60 million dollars almost every month and the exports increased from the monthly average of 10 million dollars in the beginning of the year to 30-40 million dollars toward the end of the year. As shown in the following table in 1949 our exports amounted to 37.1 million dollars in January, 37.0 million dollars in February and 45.8 million dollars in March. Although our exports

18

in term of dollars in and after April are not yet available they are estimated to be approximately 45 million dollars in April and about 50 million dollars in May on the basis of the exports in term of yen. From the peak in May, the trend seems to have taken a downward turn with our exports being estimated at a little more than 40 million dollars in June and 33 million dollars in July (on the basis of the record in 1st and 2nd ten days in July). (c.f. graph 2)

Export Record

		January 1949	February	March	April	May	June	1st 10 days of July	2nd 10 of J
In terms of dollars (Million Dollars)	Exports	37.1	37.0	45.8					
	Imports	74.6	65.5	87.9					
In terms of Yen (Billion Yen)	Exports	114.5	110.0	138.8	139.0	179.3	145.3	34.0	44.4
	Imports	65.7	97.7	119.1	148.2	227.0	276.1	98.9	82.0

Note: The record in dollars is based on the statistics compiled by the Research and Program Division, ESS while the record in Yen is based on the statistics compiled by the Ministry of Finance.

The steady expansion of our exports stated above may be attributed to such durable factors as people's voluntary cooperation for the attainment of self-support of Japan's economy, comparatively smooth recovery of production, reaction of the decreasing trend of domestic purchasing power, progress in the conclusion of trade agreement with various countries, etc. on one hand and to the after-effect of the abnormal expansion in export contracts caused by such temporary causes as stated below. As shown in the following table the amount of export contracts in January-April 1949 amounted to 240 million dollars or 93% of that of the entire year of 1948. This abnormal expansion was caused by such factors as the hasty conclusion of contracts for weak yen goods in anticipation of the establishment of a single exchange rate at a comparatively strong yen level, hasty conclusion of contracts for the goods for India in anticipation of the suspension of the OGL by the end of March, conclusion of export

19

contracts with the Netherlands East Indies to dispose of a substantial amount of cotton yarn in stock, etc. The reason why in the month of January as much as 111 million dollars worth of export contracts were concluded is that the contract conclusion was concentrated in January in anticipation of the rise in the prices of cotton goods following the enforcement of the sale of the State-owned raw cotton in and after February.

Amount of Export Contracts in Dollars (Million dollars)

January 1949	February	March	April	May	1st 10 days of June	2nd 10 days of June	June July
111.3	40.8	43.3	45.1	25.0	11.1	15.0	39 39

(Prepared by the Ministry of International Trade and Industry)

On April 25 this year a single exchange rate was established at the level of 360 yen per one US dollar and immediately there after, that is to say, in the month of May the amount of export contracts decreased to 25 million dollars or about one half of that in the preceding month. With the exception of the yarns which showed a slight recovery from the extreme slump in the preceding month, almost every item recorded a sharp decrease, especially such major items as fabrics and metal manufactured goods decreased to less than one half of the record in the preceding month. Breakdown by countries shows that the export contracts with the USA ranked first with 12-13 million dollars monthly or about 30% of total in February, March and April respectively. In May, however, it decreased to 30 million dollars or 12% of the total. The export contracts with India come next to the above in magnitude with 8-11 million dollars or 20-26% of the total in each month of February and March. They sharply decreased to approximately one third of the above or 3.9 million dollars in April (9% of the total) and 2.8 million dollars in May (11% of the total) by the suspension of the OGL in India. In the meantime it is

noted that the export contracts with England steadily increased from February through April and in the month of May they amounted to 50 million dollars or 21% of the total.

A sharp decrease in the amount of export contracts in May may be partly explained as a reaction of abnormal expansion of export contracts in the early months of the year. In June the amount of export contracts ~~recovered~~ to the level of 40 million dollars mainly by the expansion in such items as machinery, metal goods and other miscellaneous goods. In the month of July, however, it is expected to decrease again to the level of 36-37 million dollars. In the meantime a sharp increase in the cancellation of contracts in recent months is noticeable and we cannot be too optimistic about the future in this field in view of the above and many other internal and external factors.

(2) Problem of 360 yen Rate

With the establishment of a single exchange rate in April the prices of export goods in yen heretofore determined on the basis of production cost were adjusted to the international prices by the uniform rate of 360 yen, and furthermore, the subsidy for exports were discontinued without exception. Thus the manufacturers of weak yen export goods were forced either to discontinue their export or to reduce their production cost. This is the reason why, prior to the establishment of a single exchange rate, it was apprehended that the expansion of exports might be adversely affected by the establishment of a single exchange rate. However, because of the recent decreasing tendency of domestic purchasing power, the efforts for the expansion of exports have to be doubled thus accelerating the rationalization. Some manufacturers are exporting their products below their cost as an emergency measure in the period of transition. Thus, the domestic conditions have improved more than expected for the expansion of exports.

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On the other hand, the pressure expected to be increased on the cost of export goods, by possible rises in domestic prices following the reduction of subsidies, and by the continuation of a deflationary tendency in the post-war world economy, cannot be disregarded and many domestic conflicts may be brought about through the process of rationalization of export industries and related industries and the excessive "hunger exports". But the future trend of our exports is considered to depend ~~not so much~~ *on external factors as well as* ~~on domestic factors as on external factors.~~ As a matter of fact, the statistics show that the recent slump in our exports was not necessarily caused by the weak yen exports goods. The amount of export contracts of such weak yen items as pottery, celluloid goods, artificial flowers, etc. in the month of June exceeds the actual records in January and in February (the record of export contracts of such items as paper, rubber goods, toys, etc. has also substantially recovered) while the export contracts of such strong yen goods as yarns, caustic soda, etc. are in slump.

(3) External Factors Affecting Our Exports

The first of the international factors affecting or is considered to affect our exports in future is the downward trend of international prices, especially those in the United States. The U.S wholesale price index (100 in 1926) took a downturn from the peak of 170 recorded in last August and by the beginning of July this year it decreased to 153 or by about 10%.

The recent *decline of (activity)* economic (recession) in the United States reflected in the dropping prices stated above is adversely affecting our exports, and while, on the basis of the export record in term of yen, the exports to the United States occupied 33% of the total in 1948 they decreased to 28% in January 1949, 20% in February, 19% in March, 15% in April and 17% in May.

The second is the repercussion of the recession in the United States stated above which will affect more or less other countries and the world-wide transition from the sellers' market to the buyers' market following the rehabilitation of production in Europe and the mitigation of shortage of materials. Thus, market claims are being made to our exports in an increasing number and the floor price system is becoming a bottleneck to the expansion of our exports, and already in the case of steel products the floor prices were lowered to expand the exports. This problem is not considered to be temporary in nature. With regard to the contracts hastily concluded in the early months of this year in anticipation of the establishment of a single exchange rate, the cancellation is being made in an increasing number reflecting the decrease of demand abroad. By the end of May the cancellation of export contracts are estimated to amount to 14.4 million dollars in total (estimated by the Ministry of International Trade and Industry) 13.1 million dollars of which is of the textiles.

~~The third is the shortage of dollar funds in other countries which is getting acute by the slump of their exports to the dollar area. The excessive imports of England from the United States increased from the monthly average of 28.6 million dollars in 1948 to the monthly average of 34.6 million dollars in the 1st quarter, 1949, 47.7 million dollars in April, 61.0 million dollars in May. Thus, coupled with the decrease of exports from the other sterling areas, the amount of gold and dollars held by England decreased from 1884 million dollars at the end of 1948 to 1,624 million dollars by the end of June 1949. The magnitude of the outflow of gold and dollar funds from England will be well recognized if we consider the fact that during the period 368 million dollar worth aid was given to England by the United States and Canada. This is the reason why the devaluation of the sterling is consistently rumored. *Especially the acute* The acute shortage of dollar funds in the sterling area tends to intensify the competition in export markets and to strengthen various import restrictions in the sterling area.~~

While the exports from Japan which belongs to the dollar area to the sterling area are expanding comparatively smoothly the exports from the sterling area to Japan are somewhat sluggish. Such being the case, England announced that she would not approve the import of gray cotton cloth and rayon cloth made in Japan until such time when the problem of settlement in dollars is solved by the conclusion of a new trade arrangement between England and Japan, thereby trying to conserve her dollar funds as much as possible. Furthermore while Australia prohibited the import of non-essential goods from Japan Kenya and Uganda prohibited the import of cotton goods from Japan, and the import restrictions in Malaya and South Africa are considerably strengthened. As stated above, India suspended the OGL system as from April 16 and this system has not yet been resumed. The exports to the sterling area from Japan increased from 40% of the total in 1947 (30% in 1948) to 52% in April and 46% in May 1949. In the amount of recent export contracts the sterling area such as England, India, Uganda, Egypt, etc. has the greatest importance, and therefore the problem of import restrictions is very serious for the expansion of Japan's exports.

The fourth is the delayed economic recovery in the Far Eastern countries. The exports from Japan to the Far Eastern areas occupied 45% of the total in 1948 and they increased to 43% in January, 63% February through April and 55% in May. Thus, the Far Eastern areas are the best customers for the Japanese goods in the postwar period. However, the political situation in China and other Far Eastern countries is still very unstable and prompt economic recovery in those countries cannot be expected. While Japan's exports to these countries have comparatively expanded Japan's imports from these countries are extremely sluggish. This unbalance is ~~feared to affect adversely our exports to~~

~~one of the factors which disturbs~~

the recovery of our export.

~~these countries sooner or later, thereby eventually reducing the scale of trade with these countries.~~ Furthermore, ~~contrary to the general expectation,~~ the prompt expansion of trade with the Communist area in China is considered to be very difficult.

(4) Other Factors hampering the Expansion of Exports.

After the war we have not been permitted to go abroad purely for trade; nor are we sufficiently informed of the trend in foreign markets. Thus the Japanese manufacturers can not adapt themselves to the changing foreign demands. This is becoming the bottleneck of increasing magnitude for the expansion of our exports at present when competition in foreign markets is intensified. Upon the establishment of the Foreign Exchange Retention System the Japanese manufacturers or traders were finally permitted to go abroad for business and much expectation is placed on the above system as a great step toward the normalization of our trade relations with other countries.

There are many other steps such as the permission for Japanese vessels to go abroad, bare charter of foreign vessels, participation of Japanese in such businesses as insurance and foreign exchange, application of the most-favored-nation clause to Japan, sanction to the cancellation of contracts, establishment of export financing compensation system, etc. which are desired to be realized at the earliest possible date in view of the conditions prevailing in world market for the expansion of our exports. Furthermore, under the present circumstances in which the shortage of dollar funds is prevailing world over, the promotion of imports from the non-dollar areas is considered to be one of the fundamental steps for the expansion of our exports, and therefore efforts in this connection will be required to be redoubled following the resumption of private imports.

25

3. Impact of deflation on industry

a. Production

The production index has been on the upward curve until very recently. Production in the months of February, March and April was the highest since the end of the war, seasonal stalemate in February having been averted due to abundant supply of electricity on account of unusually large amount of rainfall. According to the Research and Program Division, ESS, GHQ, the production index of the month of April is 71.9 (1930-34 being 100), and the production level has surpassed the 1930-34 level except for the textiles industry which is specially low as compared with the pre-war level. The production index, however, fell in the month of May to 68.1 or 5.5% fall as compared with the preceding month. The index of 68.1 is higher than any other month since the end of the war except for the months of March and April this year and 50% higher than that of May last year, so that it may be said that this much fall is nothing to worry about. Nevertheless, in view of the fact that production rises seasonally in the months of April and May and that the fall is caused, aside from the reduction in coal output caused by labor disputes, mainly by the 13% fall as compared with the preceding month in the machinery industry which reflects the shrinkage of purchasing power, there is reason to assume that the slight fall in production in the month of May foreshadows production stalemate originated in deflation.

Following are production indices by industry groups which throw light for the understanding of the situation.

Mining and Manufacturing Industries Production
Indices in Recent Months
(1930-34 = 100)

	Jan.	Feb.	Mar.	Apr.	May.	May/Apr.	May '49/ May '48
Average	60.8	64.7	71.3	71.9	68.1	94.5	132
Mining	106.3	108.8	123.6	118.5	100.4	84.5	104
Manufacturing	53.8	57.9	62.7	64.8	63.1	97.3	144
Textiles	30.7	26.2	27.1	27.2	27.7	102	117

25

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26

Metals	95.5	94.4	100.0	108.0	111.1	103	190
Machinery	95.4	97.7	104.0	111.1	97.3	87.5	177
Ceramics	78.5	73.8	83.0	90.5	96.0	106	168
Chemical	85.3	87.9	100.5	109.9	109.6	100	147
Food	56.6	57.1	68.5	86.0	74.4	173	176

As shown in the table, production in May stayed generally at the level of the preceding month except for the mining and machinery industries, and the production of iron, ordinary steel materials, aluminum, sheet glass, rayon and ammonium sulphate was highest since the end of the war. It has to be noted, however, that such maintenance and slight increase of production are not supported by normal circulation of economy but by the desperate efforts of enterprisers to avert stoppage of production and catastrophe which would follow. As the fund-supply is not necessarily proportionate to such pace of production, uncollected proceeds and accounts payable increase. Many manufacturers are continuing production at the order of demandants, such as coal-mines and railway, in the hope that some measures will be taken to solve the situation, in spite of the fact that the fund supply for the latter is suspended, as suspension of operation will immediately render their equipment and labor idle. In such cases, order-making production turns into speculative production with very poor prospect of being received or paid.

It is to be noted further that the production of sundry goods which are necessary/daily life but do not constitute the basis of production index, has recently declined. For example, the production of vacuum tube, radio tube, matches, cooking pans and pots, lunch box, etc. is showing a downturn in contrast to the increasing inventories, reflecting the fulfillment of the pent-up requirements and the decline in consumer's purchasing power.

b. Indices showing the shrinkage of effective demand

(1) Increase of stockpiles

Stockpiles indicate shrinkage of purchasing power and money shortage enterprises most directly. It is not easy, however, to estimate them accurately because they are held at various stages of production and distribution, such as manufacturing plants, wholesalers and retailers, and their amount is always changing. Moreover, there is no definite distinction between operating stock and excess stockpiling. Nevertheless, it is evident that stockpiles - not only of consumption goods but such basic production materials as coal and steel and export goods as well - have rapidly increased since the latter part of last year.

The coal stockpile of the Coal Distribution Kodan has increased as shown in the following table.

Coal Stockpiles (1,000 tons)

Month	Delivery to main industries	Stockpiles			Total
		Mine	Port	Market	
Jan.	2,850	623	316	575	1,514
Feb.	2,895	580	381	676	1,637
Mar.	3,395	529	488	749	1,766
Apr.	3,044	518	429	993	1,940
May.	2,475	459	447	1,286	2,192
Jun.	2,579	490	712	1,622	2,824

Coal stockpile has increased by roughly 90%, reaching four or five times as much as ordinary stockpile, in the first six months of this year, stockpile at port and market having increased as the delivery decreased and stockpile at mine decreased on account of the improvement of transportation. Stockpile is increased all the more as the Kodan ceased to deliver to those consumers who have failed to make payment for coal. The stockpile at the end of August is estimated to reach 4,000,000 tons (1.3 months supply). The stockpile at the end of June was 2,820,000 tons, or ¥9,000,000,000, which, together with ¥19,000,000,000 uncollected proceeds of the Kodan, is a great burden on the Kodan financing. Moreover, 40% of the stockpiles is coking coal, coal for gas producer use and other high grade coal. The stockpiles in the hand of consumers have also increased. At the end of June, the Japan Electricity Generation and Transmission Company had 71 days supply, Japan Steel Pipe 55 days, Yahata Plant of Japan Steel 36 days, Kamaishi Plant of the same company 52 days and Tokyo Gas 35 days.

The stockpile of coke has also increased. While the stockpile at the end of March last year was 30,000 tons, that at the end of March, April and May this year was 100,000 tons, 150,000 tons and 200,000 tons respectively. It is estimated that the stockpile will reach 300,000 tons by the end of September. It is true that the recent increase of stockpile is attributable partly to seasonal increases, but there is no doubt that it is caused mainly by the money shortage on the part of consumer enterprises. Such increase in stockpiles affects adversely the 42,000,000 tons production plan.

As to steel, the sale does not increase in spite of the prospective raise of official price. Following table shows recent increase in their stockpiles.

Production and Stockpiles of Steel (Unit:1,000 tons)

Month	Production	Stockpiles		
		Maker	Wholesaler	Total
Jan.	112	122	26	148
Feb.	127	134	26	160
Mar.	144	122	32	154
April	144	142	59	202
May	152	151	59	209
June	159	161	60	221

Besides coal and steel, caustic soda, electrolytic copper, electrolytic lead, aluminum, electric wire, fire-brick, rubber belt and dyestuffs are showing increase in their stockpiles on account of general shrinkage in purchasing power or other special circumstances. Some of these stockpiles reach as much as several times their monthly production. On the other hand, stockpiles of some high class consumption goods are also increasing. The stockpiles of condensed and powdered milk, canned marine products and canned meat have increased to 9 times, 6 times and 30 times respectively in the last one year. It is true that the absolute amount of these stockpiles does not much exceed normal amount of stockpiles, but their pressure upon enterprises is nevertheless great, because enterprises have to raise fund when their stockpiles increases and financial institutions are not willing to lend money to them under the abnormal circumstances where the stockpile fund of a month or two is several times the capital fund.

The increase in the export stockpiles is no less remarkable. The increase in export textile stockpiles is specially remarkable on account of the recent slump in the textiles trade which constitutes one half of our total export trade. One of the major causes of such increase in export goods stockpiles is the cancellation of export contract to which we referred before. As for example, sales contracts with Americans of 15,000,000 yards of light silk fabrics of ¥2,100,000,000 were cancelled and the fabrics are held by the enterprisers without being sold in domestic channels.

The stockpiles held by the Textiles Foreign Trade Kodan at the end of May is as follows, the total being ¥28,000,000,000.

Stockpiles of Textiles Foreign Trade Kodan at the
End of May

Materials	Quantity	Monetary amount(¥1,000,000)
Cotton fabrics	357,000,000 yd	12,990
Cotton yarn	10,900,000 lb	1,210
Silk fabrics	43,000,000 yd	3,010
Rayon fabrics	27,000,000 yd	1,360
Rayon staple fabrics	9,000,000 yd	450
Rayon yarn	3,830,000 lb	380
Rayon staple yarn	3,300,000 lb	430
Wool and hard and best fibre		1,260
Woolen yarn	8,400 bale	1,410
Raw cotton and wool		750
Secondary products		4,820
Total		28,070

In addition to these stockpiles held by the Kodan, there are some ¥15,100 of silk fabrics, cotton yarn, cotton fabrics, woolen yarn and woolen fabrics held by enterprisers on account of the cancellation of the BS contracts and some ¥6,400,000,000 of silk and silk fabrics held by enterprisers on account of the failure of concluding contracts, making the total stockpiles of textiles over ¥50,000,000,000. It has therefore been decided to release 180,000,000 yards of cotton fabrics and some other items for domestic use.

But the present stockpiles of 100,000 bales of raw silk (10 month supply; including 19,000 bales stock in the United States) and 480,000,000 yards of cotton fabrics amount to six months' supply at the rate of \$25,000,000 monthly exports. The stockpiles of textiles cannot be solved by domestic release alone.

The increase in stockpiles is also seen in the Minerals and Industrial Goods Foreign Trade Kodan. While the stockpiles held by the Kodan at the end of March last year were ¥1,300,000,000, those at the end of March, April and May this year were ¥4,900,000,000, ¥6,470,000,000 and ¥7,260,000,000, respectively. Of the stockpiles at the end of May, ¥1,160,000,000 is export rejects. Such stockpiles are undoubtedly abnormal.

The promotion of exports which is essential for our economic self-support is on its way so far as the domestic preparation is concerned, but it is actually hampered by the restraint of foreign market.

The Ministry of International Trade and Industry and the Bank of Japan have recently revealed the results of investigation of stockpiles. According to the report of the former, the stockpiles at the end of May are estimated to be ¥70,400,000,000, of which ¥33,000,000,000, or 47%, is deemed abnormal stockpiles. According to the latter's report, the stockpiles of materials including farm and marine products are ¥84,000,000,000. This figure, however, is the sum total of the amounts reported by the branches of the Bank, so that the actual total is estimated to exceed ¥100,000,000,000.

It has to be noted in this connection that there are stockpiles of imported goods. The stockpiles of imported goods at the end of April is estimated at \$50,000,000 (¥15,000,000,000), including those accruing from the hitches in import programs or the time lag in actual imports (salt cake, soda sulphide, borax, baric acid, dystuffs, wool, etc.). There are these items, such as scrap rubber, craft pulp, lead, etc., which do not sell in the domestic market at the ¥360 rate, totalling \$15,700,000 (¥4,400,000,000). The increase in the export and import goods stockpiles gives pressure on the Kodan financing, cause increase in the loans, and delays the fund accumulation in the Counterpart Fund special account.

(2) Increase in uncollected proceeds and accounts payable.

The increase in uncollected proceeds and accounts payable is another side of the picture. According to the study made by the Production Bureau, Economic Stabilization Board, the uncollected proceeds of essential materials at the end of May (April as to some materials) was ¥64,700,000,000, or 20% more as compared with ¥52,100,000,000 at the end of December last year, which is 2.5 times the normal amount. The major items are ¥19,500,000,000 (2.7 months) of coal, ¥2,400,000,000 (3 months) of coke, ¥2,400,000,000 (3 months) of electric power, ¥3,000,000,000 of ordinary steel, ¥3,800,000,000 of electric wire, ¥10,500,000,000 of machinery and ¥14,000,000,000 of imported materials. The rate of increase of uncollected proceeds is greater than that of stockpiles. The increase in uncollected proceeds is especially remarkable recently in mining machinery, textiles machinery, electric machinery, etc. The fact that uncollected proceeds of coal and coke have increased by 20 to 30% in spite of strong measures for collection taken by the Kodan shows that the money shortage has become general and chronic.

The accounts payable are also increasing: ¥7,700,000,000 for coal, ¥6,300,000,000 for electric power, ¥4,600,000,000 for iron and steel, ¥5,700,000,000 for textiles, ¥4,600,000,000 for the Government railway and ¥4,500,000,000 for export goods, serving as back ground of the increase in the transaction by means of bills to which we referred previously. As uncollected proceeds and accounts payable are not balanced with each other by industries or by enterprises, they cannot be offset against each other automatically even if we supply fund to a certain segment. The contradiction of increase in uncollected proceeds and accounts payable is cumulatively increasing in such essential industries as coal and electric power. The expansion in the transaction by means of bills under such circumstances is not a sound phenomenon but rather foreshadows credit panic.

The fall in purchasing power is reflected in the fall of blackmarket price.

(3) Fall in blackmarket price

The shrinkage of purchasing power is reflected in the fall of blackmarket price. The index of blackmarket price of production materials which went up to 157 (1947 = 100) in May 1948 (Bank of Japan, Tokyo) has continued to go up till last February, reaching 165, ^{but} started to fall slightly thereafter by 2% every month. It fell by 7% by June, reaching the level of a . . . ago. As to consumption goods, the blackmarket price index (Bank of Japan, Tokyo) which was 173 in May 1948 went up to 191 in the food deficit month of July, went down to 185 in the fall, went slowly up again till reaching 203 in April, and has remained stagnant since then. Although the consumption goods have not shown downward trend in blackmarket price, we have to take into account the fact that the consumption goods prices are seasonally low in the first half of the year and that the changes in the consumption goods prices being grasped at retail level generally lags as compared with the wholesale price level. The downward trend is revealed in the following table showing bi-annual price movement.

	Jan-Jun 1947	Jul-Dec 1947	Jan-Jun 1948	Jul-Dec 1948	Jan-Jun 1949
Production materials	113 %	43	15	5	-7
Consumption goods	89	33	37	2	7

Of 25 essential production materials, the prices of some 40% thereof, including those of chemical products, have reached their peaks during last year, and almost all of the rest of the items by May this year. The prices have continued to fall recently, and the fall of caustic soda and soda ash is specially remarkable (71% and 51% fall respectively as compared with the peak prices). Of 50 essential consumption goods, the prices of more than 50% thereof have reached their peaks during last year, and almost all of the rest of items excluding possibly some perishable foods and sugar by June this year. Matches, vacuum tube, fuels, meat, staple foods, textiles, etc. have fallen in prices by around 10% by May. It has to be noted in this connection that the prices of staple foods which seasonally rises toward the deficit season remain stagnant this year.

The fall in blackmarket prices has narrowed the difference between official and blackmarket prices. According to the study made by the Bank of Japan, the blackmarket price was about 30 times as much as official price immediately after the war, but the former is about 2.5 times as much as the latter in June this year, the official price having been raised by 60 to 70 times while the blackmarket prices having risen by 7 to 8 times since the immediate post-war period. The distribution of the ratios of blackmarket prices to official prices in May last year and June this year of 25 essential production materials and 50 consumption goods are shown in the following table.

Distribution of Ratios of Blackmarket Prices to Official Prices.

Ratios		Less than 1.0 (official price being abolished)						Over 4.1	Total	Average
		1.1	1.6	2.1	3.1	4.1	Over			
Production materials	May'48	-	4	12	12	12	60	100	6.0	
	Jun'49	4%	32	20	20	12	12	100	2.6	
Consumption goods	May'48	-	6	8	24	-	56	100	6.6	
	Jun'49	6%	32	12	12	10	18	100	2.5	

As shown in the foregoing table, while the blackmarket prices of 28% of the essential production materials were more than 3 times the official prices, those of 4% thereof were 1.5 times as much and there were no materials whose blackmarket price was lower than the official price in May last year, the respective figures for June this year are 76% and 4% (Copper and electric wire, etc.). The same thing is true with consumption goods—the prices of meat, eggs, butter, vacuum tube and fuels are either below or equal to official prices.

c. Enterprise management

Characteristic phenomena in production enterprises now are that while capital goods production is suffering from increasing stockpiles and uncollected proceeds, consumption goods production is relatively stable and suffering less from money shortage. As to capital goods production, those which depend heavily on the Government-paid capital equipment, such as rolling stock and communication and those which have depended on the Reconstruction Finance Bank loan, such as coal mines and electric power are suffering most severely. In these ~~severely suffering~~ branches, those of short production ^{period} process, such as electric wire, have already started to cut their production. As to cement which is used both in capital goods and consumption goods production, the sale for the latter use is more prosperous than that for the former. As to cotton products and soda, export goods are stockpiling while domestic or consumption use sell well. Such basic consumption goods industries as paper, glass, oil and fats, etc. are rather prosperous recently than suffering from money shortage or difficulty in management.

Following is a review of the state of affairs of the branches which depend heavily on the public finance, such as rolling stock, wire-communication, electric wire and construction.

(1) Industries which depend heavily on public finance

The rolling stock enterprises are hard hit by the slash in the Government railway construction. The comparison of 1948 orders and the estimated orders of 1949 of the 15 plants of 12 new body makers is shown below.

Decrease in the Orders for Rolling Stock Makers

	1948 (A)	1949 (B)	B/A	B/Ax1.3 ^{XX}
Government railway	¥8,800 million (79%)	1,200 (24%) [■]	13	10
Private railway	1,300 (11%)	1,900 (39%)	147	113
Export	1,100 (10%)	1,800 (37%)	167	128
Total	11,200 (100%)	4,900 (100%)	43	33

■ The projects carried over into 1949 on account of the lack of appropriation is included in 1948.

XX In terms of 1948 price, the 1949 price being estimated to be 30% higher than 1948 price.

As seen above, the 1949 orders are only 43% of those of the preceding year, or only one third in terms of the amount of work. Moreover, as these 15 plants are all exclusive rolling stock plants, they cannot be converted for other production. Unless export of rolling stock is drastically increased, large scale retrenchment of the industry is inescapable. There are 33,000 workers in these 15 plants, or 80,000 if workers engaged in parts production is added. The operation rate in 1949 is 20% of the capacity, so that the reduction of costs through rationalization can hardly be hoped for on account of the reduction in the operation rate. These plants have little idea what they will do after this fall.

The operation of the wire-communication plants is chiefly predicated on the construction appropriation of the Ministry of Tele-communication. In 1948 the Government demand constituted 92% of the total demand, of which 84% was that of the Ministry of Communication (Ministry of Tele-communication). The comparison of the 1948 and 1949 demands are given in the following table.

Decrease in Demand for Wire-communication

	1948 demand		In current price (A)	1949 demand estimate (B)	B/A
	Actual amount				
Tele-communication ministry	¥ 2,800 million	(83%)	3,870	3,100 (80%)	80
Other Government demand	300	(9%)	390	330 (9%)	85
Private demand	230	(7%)	290	240 (6%)	82
Export	30	(1%)	40	200 (5%)	500
Total	3,360	(100%)	4,590	3,870(100%)	84

The demand is estimated optimistically in the above table, but even so the rate of operation will be 84% of the preceding year. Two of the major makers have already reduced their employees by 20% and 40% respectively. It is to be noted that the enterprisers in this branch are planning to cut down their production costs by raising the per head production

so that the rate of the reduction in employees is greater than that in production. Moreover, as these enterprisers have a large number of sub-contractors -- two major makers having 71 and 205 respectively -- nearly half of the latter will have to be driven out of business.

The Government demand for the electric wire industry, such as railway, communication, etc., will be 58% of last year. The total demand for this year is not more than 82% of last year even at the most optimistic estimate that ¥40,000,000,000 of the Counterpart Fund will be appropriated for essential industries and the export increased by 13 times. Moreover, if we take carry-over stockpiles into account, the production of this year will not be more than 75% of last year.

Decrease in Demand for Electric Wire (in tons of copper)

	1948 demand (A)	1949 demand estimate (B)	B/A
Government demand	17,527 (30%)	10,100 (21%)	58
Private demand	40,395 (70%)	32,900 (69%)	82
Export	380 (0.5%)	5,000 (10%)	1,320
Total	58,302 (100%)	48,000 (100%)	82

The operation rate in 1949 is only 50% of the capacity. The reduction in electric wire production affects profoundly on the production of copper and aluminum, as will be stated below. Moreover, if the prices of copper, cotton, etc. are raised as a result of the abolishment of the subsidy, the price of electric wire will immediately be raised, the costs of raw materials constituting 35% of the total costs of production, with possible reduction in the demand.

Next we will review the construction in relation to the public finance. Following is a comparison of the Construction Section, General Affairs Bureau, Ministry of Construction.

Construction Contracts

	1948 (A)	1949 (B)	B/A	B/Ax1.3
Public works (Central and local)	¥40,400 million (26%)	36,100 (24%)	90	69
Occupation Forces	14,600 (10%)	9,500 (6%)	65	50
Private	99,100 (64%)	106,500 (70%)	107	82
Total	154,100 (100%)	152,100 (100%)	99	76

The shrinkage of construction is considerable if the price rise is taken into consideration, the total of public works and the Occupation Forces construction being roughly two thirds of last year.

The effect of the shrinkage in construction is serious with regard to 250,000 medium and small construction contractors, while the management of large contractors is generally satisfactory. Here is an aspect of concentration of enterprises. It is to be noted that in no small instances the local governments commenced construction projects with the prospect of continued appropriations for public works but are at a loss at the reduction of the appropriations. The National Construction Association has reported that there are 14 prefectures as of June this year which reported such instances and that the contractors have ¥1,670,000,000 accounts still unpaid. The psychological effects of such cases should not be overlooked.

(2) Basic industries

We will turn to the basic industries which have depended on the financing of the Reconstruction Finance Bank.

As to coal mining industry, the rationalization of management has proceeded considerably since the end of last year. The quality of coal has been improved from 5,725 calories in the third quarter 1948 to 5,807 calories in the fourth quarter; the production per underground worker per month has increased from 11 tons in the latter part of last year to 13.2 tons in June; and the ratio of underground workers and surface workers has changed in favor of the former. The deficit of coal mines has thus been decreased and coal mine management has been stabilized. But it is to be noted that the improvement is seen mainly in large mines, and medium and small mines are suffering from various difficulties. Meanwhile, recent drastic reduction of equipment fund caused stalemate in the mine modernization program, and the cessation of fund supply rendered severe blow to mine machines and materials makers (Of ¥10,500,000,000 uncollected proceeds of the machinery industry at the end of May, ¥2,300,000,000 is coal mine machinery.), although it is true that considerable payment has been made so far as the five major mines are concerned on account of the joint financing thereto. The urgent problem which the coal mining industry is now facing, as mentioned before, is large scale increase in stockpiles due to the shrinkage of purchasing power. Although the direct impact on coal mines is moderate for the time being due to the use of the bills certified by the Kedan, the coal mine operation will certainly become un-sound in future unless the demand for coal is increased and the financing for coal mine equipment will be disturbed.

One of the problems of the electric power industry lies in the fact that the current power charge does not cover the necessary costs. Because capital charge including appropriate depreciation is not included in the current power charge, the enterprises shrink their operation for self-defense. They tend to suspend their expansion projects and postpone necessary repair and maintenance of war-torn facilities. Moreover, the costs of hydro-generation and steam generation are not balanced, it is profitable for the generating plants not to serve steam-generated power when the power supply is suspended. The unpaid amount of coal for power generation is ¥4,800,000,000 (4.1 months) at the end of May.

The iron and steel industry is not suffering financially, ~~but it is rather well-off~~ because of, in some part, speculation in the prospect of the abolition of subsidies and price rise. According to a study made by wholesalers, the sale of 27 iron and steel enterprises rose from ¥1,120,000,000 in January to ¥2,010,000,000 in ~~April but remained~~ ¥1,960,000,000 in May. The uncollected proceeds, however, are increasing every month -- ¥210,000,000, ¥240,000,000, ¥280,000,000, ¥300,000,000 and ¥350,000,000 respectively in the first five months of this year. The industry manages to operate in spite of the accumulating uncollected proceeds by delaying its payments for imported ore, coal, equipment materials, etc., but it will face ~~energy~~ shortage as the collection of coal charges is forced. More ~~urgent problems~~ which the iron and steel industry is facing are that there will not be sufficient effective demand for iron and steel if the subsidies which amount to as much as three quarters of the production costs are abolished, that 40% of the demand for iron and steel is occupied, directly or indirectly, by public finance, that depreciation is insufficient, and that international

competition is intensified on account of the improvement of demand and supply relations.

Copper mines also depend on subsidies. The consumer price of electric copper without subsidy is ¥181,060 per ton, for which ¥79,046 or 40% of the former, is paid as subsidies, making the consumer price ¥102,014. The blackmarket price, however, has gone down to ¥90,000 on account of the shrinkage of the electric wire industry, etc. If the subsidies are abolished now, most of the copper mines will be unable to operate except possibly those which are engaged in refinery. As to stockpiles, they amounted to 17,500 tons at the end of May, which is half as much as the production goal for this year. The uncollected proceeds of the 7 main mines at the end of April amounted to ¥3,000,000,000. It is true that the demand has increased on account of the 10,000 tons export recently decided, but the long range prospect is by no means bright.

The aluminum industry is hard hit by the shrinkage of demand for electric wire, daily commodities, etc. The production has been on the upward -- 1,622 tons in April, 2,087 tons in May and 2,100 tons in June -- but the delivery is dwindling rapidly -- 1,294 tons in April, 966 tons in May and 1,000 tons for June estimate. The stockpile at the refinery is increasing -- 1,455 tons at the end of April and 3,676 tons at the end of June. As the demand has shrunk, the uncollected proceeds do not increase but the stockpile is rapidly increasing. The industry will be in critical situation unless the current export negotiations be not concluded successfully.

The dyestuffs industry is suffering no less from the increase in stockpile. The production for the months of March, April and May is 705 tons, 721 tons and 632 tons respectively,

but the delivery is much smaller and the stock at the end of May is 1,584 tons as compared with 799 tons and 1,004 tons at the end of January and March respectively. Unless the export of textiles increases, the dyestuffs industry will soon have to reduce its production.

The soda industry is suffering no less as shown in the following table on account of the slump in the export and capital goods production industries, such as chemical fibre, aluminum, etc.

Increase in Stock in Soda Industry

	(¥1,000,000)		
	March	April	May
Caustic soda	376	409	486
Soda ash	27	77	100

We will turn to the automobile and shipbuilding industries. The automobile industry is no exception to the recent trend of increasing stockpiles and uncollected proceeds. The accounts payable are increasing and sub-contracting enterprises are hit thereby. The effects of this industry are extensive. The reason for poor sale is attributed to the discrepancy between the allocation and purchasing power, failure to sell through down payments, etc., but more fundamentally to the instability of the industry itself in the transitional period of the national economy.

As to the shipbuilding industry, while small number of builders engaged in the building at foreign contracts are relatively stabilized, the domestic ship builders are extremely unstable on account of the ~~negative~~ ^{reluctant} attitude of the operators due to disadvantage in the competition against land transportation in freight charges and loading and unloading equipments and to disadvantage coming from high interests rate. The shipbuilders have

managed up to the fourth ^{ship building} orders utilizing their war-time stock of materials, but their stock has almost been exhausted and medium and small builders are suffering severely. Uncollected proceeds are accumulating in fishing vessels and repairing. We have advantage in international competition in low freight charges and superior technique, but the ocean route will not widely be opened for us in the near future and we have to take the risk of one-way freight and suffer from disadvantage of high interests rate. The dollar price of export vessels ^{the price of Japanese vessels is about} (70% of European vessels and 50% of American vessels) may be somewhat improved, but it is deemed fairly difficult to export profitably at the ¥360 rate. The shipbuilding industry has long been protected by the Government, and it is desirable that the industry be rationalized, if possible, until such protection be no longer necessary. But the protection of the shipbuilding industry is world-wide, and the rationalization of the industry alone does not cut down the costs of building because substantial part of the production costs of ships is occupied by the costs of materials and equipments purchased from other industries. So the problem of the shipbuilding industry is closely related to the rationalization of the entire economy of Japan.

(3) Export industry, etc.

The stockpile of silk is increasing on account of the slump of the American market. The stockpile can be dissolved only through the release to the domestic market, but we cannot rest too much hope therewith because of the shrinkage of purchasing power. The modernization and rationalization is planned and the price of cocoon reduced to cope with the situation after the establishment of the ¥360 rate, but the fund supply puts restriction against such efforts.