

- 81 -

e. Restoration and prevention of disasters.

The restoration and the prevention of disasters which happen every year are typical replenishment investment for national economy. Though our country had often been suffering from flood damages owing to the geographical reason, the damages were kept within certain extent every year in pre-war period and there were no sign of devastation as a result of accumulation of damages thanks to the expenditure for the prevention amount of which was usually high enough - about 1.5 times higher than the expenses for restoration. However, the disaster damages had begun to accumulate as the repairs of embankments were neglected and the forests were over-felled during and after the war. Amount of loss which was covered by the Government budget were 60 billion yen each in the last two years, and still 70 billion yen worth loss and damage are left uncovered yet.

In view of these factors, we have planned to carry out as much as possible the most basic anti-disaster works such as repair of river embankment, anti-sand works, torrential works, and afforestation so that any further increase of disasters may be arrested in five years. We have also planned to restore the effects of disasters to the full in and after 1958.

- 82 -

TABLE 38. Expenses for restoration of effects, and prevention, of disasters.

(Unit: million yen)

	Carried over from preceding year.	1948	1949	1950	1951	1952	1953
<u>Restoration of effects of disaster</u>							
Damages caused	19,151	59,291	33,000	32,500	32,000	31,000	30,000
Damages to be restored	-	18,354	22,553	22,903	23,343	23,888	24,551
Damages not to be restored	13,402	26,250	10,612	9,446			
Percentage of damages not to be restored	70.0	44.2	32.7	29.1			
<u>Prevention of disasters.</u>							
Repair of embankment			9,600	10,190	11,050	13,500	17,280
Anti-sand works			1,570	1,660	1,810	2,250	2,820
Torrential work			1,000	1,190	1,305	1,918	2,500
Total			12,170	13,040	14,165	17,668	22,600

Note: Restoration of effects of disasters is carried out over four years, damages restoration expenses include those connected with disasters which occurred in the preceding three years and damages not to be restored do not check with the balance between damages caused and damages to be restored in the same year. Damages not to be restored in after 1951 cannot be estimated unless damages restoration expenses for three years 1954-56 are first determined.

f. Housing.

As the housing shortage has become one of the most serious social problems in this country, it would be highly desirable to construct them in large scale. However, it is difficult because of the limit in the wood supply which will not exceed the annual output of about 70 million koku (700 million cubic feet) throughout the planning period with its major portion being consumed as mine timber, sleeper and wood pulp. Though the houses were built last year (5,00,000 unit - twice as much as pre-war average, total floor space almost equal to pre-war.) by inflationary boom resulting in over-felling of forestry, the tendency began to decline from June last year. The construction is at the rate of average 420,000 tsubo monthly. In consideration of such situation, it is planned to built 4,560,000 tsubo in the first year and 104% or 4,770,000 in the last year. Total houses to be built in five years are 1.86 million units or 23,280,000 tsubo.

TABLE 39. Housing Construction Program

	Number of housing unit (Thousand unit)	Tsubo (Thousand tsubo)	Fund Needed (Million yen)
1949	365	4,560	82,040
1950	368	4,593	83,415
1951	372	4,648	85,510

- 84 -

1952	376	4,707	88,173
1953	381	4,770	91,705
	1,862	23,278	430,843
5 - 9	285	6,410	

Note: The above figures include houses built by the Government Railway Corporation and Communication Ministry.

g. Electrification of Railways

As the electrification considerably serve the rationalization of railway management by saving fuels and raising operation efficiency, it would be desirable to carry out in large extent if possible. However, the shortage in capital funds and materials compelled the program to stay in the boundary of 1.46 km. of new electrification.

- 85 -

7. Public finance.

As a financial plan is by nature very much influenced by political factors, it is extremely difficult to draw its picture in the future with any certainty. In this program, therefore, the position to be taken by public finance in line with the Rehabilitation Program within the process of rational economic circulation has been assumed with attention to the fact that a financial plan redistributes national income through taxation and expenditure and thereby contributes to enhancement of welfare of people and to economic recovery. Furthermore, the principle of maintaining a well balanced budget has been followed with regard to both national and local finances excepting a floating of local bonds in some cases.

In determining concrete figures, the 1949 budget was first analyzed and then with this as starting point, the figures for each year was estimated in such a manner that they will not conflict with the various targets of the Rehabilitation Program.

In other words, the size of public finance i.e. the limit of revenue, local as well as national, has been determined in line with the program on national income, investment and consumption. More specifically speaking, the limit of direct taxation is national income less the total of consumption and investment, indirect taxation was computed in such a way as will not only bring the actual

- 86 -

consumption in line with the tempo of this program, but also lighten the burden of taxation and the total of these two plus miscellaneous incomes with some modifications called for by consideration of expenditure was estimated to be the size of public finance. No special analysis of special accounts except a few necessary ones was made.

TABLE 40 General Financial Plan.

	(Unit. 100 million yen.)					
	1948	1949	1950	1951	1952	1953
I. REVENUE						
1. National finance						
(a) General Account						
Tax & stamp duties income	3,161	5,147	4,228	3,912	4,059	4,333
Government enterprises and properties income	1,041	1,309	897	732	780	820
Monopoly income	962	1,210	790	610	640	660
Other income	79	99	107	122	140	160
Misc. & special income	491	568	300	286	282	283
Surplus of preceding year received	38	31	150	200	200	200
Total	4,731	7,049	5,575	5,130	5,321	5,626
(b) Special Account (National bonds)						
Gov. railways	207	150	259	284	289	293
Communication	147	120	188	219	251	286
Others	83	0	0	0	0	0
(c) Total revenue of national finance.	5,168	7,319	6,022	5,633	5,861	6,205
2. Local finance.						
Tax income	906	1,473	1,645	1,762	1,932	2,106
Transfer from Nat. finance	493	577	678	745	835	900
Bonds income	366	233	350	400	480	580

	1948	1949	1950	1951	1952	1953
Payment by Nat. government.	124	802	1,006	1,154	1,332	1,547
Others	271	304	310	320	335	360
Total	2,630	3,389	3,989	4,381	4,914	5,493
3. Total revenue of public finance	7,798	10,703	10,011	10,014	10,775	11,698
4. Duplication to be subtracted	1,137	1,379	1,684	1,899	2,167	2,447
5. Net total revenue of public finance	6,611	9,329	8,327	8,115	8,608	9,251
II. Expenditure						
1. National finance						
(a) General Account						
War-termination	1,187	1,364	958	888	617	338
Public works	495	519	351	978	1,172	1,392
Education & culture	205	347	365	382	402	434
Social welfare	143	262	348	373	416	469
Security & prison administration	102	166	180	198	220	234
Price adjustment	625	2,022	1,120	0	0	0
Gov. investment in import. industries	0	0	0	450	400	350
Compensation for Special Account, etc.	479	129	73	23	23	23
Gov. investment	192	842	145	112	115	137
Transfers to local finance	493	577	678	745	835	900
National debts service	99	116	219	241	250	361

- 89 -

	1948	1949	1950	1951	1952	1953
Others	648	685	607	710	841	958
Reserve	65	0	30	30	30	30
Total	4,731	7,049	5,575	5,130	5,321	5,626
(b) Special accounts (National bonds)						
Gov. railway	207	150	259	284	289	293
Communication	146	120	188	219	251	286
Others	84	0	0	0	0	0
Total	437	270	447	503	540	579
(c) Total expenditure of Nat. finance	5,168	7,319	6,022	5,633	5,861	6,205
2. Local finance						
Current expenses	1,759	2,433	2,461	2,674	2,899	3,140
Pay-roll	811	1,134	1,159	1,323	1,486	1,640
Other expenses	948	1,304	1,302	1,351	1,413	1,500
Temporary expenses	87	951	1,528	1,707	2,015	2,353
Total	2,630	3,389	3,989	4,381	4,914	5,493
3. Total expenditure of public finance	7,798	10,708	10,011	10,014	10,775	11,698
4. Duplication to be subtracted	1,187	1,379	1,684	1,899	2,167	2,447
5. Net total expendi- ture of Public finance	6,611	9,329	8,327	8,115	8,608	9,251
6. Ratio to National income (%)	32.6	35.5	29.5	26.3	25.6	25.9

- 90 -

Note: (1) Duplication to be subtracted under 4. is the total of transfers to local finance and payment by the National Treasury.

(2) Difference between the above indicated public works expenses and special account bonds for 1949 planned by other Committees will be taken into consideration in the overall funds demand supply program.

(3) Prices are those as of November, 1948. The following tables are based on the same prices.

The ratio of public finance to the national income will diminish from 35.5% in the first year to 26.3% in 1951 and to 25.9% in the final year. This indicates how much the scale of public finance increased by the need of economic stabilization in 1949 will change in parallel with the progress of the program.

Further, the ratio of burden of taxation to national income is diminishing from 30% in the first year to 19% in the final year or by 10% as shown in Table below. It is still considerably higher than that of 1930-34.

TABLE 41. Ratio of burden of taxation.

	1930-34	1948	1949	1950	1951	1952	1953
Ratio of burden of taxation to national income. (5)	13.5	19.7	29.8	23.6	20.3	19.9	19.8

- 91 -

On the side of expenditure, it must be noticed first of all that the expenses like war termination, price adjustment, repayment of government debts, etc. decrease in the first period and government investment increase as much as necessary in the latter period. Government investment increases especially in relation to public works (expenses for food production increase, restoration of effects of disasters, etc.), construction bonds of special accounts, local bonds, etc. Price Adjustment Funds may be said to have the nature of either consumption or investment, but, in this program, it is considered to become unnecessary after 1951 on the assumption that by then prices will have been stabilized. However, it has been planned to make government investment in such industries as is in special need of capital accumulation and incapable of supplying necessary funds themselves so that their rapid recovery may be facilitated. Moreover, increase in public works expenses has the meaning of unemployment relief measures to not a small extent.

TABLE 42 Government investment plan

(Unit: 100 million yen)

	1949	1950	1951	1952	1953
Government investment	2,243	2,411	2,803	3,322	3,896
Ratio to total expenditure of public fin.	24.1	28.9	34.6	38.6	42.7
Ratio to total investment	33.8	34.9	37.8	40.5	43.6
Ratio to national income	8.5	8.6	8.8	9.4	10.3

Note: (1) Price Adjustment Funds are included in investment.

(2) Total investment includes industrial investment and housing construction less duplication.

8. Employment

Full employment not only is the biggest problem in the Western countries after the war, but also must be the highest ideal of our economic policy. However, in our country suffering from the relative overpopulation, the unemployment problem has the close connection with the low level of living.

Unemployment in this country has been veiled by poor social security system, traditional family system, existence of enormous small business and blackmarket economy accompanying inflation, and it has remained as latent overpopulation adversely affecting living standard, instead of emerging as un concealed unemployment. Consequently a large number of concealed unemployed are existing under the strange phenomenon of overpopulation in enterprise, farm and other organizations, in which each shares very low standard of living. These who ought to be unemployed must be uncovered and become unemployed. It is essential to increase labour productivity through this process.

- 83 -

In consequence of the implementation of the economic stabilization policies based on the Nine-Point Economic Stabilization Program and the establishment of a single exchange rate, unemployment is already tending to be unveiled and increased. Such reorganization process accompanying inevitably the normalization of the Japanese economy, if pushed too far or if not attended by effective unemployment measures, will ferment social unrest and defeat the very object of normalization of economy. It will, therefore, be necessary to make necessary adjustment from time to time as the economic situation may require. Thus, employment, supported by high labour productivity, must become a pillar of export expansion and production increase. At the same time, it must be planned always to increase employment further and further. Moreover, employment increase must be a real one based on rational distribution of workers among industries which take full account of ability and personality of each person. In other words, the central problem of the employment program can be nothing but how to maximize not only volume of employment but also labour productivity.

When the former is expressed as labor age population and the latter as labor force, the annual trend will be as follows.

- 94 -

TABLE 43. Labor Age Population and Labor Force.

(Unit: Thousand)

	1948	1949	1950	1951	1952	1953
Labor age population	44,328	45,370	46,249	47,875	48,232	48,999
Percentage to total population	55.0%	55.1%	55.2%	56.2%	55.8%	55.9%
Labor force	34,733	35,418	36,116	36,911	37,693	38,166
% of employment	43.1	43.0	43.1	43.4	43.6	43.6

Note: (1) Labor age is between 16 and 59.

(2) Labor age population other than labor force includes student, family dependants, and physically unfits.

Factors which regulate the demand for labor are the production and construction program in each industry.

Next question is the labor productivity serves as a link between demand and supply of labor. Though the labor productivity cannot be set arbitrarily and it has direct connection with wages; it is estimated in this program to increase every year according to the rise in operational ratio and the rationalization of the enterprises.

TABLE 44. Change in Labor Productivity. (1930-34 = 100)

	A		B	
	Manufacturing	Mining	Manufacturing	Mining
1948	42.0	41.9	73	34
1949	57.5	50.3	86	43
1950	66.0	55.0	90	47
1951	72.6	58.4	90	53
1952	81.3	61.2	97	57
1953	88.9	64.3	100	58

Note: A is labour productivity computed by dividing production index (base- 1930-34) based on the 1930-34 employment as weight by employment index (base= 1930-34.)

B is labour productivity computed by dividing production index based on the 1934-36 value adjusted by each industry as weight by employment index (base = 1934-36.)

The labor productivity program by industries is made by combining all the factors mentioned above.

- 96 -

TABLE 45. Employment by Industries.

(Unit: Thousand)

	1948	1949	1950	1951	1952	1953
Employed total	33,630	33,660	34,461	35,451	36,372	37,332
Agriculture	16,339	16,354	16,432	16,483	16,534	16,558
Forestry	472	469	474	469	457	466
Aquatic	576	576	588	607	621	636
Mining	704	707	728	730	719	719
Construction	1,220	1,255	1,297	1,465	1,672	1,916
Manufacturing	5,466	5,478	5,848	6,283	6,650	7,009
Gas. Electric, Water	190	190	194	206	221	242
Commerce	2,913	2,998	3,090	3,172	3,256	3,345
Financing	234	237	241	249	256	263
Transportation	1,518	1,508	1,602	1,744	1,869	1,991
Service	889	898	944	958	992	1,018
Profession	1,569	1,593	1,610	1,650	1,673	1,698
Public service	965	815	815	815	815	815
Others	575	582	598	620	637	656

Balance of labor force and employed shown in above table is the unconcealed unemployment, ranging from 1,750,000 (This figure is theoretically computed) in the first year to 830,000 in the last year.

- 97 -

TABLE 46. Prospect of Unemployed.

Unit: (thousand)

	1948	1949	1950	1951	1952	1953
Unemployed	1,103	1,758	1,655	1,460	1,321	834
Percentage to population	1.4%	2.1%	2.0%	1.7%	1.5%	1.0%
Percentage to labor force	3.2%	5.0%	4.6%	4.0%	3.5%	2.2%

It is a matter of course to increase production, especially in the field with high employment ratio, as the eventual measures to overcome unemployment, but, in the transitional period, unemployment insurance and the public works projects will be the major items of the unemployment measures.

TABLE 47. Unemployment Measures.

(Unit: Thousand men)

	1948	1949	1950	1951	1952	1953
Unemployment insurance	100	627	813	802	738	319
General	100	498	535	528	498	217
Day laborer	-	129	278	274	240	102
Public works	380	302	370	392	383	315
Counter-unemployment works	100	50	50	50	50	50
Occupation Guidance	50	50	50	50	50	50
Social Protection	100	150	150	150	100	100
Others	373	579	222	16	-	-
Total	1,103	1,758	1,655	1,460	1,321	834

- 98 -

9. Standard of Living (Consumption level)

Main object of this program is the attainment of self-sustaining economy free from foreign aid. However, it is the objective in the primary stage of rehabilitation. We have to seek to raise our standard of living eventually. The present situation of our economy, however, does not allow to formulate a program with a central target on the increase of the people's welfare and indicates that there are numerous tasks and problems to be solved before we touch it. In this sense, our program is one which concentrates on the solving of the primary and urgent request of normalizing the economic circulation.

However, in order to enhance the labor efficiency and remove social unrest it is essential to have certain level of individual life.

Of course, the standard of living is derived as the result of the integral planning and it does not come out before all the other programs are made. Especially when the center of the program is put on the attainment of self-sustaining economy, consumption level is residuary category. In this way of computation, per capita national income in the last year comes out as 97% of the base period, and the consumption level 90% of the base period, for it is contemplated to increase the portion of investment by suppressing consumption.

TABLE 48. Standard of Living

	1930 34	1943	1949	1950	1951	1952	1953
Individual consumption expenditure							
Value	9,586	12,205	8,229	8,982	9,819	10,750	11,389
Index	100.0	127.2	85.8	93.7	102.4	112.2	118.8
Per capita consumption expenditure							
Value	144.50	94.45	99.96	107.20	115.00	122.21	129.84
Index	100.0	65.1	69.2	74.2	79.6	84.6	89.9

Note: (1) Though above figures are computed on the basis of the planned supply of the goods, there may be some differences between these figures and actual phase as actual consumption include those are not shown in the program. For instance, consumption level in 1948 is shown as 62% in this table, while actual figure was 64% (agricultural 74% and 60%).

(2) Caution was made that all figures are based on 1930-34 price level.

All the following tables are computed on the same price level.

Per capita consumption in 1943 is estimated at 62% of the 1930-34 level, that of the first year 69% and the last year 90%. Total consumption expenditure was 76% in 1943, will be 87% in 1949 and 120% in 1953. This increase does not quite meet the population increase (3%), so the per capita consumption does not recover sufficiently as already mentioned above.

- 100 -

TABLE 49. Index of Above Table.

	1930-34	1948	1949	1950	1951	1952	1953
Food	100.0	68.5	79.3	82.3	86.3	90.6	93.4
Staple food	100.0	88.7	86.3	88.0	91.0	95.6	96.7
Non-staple food	100.0	51.7	76.3	81.1	85.7	89.9	94.7
Luxurious food	100.0	49.8	60.7	63.8	70.6	73.8	77.7
Housing	100.0	77.8	81.2	82.7	85.0	87.2	92.2
Fuel and Lighting	100.0	59.0	69.1	71.6	75.4	76.5	78.5
Clothing	100.0	22.1	15.5	25.4	35.7	40.4	50.2
Health, Sanitary, Education, Enjoyment	100.0	59.2	60.7	69.6	77.6	83.6	91.5
Transportation and others	100.0	61.4	77.3	86.5	95.4	104.5	113.2
Total	100.0	61.9	69.2	74.2	79.8	84.6	89.9

Food expenses in 1953 will reach 93% of the base period. It is planned on the basis that staple food ration for the general populace will be 400 grams (2.8 to) after November 1949, 440 grams (3 go) in 1953. Food consumption will be as follows:

- 101 -

TABLE 50. Per Capita Per Day Food Consumption

	1930-34	1949	1950	1951	1952	1953
Calorie	2,242 (100.0%)	1,947 (86.8%)	2,004 (89.4%)	2,071 (92.4%)	2,111 (94.2%)	2,202 (98.2%)
Protein	66.7g. (100.0%)	56.5g. (84.7%)	58.3g. (87.5%)	60.9g. (91.3%)	62.4g. (93.6%)	64.7g. (97.0%)
Animal protein	11.7g.	7.2g.	7.8g.	8.2g.	8.7g.	9.5g.
Soy beans protein	9.3g.	8.0g.	8.4g.	8.8g.	9.2g.	8.4g.
Animal & Soy beans protein total	21.0g.	15.2g.	16.2g.	17.0g.	17.9g.	17.9g.

Clothing expenditure will be 30% less in 1949 compared with 1948 for the supply drops to 0.7 pounds (per capita), but the considerable rise is contemplated after 1949. Even so, total supply including wadding cotton will be around 5 pounds which is 50% of the base period.

This is due to the fact that the total production of Textiles is only 66% of 1930-34 level and the greater part of the production is earmarked for export.

Housing expenditure and cultural expenditure including health and sanitary expenditure will rise sharply in the latter period.

To examine by analysis of marginal degree and engel factor whether the composition of daily expenditure meet the concrete demand, this program is considered to be sectional, for content of life improves most along the line of the

- 102 -

degree of urgency and the latter is approaching the figure of the base period.

From the view point of increasing people's welfare, it is important to realize fairer distribution of income and distribution of standard of living so much as to raise the standard of living. Problem of difference in standard of living between agricultural and urban populace is taken up in this program, so that scissor does not open too wide. In the last year of this program, proportion between the two is aimed to become almost the same as the most normal days in the past or 1934-36. Concretely speaking, consumption level of agricultural populace is planned to become 92%, while overall consumption level is 90% as already mentioned before. because before, because former was abnormally low in 1930-34.

The content of the standard of living can be expressed concretely in following way:

- 103 -

TABEL 51. Concrete Example of Standard of Living in
1953 Fiscal Year.

	Per capita Expendi- Against 1950-54	Expendi- ture	Note
Food	93.4 %		calorie 2202 (per capita per day)
Staple food	96.7 %		protein 65 grams (") oils and fats 8 grams (") general ra- tion level 3 go (") (including potatoes) Ration to normal consumers: 3 go (") including potatoes Farmer retention: 4.3 go (")
None-staple food	94.7 %		
Luxurious food	97.7 %		sugar 0.5 kin (per capita per month) misc 231 monme (") soy sauce 5 go (")
Clothing	50.2 %		4.41 pounds (per capita per (14.89 yards) per annum) For example: suit 2.4 pes. shirt 5.0 " undershirt 6.0 " In addition, cotton for wadding: 0.5 lbs.
Fuel and lighting	78.5 %		25 bundles charcoal equivalent (per non-agricultural house- hold) wood and charcoal 16.5 bundles brickets 5.0 bundles gas 3.0 " electricity 0 "
Housing	92.2 %		1.62 tsubo per head
Transportation	113.2 %		1,600 km per head. Congestion will be reduced about 40%.
Cultural	91.5 %		50 gr. Soap 23 pieces (per capita per annum)
Total	89.9 %		

- 104 -

10. Technique.

The outline of the Rehabilitation Program has been made clear by the above explanation. Here we like to touch upon the raise of technical level as prerequisite of the implementation of the program. In order to support a large number of population with meager natural resources, we must endeavour to maximize utilization of these resources, and to develop export industries, with technical skill of a high level. In post war Japan, however, it is difficult even to maintain the technical level so far reached and it is by no means possible to catch up with the ever advancing technique of foreign countries, unless some powerful systematic measures are taken.

In this sense, this program has aimed at the solution of the following technical problems in order to raise the technical level.

The first problem is the expansion and strengthening of research activities. The money spent by the Government and the people on scientific and technical researches (excluding research in social science) in 1948 is 0.3% of national income. It has been planned to raise it to 0.8% of the national income in the final year of the program, half of which will come from government expenditure.

The second problem is to promote active experimenting for industrialization of results of researches in order to make practical use of these results. It is necessary to take measures to facilitate the acquisition of materials

- 105 -

and funds required by experiment for industrialization which is essential to invention of new merchandize, reduction of production cost, quality improvement of manufactured goods.

The third measure is a systematic training of necessary technicians. As a result of the industrial development and advance in production process, less and less depends on the skill of workers while more and more depends on the knowledge of technicians. The ratio of technicians (university or higher technical school graduates) to the total employees in mining and manufacturing in Japan was about 0.65% before the war (1938). After the war, 15,000 graduates with technical education are needed every year in order to maintain the ratio above 1%. Moreover, it is essential to formulate a program for training of technicians by speciality, and a plan for workers' training designed to raise their technical ability, both based on the anticipated future industrial structure, although, due to lack of necessary data, it was not possible to do so under this program.

Besides, measures must be taken for systematic collection and classification of data regarding technique abroad, acceleration of industrial standardization, establishment of manufactured goods examination system, utilization of patent system, etc.

In addition to these general technical problems, the following items may be pointed out as technical problems of special importance for the implementation of the Rehabilitation Program.

- 106 -

a. To enable the rapid development of synthetic fibre industry in order that the import of textiles occupying the largest percentage (26.4%) in the total import may be minimized and new export may be created in the final year of the program.

b. To expand carbide chemical industries as ground work for the development of synthetic fibre, plastics, and other organic compounds industries.

c. To accelerate electrification of railways, to improve coal selection at coal mines, and to improve coal consumption technique with a view to maximizing utilization of energy resources.

d. To improve food manufacturing technique with a view to increasing the utility value of food resources and saving import.

e. To improve the technique of lumber production and consumption with a view to preventing devastation of forests and at the same time meeting the essential demand for lumber.

f. To promote technical researches on design, materials, construction, etc. in the construction of houses and other buildings requiring an enormous investment in the future with a view to improving the living environments, to economizing capital and to maximizing utilization of resources.

- 107 -

g. To develop a science for prevention of disasters in order that effective use may be made of the money spent in connection with disasters.

These technical problems must be taken up on priority basis in this program and efforts must be made to promote research, practical use, experimenting, and implementation necessary for them.

The details of the above stated programs will as explained in Part II of this report. But below we like to deal with the most important problems common to all these programs, i.e.: international balance of payment and capital accumulation.

- 108)

V. International Balance of Payment

International balance is the final target of fulfilling self-sustaining economy. There are a number of factors which contribute to the improvement of international balance. One is to reduce the amount of basic imports to the minimum thereby reducing the amount of necessary exports, and the other is to increase the amount of receipt of foreign currency thereby reducing the amount of necessary imports of raw materials. Improvement in the terms of trade is another method by which international balance would be improved. In order to bring about self support of the Japanese economy, all possibilities for the improvement of international balance should be carefully examined and no efforts spared to bring it about. Self support of the Japanese economy cannot otherwise be brought about even after five years. Following is a review of various conditions on which international balance depends.

1. Decrease of Amount of basic imports and increase of net receipt of foreign currency.

As stated before, the amount of basic imports for domestic use in the final year is \$1,170,000,000 and the imports of raw materials for export production is \$410,000,000, making the total \$1,580,000,000.

The basic imports of \$1,170,000,000 can be said to be too small in the sense that supposing that the dependence on foreign trade is at the same degree as the pre-war days, this amount is not more than 90% of the 1930-34 amount while the national income and the population are increased by 30%. The dependence on foreign

- 109 -

trade is actually increased on account of the fact that the food production is increased by only 6% while the population was increased by 30%.

As stated in the fundamental policy, the future industrial structure depends highly on foreign trade. However, in view of the fact that the prospective exports in the final year will not be more than 1.5 to 1.6 billion dollars in the light of the situation of the Far Eastern market and inconvertibility of currencies or that they will be if at all only by worsening the terms of trade, and also on the principle that the U.S. aid must be spared as much as possible during the planning period our plan is based on the high rate of utilization of indigenous resources in order to reduce the import requirement to the minimum. All pre-war imports for domestic consumption which can be dispensed with are excluded in the plan. Thus the dependence on foreign trade is reduced and the amount of basic imports is much curtailed.

The rate of net receipt of foreign currency against the total export is planned to be increased by 11% during the five year period. The rate of 74% in the final year is lower as compared with 76% in 1937, but is much higher than the present 64%. The reason why the current rate is low is that the exports of 100% rate such as silk industry is drastically decreased, that the export of cotton products the rate of which is very low occupies as much as 38% (in 1948 C.Y.) of the total exports, and that the terms of trade are much worse than the pre-war days. It is intended in the plan that the rate of net receipt of foreign currency

- 110 -

be as high as possible by increasing the exports of chemical fibre in the textiles industry, estimating the exports of silk and silk product at 240,000 bales (one fourth of the pre-war exports) or by putting weight on highly fabricated machine and tools. Nevertheless, the rate cannot be restored to the pre-war level on account of the drastic shrinkage of silk market.

2. Invisible trade income

If there is certain limit to the expansion of foreign trade, it is natural that consideration is given to the maximum possible increase of invisible trade income. There are a number of items of invisible trade, such as transfer of gold, income from tourists, cash income, etc. However, inasmuch as the production of gold cannot be more than 5 tons and income from tourists \$10,000,000 efforts should be made to increase to the maximum the income from marine freightage. As the current rate of marine freight is one of the relatively highest as compared with the pre-war levels, it is specially desirable to increase the income from freightage. The income from marine freightage in the final year is \$100,000,000 in our plan, the ratio of handling by the Japanese vessels being set at 50%. As the amount of shipbuilding is 1,300,000 gross tons, the balance of ³⁵⁰55,000 deadweight tons have to be chartered in order to attain \$100,000,000 goal.

3. Changes in the terms of trade

Not less than \$200,000,000 imports excess at the current price is deemed inescapable even if our export industries were satisfactorily rehabilitated and the effective demand in the Far Eastern market were to be substantially increased on account of the deterior-

- 111 -

ration of the terms of trade (price ratio of export and import commodities). The amount of currency receipt is not increased very much even though the amount of export is increased, and the amount of payment for imports is greatly increased even if the amount of imports is economised to the minimum. The following table shows the deterioration of terms of trade in the post-war times.

Table 52 Changes in Terms of Trade

Year	Export Price index	Import price index	Net terms of trade
1935	100.0	100.0	100.0
1948	288.6	330.5	75.8

One of the reasons for such deterioration of the terms of trade is the rise of marine freightage, which affects adversely to our country which imports voluminous materials such as coal, iron ore, salt, wheat, etc. The transportation charges comprises more than 20% in imports and 5 to 7% in exports in our foreign trade. The second reason is that while those materials which Japan imports, such as materials for iron and steel making, food-stuffs, oil and fats, have risen in price after the war on account of world-wide shortage, the prices of textiles products which occupy 60% of our exports, especially silk, have not risen very much. The third reason is that our trading companies are closed up within this country and are not familiar with over-seas situation,

- 112 -

suffering from visible and invisible disadvantages.

The present terms of trade are very unfavorable for us on account of various reasons as stated above, but they will gradually turn for the better as the world economy is gradually normalized and our trade put on the private basis. That the price of wheat which at one time was as high as \$160 per ton (CIF) went down to \$95 (still 3.8 time as much as the 1930-34 price) and that of heavy coking coal went down from \$31 to \$20 shows that the terms of trade have turned and will turn for the better.

There are, however, conditions which foreshadow the prospect of our terms of trade. It may be necessary to reduce the prices of our export commodities in order to attain the goal of 200 to 250 million dollars yearly increase of exports on the one hand and it may be that the prices of import commodities will become higher if we are to double our imports during the five year period. In fact the prices of our export commodities were lowered in relation to those of import commodities in the years 1930 to 34 when our export increased rapidly, and the prices of import commodities went up in the years after 1934 when our imports were increased. The improvement of our terms of trade depend upon various circumstances.

Meanwhile, the present terms of trade are so inferior that there is reason to expect that they will be improved in future. Our plan estimates that they will be improved by 13%, which however will not still restore the situation in 1930-34.

- 113 -

Table 53 Terms of Trade in 1949 and 1953

Year	Export price index	Import price index	Net condition of trade
1949	100	100	100
1953	85	75	113

4. Economic recovery in East Asia

Even though the degree of self support and the rate of net receipt of foreign currency is raised and trade terms are improved, the exports of \$1,500,000,000 are necessary in the final year, which amount is 6 times as much as that of last year. Nevertheless, the fact that about 60% of our pre-war exports as well as the exports in the final year are for the Far Eastern areas means that the goal cannot be attained without the restoration of the Far Eastern market. In the same token, 50% of our imports were from the Far Eastern areas, and it is desirable that they will be in future in the light of the geographical conditions and international balance.

Such economic relationships are desired not alone by Japan. The economic recovery of the Far Eastern areas will be accelerated by the imports from Japan of machinery and other materials required for development. The economy of Japan and that of the Far Eastern countries are so closely interdependent that the economic recovery of one means that of the other. The same thing is true with Eastern and Western Europe. That is to say, it

- 113 -

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- 114 -

is planned in the European Recovery Program that a large quantity of lumber and coal be imported from Eastern Europe in the later years, proving that economic relationships among neighboring countries is unchangeable.

The actual prospect, however, is still far from clear. The civil war in China has not yet finished and political stability, not to speak of economic recovery, is far from being realized in other East Asiatic countries. It is highly doubtful if the economy of these areas will be restored to the pre-war state within five years.

The extension of the Marshall Plan in the Far Eastern areas to promote economic development of the Far Eastern areas as one unit is deemed to be essential also to the implementation of this Rehabilitation Program.

5. Examination by areas

There is still another condition of importance which has to be fulfilled in order that our international trade be restored. It is the problem of the balance among areas. Though our pre-war trade kept balance in dollar areas, our post-war dollar balance has become so unfavourable due to the fact that the post-war fall in the export capacity of the Far Eastern areas has necessitated the import of all foodstuffs and raw materials from the dollar areas, and that the silk market in U.S.A. has disappeared.

The following table shows this trend.

- 115 -

Table 64 Balance of Trade by Areas Before and After
the War (In \$1,000,000)

	1930-34			1948		
	Export	Import	Balance	Export	Import	Balance
Total						
Total	1,610.0 (100%)	1,745.0 (100%)	-135	258.6 (100%)	682.6 (100%)	-424.0
Asia	959.0 (59.6%)	945.0 (54.2%)	+ 14	126.9 (49.0%)	98.4 (14.5%)	+ 28.5
Others	651.0 (40.4%)	800.0 (45.8%)	-149	131.7 (51.0%)	584.2 (85.5%)	-452.5
Dollar areas						
Total	434.0 (27.0%)	469.0 (26.9%)	- 35	76.0 (29.4%)	543.2 (79.3%)	-467.2
Asia	21.0 (1.3%)	10.0 (0.6%)	+ 11	5.6 (2.2%)	9.9 (1.5%)	- 4.3
Others	413.0 (25.7%)	459.0 (26.3%)	- 46	70.4 (27.2%)	533.3 (78.0%)	-462.9
Pound areas						
Total	336.0 (20.9%)	359.0 (20.6%)	- 23	76.3 (29.5%)	74.8 (10.8%)	+ 1.5
Asia	190.0 (11.8%)	158.0 (9.1%)	+ 32	36.9 (14.2%)	43.9 (6.4%)	- 7.0
Others	146.0 (9.1%)	201.0 (11.5%)	- 55	39.4 (15.3%)	30.9 (4.4%)	+ 8.5
Others						
Total	840.0 (52.2%)	917.0 (52.5%)	- 77	101.3 (41.1%)	64.6 (9.7%)	+ 41.7
Asia	748.0 (46.5%)	777.0 (44.5%)	- 29	84.4 (32.6%)	44.6 (6.5%)	+ 39.8
Others	92.0 (5.7%)	140.0 (8.0%)	- 48	21.9 (8.5%)	20.0 (3.2%)	+ 1.9

Note: The actual import and export in 1930-34 shown in this table do not check with those given before. This is because they are computed roughly on the basis of general price index.

- 116 -

As compared with the 98% imports from the dollar areas in the immediate post-war period the percentage has recently been lowered considerably. As the trade with the Far Eastern countries gradually increases, the percentage of trade with the dollar areas will decrease and approach the pre-war rate. It has to be noted in this connection that the trade structure has considerably been changed due to the shrinkage of silk market and the increase of machinery export to the Far Eastern areas, resulting in the changes in the areal balance of trade.

Such changes are by no means fatal if currencies are internationally convertible. Consequently the difficulty in our trade with non-dollar areas is either that we accumulate credits which cannot be realized or that we can export only so much as we import vis-a-vis non-dollar areas and that we can import only as much as we export.

This is not, however, the only problem. The world is suffering from such shortage of dollars after the war. Many countries are receiving aid from the United States on the one hand and enforcing strict exchange control and import restrictions in order to spare imports from dollar areas. As Japan is now designated as a hard currency area, foreign countries will import from Japan only to the extent which they export to Japan. The result is that the trade between each country is balanced, but that the export as a whole does not expand. The fact that our export excess to the non-dollar areas last year was only

- 117 -

\$40,000,000 is a proof that inconvertibility of currencies disturbed the increase of exports to a great extent.

We manage to secure necessary imports now through a large amount of the aid from the United States. The problem is serious if currencies are still inconvertible in 1953. This is why we established our plan on the basis of the principle of "as much imports from non-dollar areas and as much exports to dollar areas". Nevertheless, there is still \$300,000,000 export excess to the non-dollar areas in our plan.

We used to have import excess from the dollar areas. Moreover, the export of silk has shrunk since the war on the one hand and we have to depend on the dollar areas for 10% of wheat and 50% of fertilizer in the final year. It is only natural that the areal balance cannot be maintained. The situation is more or less true with many other countries. The overwhelming strength of the economic power of the United States intensifies such tendency. The Western European countries also have to have some sort of solution before the aid from the United States ceases. Our plan is based on the assumption that by 1953 either currencies will become convertible or multilateral agreement for international clearance be established.

6. Foreign aid

The international balance will thus be restored by the final year. On the road to recovery, however, considerable amount of the foreign aid is necessary as one of the mainstays. It is needless to dwell upon how much has the foreign aid contributed to the

-118 -

increase of production and promotion of exports. It is to be noted in this connection that while the foreign aid has so far been used mainly for stabilization it should from now on be used for capital formation directly required for economic self support.

- 119 -

VI. PROBLEM OF CAPITAL ACCUMULATION

Generally speaking, the tempo of increase of national income is defined by the size of capital accumulation in the preceding period. To what level Japan's economy can be recovered in five years is chiefly determined by the size of capital accumulation preceding.

In this plan it is concluded that capital accumulation as follows is required in each year.

(In billions of yen)

1949 F.Y.	662.5	25.2% of National Income
1950 F.Y.	690.0	24.5
1951 F.Y.	742.1	22.5
1952 F.Y.	808.1	22.0
1953 F.Y.	893.5	23.6

As shown above, the planned capital accumulation is substantial as compared with the new investment in the 1930-34 period (12% of the national income). It is not easy to maintain such high rate of capital formation for the period of 5 years.

Because it is well known as Keynes' proposition that saving propensity decreases in proportion to the reduction in national income. Furthermore, the fact that the income per capital at present is 70% of that in the 1930-34 period and even in the 1930-34 period saving was made only in those income groups whose incomes are 80% or more of the average indicates that saving propensity can never be increased much if the prevailing conditions are left as they are. Therefore, strong measures of promotion will have to be taken for capital formation in order to realize such capital accumulation as stated above. It is noted in this connection that it is not that no depletion of

- 120 -

capital is possible but that for the time being capital accumulation will strongly promoted in certain economic fields in priority while disinvestment ^{is} continued, though in an decreasing tempo, as heretofore in some other fields, thereby gaining time.

Next, we shall consider what capital accumulation is required by each source and what steps are required for the attainment of such targets.

a. Spontaneous Saving.

How much saving propensity depends on business cycle or the size of income is clearly shown in the comparison of saving propensity in 1931 with that around 1935.

Table 55 Saving Propensity in Pre-war times

(In Millions of Yen)

	Saving	Saving Propensity (as against National Income)
1931	381	3.9%
1932	411	3.7%
1933	1,335	10.5%
1934	1,447	10.7%
1935	1,597	10.7%

Note: Saving is net increase of deposits collected by financial institutions and does not include funds retained by enterprises.

As is well known, 1931-32 was the year of world-wide depression and it was reflected in the saving propensity of that year. But saving propensity was gradually increased subsequently as business recovered from the effects of depression.

If we assume that 10% of National Income is normal saving propensity as shown in the above Table, the actual saving propensity of 18% recorded in the last fiscal year (1948 FY) is exceedingly good.

- 121 -

It may look somewhat peculiar that the saving propensity is extraordinarily good while the income per capita is nothing more than 70% of the average in the 1930-34 period. But, if we call our attentions to the fact that the most of ¥350 billion saving in the last fiscal year was mainly produced by inflation and that the amount of deposits of really saving nature was only 20% thereof, we shall find that the saving in the last fiscal year in the real sense of the word was not large.

In this connection, however, it is noted that the fact that ¥350 billion of saving was produced, even if by inflation, cannot be disregarded as it can be used for investment.

How much saving will be made in future will depend mainly on how the present inflation will be arrested.

In this plan, "disinflation" policies are assumed to increase saving propensity as much as possible.

Thus, in the earlier period of the plan, recovery to the average saving propensity in the 1930-34 period is assumed while in the latter period of the plan, recovery to the normal level of saving propensity in pre-war times is assumed.

Furthermore, in saving in the broader sense of the word is to be included direct investment in enterprises such as the purchase of stocks and debentures by individual persons. In the last fiscal year, such direct investment as stated above amounted to approximately ¥30 billion while that in the present fiscal year is estimated to be ¥35 billion.

On the assumption that policies of promotion of securities exchanges be continued for the accommodation of long-term industrial funds, a steady increase of such direct investment year by year is assumed.

- 122 -

b. Enterprise Profits

Capital is accumulated not only by personal saving but also by the reservation of some of corporate profits. It is extremely difficult to estimate correctly the total amount of such corporate reserves, but it is a fact that it increases as the amount of corporate profits increases.

But, under the present circumstances in which price structure is still unbalanced and some basic industries still suffer from deficits, capital accumulation by corporate profits, especially that in basic industries, cannot be too great.

However, the profits of businesses will naturally increase in the future in parallel with production increase and it is absolutely necessary to consider increasing the capital accumulating capacity of businesses considerably through rationalization of enterprises, revision of price structure etc. This program has been drawn up, taking these points into account.

c. Public Investment

In the category of public investment are included Government investment, public works expenses and construction accounts of special accounts. Furthermore, price subsidies are also included in this category as indirect investment. The public investment of this kind was comparatively substantial up to the present and it promoted capital accumulation in the post-war period, in a sense, side by side with inflationary policies. But, at the same time, inflation was aggravated that much.

On the other hand, inasmuch as expenditures have to be reduced to the extent of tax-payment capacity for the purpose of maintaining a true balance in the consolidated budgets, the amount of public investment excluding the Counterpart Fund will have to be somewhat reduced in the early period of the plan.

- 123 -

No great expectation can be had at present on personal saving and corporate reserves. Furthermore, funds made available from these sources ~~not~~ ^{can} be always used along the Government policy. Therefore, in order to accomplish this plan not only a substantial part of the Counterpart Fund is to be used for direct industrial investment, but also even in and after the 1951 F.Y. when the price subsidy system is expected to be abolished, some capital accumulation is to be made by such methods as industrial subsidies in some form and increase of public works expenses. Special consideration on this point is required especially in the latter period of the plan as such expenditures as general administrative expenses, price subsidies, etc. which are comparatively non-productive are expected to be reduced substantially.

d. Foreign Aid

The great contribution of foreign assistance to the economic stabilization and capital accumulation of Japan is briefly touched upon in the above. To put it more concretely, the unfavourable balance of trade last year was approximately \$420 million or ¥110 billion if it were converted by the ratio of ¥270 per one U.S. dollar. In the 1949 U.S. fiscal year \$375 million of GARIOA and \$105 million of EROA were granted. This means that more than three fifths of the import excess of trade consisted of the importation of relief goods. That is to say, greater stress was placed not so much on direct capital accumulation as on stabilization in granting U.S. aid to Japan. This is supported all the more as all yen counterpart of the U.S. aid was used for price stabilization in the form of import subsidies.

However, as U.S. aid for Japan is expected to be steadily decreased and eliminated after 1952 it is necessary to take proper steps so that it may be used up not only just for stabilization but also for direct capital formation. Otherwise, the standard of living temporarily advanced by U.S. aid will be again deteriorated as soon as it is stopped or Japan will not be recovered for ever

- 124 -

on a self-supporting basis. Any way, Japan's economy could not be stabilized in the true sense of word. In this sense, the present tendency of less GARIOA and more EROA and the establishment of the U. S. Aid Counterpart Fund not made available for price adjustment but only for rehabilitation and stabilization are welcomed. Because such steps will be very effective in realizing a true economic stabilization in a shorter period of time although the standard of living may be somewhat lowered for the time being.

Furthermore, in this plan it is assumed that while U.S. Government aid steadily decreases hereafter, an increasing amount of private foreign capital is induced for the rationalization and modernization of enterprises. Although it is very difficult to estimate concretely the amount of private foreign capital induced, it is specified tentatively in our calculation of invisible trade. The reason why it is not included in the import program is not that it is neglected but that any concrete amount and timing thereof is not known. To show simply the importance of private foreign capital in the rehabilitation plan, we want to add here that it is one of the most important factors for recovering the present low labour productivity to 90%.

In the above, we have briefly analyzed capital accumulation by sources and stated the significance of each source. To sum it up, internal capital formation will be greatly affected by how inflation is arrested, in this plan "disinflation" policies are adopted for the purpose of promoting capital formation as much as possible and foreign assistance will be most effectively utilized as a substantial part of capital accumulation is to be covered thereby. According to our calculation, it is not impossible to realize the planned capital accumulation and increase national income year by year if such policies as stated above were enforced.

- 128 -

Aside from the problem of securing total amount of capital required, there remains one more problem which is qualitative; i.e., the problem of how funds can be secured for necessary quarters at necessary time. It will be quite different if all the funds can be used as the Government desires just as in the case of the Counterpart Fund. However, since most funds are supplied by general financial institutions either in the form of loans or in the form of direct investment, they could not be induced into desired channels unless on a paying basis. Herein is shown clearly the difficulties of economic planning in a capitalistic economy. But, if we want to carry out the plan by all means, we could not disregard the necessity of controls over funds more effective than those over materials currently in force. Thus, in the plan the enforcement of strong financial controls is assumed from the standpoint that they are necessary and possible. Otherwise, the plan itself will be fundamentally affected.

- 126 -

VII Conclusion

--- For the realization of the rehabilitation program ---

From the standpoint of the realization of the rehabilitation program, we wish to state the conclusion reached with regard to a few important problems in which we could not but be strongly interested throughout the process of planning.

Firstly, as Japan is poor in natural resources and self-sufficient only to a small extent, the scale of her economy or standard of living of her people in future will be determined, in the final analysis, by the size of export trade. If the Japanese economy is by all means to be placed ^{on} such a self-supporting basis as will enable a rational economic circulation in five years, export trade on the scale indicated in this program must be attained at all cost. In case export is not expanded as planned or foreign aid is not forthcoming as expected under this program, it is almost certain that production and standard of living will be much lower than planned under this program.

In view of the fact that when the actual records in 1948 and the targets for 1953 are compared export will be the one to be increased more than anything else, the Government and the people must make epoch-making efforts to expand export in the future, more than ever aware of its importance. More specifically speaking, it is desirable more than anything else to establish overall export expansion measures for increased allocation of export goods much demanded abroad for export, active development of export markets, elimination of existing difficulties

- 127 -

in the way/in trade transactions, improvement of quality, rationaliza-
tion of export industries, etc.

At the same time, we like to strongly request that the attainment of a self-supporting economy be facilitated by favourable external factors such as extension of the Marshall Plan to the Asiatic areas to increase purchasing power in the Asiatic markets, accelerated conclusion of multilateral clearing agreement, sending abroad of commercial representatives, early convocation of a peace conference, extension of assistance until achievement of a self-supporting economy.

It is also desirable that in parallel with such an effort to maximize export, measures be taken to assure the efficient enforcement of exchange and import controls on one hand and the equitable distribution of goods imported with foreign aid with a view saving and utilizing to the utmost what little import funds there may be. What lies nearer to the root of the problem is that it is doubtless more essential than anything to increase self-sufficiency by increased production of foods and other materials and to minimize import requirement by raising the rate of foreign currency receipts.

Secondly, a considerable amount of capital accumulation is required to achieve the recovery of the Japanese economy. Even if we fully utilize foreign aid, it/^{is} no easy task to effect a fairer distribution of income tending to lower the propensity to save and at the same time to direct over 20 per cent of

- 128 -

national income towards investment each year. However, unless we fulfill this difficult task, either the Japanese economy will never be rehabilitated or we will have to be contented with an economy on a small scale and low standard of living if ever stabilization is achieved. If we do not want this to happen, we must take care to raise the standard of living only slowly and accumulate as much capital as possible for the time being, however trying it may be.

It must be noted that, in order to ensure the accumulation of capital required under this program, a panic - deflation often occurring after inflation must be staved off at all cost. It is out of the fear of an adverse effect of deflation on capital accumulation that we advocate disinflation as a method of overcoming inflation.

With regard to another problem of capital accumulation, i.e. a quantitative problem of securing necessary capital for essential industries, control measures in the field of financing as well as rationalization of the price structure is absolutely necessary. When it is admitted that basic industries such as coal, electricity, and iron and steel industries have yet no self-capital-accumulating capacity while repair and new construction of facilities in these industries is indispensable for the recovery of our country, it is not permissible to leave them entirely to the independent financing by city banks who should handle short-term credit. It is essential, in the first place, to reexamine the present price structure and increase the self-funds-supplying-capacity of these industries and, in the second place, to establish a policy which

- 129 -

will ensure an efficient and timely flow of funds to where they are essentially required. There is, however, a certain limit to such a policy. It is not possible to meet all the funds requirement. The Government must therefore, establish a system of ensuring long-term funds to important industries by effective utilization of foreign aid and by increasing the proportion of investment within public finance.

Thirdly, powerful measures are necessary in relation to population. The general tendency of increasing population will continue for many years to come, although the rate of increase may never reach the highest ever recorded of 23% in 1948. How strong pressure is this enormous population now exerting upon the Japanese economy? It is clearly shown by the fact that last year per capita income was only 71 per cent of the 1930-34 level, whereas the real national income was 86 per cent of the same level and by the fact that the unemployment amounts to over 4 million persons when the concealed unemployment is included. In view of the fact that over-population not only lowers the standard of living but also makes the unemployment problem acuter and impedes the modernization of enterprises, this Committee considers it absolutely necessary to carry out powerful measures with regard to population increase.

These are not all the important conclusions of the rehabilitation program. It is not the formulation of the program itself but the sincere efforts of both the people and the Government to implement the program that is most important. As we have already stated, this program is not a mere forecast, but has definite

-180-

objectives to achieve. The implementation of this program calls for a care to make the maximum utilization of limited funds and materials and achieve an overall recovery of economy, in other words, necessary economic controls supported by the readiness of the people to cooperate positively in them.

The people has been under the yoke of controls ever since the war and is feeling tired of the present controls. The voice for decontrol frequently raised in various quarters may be said to be an expression of this feeling. When we think of the clumsiness of the controls up to now, this feeling of the people is not understandable. However, as long as we want to implement this program, it is most essential to continue most powerful controls on priority basis, although it may be necessary to adopt such a new method of control as will not only leave room for the working of economic values but also coordinate money and goods.

For the people, the way towards the realization of the program is not at all easy. The present conditions of the Japanese economy, however, indicates that real stabilization and self-supporting economy will never^{/be} achieved, unless we overcome tremendous difficulties. So much is our situation fraught with difficulties. The difficulties are not only internal but also international. The will of the people to do their very best and overcome all these difficulties alone will enable the realization of economic recovery. And their efforts and successes alone will justify the request to be made to the

-131 -

world/^{for} granting of aid as primer and alleviation or elimination of the external conditions in the way of recovery.

In concluding this overall report, we like to stress that the spontaneous cooperation of the people fully aware of the difficulties involved in the economic recovery, in other words, their breathing of life into the rehabilitation program out of their own spontaneous will, will be the very motive power which makes the realization of the rehabilitation program/^{possible} and will be a goal which will promise a high standard of living in the future.

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Washington,

A-249, September 29, 1949.

(This airgram supplements this Mission's A-243, September 22, 1949, and earlier airgrams in this series. Request distribution be limited to Department for reasons stated in A-21 of January 26, 1949.)

1. Liquidation of Japanese Enterprises. Mr. W. S. BROWER, Chief, Liquidation Branch, Finance Division, Economic and Scientific Section (ESS), GHQ, SCAP, informed officer of this Mission Sept. 22 that his office had, as of that date, liquidated 68 per cent of Japanese enterprises designated for liquidation by other divisions of ESS. Brower stated that as soon as his branch had accomplished 80 per cent of the objective he plans to recommend to Major General W. F. MARQUAT, Chief, ESS, that work of that branch be terminated. He said he expected that 80 per cent objective would be reached in not distant future. Officer asked Brower how his branch could be certain that liquidation of Japanese enterprises was being thoroughly accomplished, and not done merely in name only. Brower stated in reply that definite established rules and procedures were being followed in accomplishing liquidation of any enterprise with objective of seeing that liquidation was not merely token operation. He added that liquidated Japanese concerns would have to do a colossal amount of covering up to conceal attempts at reorganization.

2. Chinese Mission Negotiating for Sale of Narcotics. Reference made to despatch no. 674, Sept. 27, 1949, subject "Narcotics in Japan"

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

RAE
file 2018
OFFICE OF
FAR EASTERN AFFAIRS
OCT 6 - 1949
DEPUTY DIRECTOR
Department of State

894.50/9-2949

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OCT 19 1949
FILED

Tokyo's A-249,
September 29, 1949.

- 2 -

Restituted to China," and items referred to therein contained in earlier issues of these airgrams. Mr. Ely M. BRANDES, Office of Civil Property Custodian, GHQ, SCAP, on Sept. 25 stated to officer of this Mission that he had on that date been informed by official of Chinese Mission that negotiations were being carried on, presumably through Chinese Embassy, Washington, for sale of narcotics in question to Heron & Co., Inc., Rahway, N.J. Brandes assertedly asked whether firm offer made, but reply in negative received. He said he informed Chinese official that any such sale would have to be made through U.S. Govt. channels and that concurrence of this Mission would have to be obtained together with concurrence of other Sections of GHQ, SCAP.

3. Sidelights on Freight Conference Suit. Reference despatch no. 635, Sept. 14, 1949, subject "Response by Far Eastern Freight Conference to Summons Issued by Fair Trade Commission." On Sept. 27, Mr. George M. DANZEY, manager of Yokohama office of American President Lines, stated to officer of this Mission that, while members of Far Eastern Freight Conference were generally satisfied with legal work in their behalf performed by Mr. Bruce AITCHISON, American lawyer mentioned in reference despatch, they were convinced that their position would be enhanced if they were to associate themselves with Japanese interests concerned in this case. Danzey said that they were also endeavoring to enlist support of certain key Japanese officials. He said that these two steps were being taken independently by Conference members; that Aitchison had not been informed of these steps; and that some misgivings were felt by Conference members over Aitchison's standing in GHQ, SCAP. Aitchison has in past attacked GHQ in vitriolic public speech, especially in open meetings of American Chamber of Commerce in Japan. He is now named as agent of Felix Kraarsky Corp., New York, largest buyer of Japanese copper suspected of having been transhipped from Antwerp to Iron Curtain countries. Dept. may note that Aitchison several weeks ago sent letter to ESS in this regard, protesting that he acted in good faith, and that he had no knowledge that copper bought by him for Kraarsky was likely to be transhipped to Iron Curtain countries.

4. Shoup Tax Recommendations and Tobacco Monopoly Question. Reference despatch no. 618, Sept. 6, 1949, subject "Discussions between China-American Leaf Tobacco Company and the Japan Monopoly Public Corporation." Question of transfer of tobacco industry of Japan from monopoly basis to private enterprise, as recommended by Premier YOSHIDA, may well have been answered for time being by statements contained in Report on Japanese Taxation by the Shoup Mission, released here Sept. 18.

CONFIDENTIAL

Tokyo's A-249,
September 29, 1949.

- 3 -

Shoup Mission recommends no change in existing system for tobacco monopoly revenue which is budgeted to amount to 120 billion yen in current Japanese fiscal year commencing April 1, 1949, and to account for 17 per cent of total Japanese Govt. revenues. Door for some discussion left open, however, owing to statements concerning abnormally large profits made by Japanese Govt. from tobacco, and admission that detailed study of entire question not made owing to lack of time.

5. Trade Reforms Still under Consideration. Various projects for reforming and simplifying foreign trade procedures continue to receive attention, but none is yet ready for implementation. Agreement has apparently been reached in principle on limited operation of C.I.F. exports, with C.I.F. quotations to be made only on cash or letter-of-credit exports, and payment to be made in currency of contract. Limited return to private imports has received high priority with arrival of Freile Advisory Mission for International Trade, but, like other projects, seems to be stalled at high level for time being. Agreement reportedly reached with Freile Mission regarding abolition of most floor prices, but difficulty still revolves around necessity of finding some adequate substitute to prevent dumping and flight of capital.

6. Sterling Area Negotiators Now Hopeful. With goal figure for Japanese purchases tentatively set at 50 million pounds sterling, sterling area and SCAP trade negotiators are hopeful that figure can be broken into fairly firm commitments. SCAP has agreed to purchase larger quantities of petroleum products (to total up to around \$20 million) and of chemical fertilizers. Sterling area not friendly to proposal that entrepot trade be permitted only with permission of other party; hold that attempt to limit such trade would run against centuries-old patterns of trade. Meanwhile, mission is expected from Hong Kong in near future to arrange for reopening of imports from Japan, which were discontinued on Sept. 28 as result of devaluation of sterling.

7. Mission to go to Korea; Trade Disappointing. SCAP trade mission expects to go to Seoul within next few days to review position under SCAP-Korean Trade Arrangement. Preliminary survey indicates that trade has fallen considerably short of plans. Japan has purchased only about \$3 million worth of Korean products (principally the controversial dried laver), while Korea has purchased to total value of about \$7.5 million. Since Trade Plan contemplated Japanese purchases to total about two-thirds of sales, slowness of trade would appear to be based on unexpectedly low level of Japanese purchases. No one has satisfactory explanation for that slowness, however.

500

HERALD

G/Boetringer :
G/Warner : 108
L/Seidensticker :

CONFIDENTIAL

STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

TO : IR - Mr. Barger
 FROM : NA - R. Fearey *RAF*
 SUBJECT: Attached Airgram

DATE: September 26, 1949

I am afraid your redraft of the second page of the airgram still does not meet the objections we had in mind. I am sure that POLAD and SCAP realize that the Department "is not questioning the stabilization program", since we initiated the stabilization directive and are known to support it fully. I am afraid, however, that your questions, if brought to the attention of SCAP, would introduce an element of uncertainty as to whether the object of efficient production or deconcentration should prevail when the two are in conflict. As Mr. Butterworth's attached letter of last April indicates, it is FE's strong view that the deconcentration program should not be permitted to obstruct the stabilization program. In an attempt to ~~resolve~~ ^{resolve} the difficulty I have drafted the following substitute ~~for~~ ^{for} page 2, which I believe NA and FE would clear if you feel that it meets your requirements:

"It appears from the aforementioned article that the Japanese public may not be aware that concentration of industrial operations in most efficient plants and concentration of control or ownership need not be the same thing or present the same problems. The Department would appreciate your views whether any large segment of the Japanese public mistakenly believes that measures to end wasteful, high-cost production resulting from spreading of scarce materials among an excessive number of plants necessarily conflict with the purposes of the deconcentration program. If there seems to be need you may wish to discuss with appropriate SCAP officials means of rectifying any misunderstanding on this score, avoiding suggestion in such discussion or statement to the Japanese that concentration of industrial operations in most efficient plants should be held up for any reason whatsoever."

This document must be retained in the file 894.50/9-2649

CS/J

*State Dept
Northeast Asian
Affairs Office
From Fearey*

Mr. Tolson	
Mr. E.A. Tamm	
Mr. Clegg	
Mr. Glavin	
Mr. Ladd	
Mr. Nichols	
Mr. Rosen	
Mr. Tracy	
Mr. Carson	
Mr. Egan	
Mr. Gurnea	
Mr. Harbo	
Mr. Hendon	
Mr. Pennington	
Mr. Quinn	
Mr. Nease	
Miss Gandy	

FE:NA:RAFearey:db

894.50/9-2649

STANDARD FORM NO. 64

RESTRICTED

Office Memorandum • UNITED STATES GOVERNMENT

DC/R file

TO : FE - Mr. Allison

DATE: October 24, 1949.

FROM : NA - Mr. Carwell

Office of
FAR EASTERN AFFAIRS
OCT 25 1949

SUBJECT: Tokyo's 669 of September 26, 1949.

CFW
SGK
RAF

894.50/9-2649

This report of the Economic Rehabilitation Committee, an independent agency of the Japanese, dated May 10, 1949 known as the "Five Year Plan" is the result of two years study by the Planning Secretariat of the Economic Stabilization Board and of the Economic Rehabilitation Planning Committee under the chairmanship of Premier Yoshida who announced that the report would not be published. This blow at the Economic Stabilization Board was followed by a decision of the Ministry of Finance setting the rate at which subsidies should be abolished and overriding the recommendations of the Board. This has caused the resignation of two key members.

The plan is designed to create a self-sufficient Japan by 1953. The objection of the Premier to the plan is that it is "autarchic" stressing tight credit and distribution controls. The study aims at self-sufficiency proposing a standard of living only 89.9% of that for the 1930-34 period and is based on the expansion of the industries, particularly chemicals and ceramics and the maximization of domestic resources. This involves a switch from light to heavy industry and a favorable balance of trade by 1953, including revenue from invisibles to be derived mostly from shipping. The plan is both autarchic and optimistic. The central weakness in this report is that it assumes that by 1953 "free exchange of currencies will be restored or multilateral clearing agreements will have the same effect as free exchange of currencies."

FW 894.50/9-2649

Enclosure:
Tokyo's 669,
September 26, 1949.

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Rev. _____
Cat. _____



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Action Taken noted THE FOREIGN SERVICE
OF THE UNITED STATES OF AMERICA

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CP/FE/white

Date of Action _____ Office of the U. S. Political Adviser
for Japan
Action Office Symbol _____
Name of Officer K. J. AP Tokyo, September 26, 1949.
Direction to DC/R file

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DC/
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OFFICE OF
INTERNATIONAL TRADE
POLICY

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No. 671

UNCLASSIFIED

DIVISION OF COMMERCIAL POLICY
OCT 7 1949
DEPARTMENT OF STATE
Referred to IR for action 10/10/49 CTW

OCT 7 11 11

Subject: Forwarding Findings of Survey Regarding Public Interest in Purchase of Zaibatsu Stocks.

894.50/9-2649

The Acting Political Adviser has the honor to forward five copies of a public opinion survey entitled "The Purchase of Zaibatsu Stocks: an Appraisal of Public Interest," and released on August 31, 1949, by the Public Opinion and Sociological Research Division, Civil Information and Education Section, General Headquarters, Supreme Commander for the Allied Powers.

The enclosed survey, which was prepared to assist in the disposal of "Zaibatsu" securities and which is the result of interviews with over 5,000 persons, comes to the gloomy conclusion that nine out of ten persons either know nothing of or have mistaken ideas about the "securities democratization program," and that "interest in the program is slight."

The survey notes, however, that there is "some good will" toward the program, and concludes that a wider base of stockholders has been built up than existed prior to the war.

Enclosure: att

INTERNATIONAL RESOURCES DIVISION
OCT 11 1949
DEPARTMENT OF STATE

Five copies of "The Purchase of Zaibatsu Stocks: an Appraisal of Public Interest."

Parchment Mat to the Department.

500
EGSeidensticker, Jr.:lee

UNCLASSIFIED

DEC 23 1949

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ACTION COPY

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

EMB

GENERAL HEADQUARTERS
SUPREME COMMANDER FOR THE ALLIED POWERS
Civil Information and Education Section

SURVEY SERIES

Enclosure No. 1 to Despatch No. 671, September 26, 1949, from the Office of the U. S. Political Adviser for Japan, Tokyo, on the subject "Forwarding Findings of Survey Regarding Public Interest in Purchases of Zaibatsu Stocks".



THE PURCHASE OF
ZAIBATSU STOCKS:
AN APPRAISAL OF
PUBLIC INTEREST

31 August 1949

PUBLIC OPINION AND
SOCIOLOGICAL RESEARCH
DIVISION

DIVISIONAL PUBLIC OPINION SURVEYS

Foreword

Surveys published in this series represent studies conducted by this Division or by this Division in cooperation with other organizations. These studies are designed to provide information either requested by SCAP staff sections or by Eighth Army Civil Affairs Section, or deemed to be of concern to them.

TABLE OF CONTENTS

	<u>Page</u>
Introduction	i
SOME MAJOR FINDINGS OF THE SURVEY	ii
Chapter I. PERSONAL EXPERIENCE WITH STOCKS AND BONDS	1
A. The Stockowners	1
B. The Nonstockowners	4
C. The Relationship Between Personal Experience and Receptivity to the Securities Democra- tization Program	6
Chapter II. KNOWLEDGE OF STOCKS AND THE SECURITIES DEMOCRATIZATION PROGRAM	9
A. Knowledge of Stocks in General	9
B. Knowledge of Securities Democratization Program	11
C. Relationship Between Knowledge and Recep- tivity to the Securities Democratization Program	15
Chapter III. INTEREST IN STOCKS AND PURCHASE INTENTIONS	16
A. Interest in Stocks	16
B. Intention to Buy	17
Appendix I THE SURVEY METHOD	21
Appendix II AN ESTIMATE OF CHANGES IN STOCKOWNERSHIP SINCE BEFORE THE WAR	23

Introduction

The securities democratization program is an important part of the overall Occupation policy of shifting the ownership of Japan's industry from a small number of large owners (the "Zaibatsu") to a wider base among the people as a whole. Under the program, Zaibatsu and other stocks were made available for public purchase. In order to assist the Securities Coordinating Liquidation Commission, a Japanese Government agency, to evaluate the program's present state of progress, and to test the results of the stock purchase information program, the Jiji News Agency Public Opinion Room conducted a nationwide survey during the last two days of April 1949.¹ Over 5,000 persons were individually interviewed concerning their experiences with, and their opinions concerning, the purchase of these stocks. The respondents were selected by methods which, it is believed, yield a scientifically accurate cross section of the adult population of Japan.

1. During the same period in 1948, the same agency conducted a similar survey in the Kansai area. The results of this survey are reported upon in the publication "Attitudes in the Kansai District Toward Democratization of Securities," Current Japanese Public Opinion Surveys, No. 10, 26 August 1948, CIE, GHQ, SCAP.

SOME MAJOR FINDINGS OF THE SURVEY

THERE ARE SOME GAPS IN PUBLIC INFORMATION

Almost nine out of every 10 persons either know nothing of the securities democratization program or have mistaken ideas about its nature.

Approximately nine out of 10 persons are unable to identify the principal institutions engaged in the stock democratization program; between 96 and 99 out of every 100 persons are completely unable to indicate the functions of these institutions.

Three out of every five persons are unable to identify a single one of the rights of stockholders.

Less than one out of every eight persons is aware of the employees' priority in the purchase of liquidated Zaibatsu stocks.

INTEREST IN THE PROGRAM IS SLIGHT

More than seven out of every 10 persons expressed absolutely no interest in stocks and bonds.

Three out of every four persons never read stock reports in the newspapers.

Almost nine out of every 10 persons never listen to radio stock news.

For eight out of every persons, the purchase of stocks is not included in their plans for the future.

HOWEVER, THERE IS SOME GOOD WILL TOWARD THE PROGRAM

Although most people were unable to offer a judgment, a majority of those who do have opinions feel that the securities democratization program will have beneficial effects upon

industrial rehabilitation,
economic stabilization, and
the attraction of foreign capital into Japan.

INFORMATION IS IMPORTANT

It has an effect upon present stockowning:

Among all people, slightly less than one out of every eight owns stock.

BUT . . .

Among people who know a great deal about the securities democratization program, almost one out of every two owns stocks.

Among people who know a great deal about stocks in general, two out of every five own stocks.

It has an effect upon people's stock purchase intentions:

Among all people, only three out of every 100 can be considered to have a "high" intention to buy stocks,

BUT . . .

Among people who know a great deal about the securities democratization program, nine times as many can be rated as "high" in purchase intention -- 27 out of every 100.

Among people who know a great deal about stocks in general, the same number -- 27 out of every 100 -- can be rated as "high" in stock purchase intention.

PERSONAL EXPERIENCE WITH STOCKS IS VERY IMPORTANT

It has an effect upon future intentions:

Among all people, only three out of every 100 can be considered to have a "high" intention to buy stocks,

BUT . . .

Among persons actually owning stocks at the present time, 12 out of every 100 indicated a "high" intention to purchase more stocks.

INCOME LEVEL HAS AN IMPORTANT RELATION TO RECEPTIVITY TO THE PROGRAM

In general, respondents of lower income groups, as contrasted with those of higher ones:

- Own stocks less frequently
- Are less interested in stocks
- Know less about stocks
- Know less about the securities democratization program
- Express less intention to purchase stocks in the near future

HOEVER . . .

There are some indications that the rate of stock ownership among lower income groups has increased substantially above that which prevailed before the war.

Chapter I

PERSONAL EXPERIENCE WITH STOCKS AND BONDS

A. The Stockowners

One of the principal factors which affects the thinking and behavior of people in relation to stocks and bonds is their personal experience. The more experience people have with stocks and bonds, the more they tend to know about them, the less they feel that stock owning is a completely strange world, and the more they pay attention to publicity and information. Also, if people have had relatively satisfactory experiences with stocks and bonds in the past, they are likely to be more favorable toward information and publicity designed to induce them to purchase now. Therefore, this survey examined the matter of personal experience in considerable detail.

More than one person in 10 owns stocks, but the ownership rate is very uneven in different sectors of the population

While about 12 percent of the adult population reported some stock ownership, there are some notable variations in the rate of ownership:

While 45 percent of the business managerial group own stocks, only nine percent of workers own stocks;

While 24 percent of men over 40 years of age own stocks, only eight percent of men under 30 own stocks;

While 32 percent of persons with college education own stocks, only eight percent of persons with no more than elementary school education report stock ownership.

When past stock ownership is examined, the same general tendencies may be seen. It is also undoubtedly the case that the respondents of upper income status have a larger total amount of stock ownership than respondents of lower income status. However, the survey figures refer only to the total number of stockowners, regardless of the amount of stocks owned.

2

SURVEY SERIES

Question: Do you now own stocks, or have you ever owned any?

Own stocks now	12%
Used to own stocks, but do not own any now	6
Never owned stocks	<u>82</u>
	100%

Bank and utilities stocks are
most popular among current owners

Bank and insurance and utilities stocks are most popular in terms of the number of people possessing them. It should be noted again that the percentages refer to the proportion of people owning stocks, rather than to the proportion of stocks owned.

Proportion of Current Stockowners
Holding Selected Categories of Stocks

Bank and insurance	27%
Electricity and gas	24
Railway and transportation	20
Textile	15
Steel and metallurgy	13
Chemical	10
Food	9
Mining and oil	8
Real estate	4
Department store	2
Others	<u>19</u>
	XXX*

* This table adds to more than 100 percent as some respondents reported ownership of more than one type of stock.

More people feel they lost than
feel they gained from stockownership,
but a plurality feel that they came out even

THE PURCHASE OF ZAIBATSU STOCKS: AN APPRAISAL OF PUBLIC INTEREST 3

Among all persons who reported stockownership, past or present, more people feel that they have lost than feel they have gained. A plurality, however, feel that they have neither gained nor lost.

Gained	17%
Lost	27
Neither gained nor lost	43
Don't know	<u>13</u>
	100%

However, there are notable differences among the various sectors of the population. The most favorable profit-loss ratios were reported by the business managerial class, professionals, salaried workers, and persons with higher educational background; the least favorable ratios were reported by farmers, industrial workers, unemployed persons, and persons with no more than elementary school education.

<u>Profit and Loss Through Stockownership for Selected Groups</u>		
	<u>Gained</u>	<u>Lost</u>
Respondents with higher school education	26%	26%
Respondents with elementary school education	13	28
Business managerial group	27	22
Salaried workers	21	22
Professionals	22	22
Farmers	5	35
Industrial workers	17	26
Unemployed	17	42

About 10 percent of stockowners disposed of stocks in the past six months, most of them because they were in need of ready cash

About 12 percent of the respondents reported that they had owned stocks within the six-month period preceding the survey. Ten percent of these had sold stocks, almost half of them in order to acquire ready cash. The next most important motive for disposing of stocks was the desire to realize a profit.

SURVEY SERIES

"We ran short, and we had to work out our household expenses some way." (White collar worker in a public food corporation, Osaka)

"I sold my stocks to use the money for living expenses." (Man who works both on the railroads and as a farmer, Shizuoka City, Shizuoka Prefecture)

More fortunate respondents reported as follows:

"At that time, I could realize a profit from the sale." (Head of a brewery in Shimonoseki City, Yamaguchi Prefecture)

"The security dealer urged me to sell because I could make a profit right at that time." (Man who operates a small home industry, Fukushima City, Fukushima Prefecture)

Three out of every 10 respondents have relatives or friends who own stocks

Familiarity with the world of stocks and bonds is to some extent a function of the individual's environment as well as of his personal experience. From this point of view, the fact that 29 percent of the respondents reported that they had friends and relatives who were stockowners is important in estimating the potential for stock purchase. As will be seen later, people whose environment contains stockowners tend to be more receptive to stock purchase programs than do people without such a background.

Have stockholders among friends and relatives	29%
Do not	<u>71</u>
	100%

B. The Nonstockowners

The great bulk of the population are, of course, not stockowners. Eighty-two percent of the respondents had never owned stocks, and at the present time 88 percent are nonstockowners. In order to spread the securities democratization program more widely among the people, it is essential to understand the motives of the nonstockowners.

THE PURCHASE OF ZAIBATSU STOCKS: AN APPRAISAL OF PUBLIC INTEREST 5

The overwhelming majority of non-stockowners are disinterested in and unfamiliar with stocks, or they feel that they are not able to afford them

For many people, especially of lower economic status, the world of stocks and bonds is remote from their daily life. Even if they had the money available, stockownership appears to them to be completely unrelated to their normal patterns of economic behavior.

"It has no relation to my life, so I have never given it any thought." (Lower secondary school teacher in Nagasaki)

"That is way beyond me." (Elderly printer in Tokyo)

"I have never understood anything about stocks, and I have never had the money for it." (Worker's wife, Kanuma City, Tochigi Prefecture)

"I have never even wondered about owning stocks." (Railway track laborer, Tokyo)

At the same time, many people feel that they do not have the economic means to acquire stocks.

"Obviously, money is the main consideration. At the present time, I have absolutely no margin." (Employee in an umbrella shop, Kyoto)

"If I had some extra money, it would be a good thing; but since I don't have any, I cannot buy." (Farmer, Shiozu Village, Aichi Prefecture)

And some people feel that stocks are dangerous and speculative

About seven percent of the nonstockowners stated that they did not buy stocks because they regard them as risky.

"The market is a capricious thing."
 (Forestry service employee, Yamaoguchi
 Village, Miyazaki Prefecture)

"I dislike anything speculative; I want
 to save money by working honestly."
 (Farmer, Goido Village, Nara Prefecture)

"When I think about the people who have
 lost money in stocks, I have absolutely
 no desire to own any." (Farmer, Machi-
 fune Town, Kumamoto Prefecture)

"I think that for a poor person like
 myself, it is best just to work hard,
 and not try to get into a fast-moving
 stock world." (Tokyo shopkeeper)

It is interesting to note that the proportion of farmers who felt this way, 14 percent, was twice that of the population as a whole, an indication of the farmer's traditional suspicion of big city finance.

Reason for Nonpurchase of Stocks	
Not interested; unfamiliar	50%
Cannot afford to; too poor	43
They are risky	7
	100%

C. The Relationship Between Personal Experience and Receptivity to the Securities Democratization Program

An analysis of the survey data reveals clearly that personal experience with stocks tends to make people more favorably disposed toward the securities democratization program and stock purchase in general.

Personal experience increases awareness of the securities democratization program

While 88 percent of the people who have never owned stocks are completely unaware of the securities democratization program, only 64 percent of persons who own stocks at the present time are unaware of the program.

THE PURCHASE OF ZAIBATSU STOCKS: AN APPRAISAL OF PUBLIC INTEREST 7

Proportion Having Some Degree of Awareness
of the Securities Democratization Program

<u>Among</u>	
Current stockowners	36%
Persons who once owned stocks, but do not own them now	31
Persons who have never owned stocks	12

Not only is there a difference in the number of persons having some awareness, but there is a noticeable variation in the level of knowledge. Current stockowners have a higher level of awareness than persons who have never owned stocks. When respondents were rated on the basis of the degree of awareness of the securities democratization program, the following figures were obtained.

Proportion Rated as "Very High" in Awareness

<u>Among</u>	
Current stockowners	6%
Persons who once owned stocks, but do not own them now	3
Persons who never owned stocks	1

Personal experience increases the
general level of knowledge of stocks

Since people who own stocks have a definite stake in the subject, they seem to make a point of acquiring information which will be useful to them. The general public of nonstockowners, however, is generally uninformed. Thus, while only 14 percent of current stockowners have no knowledge of stock matters, 71 percent of the nonstockowning group are uninformed.

Proportion Having Some Degree of Knowledge of Stocks

<u>Among</u>	
Current stockowners	86%
Persons who once owned stocks, but do not own them now	74%
Persons who have never owned stocks	29%

The level of knowledge varies with respect to general stock information as well.

Proportion Rated as "Very High" in AwarenessAmong

Current stockowners	20%
Persons who once owned stocks, but do not own them now	15%
Persons who have never owned stocks	3%

Personal experience increases
readiness to buy stocks

While 41 percent of current stockowners evinced some interest in further stock purchase, only 18 percent of nonstockowners indicated any readiness whatsoever. Personal experience also has a decisive influence on the degree of readiness to purchase stocks. The proportion of persons indicating a "high" intention to buy -- that is, those who are the best prospects for immediate purchase -- is highest among people having personal experience with stocks, and lowest among those without such experience.

Stock ownership in the environment increases
the amount of individual ownership

Stockownership among friends or relatives seems to result in a higher level of general receptivity to stock purchase. This may be seen in the fact that stockownership is more than three times as high among respondents who have stockowning friends or relatives than among respondents who have no stockowning friends or relatives.

Proportion of Current StockownersAmong

Those having stockowning friends or relatives	24%
Those having no stockowning friends or relatives	7%

Chapter II

KNOWLEDGE OF STOCKS AND THE SECURITIES DEMOCRATIZATION PROGRAM

A. Knowledge of Stocks in General

In the course of the survey, a number of questions were asked to test general knowledge of stocks. On the basis of these questions, a rough index of degree of knowledge was constructed.¹

More than three out of every five respondents have absolutely no knowledge of current stock matters

More than three out of every five respondents were unable to answer correctly a single one of three brief information questions designed to test knowledge of current stock matters.

<u>Level of Knowledge</u>	
High	6%
Medium	32
Low	<u>62</u>
	100%

Participation in dividends is the most widely known of stockholders' rights

<u>Knowledge of Stockholders' Rights</u>	
Participation in dividends	30%
Attendance at general stockholders' meetings	23
Voice in company's plans and policies	17
Vote in company's plans and policies	8
Unable to identify any	<u>62</u>
	XXX*
* Adds to more than 100 percent as some respondents were able to identify several.	

1. See Appendix I for details of the construction of this index.

Chapter II

KNOWLEDGE OF STOCKS AND THE SECURITIES DEMOCRATIZATION PROGRAM

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	XXX*
* Adds to more than 100 percent as some respondents were able to identify several.	

1. See Appendix I for details of the construction of this index.

Most people are unaware of
"employees' priority" and the
right to unlimited dividends

Under existing legislation, employees of a Zaibatsu firm have priority in the purchase of the liquidated stocks of that firm. Most people were not aware of this fact.

Knowledge of Priority in Purchase of Zaibatsu Stocks

Correct identification	12%	
Mistaken identification	17	
(Shareholders)		(4)
(General public)		(10)
(Others)		(3)
Don't know	<u>71</u>	
	100%	

It is interesting to observe that the managerial group ranked far above workers in the proportion of persons knowing of employees' priority, even though this legislation was in part designed to give workers an advantage.

Knowledge of Employees' Priority

Business managerial group	33%
Workers	13%

Current legislation also permits unlimited dividends to stockholders. Only five percent of the respondents were aware of this fact.

- 5 percent of the respondents knew of the unlimited dividend ruling.
- 8 percent had mistaken ideas of the percentage of dividends permitted.
- 87 percent were unable to answer the question.

THE PURCHASE OF ZAIBATSU STOCKS: AN APPRAISAL OF PUBLIC INTEREST 11B. Knowledge of Securities Democratization Program

An overwhelming majority of the respondents were unable to indicate concretely the objectives of the securities democratization program, and only very small percentages were able to identify any of the institutions associated with the program for the widespread dispersion of stockownership. In spite of the fact that few people had any concrete knowledge, however, there seems to have been a generally favorable feeling toward the program, as indicated by the fact that very large numbers of people felt that it would have beneficial effects for Japan.

About 84 percent evinced virtually no knowledge of the securities democratization program

On the basis of an examination of responses to all of the questions designed to test information about the securities democratization program, it was found possible to classify all respondents as follows:²

<u>Degree of Knowledge of Securities Democratization Program</u>	
High	2%
Medium	14
Low	<u>84</u>
	100%

2. In an earlier survey of the securities democratization program in the Kansai area, the following figures were reported.

Question: "Do you know of the current program for the democratization of securities?"

Yes	41%
No	59

It was also stated in the same report that "since the question asks only whether people 'know' of the program or not, it does not distinguish degrees of knowledge. Although the survey showed that 41 percent of the respondents had some awareness of the program, this figure probably overestimates the information level, since it includes persons who have no more than a hearing acquaintance."

The discrepancy between the findings of the two surveys dissolves upon close examination. In the present survey, the following question was asked: "What are the objectives of the current program to disperse ownership of stocks among the general public?" The distribution of responses for the Kansai area, which makes possible a comparison with the earlier survey, is as follows:

(Footnote continued on next page)

12

SURVEY SERIES

Only 12 percent were able to
onumerate correctly any of
the objectives of the program

Specific knowledge of objectives of the securities democratization program is very slight.

Know a great deal	5%
Know slightly	7
Have mistaken ideas	33
Unable to answer	<u>55</u>
	100%

The proportions of persons able
to identify various institutions
associated with the program is very
small; the proportion able to de-
fine their functions is even smaller

Respondents were given cards with the names of various institutions engaged in the securities program. They were asked to indicate the ones they recognized, and then explain something of the functions of the identified organizations. The results of this test are summarized in the following table.

(Footnote continued from preceding page)

Know well	5%
Know slightly	9
Mistaken answers	28
Don't know	58

In the earlier survey, all answers other than "don't know" were tabulated as "knowing." If the results of the present survey are tabulated in the same way, the following comparison can be made:

	<u>Present survey (Kansai data only)</u>	<u>Earlier Kansai survey</u>
Reported that they know	42%	41%
(Knew well)	(5)	
(Knew slightly)	(9)	
(Had mistaken ideas)	(28)	
Reported that they did not know	<u>58</u>	<u>59</u>
	100%	100%

The discrepancy between the two surveys arises because in the present survey the mistaken answers were tabulated together with the "don't know" rather than with those who knew something about the program. See Current Japanese Public Opinion Surveys, No. 10, 26 August 1948, CIE, GHQ, SCAP.

THE PURCHASE OF ZAIBATSU STOCKS: AN APPRAISAL OF PUBLIC INTEREST 13

	Proportion able	
	To identify	To define
Holding Company Liquidation Commission	12%	4%
Securities Coordinating Liquidation Commission	9	2
Securities and Exchange Commission	9	1
Closed Institutions Liquidation Commission	11	3
National Property Bureau, Ministry of Finance	10	3

Among the functions of the Securities Coordinating Liquidation Commission, "public tender" had the highest proportion of identifications, and "employee sales" the highest proportion of correct definitions

Respondents who were able to identify the Securities Coordinating Liquidation Commission were questioned concerning some of the functions of the Commission. The proportions able to identify and define these functions are given below.

	Expressed as proportion of those who identified SCLC		Expressed as proportion of all respondents	
	Identified	Defined	Identified	Defined
Public tender	49%	18	4	2
Sales at fixed prices	46	19	4	2
Employee sales	41	25	4	2
Underwriting plans	32	11	3	1

In spite of the low informational level, people are inclined favorably toward the program and tend to feel that it will work for the benefit of Japan

While not many people are able to give any details concerning the securities democratization program, there seems to be a considerable fund of good will toward it. Large majorities of respondents who expressed definite opinions indicated a belief that the securities program would have beneficial effects on industrial rehabilitation, on stabilization, and on the attraction of foreign capital to Japan. However, it should be noted that the majority of the respondents were unable to express an opinion on the matter.

14

SURVEY SERIES

	<u>Beneficial</u>	<u>Not beneficial</u>	<u>Don't know</u>	<u>Total</u>
Industrial rehabilitation	46%	2	52	100%
Economic stabilization	40%	2	58	100%
Attraction of foreign capital	41%	6	53	100%

However, not all people are convinced that the introduction of foreign capital will be good for Japan

About 13 percent of the respondents expressed the view that the introduction of foreign capital into Japan would not be beneficial. More than half of the respondents were unable to make a judgment. It is interesting to note, as perhaps an indirect indication of the effectiveness of Communist propaganda, that the proportion of workers who are opposed to the introduction of foreign capital, 18 percent, is higher than that of other occupational groups.

<u>The introduction of foreign capital will be:</u>	
Good for Japan	36%
Bad for Japan	13
Cannot judge	<u>51</u>
	100%

The principal reasons for opposition to foreign capital are:

It will increase Japan's indebtedness	4%
Japan's economy will be controlled by foreign capital	5%
Japan must do without foreign help	3%

Some typical remarks made by respondents are given below:

"I am afraid that we will be transformed into a colony." (Chemical factory worker in Wakayama City)

"If a lot of capital comes in from foreign countries, we will fall under the control of a foreign country and will not be free." (A guard in Anagasaki City, Nagano Prefecture)

Only 12 percent were able to
enumerate correctly any of
the objectives of the program

Specific knowledge of objectives of the securities democratization program is very slight.

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THE PURCHASE OF ZAIBATSU STOCKS: AN APPRAISAL OF PUBLIC INTEREST 11

B. Knowledge of Securities Democratization Program

An overwhelming majority of the respondents were unable to indicate concretely the objectives of the securities democratization program, and only very small percentages were able to identify any of the institutions associated with the program for the widespread dispersion of stockownership. In spite of the fact that few people had any concrete knowledge, however, there seems to have been a generally favorable feeling toward the program, as indicated by the fact that very large numbers of people felt that it would have beneficial effects for Japan.

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The discrepancy between the findings of the two surveys dissolves upon close examination. In the present survey, the following question was asked: "What are the objectives of the current program to disperse ownership of stocks among the general public?" The distribution of responses for the Kansai area, which makes possible a comparison with the earlier survey, is as follows:

(Footnote continued on next page)

THE PURCHASE OF ZAIBATSU STOCKS: AN APPRAISAL OF PUBLIC INTEREST 15

"I am afraid we will become like China and Manchuria." (Bus driver, Shinano Town, Nagano Prefecture)

"Our debts will increase." (Railway signalman, Tonomine Village, Nara Prefecture)

"Rather than that, we should bring about recovery by working hard, being economical, and living a life of austerity." (Farmer, Iwawaki Village, Miyazaki Prefecture)

C. Relationship between Knowledge and Receptivity to the Securities Democratization Program

Knowledge concerning the securities democratization program seems to have more influence on the intention of people to purchase than does knowledge of stocks in general

		People whose knowledge of the securities democratization program is rated as:		
Are rated as follows concerning their intention to buy stocks:		High	Medium	Low
High		28.5	6%	2%
Medium		35	35	11
Low		37	59	87
		100%	100%	100%

		People whose knowledge of stock matters in general is rated as:		
Are rated as follows concerning their intention to buy stocks:		High	Medium	Low
High		6%	6%	1%
Medium		19	28	14
Low		75	66	85
		100%	100%	100%

Chapter III

INTEREST IN STOCKS AND PURCHASE INTENTIONS

A. Interest in Stocks

The extent to which people are interested in stocks is another important indication of their probable receptivity to a stock purchase program. Voluntary exposure to stock information was taken as an indirect indicator of interest. On this basis, the following classification was obtained.

Relatively high interest	8%
Mild interest	19
No interest	<u>73</u>
	100%

Three out of every four persons
pay practically no attention
to newspaper stock quotations

Only about eight percent of the respondents were sufficiently interested in stocks to read the stock reports in the newspapers regularly. However, there is considerable variation among the different groups within the population. While 23 percent of the business managerial group reported regular reading of the stock reports, very few farmers and workers -- four and seven percent respectively -- paid attention to them. In general, the higher income groups evinced far more interest in stock reports than did the lower income groups.

	<u>Read</u> <u>regularly</u>	<u>Read</u> <u>occasionally</u>	<u>Do not</u> <u>read</u>	<u>Total</u>
<u>All respondents</u>	8%	18	75	100%
Business managerial group	23	28	49	100%
Small business group	15	24	61	100%
Salaried workers	12	27	61	100%
Workers	7	19	74	100%
Farmers	4	16	80	100%
Higher education group	25	31	44	100%
Middle education group	12	25	63	100%
Lower education group	4	13	83	100%

Listening to stock reports on the radio is even less frequent

Very few people listen to the regular daily stock news broadcasts between 1620 and 1630 hours in the afternoon.³

The highest rates of regular listening were found among upper income groups and the lowest rates were found among lower income groups.

<u>Radio Stock Broadcast Listening for Selected Groups</u>				
	<u>Listen regularly</u>	<u>Listen occasionally</u>	<u>Do not listen</u>	<u>Total</u>
All respondents	3%	11	86	100%
Business managerial group	13	20	67	100%
Workers	2	8	90	100%
Farmers	1	9	90	100%
Higher education group	10	22	68	100%
Middle education group	4	15	81	100%
Lower education group	2	8	90	100%

B. Intention to Buy

Since the purpose of the stock program is to encourage people to buy stocks, the distribution of actual intent to buy is of considerable practical importance. While most people might be interested in owning stocks in a vague and general way, a much smaller number will be immediately available prospects. Analysis of the survey data made it possible to classify respondents into three separate groups:

3. In a survey conducted in December 1948, the Broadcasting Corporation of Japan secured figures essentially similar to those of the sample of radio owners interviewed by Jiji in this survey:

	<u>December 1948</u> <u>BCJ</u>	<u>May 1949, Jiji</u> <u>(radio owners only)</u>
Listen regularly	1%	4%
Listen occasionally	12	13
Do not listen	87	83

THE PURCHASE OF ZAIBATSU STOCKS: AN APPRAISAL OF PUBLIC INTEREST 18

- 1) Those who have a high readiness to buy stocks; most of these may be regarded as immediate prospects.
- 2) Those who indicate a definite interest, but are deterred from immediate purchase by one consideration or another; this group constitutes a secondary layer of prospective buyers who may require a special informational approach.
- 3) Those who evince a complete lack of intention to purchase stocks; until the interest of this group is aroused, they cannot reasonably be regarded as prospects for the stock program.

In the following table, these three groups are listed respectively as "high," "medium," and "low" in stock purchase intention.

<u>Intention to Purchase</u>	
High	3%
Medium	19
Low	<u>78</u>
	100%

Many express a vague desire to buy stocks, but few have concrete purchase intentions

More than one out of every five respondents expressed a desire to buy stocks. Many people explained their desire in terms of the belief that stocks were a "safe investment," or that they were hoping for some profit. Only a much smaller proportion offered nonpersonal motives such as a "desire to help the country." These contrasting emphases can be seen in the following quotations:

Personal Motives

"It is profitable, and you can make money."
(Young man who works in his father's pharmacy shop in Omagari Town, Akita Prefecture)

"I have a taste for speculation, and I have recently been able to manage a little leeway."
(Employee in the Department of Justice, Wakayama City)

SURVEY SERIES

"It is a good way to leave your money."
(Wife of a Kyoto storekeeper)

"I think that stocks will go up a bit."
(Elderly advisor in a printing firm)

Statements Illustrative of Social Motives

"It is more profitable than savings interest, and it is also beneficial for industrial recovery." (Engineer in mining chemical instrument factory, Wakamatsu City, Fukuoka Prefecture)

"For the sake of Japanese recovery." (Farmer, Mizumi Village, Yamagata Prefecture)

"The shortest road to the recovery of Japan is for everybody to buy stocks and become a stockowner." (Construction company official, small town in Kumamoto Prefecture)

"I should like to participate in the revival of industry." (Railroad worker, Nagoya)

The principal argument of those who expressed no intention to buy is a complete lack of interest, the feeling that stocks are risky, and the fact that they cannot afford it.

<u>Expressed Desire to Buy Stocks</u>	
<u>Would like to buy stocks</u>	22%
<u>Personal motives</u>	17
(As a safe investment)	(5)
(To make profit)	(11)
<u>Social motives</u>	2
(To help economic democratization)	(0*)
(To help economic stabilization)	(2)
<u>Motive not ascertained</u>	3
<u>Would not like to buy stocks</u>	49
<u>Not interested in stocks</u>	24
<u>Cannot afford them</u>	16
<u>Consider them risky</u>	9
<u>Don't know</u>	29
	100%

* Less than 0.5 percent.

THE PURCHASE OF ZAIBATSU STOCKS: AN APPRAISAL OF PUBLIC INTEREST 20

Although more than one out of every five respondents expressed a desire to own stocks, only three out of every 100 have specific intentions of making purchases in the "near future."

	<u>Of those who expressed desire to own stocks</u>	<u>Expressed as percentage of all respondents</u>
Intend to buy stocks in near future	16%	3%
Do not intend to buy stocks in near future	63	14
Don't know	<u>21</u>	5
	100%	

Of those respondents who indicated a desire to own stocks, but reported that they had no immediate intention of buying any,

90 percent stated that they could not afford to buy them,
3 percent were waiting for a favorable turn of the market,
7 percent had other reasons for not buying soon.

Desire to own stocks, as well as
intention to buy soon, varies with
economic position and educational level

	<u>Desire to own stocks</u>	<u>Intend to buy stocks soon</u>
Business managerial group	41%	16%
Workers	23	2
Farmers	12	0*
Higher education group	48	12
Middle education group	32	7
Lower education group	15	1
* Less than 0.5 percent.		

Appendix I

THE SURVEY METHOD

In the present survey, approximately 5,426 adults were interviewed throughout Japan. A ratio of one in 5,000 was used for sampling in urban areas, and a ratio of one in 10,000 was used in rural areas. A standard statistical weighting procedure was applied in such a way that rural returns were counted twice in the tabulation of the final results. Respondents were interviewed in 316 separate localities throughout the country. These included 106 villages, 86 towns, and 124 cities, including the six largest cities of Japan. The sample areas were selected by random probability methods which tend to eliminate bias. Within the sample areas, respondents were selected by mechanical random methods from household registers.

A majority of the respondents was interviewed at their homes, a few at their place of work. While some questions required simple "yes" and "no" answers, others elicited more elaborate statements from the respondents, which were recorded as fully as possible by the interviewers. The completed questionnaires were returned to the central office of Jiji News Agency Public Opinion Room for analysis and tabulation.

In the analysis, an attempt was made to set up several ratings on issues which could not easily be analyzed on the basis of the responses to single questions. These include the following:

1. Rating of interest in stocks.

High: Respondents who regularly read the stock market quotation section of the newspaper or who listen to stock quotations on the radio.

Medium: Respondents who read or listen occasionally to stock news.

Low: Respondents who, as a rule, neither read nor listen to stock news.

2. Rating of stock purchase intentions:

High: Respondents who indicated a desire to purchase stocks, and either expressed an intention of buying in the near future or had a definite idea of the stocks they intended to buy.

Medium: Respondents who indicated a desire to purchase stocks, but who were undecided about the time of purchase, or had no intention of buying in the near future because they could not afford to or knew nothing about stocks.

Low: Respondents who had no desire to buy stocks.

3. Rating of knowledge of the securities democratization program:

Points were assigned to correct answers on the basis of a rough common sense weighting as follows:

A good deal of information about the program	5 points
Some information about the program	2 points
Knowledge of the institutions related to the securities program	1 point each

Scores were tallied and divided as follows:

High:	6-10 points
Medium:	1- 5 points
Low:	0 points

4. Rating of general stock information:

Knowledge of all rights of stock holders	3 points
Knowledge that unlimited dividends are permitted	4 points
Knowledge of employees' priority	3 points

Tallied scores were divided as follows:

High:	6-10 points
Medium:	1- 5 points
Low:	0 points

Appendix II

AN ESTIMATE OF CHANGES IN STOCK OWNERSHIP SINCE BEFORE THE WAR

Among present stockowners, there has been an increase of almost 100 percent in the number who hold stocks now as against those who held stocks before the war.¹

Period of Acquisition of Currently Owned Stocks

Before the war	50 $\frac{1}{2}$
During the war	22
After the war	42
Within the past year	35
Uncertain	<u>2</u>

XXX*

* The figures in this table add to more than 100 percent as some respondents gave more than one answer.

If 50 percent of the current stockowners were stockowners before the war, the remaining 50 percent are new stockowners; that is, among the present group of stockowners, there are twice as many as there were before the war.

The proportion of new stockowners varies among different segments of the population. The highest rates of increase are seen among lower income groups. Some selected groups are presented in the table below:

1. This estimate is not exact for the following reasons: on the one hand, the survey question about time of purchase of presently owned stocks was asked only of present owners, not of persons who "used to own stocks but no longer own the." Many of these doubtless owned stocks "before the war" also, but they do not appear in the 50 percent included in the table. This may result in an overestimate of the increase of stock ownership since "before the war." On the other hand, since the period of ownership designated by the term "before the war" is vague -- it can extend from the day before the war to 60 years before that -- at any given time "before the war" it is likely that there were fewer stockowners than for the entire possible "before the war" period.

Index of Increase of New Stockowners Among Selected Groups

Expressed as the ratio
of current stockowners
to prewar stockowners

Respondents with higher school education	1.4
Respondents with no more than elementary school education	2.8
Business management	1.9
Salaried workers	1.7
Industrial workers	4.0

The same figures suggest an increase in the annual rate of stock purchase, at least among the group of current stockowners.

Annual Rate of Stock Purchase

1948-1949	35%
End of the war to 1948 (Roughly two years)	21
During the war (Roughly four years)	5.5
Before the war	cannot be estimated

SURVEY SERIESI. Current Japanese Public Opinion Surveys

Attitudes of Tokyo Residents toward the Ashida Cabinet	29 May 1948
Attitudes in Kyoto toward Coeducation in the New Lower Secondary Schools	5 June 1948
Attitudes toward the Ashida Cabinet and Related Political Matters	12 June 1948
Attitudes of Union Members in the Tokyo Area	28 June 1948
Attitudes in Osaka toward Current Political Problems	30 June 1948
Attitudes in Tokyo toward the New Lower Secondary Schools	17 July 1948
A National Survey of Attitudes toward the Ashida Cabinet	9 August 1948
Attitudes of Tokyo and Kyoto Residents toward Strikes of Government Workers	10 August 1948
Attitudes of Osaka Consumers toward Vegetable Rationing	11 August 1948
Attitudes in the Kansai District toward Democratization of Securities	26 August 1948
Attitudes toward the Inflation Problem	3 September 1948
Attitudes toward the Emperor System	18 September 1948
Attitudes toward Higher Denomination Currency	21 September 1948
Attitudes of Resettlers toward the Land Reclamation Program	27 September 1948
Attitudes on the Democratization of Japan	25 October 1948
Japanese Reactions in an International Survey	11 January 1949
Political Trends through October 1948	11 January 1949
Attitudes of the Urban Consumer toward Food Problems	19 February 1949
Urban Consumer Problems: Housing, Clothing, Sanitation, and Medical Care	17 March 1949
Basic Attitudes toward Foreign Countries	23 June 1949
Two Surveys on the Population Problem	13 August 1949
The Independent Enterpriser and his Income Tax	27 August 1949

II. Divisional Public Opinion Surveys

Reactions to a Traffic Safety Week Leaflet	22 January 1949
Attitudes toward the Labor Movement	31 January 1949
Problems of Working Women in Tokyo	26 March 1949
Attitudes of Farmers toward Rural Problems	20 May 1949
The Japanese People Look at Prostitution	30 June 1949
The Purchase of Zaibatsu Stocks: An Appraisal of Public Interest	31 August 1949

SOCIOLOGICAL SERIES

A Preliminary Study of the Neighborhood Associations of Japan	23 January 1948
Some Aspects of the Fishery Right System in Selected Japanese Fishing Communities	November 1948

STANDARD FORM NO. 64

CONFIDENTIAL*Office Memorandum* • UNITED STATES GOVERNMENT

TO : U - Mr. Webb

DATE: September 27, 1949

FROM : FE - Mr. Butterworth
E - Mr. Thorp *WT*SUBJECT: Operation of Japanese Recovery Program by the
Economic Cooperation Administration.

I. The Problem

1. The FY 1951 Japanese appropriation request will be submitted to the Congress in January. If language reflecting an ECA take-over is not associated with that request, before it is passed on by the Bureau of the Budget, the prospects of an ECA take-over until after June, 1951, will be greatly lessened. The Department of State, the Department of National Defense, and the ECA should, therefore, reach agreement as soon as possible concerning the desirability and practicability of an ECA take-over.

II. Recommendation

2. It is recommended that you send the attached letters to Secretary Gray and Mr. Hoffman.

III. Discussion

3. ECA Take-Over in Washington. Effective transfer to ECA of responsibility for the expenditure of funds appropriated for Japanese import procurement would require that the following functions now performed by the Army Department in Washington be performed instead by the ECA in Washington:

(a) final determination of the amounts and types of goods to be bought for Japan out of funds appropriated for this purpose by the Congress, and final determination of the sources from which and the prices at which these goods should be procured;

(b) participation in the formulation of U.S. Governmental policies relating to Japanese recovery;

(c) participation in U.S. Governmental determination of the amount of funds to be requested of the Congress for Japanese import procurement during the fiscal years following FY 1951.

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State Dept.
Investment and Economic
Development Division
From Owen

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- 2 -

It is believed that an ECA assumption of these Washington functions might result in a more effective discharge of them than has hitherto been obtained from the Army Department. It seems likely that the experience, organization, and personnel of the ECA in Washington would be more suited than those of the Army Department to supervising the expenditure of U.S. funds for Japanese self-support.

It should also be pointed out that many of the decisions that must be reached in Washington in connection with the Japanese recovery program will affect, and will be affected by, decisions made here concerning U.S. foreign aid programs in Europe and the Far East. A greater coordination between these various decisions would therefore seem desirable. In view of ECA's responsibility for U.S. foreign aid programs, such greater coordination might be associated with an effective transfer of Washington functions relative to the expenditure of funds appropriated for Japanese import procurement to the ECA.

4. ECA Representation in Japan. In Germany, under Military Government, the ECA mission was without the responsibilities that characterized ECA missions in other countries, these responsibilities being largely assumed by General Clay. The ECA's ability to perform its authorized functions with respect to German rehabilitation was adversely affected by this fact. An effective ECA take-over in the case of Japan would require a more satisfactory arrangement with respect to ECA representation in Japan. Indeed agreement on this matter, defined in rather concrete terms, is a necessary prerequisite to acceptance of the take-over idea by SCAP or by the ECA. Such an arrangement might be one under which:

(a) General MacArthur would be appointed by the U.S. Government as ECA representative in Japan, assuming this duty concurrently with his duties as Supreme Commander for the Allied Powers and as Commander-in-Chief, U.S. Forces in the Far East;

(b) Mr. Hoffman would then designate an ECA official whom General MacArthur would appoint as his Deputy for ECA matters, and this Deputy would recruit a staff to perform those duties of SCAP which relate to economic recovery and stabilization.

It is believed that the resultant qualitative improvement in the economic advice given to SCAP at the highest levels would have beneficial results that might permit some reduction in the number of SCAP economic personnel at the working level. For ECA would probably be able to staff its mission with persons of greater competence and prestige than have so far been willing to work in Japan under Army Department auspices. Japan's attainment of self-support might thus be facilitated as a consequence of these persons' work in Japan.

5. RelationCONFIDENTIAL

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- 3 -

5. Relation of ECA Take-Over to the Present Regime of Control.

An ECA take-over, as defined in paragraphs 3 and 4, above, would involve no change in the present regime of control for Japan and so would not require international approval.

(a) The ECA's assumption of certain Washington functions currently being discharged by the Army Department would represent merely a reallocation within the U.S. Government of that Government's present executive functions with respect to Japan. The nature of these functions would remain unchanged, as would the policy prerogatives of the State Department within the U.S. Government and the obligations of that Government as a whole to the Far Eastern Commission.

(b) The ECA Deputy Representative in Japan referred to in paragraph 4 would not have any authority except that which he derived from SCAP; his presence in Japan would thus not alter SCAP's authority in the eyes of the Japanese. Nor would this Deputy's presence relieve SCAP of any of his obligations under established U.S. or FEC policies; it would be incumbent on SCAP to ensure that the ECA take-over did not impair the effectiveness of his staff in carrying out internationally approved economic policies in regard to such matters as reform and reparations.

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THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

Office of the ~~U.S.~~ Political Adviser
for Japan

894.50/10-449

Tokyo, October 4, 1949.

OK

H. Rosenberg

No. 690

REC'D
OCT 27

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Action Assigned to *CR/IS/DR/S*

Action Taken *None necessary*

ACTION
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Subject: Comments on Status of Nine Point Economic
Stabilization Program in Japan.

Date of Action *11/14/49*

INFO
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Action Office Symbol *CR/DR*

The Honorable
The Secretary of State,
Washington.

DEPARTMENT OF STATE
RECEIVED

Name of Officer *Mehner*

NOV 2 1949

Direction to *DC/R file*

SCM

Sir:

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AND INTELLIGENCE ACQUISITION.

I have the honor to refer to the Department's air mail instruction no. 206 dated September 7, 1949, transmitting two copies of a report entitled Public Relations Aspects of the Economic Stabilization Program in Japan, prepared by the Division of Research for Far East, and instructing this Mission to discuss the report with appropriate officials of General Headquarters, SCAP, with the view to the reporting of their comments, together with those of this Mission, to the Department.

A copy of the report was made available, on an informal basis, by the Economic Counselor to Dr. Sherwood M. FINE, Director for Economics and Trade, Economic and Scientific Section, with the request that he study the report and give written comment thereon for reference to the Department. In agreeing to comply with this request, Dr. Fine stated that he was the official in General Headquarters directly concerned with Japanese implementation of the Economic Stabilization Program. Following are Dr. Fine's written comments on the reports:

"1. In general the report makes a balanced and realistic appraisal of the problem of public reaction to the U. S. stabilization program. However, it impresses a reader in Tokyo as being somewhat deficient in not undertaking at all an evaluation of the views of the present government and specific responsible leaders concerning economic stabilization. In my judgment the obstacles to achieving effective economic stabilization in Japan have been far more than the mere physical problems involving gross disparities between supply and demand and the associated economic phenomena but have been to a significant degree complicated and aggravated because of the antagonism of the Yoshida Cabinet to a realistic program of economic stabilization.

"2. Because

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

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

- 2 -

"2. Because the report was prepared several months ago, inevitably it is seriously out of date. The entire emphasis has, of course, shifted significantly in recent months to the point where as far as the representative man-in-the-street is concerned, the most urgent current issue is one of disinflation or deflation with its associated problems. Whether or not this evaluation is correct only time will tell. However, in the opinion of this writer, inflationary elements are still powerful, and their importance is studiously underestimated by the Japanese Government.

"3. Concerning the point made on page 4 with respect to the desirability of importing 'high caliber public relations consultants recruited in the United States' for the purpose of advancing public enlightenment on the subject of economic stabilization, this writer is negatively inclined. Both on the Japanese and American side, present facilities are adequate if used properly. I am pessimistic that even the best directed propaganda program can prompt a recasting of governmental policy with regard to economic stabilization.

"4. With respect to the proposal advanced at the bottom of page 7 concerning the advisability of utilizing the counterpart fund for certain public works, the following is suggested: the pattern pursued in formulating the Headquarters approach to loans made pursuant to the counterpart fund follows the general approach underwritten by the Economic Cooperation Administration. While undoubtedly substantial increments to the national dividend could be effected through meeting the most urgent public works requirements, the requirement, nonetheless, exists that projects undertaken on the basis of the counterpart fund loans must be self-supporting. This inevitably reduces the magnitude as well as the categories of potential projects."

Generally speaking, this Mission concurs in Dr. Fine's observations although question exists whether the Yoshida Cabinet is so antagonistic toward a realistic program of economic stabilization, as stated by Dr. Fine, as to complicate and aggravate "to a significant degree" the overall program of stabilization. Other ESS officials, with whom this point was discussed, said that it might have been more appropriate to point out that some passive resistance toward economic stabilization existed in certain parts of the Japanese Government. This resistance, it may be noted, is by no means universal, does not appear to be coordinated, and may best be treated as a manifestation likely to arise among disgruntled government officials in any country where they are obliged to move in unchartered channels of thought and action. It would seem fair to state that resistance of this type is probably no more serious

than

CONFIDENTIAL

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

- 3 -

than that encountered by United States Government authorities in certain European countries in connection with the implementation of the Economic Cooperation Program.

With regard to specific points raised by Dr. Fine, this Mission concurs in his statement to the effect that no "high caliber public relations consultants recruited in the United States" appear to be necessary for the stated purpose of advancing public enlightenment in Japan on the subject of economic stabilization. In our opinion, General Headquarters is fully awake to the need for desirable publicity with respect to implementation of the economic stabilization program, while the Japanese press has also done a reasonably creditable job of reporting on that program.

With respect to this Mission's views on the subject report, it should be pointed out that the first sentence therein appears to be unrealistic and unjustified on the basis of developments since the economic stabilization program was put into effect. For the purpose of ready reference this sentence is reproduced herewith:

"During the past few months, the economic stabilization program has met with widespread opposition from the major segments of Japanese society--opposition that is having adverse political repercussions and is a potential threat to the successful implementation of the stabilization program and to the prestige of the United States occupation."

This Mission does not appear to have access to the original report upon which that statement is based. The viewpoint expressed, however, has been reported by various American press correspondents, especially last spring, but it is generally believed that their articles were slanted to emphasize dissatisfaction with the program rather than the solid achievements realized under that program. Most of these articles seem to have been based almost entirely upon translations from the Japanese press without particular regard to the possibility that Japanese newspapers, just as those in the United States, find more interesting that which is arresting and unusual as opposed to news less likely to give rise to large headlines. Additionally, American correspondents have not always taken into consideration the particular policies and party affiliations of the various Japanese papers.

It may be noted that the Economic and Scientific Section, the Section of General Headquarters charged with the implementation of the economic stabilization program insofar as SCAP is concerned, does not assert that the implementation of the program by the Japanese has been uniformly successful. At a recent ESS staff meeting, attended by the Economic Counselor, Major General W. F. MARQUAT, Chief, ESS, stated that ESS officials concerned must remain on the alert lest Japanese authorities be permitted to sabotage the program by following a policy of non-cooperation. General Marquat, however, expressed general satisfaction with the achievements realized under the program, although he emphasized that greater efforts were required to maximize exports, as provided for in one of the program's nine points.

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