

INTERNATIONAL MILITARY TRIBUNAL FOR THE FAR EAST

THE UNITED STATES OF AMERICA, et al

-vs-

ARAKI, Sadao

Sworn Deposition (Translation)

Deponent: AKASHI, Teruo

Having first duly sworn an oath as on attached sheet and in accordance with the procedure followed in my country I hereby depose as follows.

1. I, Teruo AKASHI, finished the Political Course at the Tokyo Imperial University in 1906, after which I studied abroad. I entered the Dai-ichi Bank in 1911 and was elected Director in 1926, and President in 1935. I was connected with the Tokyo Bankers' Association, the Tokyo Clearing House, the Clearing House Federation and the National Financial Association as president or director. I was also a member of the House of

Peers,

In March, 1942, the Dai-ichi Bank and the Mitui Bank, two of "the Big Six" in Japan were merged into the Teikoku Bank, of which I was elected Chairman of the Board of Directors. In

March, 1944, I resigned to become advisor to the Bank, and remained in this position until quite recently.

2. The financial and economic condition of Japan during 1937, in the course of which the China Incident broke out, was, from the very beginning, fluctuating and unsettled.

From towards the end of the preceding year, in anticipation of greater demands for imported goods, and with higher commodity prices in prospect, there had been a rush for import exchanges at banks. If the banks were to meet the demands unlimitedly, their balances abroad would soon be exhausted. Without some remedial measure, the Japanese exchange rates would keep on falling at a rapid rate, which would, in turn, give an impetus to a steep ascent in commodity prices at home. Whereupon, the Government placed all foreign exchange transactions under a permit system in early January, 1937, making clear at the same time, its policy of maintaining the exchange rate at 1/2d.

Towards the end of January, 1937, the HIROTA Cabinet resigned. It was succeeded by the HAYASHI Cabinet in early February with Mr. YUKI as the Finance Minister and Mr. KIYI the Vice Minister. The new Cabinet curtailed the budget worked out by the preceding cabinet. The step lessened, to some extent, the fear for further price rising. But the shipment of gold to the United States by the Government to meet the difficulties in financing the excess

imports continued, giving rise to another big apprehension as Japan was poor in her gold holding as well as her annual output of the metal.

Besides, the import exchange permit system, having been enforced without necessary preparations, could not meet the actualities of the business, and it was becoming beyond its power to balance the over-all international payments, and to maintain the exchange rate at 1/2d. It not only caused troubles to the foreign exchange banks and importers, but also unfavorably affected all manufacturers who depended upon imported raw materials, as well as the merchants dealing in them. That was one of the major causes of the economic confusion of 1937.

But it was apparent, on the other hand, that if we abandoned the import exchange permit system, the excess inflow of goods would swell further, the exchange rates slump, prices run up and the whole economic structure be shattered. We could not afford to discontinue the system. But if the system was to continue, it should be made to operate more smoothly, and this called for a planned control for the maintenance of the international balance of payments as a basic condition. Not only that, unless we have a definite plan for the whole industrial activities of the nation, there can also be no standard as to what merchandise, in what amount, should be permitted to come in. Such was the basic

cause that forced Japan to adopt a controlled economy.

In July, just when this country was confronted with such situation, the North China Incident broke out. Despite the Japanese Government's statement of its policy of localizing the incident, it spread to Shanghai in August, and there was a fear for further agrgrandizement. Mounting apprehension overtook our financial and economic circles. It was only natural that the war redoubled the restlessness which, as already stated, the Japanese economy had been experiencing in 1937.

On top of it, there was another great cause of worry among the nation. That was the clemour of radicals and reformists for positive diplomacy, internal reform and destruction of economic and financial status quo.

The portfolio of finance during the period from 1931 when the INUKAI Cabinet came to power to the February 26th incident in 1936 was almost uninterruptedly held by Mr. Korekiyo TAKAHASHI. The power of his personality and reputation had defended the economic and financial circles from the chaos or unfavorable effects threatened by the claims on the part of the radicals and reformists the elements who were creating the atmosphere of strong foreign policy, internal reform and destruction of the economic status quo ever since the May 15th Incident. But since he was done away with by the February 26th Incident, there had been no more

man of his caliber in the economic and financial circle and the influence of the proponents of the destruction of the economic status quo and the radical reform theory became greater and greater. There was a feeling of uneasiness that, with the war, of the negation of laissez-faire economy and the over-all national control of industrial economy and banks might be enforced immediately. The financial circle was confronted also with an urgent problem of raising money to finance big Government loans and the expansion of productive capacity which was necessitated by the China Incident. The money market was very stringent for a while. There was in prospect the necessity of a big increase in taxation, to add to the financiers' worries. And at the bottom of all, there was another cause of fear rising from the uncertainty of not knowing what was going to happen to the economic status quo at the hands of "the internal reformists". The stock exchanges also were threatened many times by the necessity of folding up. The year 1937 was filled with feelings of uncertainty and considerable disturbances, starting with the foreign exchange crisis which had been brought forward from the preceding year, threatened then by the China Incident from the outside, while menaced from within by the danger of "the internal reform" and "the destruction of the status quo", as well as by the radical development of controlled economy. The economic policy of the HAYASHI Cabinet was

rather conservative. It made efforts to keep the economy unperturbed as much as possible, though it was beyond its power to uproot the basic cause of unrest.

In June, 1937, succeeding the HAYASHI Cabinet, the first KONOYE Cabinet was formed with Mr. KIYU as the Finance Minister and Mr. YOSHINO assuming the portfolio of Commerce and Industry. Confronted with the general plight as above mentioned, both of them made a step forward in the direction of controlled economy, but utmost precaution was taken by them to avoid radical changes and to leave as much room as possible for unrestricted activities of private individuals.

Mr. KIYU especially made it his key policy to adjust the balance of international payments, thus to support the exchange rate at 1/2d, while internally he strove for maintaining the standard of money rates and keeping the financial world out of chaos. He managed to get along without closing the stock exchanges. Besides these, in order to maintain order in the economic circle, Mr. KIYU, as the Finance Minister, endeavored to control the release of capital for investments, ease credit restrictions, check the rise of interest rate on loans, stabilize the security market and ease the anxiety of the financial circle.

3. The Extraordinary Fund Adjustment Law was put into force in September, 1937. The aim of the Law was to limit the accommodation of fund

only to those indispensable enterprises for which the supply of materials required in their preparations was assured, thus to prevent the inflation that might be caused by the China Incident.

Due to the China Incident, there had been a large-scale bond floatation by the Government, as well as increased call for fund for the production expansion. The situation, if left to take its own course, would have led to the wastage in fund, with the concomitant danger of eventual inflation. The Law did accomplish its purpose of preventing the inflation.

In enforcing the Law, Mr. K.Y. complied with the request on the part of us private business to be allowed as much freedom as possible for individual activities. Consequently "the financiers' autonomous adjustment" was recognized to a certain extent. It was also so set up as to mandate most administration of the Law to the Bank of Japan, instead of the Finance Ministry handling it. The decision upon investment or loan application was left to a committee composed of members selected from different Ministries, the Bank of Japan and the Industrial Bank of Japan.

The decision of approval or non-approval on an investment or a loan was based on whether or not the enterprise was indispensable under the China Incident, or whether or not there is any prospect of supply of materials required for the expansion of facilities or new establishment planned by the enterprise. Therefore, to obtain

the understanding of the Military circle, or the Commerce and Industry Ministry, which had much to do with the material administration, was a prerequisite to making the decision. Thus the measure tended rather to weaken the voice of the Finance Ministry, and to put the Financiers in a position subsidiary to the industry. It reduced, as a matter of fact, the Finance Ministry and the banking institutions to a mere machinery to raise money. It had been the most conspicuous feature of Japanese economy since the outbreak of the China Incident, that the material had become the master, and the finance the secondary matter.

4. As regards the national savings campaign: To Finance the China Incident, the national bond floatation had amounted to an enormous sum and huge disbursements by the Government had been pouring into the home market, giving rise to a great currency expansion and the fear of a vicious inflation. Though the money market had been stringent throughout 1937, the currency became noticeably abundant in the following year. Around April, 1938, the Government issued a statement that it would start a savings campaign. The Savings Encouragement Bureau and the National Savings Encouragement Committee with a large membership, including myself, were set up in the Finance Ministry, at about the same time. The outstanding feature of this savings campaign was that, instead of resorting to any legal means of compulsion, it looked to the nation's self awakening to the necessity of savings. Though some

legislative measures were taken in the later period, they were only of an auxiliary meaning, the fundamental principle of basing the campaign upon the spontaneous co-operation of the people having been unchanged.

In this, it stood quite unique among Japan's many wartime measures, which mostly depended upon the exercise of legal power, and this very uniqueness we owe to Mr. Kiyomi. He had been always unwaveringly opposed to opinions that advocated compulsory savings under law. His method was not to fix the amount to be saved by each individual by Government order under some law, or to restrict the withdrawals of deposits. If anyone would dispose of his Government bonds, he looked to it that the seller would not sustain a loss, providing a system of buying up at banks and post offices at a fair price. Mr. Kiyomi often stressed that it is not right to force upon the people what is not understood by them, now can it be practiced long with efficacy.

5. Mr. Kiyomi's policy and his methods of carrying it out were moderate, gradual and non-coercive, altogether relying on the self-awakening of the people. He was branded as a liberal on this account. His policies in the course of 1937 and his manners in putting them into practice manifested in those days, were accountable to us. His way was to avoid radical, adventurous, so-called reformatory measures. But so much more the positive-radicals internal-reformists

and controlled-economists - the influential powers on the part of the military and the rightists that dominated Japan at that time, were dissatisfied with him.

Mr. K~~U~~Y~~A~~ rose to the Vice Finance Minister from the Chief of the Finance Bureau in February 1937 and to the Finance Minister in June of the same year. He was rather young as a Minister, his experience and his reputation were considered inadequate for the post. Commerce and Industry Minister YOSHINO, who was a man of about the same leaning with Mr. K~~U~~Y~~A~~, and who acted mostly in concert with him, was also a first timer. Many people were doubtful as to whether they were able enough to dispose of the demands on the part of the radical forces and to proceed with moderate policy in maintaining the situation, or powerful enough to resist the pressure of the radicals. among us business men. Their resignation at the Cabinet reshuffle of May. 1938 was held ascribable to those circumstances. at that time.

6. Now turning to the economic and financial conditions in 1941:

Though, since the outbreak of the China Incident, there had been a huge Government spending on the war expenditures within the country, the money was being well absorbed. The disbursement and absorption, proceeding in well-adjusted cycle, had prevented the situation from tending toward vicious inflation. The national savings goal was attained every year, bank deposits increasing markedly; the bond

absorption kept above 80% of the issue amount; prices on a slow upward trend but stabilized on the whole; and the currency expansion small, - thus there was no sign of vicious inflation, even in 1941.

As regards the position of our economy in general around 1941 in relation to the problem of the importance of gold, the question must be considered from two sides, -- the internal and external. Internally, if a country adopts a gold standard system, the question of the gold reserve ratio will be important. But Japan had been off the gold standard for several years and been actually under a managed currency system which had been operating smoothly. "The managed currency system" is a thing which has been established as an economic theory, and adopted by many countries. Consequently though it might have been so much better to have plenty gold, the problem of gold reserve ratio had lost its former weight attached by the public, and internally, the importance of gold had been extremely diminished.

Externally, the gold had been very important as a means of payment abroad, when it had been possible for us to buy in abundance what we had needed, and especially that had been the case with our relation to the United States. Since the second half of 1941, however, the trade with that country had been turning more and more difficult, nearing to the point of impossibility. It may be

said ⁿ consequently that, in this sense, the importance of gold had been diminished.

7. It was on 15 August 1945. At the head office of the Bank of Japan, there gathered Mr. Kiyomi, President and Vice President of Bank of Japan and we, the heads of Banks, to discuss the post-war currency problem.

Mr. Kiyomi told the gathering:

"I am deeply thankful to you for your support in various ways during my term of office as the Finance Minister. Now Japan is defeated. Our country and our people have been reduced to a miserable state. As one of the Cabinet Ministers during the war, I am keenly aware of my political responsibility toward His Majesty, as well as our countrymen. I am resolved to retire hereafter from all honorable social positions, and as a mere citizen among the masses, I will strive hereafter to fulfill my duty as a Japanese. I have ventured to ask permission to resign all privileges and marks of honor, which His Majesty was graciously pleased to confer upon me. Only I am desirous, as a man having been concerned with the public finance, to contribute my mite, at this time, to tide the nation through the gruelling disaster of post-war inflation."

Def. Doc. #2119

On this 16 day of August, 1947

At Tokyo

Deponent: AKASHI, Teruo (seal)

I, T.N.K., Yasumichi, hereby certify that the above statement was sworn by the Deponent, who affixed his signature and seal thereto in the presence of this Witness.

On the same date

At Tokyo

Witness: (signed) T.N.K., Yasumichi (seal)

OATH

In accordance with my conscience I swear to tell the whole truth withholding nothing and adding nothing.

(signed) AKASHI, Teruo (seal)