

taxes needed to enforce this level of consumption would have undesirable effects of their own.

At the present time, corporations are withholding a tax of 20 per cent of dividends paid to all shareholders. Japanese nationals are able to credit this withheld tax against their individual income tax liability, and in addition are allowed a 15 per cent credit against income tax as a partial offset to the 35 per cent tax on the corporate income. Moreover, it is proposed elsewhere in this report to abolish the 20 per cent withholding tax at the source on dividends and to raise the 20 per cent credit against income tax to 25 per cent. Non-resident aliens, however, are seriously discriminated against by this scheme, in that their own laws do not ordinarily provide for comparable credits for the corporate tax against the income taxes which they must pay to their own governments. Indeed, in many cases there is no income tax, or only an unimportant one. It would appear that the corporate tax of 35 per cent alone would be an adequate rate at which to subject those earnings in Japan. It is recognized that at the present time there are prohibitions against aliens making investments in Japan, but a revision of the revenue system at this time should take into consideration that this restriction will be removed sometime in the future. It is therefore recommended that no withholding be applied to dividends paid to non-resident aliens who have filed with the corporation paying the dividend, a statement on a form approved by the Ministry of Finance, setting forth that he is the owner of ___ number of shares of said corporation and the number of the certificate and that he is a non-resident alien. Mandatory penalties should be provided where false information is furnished.

Aliens may also desire to make their investments in the form of commercial loans or bonded indebtedness. At the present time, a 20 per cent withholding on all interest paid to foreign nationals and non-resident aliens is required. This 20 per cent withholding may be justified in so far foreign nationals are concerned who are residents of Japan, but it may not be as to non-resident aliens if the attraction of foreign capital is so urgent. What this rate should be is something that the Japanese themselves should determine. It may very well be that after consideration of the urgent need of the economy

for foreign capital, that they would be prepared to require a withholding rate as low as 10 per cent.

Interest on Bank Deposits and Other Loans

Many proposals have been made to subject this or that form of income to a special flat rate of tax in lieu of including it in the income to be taxed at progressive rates. Some of these proposals have at least some color of reason in that application of the tax to such income has in practice been rather less equitable than it should be in theory. But in the proposal that bank interest should be taxed at the source at a flat rate in lieu of all other income taxes we find no merit whatever.

It has been urged that this flat rate taxation is necessary because the tax is widely evaded and that this is the only way to collect any substantial tax. But if this is true it is in large measure due to the policy of allowing depositors to spread their deposits anonymously in large numbers of accounts, for the purpose of concealing not only the interest income but also income from other sources. This policy has no justification whatever, and we recommend that no bank be permitted in the future to carry a deposit that it has reason to believe does not stand in the correct name of the depositor. Moreover, tax inspectors should be allowed to inspect the bank records, upon presentation of a suitable authorization, for the purpose of investigating the income of taxpayers. If these steps are taken, it is probable that the amount of interest that escapes its fair share of the tax will diminish.

Moreover, it is not necessary to have a final flat rate tax in order to collect a substantial amount of revenue at source. If a tax of 20 per cent or 25 per cent is withheld at the source, the liability of most taxpayers with respect to such interest income will be satisfied. Hence, even if the interest is not reported in the individual's tax return, the amount of evasion will be relatively small. If however, the omission of further tax on such income is legalized, then it will be completely beyond the reach of the assessor, and even large and conspicuous amounts of interest income could be received with a relatively light tax. Bank deposits would then become a haven of tax avoidance for the wealthy individual, and the principle of

progressive income taxation could be completely vitiated.

The other claim put forth on behalf of this special concession to bank interest is that such a concession is necessary in order to encourage individuals to use banks as places to deposit funds. It is alleged that this will encourage saving and therefore help to increase Japan's stock of capital equipment. In reality, however, the concession would produce quite the opposite effect. The concession would have practically no effect on the small saver, since the flat tax rate would be almost the same as the withholding rate and the rate that he would have to pay on his own income. His tax on the interest would be the same whether or not the concession is made. The chief effect of the concession would be on those with larger incomes. But individuals with larger incomes have other means of investing their savings than through bank deposits, and indeed such other means of investment are far more likely to promote the installation of new capital than merely depositing money in banks. A bank deposit must be reloaned before it can serve to promote the installation of new capital. In a pinch, if there is a shortage of funds for bank loans, these can be supplied by rediscount at the bank of Japan, so that even if a rich taxpayer were driven by the tax to hoard his savings in bank notes rather than deposit them in a bank, this need not in itself cause any reduction at all in the growth of capital in Japan. Indeed, the full taxation of bank deposits would have the beneficial effect of driving the wealthy investor out of bank deposits and into types of investment, such as the purchase of stocks and other equities, which the banks cannot well undertake themselves. This would provide more funds of the kind that can actually be used for capital expansion.

It is recommended that interest of whatever kind be included in individual incomes in full for tax purposes. With the revision in the rates that is contemplated, the existing provision for an optional 60 per cent flat rate will become a dead letter, but it should be completely repealed in any case, as it has no place in a tax on the consolidated net income of individuals. As an administrative device, the 20 per cent withholding on interest payments may well be maintained, but, if so, this should be with the clear understanding that the individuals from whom this tax is withheld are

to be able to credit this withheld tax against the tax as computed by them on their entire income. However, individuals who are taxable only at the 20 per cent rate applicable to the first 50,000 yen over the exemptions may be excused from reporting their interest income on which the tax has already been withheld. Of course, no credit for the withheld tax will be granted unless the interest is included in the taxable income.

CORPORATIONS

Ordinary Corporation Taxes

It is possible to devise a tax system which will eliminate almost completely all discrimination between the corporation and other forms of doing business. However, such a system would be quite complicated. The less effective administration and compliance that would result from this complexity might well result in far greater inequities than those that would in theory be avoided by the strict adherence to principle. But, it is possible to select a combination of simple elements that will achieve a fairly close approximation to equity as between corporate and other form of doing business, and that will at the same time prevent any serious avoidance of individual taxes.

The combination that is proposed for this purpose consists of three elements:

- (1) a tax of 35% on the net income of each corporation, substantially as at present;
- (2) a credit for each individual stockholder against his individual income tax of an amount equal to 25% of the dividends he receives from corporations subject to the tax imposed in (1), (assuming of course, that such dividends are themselves included in the net income of the stockholder in computing his tax); and
- (3) an interest surcharge on the corporation of one per cent each year of the aggregate earned reserves accumulated out of the net earnings of fiscal periods beginning after July 1, 1949.

The first two items consist respectively of an approximate withholding tax at a flat rate of the shares of the stockholders in the earnings of the corporation, and an approximate allowance for this withholding tax in return of the individual shareholder. Where all earnings are distributed to stockholders, part (3) will not apply and these two elements will be the only elements in operation. With such full distribution, individual stockholders subject to marginal rates of tax above 53% will find that they are just

slightly better off than if they had been owners of an unincorporated business with a profit equal to their share of the corporate profit before tax. Stockholders subject to marginal rates of tax of 53% or less, will find themselves slightly worse off than they would be as individual proprietors. For example, if the corporation had a net taxable income of 1,000,000 yen, it would first pay a tax of 350,000 yen, and then declare the remaining 650,000 yen out as dividends. If there are ten equal shareholders, each would get 65,000. If one shareholder is subject to a 60% top rate (as might happen if we consider the effect of local taxes based on income), this dividend will increase his gross tax by 39,000 yen, but he will also obtain the 25% tax credit on 65,000 or 16,250 yen. Thus his own net will be increased by 22,750 yen and the net addition to this income after tax will be 42,250 yen. On the other hand, if he had had an unincorporated business that earned an amount equal to his one-tenth share in the earnings of the corporation, or 100,000 yen, the 60% tax on this amount would have left him with only 40,000 yen.

If a stockholder is taxable at only 40%, he will have his gross tax increased by 26,000 yen, subject to a credit of 16,250 yen, leaving him with a net addition to his income of 55,250, instead of the 60,000 yen he would have had if he had earned 100,000 as an unincorporated business. Thus there will still be some tax discrimination between businesses that are incorporated and unincorporated, but the amount seems to be tolerably small, and at least is not always in the same direction. For the case where all the income is distributed, the differences could be eliminated entirely by a somewhat more elaborate method of computing the tax of the individual. Indeed, such a method has long been used in Great Britain. However, even the British method leaves some differential when earnings are not entirely distributed, and requires the stockholder to make a computation that is slightly confusing to the ⁱⁿuninitiated. It therefore seems on the whole best to adopt the simpler method, at least for the time being. If the time comes when the income tax is working smoothly, it may then be proper to consider shifting to the British method, or even to more refined methods of equalizing the burdens on incorporated and unincorporated business.

The third element in our corporation tax plan, the interest surcharge

on accumulated earnings reserves, applies only when a corporation does not distribute all of its earnings in dividends. It is, however, in no sense a penalty for such accumulation, nor should it have the effect of repressing such accumulations, as compared with the degree of accumulation that would take place in the absence of all tax considerations. Rather, in the absence of such a surcharge, the existence of the income tax on the individual stockholders produces a positive incentive for increasing accumulation within the corporation beyond the point where it is desirable for economic reasons. The proposed surcharge is intended to do no more than to approximately counter-balance this pressure of accumulation of earnings which arises from the income tax on stockholders.

For example, if the stockholders of a given corporation have incomes that bring them up to the 55% tax bracket, then in principle each stockholder should bear a current tax of 55% on the earnings of the corporation. If all of the earnings are distributed they will in fact bear a tax of 54.5%, composed of the 35 yen corporation tax on each 100 yen of corporation income, plus individual tax on 55% of the 65 yen distributed as dividends, or 35.75 yen, less the 2% tax credit, or 16.25 yen, or a total tax of 54.5 yen. However, if the corporation defers the payment of dividends, the tax immediately payable is only 35 yen. To be sure, if the earnings are distributed as dividends in a later year, the additional tax of 19.5 yen will then be payable. But in the meantime the taxpayer and the corporation have had the use of this 19.5 yen, in effect interest free, unless the proposed surcharge is imposed. Imposition of this surcharge, which in this case would amount to one per cent each year on the 65 yen of earned reserves, or 0.65 yen per year, would represent a modest interest charge of slightly over 3.3% per year for the use of this 19.5 yen.

The weight of this interest charge will vary somewhat with the amount of tax which is considered to have been deferred, which in turn will vary with the rate to which the individual stockholder is subject. For example, if the stockholder was in a 40% bracket, so that he would have paid an additional tax of only 9.75 yen if the 65 yen of earnings had been distributed immediately, the surcharge of 0.85 yen per year would represent an interest

charge of slightly over 6.6%. On the other hand, if the stockholder is subject to a top rate of 55% (which might occur even with the maximum rate of 55% proposed elsewhere in this report, because of addition of local surtaxes), the tax postponed would be 26 yen and the implied interest rate on it 2.5%. However, adjusting for these variations in individual tax rates would mean an almost hopelessly complicated tax, and accordingly it is necessary to be satisfied with striking a rough average. In any case, where this implicit interest charge appears too heavy, it will usually be possible for the corporation to transfer a suitable portion of the earned reserves to capital through the issuance of a stock dividend, thus producing an immediate settlement of tax liabilities on an individual basis and correspondingly reducing or eliminating the interest surcharge on the corporation.

However, even with the surcharge, there remains some opportunity for those in the top income brackets to make use of the corporate device to avoid their proper tax liability. To set the rate of surcharge for the ordinary corporation sufficiently high to provide an adequate interest charge for the case of individuals in the highest brackets would mean imposing an undue burden in case of stockholders with smaller incomes. There remains, therefore, the need for some special measure to prevent such abuse of the corporation, not only to protect the revenues but to avoid the development of financial structures that are unsuited to the efficient conduct of business.

The simplest method of doing this is merely to apply a higher rate of surtax to the earned reserves of "family corporations". Thus, for example, if the rate on such corporations were 9% rather than 1%, then even for taxpayers subject to a 65% rate, the effective interest charge for the postponed tax would be 15%, which appears to be adequate to prevent any amount of tax avoidance by this method. On the other hand, if the tax should happen to apply in a case where tax avoidance is not a substantial motive, and where the taxpayer for one reason or another cannot prevent the application of the surcharge by distributing earnings, the burden will still not be excessive.

For this purpose, a family corporation should be defined as one in which a substantial percentage of the stock is owned directly or indirectly by taxpayers who are members of a few families. For example, a family corporation

could be defined as one in which five or less families held at least 50% or more of the stock, or four families held 45% or more, or three families 40% or more, or three families 35% or more, or two families 30% or more, or one family 25% or more. For this purpose, a family would include any individual taxpayer, his children, parents, brothers, sisters, their spouses and other persons claimed as the dependents of the foregoing. A family corporation would itself be considered a family for the purpose of applying the rule to corporations in which a family corporation held stock. To avoid applying the higher rate to small incorporated family enterprises where tax avoidance is not a problem, it may be desirable to subject the first 500,000 yen or so of earned reserves to only the regular 1% rate. Thus the application of this higher interest surcharge would be restricted to cases where it would actually be needed to prevent undue avoidance of tax.

Given a consistent application of these three elements in the taxation of corporations, there is no occasion for further taxes at the national level on corporations.

The excess profits tax should without a doubt be repealed. Under present conditions, where the base for the "excess profits" is a book value that bears no relation to the present value of the assets, it is certainly a mockery to subject such profits to an excess profits tax. Likewise, even after revaluation, the revised book value will not generally be a reliable guide to determine which profits are "excess" in any realistic economic sense.

Also, there is no occasion for the continuation of the present tax that is collected from corporations when they liquidate.

REMOVAL OF TAX EXEMPTIONS

The number of corporations exempt from corporate income taxes appears relatively high. The number of types of corporations incorporated under the Laws of Japan compiled as of June 30, 1940 by Research and Programs, ESS, are set forth below:

Joint Stock Company (Kabushiki-Kaisha).....	159,220
Limited Joint Stock Company (Kabushiki Goshi Kaisha).....	92
Limited Partnership (Goshi Kaisha).....	82,880
Unlimited Partnership (Gomei Kaisha).....	25,455

Limited Company (Yugen Kaisha).....	44,624
Mutual Company (Sogo Kaisha).....	26
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Ordinary or non-exempt Corporations	
Sub-total.....	312,357
Incorporated Foundation (Zaidan Hojin).....	5,776
Incorporated Association (Shadan Hojin).....	4,787
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Wholly Exempt Sub-total.....	10,560
Special Corporations	
Wholly exempt except for approximately	
49,000 that are reported as taxable as co-	
operatives at 25% plus excess profits tax...	297,243
Total.....	<hr/> 620,163

The analysis shows that a very large per cent of Japanese corporations are exempt from all corporation taxes. Many of these exempt corporations owe their exempt status to Article 34 of the Civil Code which permits the incorporation of Associations or Foundations concerned with religious ceremonies, religion, charity, science, technology and other public services with the permission of the Minister in charge. A prefectural governor may be the competent minister to establish certain types of tax-exempt organizations. Likewise, the Social Workshop Law of 1938 authorizes the creation of exempt corporations to assist the unemployed and handicapped by providing technical training. In addition, if one-half of the persons employed come from relief rolls, a subsidy is made available by the prefecture. In 1948-1949, 80 per cent of the subsidy was paid by the National Government.

Spot checks indicate clearly that the exempt status of these corporations calls for immediate investigation and study, particularly as no control has apparently been maintained over their activities since incorporation. Indeed, under existing law, the Ministry of Finance has no control whatsoever, over the granting of these exemptions, nor any right to review subsequently the activities of such corporations. To remedy this situation, the Internal Revenue Code should first be amended so as to define clearly and with particularity the purposes and objects for which corporations could be operated wholly or partially exempt from taxation. The Ministry of Finance should then be given the sole authority to determine whether or not a corporation

is entitled to that statutory exemption. All corporations claiming exemptions should be required to obtain an exemption certificate from the Ministry of Finance. This would include all existing corporations even though they might now be considered exempt. At least every three years the exemption status would be reviewed to determine whether the corporation's past activities justified exemption under the law. At the present time, Article 18 of the corporation tax law requires tax returns on the profit-making activities of religious corporations and labor unions, and corporation taxes are payable on these profits. This should be extended so that every corporation, including all exempt corporations, would be required to file an annual return covering all of their income and expenses. It would be preferable to have the color of the return for exempt corporations some color other than that used for ordinary corporations and individuals, or than the blue return for unincorporated business that keep books.

Many exempt corporations are engaged in profit-making activities and compete directly with both ordinary corporations and individuals. If no profits are made or if an exempt corporation making profits distributes all of them, the carrying on of profit-making activities by exempt corporations is not as serious a problem as it might be, because in another chapter of this report it is recommended, in order to integrate the personal and corporation income taxes, that shareholders be permitted to take as a credit against their taxable income, 25 per cent of the dividends they have received from a taxable domestic corporation. The net amount of tax discrimination is thus relatively small. But spot checks indicate that these exempt organizations are making profits which are spent in further expansion of their activities or in entertainment, both of which may have little or no value for the advancement of the purposes that justified the exemption. This income that is derived by an exempt corporation from profit-making activities should clearly be subject to the corporation income tax rates. It is noteworthy that Article 63, Local Tax Law, as amended in 1949, grants an exception from the enterprise tax to all corporations that are exempt from the corporate income tax, except the income that is derived from their profit-making activities. On this income the enterprise tax is applicable.

All exempt corporations should be required to file annual returns and

to segregate, on a separate schedule of the return, the income that was derived from profit-making activities. On income from profit-making activities, all non-governmental corporations would compute and pay the 35 per cent corporate income tax.

NUMBER OF CORPORATIONS

The following is the recommended rate schedule, devised to yield a total of 288 billion yen for the year 1950 (fiscal year 1950-51):

Exemptions: 24,000 yen, plus 12,000 yen for each dependent.

Earned income credit: 10 per cent on the first 200,000 of salary and wage income.

Rate Schedule V:	0	to	50,000 yen	20%
	50,000	to	80,000	25%
	80,000	to	100,000	30%
	100,000	to	120,000	35%
	120,000	to	150,000	40%
	150,000	to	200,000	45%
	200,000	to	300,000	50%
		over	300,000	55%

According to the Ministry of Finance, 193,172 ordinary corporations filed income tax returns as of March 31, 1949. This figure should be compared with the corporate population of 305,502 which was the total found by Research and Programs, ESS, for March 31, 1949 for Joint Stock Companies, Limited Joint Stock Partnerships, Limited Partnerships, Unlimited Partnerships, Limited Companies and Mutual Companies. The discrepancy amounts to 112,330. Also, according to the Ministry of Finance, 49,749 special corporations filed returns as of 31 March 1949. For this there is no comparable figure in the study of corporate population set forth by Research and Programs since the corporate population set forth by Research and Programs may be considerably overstated due to dissolutions that may have occurred.

But in any case, the large differences in these figures indicate that something is seriously wrong, and an investigation into possible sources of these discrepancies is of the highest urgency.

If the above discrepancies should prove largely due to the dissolved corporations, then another recommendation now to be made seems mandatory--that is the Internal Revenue Code should be amended so as to require all corporations in dissolution to file, thirty days after the appropriate corporate action

is taken to dissolve, a statement on a particular form with the Ministry of Finance, setting forth the name of the corporation, a copy of the resolution authorizing dissolution, the date of the corporate action, the revenue office in which the corporate tax returns have been filed for the past five years, or for whatever period of that five years that it was in existence. Copies of this form should also be sent to the local and national local tax offices where the corporation has been subjected to tax. Mandatory penalties should be provided for failure to file said forms.

INTERCORPORATE DIVIDENDS

At present dividends received by a corporation from another corporation are included in the taxable income of the recipient corporation. This means that where one corporation owns share in another a heavier tax is imposed than when a distribution of profits is made directly to the ultimate individual shareholder without passing through one or more intermediate corporations.

In general, there is no reason to discriminate in this extent against the use of subsidiary corporations, or holding companies, or the ownership generally by corporations of stock in other corporations. Indeed, there are many situations in which such arrangements constitute the most rational and effective mode of organization for the carrying on of business. Particularly in international trade, the setting up of subsidiaries to handle the affairs of a business in foreign countries has many advantages. Such a tax penalty on these arrangements is accordingly undesirable.

To be sure, there are occasions where the piling up of holding companies, and particularly the pyramiding of control, produce concentrations of power and complicated interrelationships that may be considered undesirable. But a blanket tax penalty on all such intercorporate relationships is hardly a wise or effective way of curbing these abuses; if they are to be curbed it will have to be by more direct and selective means.

Accordingly, we recommend that all extra burdens on the holding of shares by corporations and on the payment of intercorporate dividends be removed as far as possible. For the income tax, we recommend that this be done very simply by excluding from the net taxable income of corporations, all dividends received from other taxable domestic corporations. This will avoid the double

taxation of intercorporate dividends and at the same time ensure that an adequate tax is collected from corporations. This will also tie in very readily with provisions for the carry-over or carry back of losses, since only the taxable income need be considered for such purposes, and the dividends received can be left out of account altogether.

PROBLEMS COMMON TO THE PERSONAL AND CORPORATION INCOME TAXES

Revaluation of Assets

It has been urged that business assets be revalued to a common level corresponding to what it would cost to replace them, in the aggregate, in their present condition, at today's yen prices.

We are convinced that revaluation is necessary. We recommend that it be carried through promptly for both individual entrepreneurs and corporations, and that the revaluation write-up be subject to a 6 per cent tax. With respect to write-up on depreciable assets ("depreciable assets" is to be understood to include depletable assets, in this chapter), the payment schedule for the 6 per cent tax should be as follows: one-half to be paid in the fiscal year 1950-51, one-quarter in the next fiscal year, and one-quarter in the third fiscal year. With respect to land and other non-depreciable property the 6 per cent tax would not become payable until the property was sold or disposed of by gift or bequest. At that time there would also be included in the regular income tax return any additional capital gain or loss starting from the revaluation value as a base.

The revaluation should be as of July 1, 1949, and the revaluation returns should be filed before September 1, 1950, except that farmers and certain others should be given substantial extension of time as specified in the appendix of this report.

RECOMMENDATIONS

In detail, we recommend:

- a. that all corporations be required to revalue their depreciable assets and land, as of July 1, 1949. The reappraisal value is to be determined by multiplying the cost of acquisition, less depreciation, by the ratio of a general price index for July 1, 1949 to the corresponding index for the original date of acquisition.

b. that corporations be required to file a complete revaluation return by September 1, 1950, if they are to obtain the benefit of increased depreciation for corporation income tax.

c. that all land, immovables, and depreciable business assets owned by others than corporations, except government bodies, be revalued as of the same date and in accordance with the same standard given in (a) above. "Others" includes homeowners, and, as to their dwellings and farm buildings, all farmers.

d. that the revaluations in (b) and (c) be completed by October 1, 1951.

e. that farm land shall be revalued on October 1, 1952, at the official price as of that date.

f. that unincorporated business concerns, including farmers and professional men, be allowed to deduct depreciation on the revalued basis, provided that the taxpayer is keeping books in accordance with standards set by the Ministry of Finance, as indicated by the filing of the income tax return on the blue form.

g. that unincorporated business concerns, including farmers and professional men, be allowed no depreciation deduction at all, not even on the old base, for the income year 1951 and following, if they do not file on a blue return. This recommendation expresses an intent to favor those taxpayers who keep adequate books.

h. that the revaluation be carried out through self-revaluation returns filed by the taxpayers, in which the revaluations shall be stated asset by asset. These valuations would be subject to review by industry committees, as explained in an appendix to this report. Industrial representation should never be as much as fifty per cent of the membership of any committee. There should be strong representation from the Ministry of Finance and members of the academic staffs of universities.

i. that the revaluation write-up be subject, without exception, to a tax of 6 per cent; but see (p) below, for farm land.

j. That the 6 per cent tax be paid, by corporations, one-half in the fiscal year 1950-51, one-quarter in the fiscal year 1951-52, and one-quarter in the fiscal year 1952-53.

k. that for other taxpayers payment of the 6 per cent tax on depreciable property be made in installments equal to 6 per cent of the depreciation on the revaluation write-up. Any balance of the tax, and the entire tax on non-depreciable assets, shall be payable when the revalued asset is sold or disposed of by gift or bequest; but see (p) below, for farm land. In no case, however, shall these other taxpayers be required to pay sooner than under the schedule set forth for corporations.

l. that the revaluation amount shall be the minimum (but not the maximum) figure at which the asset may be appraised by municipal assessors for purposes of the revised real estate tax (former land and house tax).

m. that the revaluation amount shall be the basis for computing capital gain or loss, as explained in Chapter 5.

n. that for taxpayers who do not file revaluation returns by the dates specified, the Ministry of Finance shall assign a revaluation figure for each of their assets against which figure there shall be no appeal.

o. that the revaluation write-up be entered to the extent not needed to offset deficits, on the liabilities side of the balance sheet, as special capital. No distributions shall be made from this special capital for five years, nor shall this special capital be the basis for the issuance of stock. At the end of that period the situation should be reviewed to determine under what conditions distributions and stock dividends from the special capital might be allowed.

p. that upon revaluation of farm land as of October 1, 1952, the farmer shall have the option of electing (1) to be taxed under paras. i and k above, or (2) to enter the revaluation gain as a capital gain in the return for 1952, or (3) to pay the 6 per cent tax at once. In any case, the revaluation write-up on farm land shall be computed as indicated in para. e above.

REVENUE CONSEQUENCES

The aggregate increase in value of depreciable corporate assets, if revaluation is carried out completely, will be about 1,000 billion yen (one trillion yen). A tax of 6 per cent on corporate reappraisal write-ups would therefore yield about 60 billion yen, if substantially complete revaluation occurred.

The total tax on reappraisal write-ups of individuals would yield

approximately 10 billion yen with an annual loss due to the increased depreciation under the personal income tax of approximately 5 billion yen.

INVENTORY PROFIT TAX

At the present time whenever an increase is made in the official prices, under the Price Control Law, a special tax of $66\frac{2}{3}$ per cent is levied on the inventory profits of all taxpayers. The remaining balance of the so-called inventory profits is sooner or later included in the net profits subject to personal income tax, or to corporation profits tax and excess profits tax, under the weighted average (average cost) method of inventory accounting, which is the only one allowed for tax purposes.

We recommend that at least the $66\frac{2}{3}$ per cent tax be continued in effect insofar as the rise in official price can be traced to the removal of a price subsidy. In principle, the tax should be at a 100 per cent rate, but it is necessary to allow some margin for error in isolating the causes of the rise in price.

Inventory Accounting

The only inventory accounting method currently authorized by the Ministry of Finance for income tax purposes, is the weighted average method (average cost method). On various field trips, random investigation of the books of accounts of various corporations and individuals throughout Japan has generally indicated that there were many irregularities in inventory accounting, particularly for corporate income tax purposes.

It is recommended: (1) that the Ministry of Finance make an extensive study of the different methods of inventory accounting and of those that would be adaptable to the types of industry in Japan; (2) upon the completion of the study that the Ministry of Finance should then either seek legislative authority, or if that were not necessary, issue appropriate ordinances authorizing the use of those methods of inventory accounting which it found adaptable to the Japanese industries which might be used at the election of the taxpayer.

Kind of property (if included inventory)	Percentage rate of reduction
Land.....	5%
Building.....	10
Vessels.....	10
Machine.....	10
Equipment.....	10
Merchandise (includes half finished products).....	10
Material.....	10

Depreciation

It was clearly evident from the casual examination of various books of account on field trips that most taxpayers had followed no settled policy in determining the depreciation that was to be taken on their fixed assets. The only authorized method of depreciation of fixed assets for tax purposes is the declining balance method. It is recognized that this is certainly one of the better methods of depreciating industrial assets. There have been a great many requests to this mission, particularly on behalf of corporations, to allow depreciation of fixed assets on a straight line method. These and various other methods of depreciation are well recognized by accountants. Generally, different types of assets may require different methods of depreciation if the best estimate of the true income of an accounting period is to be obtained. A taxpayer should be given a reasonable amount of freedom to use one method or another, and possibly several different methods on different types of assets, without too much restriction by the tax authorities. But each method must be followed consistently if the true income of a taxpayer for an accounting period is to be determined for tax purposes.

COMMODITY EXCISES

A series of manufacturer's excises are levied on a large number of specified articles. There are five rates: 100 per cent, 80 per cent, 50 per cent, 30 per cent, and 20 per cent. Since these rates are on the producer's price, they are equivalent to much lighter retail rates. For example, an article that would sell at retail for twice the manufacturer's price if there were no tax on it, and that falls in Class A, 100 per cent rate, pays a tax equivalent to 50 per cent of what the retail price would be if there were no tax.

In general, we recommend the continuation of these excises. They are an indirect way of taxing personal ability to pay, as indicated by luxury or

semi-luxury expenditures.

The 100 per cent tax on the Group A commodities supplies very little revenue--about 140 million yen out of an estimated total of 27 billion yen for the current year. This is said to be partly because of wide-spread evasion. It has been estimated from data furnished by the Finance Ministry that a decrease only to 90 million yen a year would result if the rate is cut to 50 per cent. Although in principle we do not believe that the 100 per cent rate is too high for super-luxuries like precious stone, etc., we recommend a reduction in the rate to 70 per cent purely on administrative grounds.

Group B commodities include cameras, photographic equipment, phonographs, guns, binoculars, certain musical instruments, and lighters, and are taxed at 80 per cent. This rate is estimated to yield 1.3 billion yen, and cutting the rate to 30 per cent would, it has been estimated, decrease the yield to 611 million. We recommend that the rate on Class B Commodities be decreased to 60 per cent.

Group C commodities are now taxed at 50 per cent. They include records, electric fans, electric and gas stoves, refrigerators, safes and steel furniture, fireworks, and trunks. This tax is estimated to yield 5.3 billion yen in the current year. From related estimates furnished by the Finance Ministry, it appears that a decrease in the rate to 30 per cent would decrease the revenue to 3.6 billion. However, this seems too great a sacrifice of revenue. The tax rate on these articles should in principle not be quite so high as those in Class B. But the difference is not great enough to warrant such refinement in practice. We therefore recommend that the articles in Class C continue to be taxed at 50 per cent. This is equivalent to a 25 per cent retail tax, approximately.

Group D articles include sporting goods, clocks and watches, fans, bamboo-blinds, radio receivers, flashlights, adding machines, and typewriters. The present rate of 30 per cent should be retained. It is equivalent of only 15 per cent or 20 per cent at retail. This category is estimated to yield 7.3 billion yen this year.

Group E articles include electric light bulbs, sewing machines, small size automobiles, safety razors, footwear including shoes, plate glass, and carpets and rugs. The tax rate is 20 per cent and the estimated yield 10.6 billion yen. We recommend retaining this rate also, except that foot-

wear, including shoes, should be exempt, as being necessities. This exemption would lose only 276 million yen in revenue.

The preceding groups comprise "Class I" articles. Class II consists of five commodities on which specific tax rates are levied: Matches, 6 yen per 1000 pieces; wheat-gluten, grape sugar, and malt sugar, 2700 yen per 100 kin (1 kin--1,323 lbs.--600 grams); saccharine and dulcin, 6000 yen per 1 kilogram; honey, 2700 yen per 100 kin; and green tea, 50 yen per kan (1 kan--8.267 lbs.--3.75 kg). The estimated yield this year is 2.5 billion yen. We have not been able to study each of these five cases enough to present recommendations on them, and suggest that they be kept at present levels pending further study. Such study should ascertain whether the great rise in prices has made these specified tax rates too light, and it should also consider the possibility of changing the rates to ad valorem.

The yield of the commodity taxes for 1950-51, under the rates recommended here, and assuming a slight increase in output, may be set at the same level as for 1949-50, that is, 27 billion yen.

Some changes with respect to particular items seem called for. We cannot go through the entire list here, but we recommend one general principle: commodities that are used wholly or chiefly in business, like adding machines, should be completely exempt from these excises. The concept of a luxury expenditure is not generally applicable to outlays on plant and equipment of a business.

TEXTILE TAX

This tax is imposed on the producers of silk, rayon, woollen, cotton, and staple fibre goods. The rate is 40 per cent on silk, rayon and woollen goods, and 10 per cent on those of cotton and staple fibre.

A tax on clothing is like a tax on food. It is a levy on one of the necessities of life. The necessities of life must sometimes be taxed; witness the tax on houses, which we recommend be increased because it is a tax peculiarly fitted for administration by localities. But no such arguments can be adduced to support a tax on the manufacture of textiles.

We recommend that the entire textile tax be completely repealed effective

as of the beginning of the fiscal year 1950-51.

However, if it were made known in September that as substantial a cut in tax as from 40 per cent to zero was going to be made at the end of March, textile dealers, and to some extent the general public, would in general tend to defer their purchases of silk as much as possible until after the cut in tax. This would lead to the piling up of manufacturers' inventories and a shortage of working capital; this in turn might result in curtailed production and a temporary aggravation of unemployment in the silk industry. To avoid such an unwarranted disturbance to the industry, it is recommended that the tax on silk and rayon be reduced as soon as possible to 10 per cent, if practicable, this should even be made effective retroactively as of September 1, 1949. The 10 per cent rate would then be eliminated along with the 10 per cent rate on cotton, on April 1, 1950. The loss in revenue for the balance of this fiscal year by reason of this anticipatory cut should be relatively small, since, if the cut is not made the volume of sales would fall off drastically towards the end of the fiscal year and with it the revenue. It is even possible that through maintaining the volume of sales the immediate cut would actually produce more revenue than would be obtained through the maintenance of the higher rate. It is not felt that the cut in the tax on cotton goods from 10 per cent to zero is sufficient to produce such a serious announcement effect.

THE SUGAR TAX

Domestically produced sugar is taxed at the rate of 20 yen per kin (1 kin is 0.6 kilogram) if produced in Hokkaido, and 18 yen per kin if produced elsewhere in Japan. The tax yields only half a billion yen annually.

Prior to December, 1948, imported sugar was untaxed. At the beginning of December, 1948, a tax of 20 yen per kin was applied to imported sugar, both raw and refined. The tax was imposed by the supplementary budget law of October, 1948, as an emergency measure. It was allowed to expire the following April when the import price in terms of yen increased upon the change in exchange rate.

It is estimated that during the fiscal year 1949-50 over 300,000 tons of sugar will be imported, while only 10,000 tons will be produced domestically.

Imports and consumption of sugar were particularly heavy in 1948, when sugar was rationed as a staple food substitute. Since December, 1948, it has been rationed instead as part of the basic caloric ration. Coal miners and sugar beet farmers receive an incentive sugar ration in addition to their basic ration.

A number of Japanese sources have recommended the reimposition of the excise on imported sugar, at high rates, to yield large amounts of revenue. It is said that sugar is a semi-luxury and that the poorer recipients of the ration sell it on the black market. But if the authorities considered sugar a semi-luxury it presumably would not be imported. It is not the present policy to use up dollars in the purchase of semi-luxuries. So long as sugar is imported under the present policy, it cannot be taxed as a luxury, and we do not favor the taxation of food necessities. Imported and domestic sugar should be treated equally under the excise. Consequently we recommend the repeal of the tax on domestic sugar.

THE GASOLINE TAX

In the latter part of 1948 it became apparent that a gasoline tax would yield sufficient revenue to warrant its introduction. The local governments requested that this new levy be made a part of their tax structure. The Ministry of Finance, however, pointed out that the administrative problems would be reduced if the tax were on a national level since it could be collected at two import and four domestic refinery points. This reasoning prevailed, and we concur.

During the consideration of the levy certain groups attempted to have the revenue from the tax allocated to road repair. This was disapproved on the ground that budget limitations prevented earmarking specific revenue sources for designated expenditures. However, the national government does provide a large public works appropriation, and the part of this appropriation that goes for road repair and road building is in excess of the revenue yield of the gasoline tax. Furthermore, in Japan to a much greater extent than in the United States, the roads are used by carts and bicycles, to say nothing of charcoal burning vehicles.

The gasoline tax became effective as a national government levy on

May 1, 1949. The tax rate is 100 percent of the consumer retail price. For purpose of simplicity and administrative expediency, the tax is based upon the consumer price for large quantity sales. Thus the tax is 100 per cent of the 16,450 yen per kiloliter consumer price (for other than small purchases of gasoline) prevailing at the time the tax was adopted, instead of the 17,200 yen price prevailing for small quantity sales. This results in a price, including tax, of about 131 yen, or approximately 30 cents, a gallon, the tax being about 15 cents a gallon.

The revenue anticipated for the eleven months of 1949-50 (actually only ten since the tax is normally collected one month later) is estimated at 4.1 billion yen, or at the annual rate of 4.9 billion yen.

A leakage and evaporation allowance of 3.7 percent reduction in tax is allowed. An additional allowance of 1 per cent for interest burden was discussed, but was finally incorporated in the controlled price rather than deducted from the tax. This allowance was for the purpose of compensating the industry for the cost of borrowing funds for advance payment of the gasoline tax (or for borrowing national bonds from banks for use as collateral in payment of the gasoline tax). It is understood that the time interval between payment of the tax by the industry and collection of the tax at the consumer level averages from 60 to 90 days.

While the tax is borne by the final consumer, it is collected at the prime importation and domestic refinery points. At the present time, imported gasoline (which represents 92 per cent of the total consumed) is taxed at just two import points. In addition, since only four of the eight domestic refineries are currently operating, gasoline tax collections are narrowed down to six points in all.

Total consumption of gasoline in the fiscal year 1948-49 was 260,839 kiloliters, or 84 percent went to motor vehicles. For 1949-50, estimates of total consumption range from 360,244 to 418,500 kiloliters. The revenue estimate of 4.1 billion yen is based on 360,244 kiloliters.

This tax seems reasonable and effective. It is as yet, however, too early to judge. We suggest that a study be made of the possibility of taxing other petroleum products such as lubricating oil, kerosene, etc.

CUSTOMS DUTIES

In the 1930's customs duties were a substantial part of Japan's revenue, but they now supply a negligible amount -- only three-tenths of a billion yen was estimated for the current fiscal year in the budget. Practically all the imports consist either of commodities sent from the United States under its program of aid to Japan, or of imports for the use of Occupation personnel, or imports by the Japanese Government's Foreign Trade Fund.

It is not within the scope of our report to analyze Japan's foreign trade policy or estimate its future. It is of course evident why, under present conditions, little or nothing can be expected from customs revenue. We can make only two general observations.

First, there is a customs-duties law in existence, the one enacted before the war. It has of course been badly distorted by inflation of the monetary unit, so far as its specific duties are concerned. The duties, specific or ad valorem, are not being enforced. While we agree that these customs duties should not be in effect, it is not sound policy to achieve this end by ignoring a law that is on the books. The customs duties that are not being enforced should therefore be repealed, at once.

Second, Japan does not need to resort to customs duties for the sake of revenue. Imported goods should pay the same excise taxes that are levied on domestically produced goods, but beyond this, no excuse for import duties can be found in the budgetary situation. As a tax measure, such duties, which discriminate in favor of domestically produced goods, have little or nothing to recommend them.

SCAP's Letter to the Prime Minister on the Shoup Mission Report

With the formal publication of the Shoup Mission Report, General MacArthur addressed the following letter to Prime Minister Shigeru Yoshida on 15 September:

"Dear Prime Minister:

"I transmit herewith the report on Japanese taxation prepared by Dr. Carl Shoup and the members of his mission, who were invited by me to come to Japan

to conduct a comprehensive survey of the existing Japanese tax structure with the view of submitting recommendations which would assist in the establishment of a more equitable tax system.

"This special mission, after four months of intensive study which included interviews with taxpayers in all walks of life and investigations of many different types of business and agricultural activities, has evolved a body of recommendations which, taken together, should provide a vehicle for placing the finances of the national and local governments of Japan on a sound foundation.

"I trust that the Japanese Government will be able to formulate an appropriate program for effectuating the broad principles and objectives set forth in Dr. Shoup's recommendations in sufficient time to permit the Japanese Diet to consider that program simultaneously with the related budgetary and stabilization programs in order that the Japanese people may at the earliest possible time have the benefits of a sound fiscal system.

"Sincerely yours,

"DOUGLAS MACARTHUR."

On 16 September, Prime Minister replied to General MacArthur's letter as follows:

"My dear General:

"I desire to acknowledge the receipt of your letter of yesterday's date and the Report on Japanese Taxation by Dr. Carl Shoup and the members of his Mission.

"The report is literally a monumental work, which is bound to mark a new era in Japan's fiscal policy. I fully realize the fact that the recommendations are not to be accepted selectively, but they should be taken as a whole if they are to serve as the basis for a rational and equitable tax system such as is envisaged by Dr. Shoup.

"It is with this fact in mind that my government will study the Report and formulate a taxation program to be submitted to the coming Diet.

"On behalf of my government I avail myself of this opportunity to express our profound appreciation of the arduous labors of the Shoup Mission as well as your unfailing solicitude toward the welfare of our nation.

"Yours very sincerely,
"SHIGERU YOSHIDA."

Criticism of Shoup Recommendations Offered

In a statement to the press on 17 September, following publication of the Supreme Commander's letter to Prime Minister Yoshida concerning effectuation of the Shoup Tax recommendations, Chief Cabinet Secretary Kaneshichi Masuda declared that the Government was fully determined to "evolve a rational and equitable tax system" in line with the recommendations.

Political reaction to the recommendations in Government and party quarters varied from outright endorsement to expressions of disappointment, while in other quarters the recommendations, especially those portions dealing with radical tax reductions, did not measure up to previous expectations. Government circles and Democratic Liberal Party leaders in some cases were openly nonplussed, realizing that their election promises of tax reductions and the Shoup recommendations would require considerable adjustment.

Finance Minister Hayato Ikeda sought to cushion the recommendation of the revaluation of assets by issuing a statement on 17 September to the effect that the Government would not compel enterprises to reappraise their assets to the maximum. Ikeda further declared that the Government, in effecting the proposed recommendations, would "endeavor first of all to rationalize the nation's tax system and secondly cut taxes." He added, however, that the Government would adhere to its original policy of reducing existing taxes below the Shoup-recommended level.

Chairman Juichiro Tsukada of the Tax Policy Committee of the Democratic Liberal Party declared that the tax decrease on earned incomes for workers was "sharper" than had been anticipated. He added that his party would seek the abolition of the transactions (sales) tax, which had been one of the public pledges of the Democratic Liberals during the electoral campaign in January 1949.

Spokesmen for the coalition group of the Democratic Party expressed complete accord with the Shoup Report; while anti-coalition Democrats declared that the Government could in no way realize its promised reduction of ¥10,000,000,000 in taxes during the current fiscal year.

Spokesmen for the anti-coalition group of the Democratic Party further stated that Japan's national income had been on the decline since 1948 and, they added, it was "unfair" to take the national income index figure for that year as the basis for tax estimates for 1949.

The Social Democratic Party pleaded the "cause of the working man." Chairman Seiichi Katsumata of the Political Affairs Research Committee of the Social Democratic Party declared in a public statement that his party had hoped that the Shoup Report would have paid more attention to the protection of the livelihood of the masses of the population. The chief emphasis of the report, Katsumata declared, seemed to be placed upon the accumulation of capital. Though endorsing the recommended strengthening of local finances, Katsumata stated that the tax on high bracket incomes was not high enough.

Financial circles were more concerned with the recommendations on the reappraisal of assets. Indicative of the general reaction in these circles of release of the full text of the Shoup recommendations, was the failure of the stock market quotations, according to financial observers.

Spokesmen for financial circles claimed that the Shoup Report was drafted to support the "Dodge line" of restoring Japan's economy to normal and that the new tax system as recommended in the Report could only operate smoothly under a stabilized economy. Osaka stock-market quarters expressed some disappointment over the fact that the profit accruing from the reappraisal of assets could not be utilized for five years for increasing capitalization.

On the other hand, banking circles admitted that the Shoup recommendation that anonymous bank accounts be abolished was a "big blow." Spokesmen for these circles pointed out that this recommendation would have the effect of "braking" savings and of creating the loss of investment funds.

A first reaction, Governor Hisato Ichimada of the Bank of Japan stated on 16 September that bankers would have to "exercise the utmost of discretion" in dealing with depositors after the tax revisions were put into practice. He believed that the recommended abolition of anonymous bank deposits, though desirable, would have to be instituted with the utmost discretion.

Vice-President Mitsuo Ogasawara of the Chiyoda Bank considered the accumulation of capital more important for the present than a fair tax system. The Shoup Mission's recommendations, he said, were excellent from a theoretical point of view. Governor Teiichi Kawakita of the Industrial Bank of Japan expressed the opinion that the recommended abolition of the anonymous savings deposit system would have a grave effect upon all banks. He expected that

the banks would be forced to make sweeping reforms including the establishment of new reserve funds against dead loans and in the reappraisal of assets.

Agricultural circles generally believed that the tax burden would not be reduced to the extent originally expected. These quarters believed that the reduction of the farmer's tax burden was given "secondary consideration" to the accumulation of capital. Spokesmen for agrarian groups believed, however, that the method of computing a farmer's income would in any way be an improvement over the old system.

Spokesmen for small business enterprises were generally pleased with the recommended reduction in the difference between their income tax and that of wage earners.

Director Keiichiro Hirata of the Taxation Bureau of the Finance Ministry told the press in Osaka on 21 September that the Government planned to increase the number of tax investigators in order to assess accurately the number of tax-payers. The practise of allotting tax collection goals to taxation offices would be abolished, according to Hirata.

Pound Devaluation Comes as Surprise to Japan

The announcement of the devaluation of the British pound sterling on 19 September resulted in a multitude of opinions in Japanese financial quarters. For the most part the immediate reaction was one of extreme surprise. A spokesman of the Economic Section of the Ministry of Foreign Affairs stated that his agency would be compelled to make a drastic change in its pound sterling policy. This official believed that the pound devaluation would have "a very definite influence on current Anglo-Japanese trade talks."

Spokesmen for the Economic Stabilization Board indicated that the pound devaluation would hasten the conclusion of the pending Anglo-Japanese trade pact. These officials believed that imports from the pound sterling areas of the world would increase, thereby leading to an early conclusion of the pact and eventually resulting in increased exports from Japan. Other ESB officials, however, recognized the possible serious effects of the pound

devaluation on Japanese exports in general. The textile industry in particular, it was felt, would have to cut production costs drastically in order to compete in the sterling areas. It was also generally felt that the iron and steel industries would be hard hit in view of the suspension of government subsidies to these industries.

Finance Ministry Hayato Ikeda was reported in the press on 20 September as favoring a revision of the current pound-yen exchange rate of ¥1,450 per pound to a new rate of ¥1,008 per pound. In his regular press conference on 19 September, Ikeda, however, had stated that he did not believe a revision of the present dollar-yen exchange rate would be appropriate. Since Japan's present economic stabilization program was geared on the current ¥360 to a dollar exchange rate, Ikeda believed that any fluctuation in this rate would only serve to hamper Japan's economic recovery program.

Devaluation of the pound sterling evoked editorial attention in the Japanese press especially as to its possible effects on the future of the national economy and Japan's trade abroad.

All editorials in the Tokyo metropolitan press urged the Government and enterprisers to streamline the industrial setup and processes to meet competition from other countries in the world market. At the same time, the Government was advised to adopt a "wait-and-see" attitude toward "an overall shift in values of foreign currencies" as a result of the pound devaluation, at least for the time being. Some editorials advanced the thought that Japan should endeavor to increase imports from the pound sterling areas and non-dollar regions in order to stand on her own economic feet. Still other editorials sounded the warning that the Government should not try to maintain the current single foreign exchange rate of ¥360 to the dollar "at any cost." The issue, these editorials claimed, should be decided with the recovery of the national economy foremost in mind.

A Nihon Keisai editorial foresaw "a hue and cry" for a reduction in the yen value as a result of not only mounting competition in trade between Japan and the pound sterling areas but also a possible rise in prices of goods to be exported to those areas. The editorial added, however, that Japan would not necessarily be placed in a disadvantageous position if trade restrictions on Japan's exports should be eased at a subsequent date. The editorial stressed

that import restrictions by buyer countries were a major impediment to trade between this nation and the pound sterling bloc.

Mainichi's editorial warned that if the Government should seek to lower the current exchange rate in concert with the pound devaluation such a step "will likely deter the progress of national recovery and revive inflation."

The Hinon Times commented as follows:

"....For Japan, the devaluation of the pound must be considered from the point of view of its immediate and long-range effects. As an immediate consequence of the pound devaluation, competition for the East Asia export market will become keener. The lowering of prices on the products of sterling nations by 30 percent will naturally hit Japanese exports competing in the same market. This will be particularly true in the sundry goods field. In textiles it is reported that the prices have been adjusted to meet the eventuality of the pound devaluation. Another important and immediate problem will be what to do with the existing contracts with sterling nations which have devaluated their currency.

"The long-range view of the situation, however, must be regarded with high optimism. In the closely inter-related world of today, the stimulation of pound trade will mean a freer flow of goods among the free nations and greater economic activity which will have its beneficial effects upon Japan. If the sterling nations are able to accumulate more dollars, they will be in a better position to buy more from Japan. At the same time, the lower pound rate will mean that the Japanese will be able to purchase more from the sterling nations.

"It must also be considered that one of the main causes of the recent trade stagnation has been the uncertain position of the pound. Rumors of a devaluation have not encouraged traders to do business. With a clear-cut step having been taken, the cloud of doubt has been removed and should result in brisker trade being carried on.

"Of course, the question of devaluating the yen in terms of the dollar will naturally come to the fore. In view of the important effects rumors on that question will have, the Government clarify the situation as soon as possible. From the standpoint of general national welfare, it is difficult to see how the devaluation of the yen will benefit the nation at this time.

The export prices of Japanese goods may be lowered but import costs will be correspondingly increased while there will be the threat of inflation lurking in the background.

"The devaluation of the pound, in the last analysis, must be viewed as a serious challenge to the Japanese exporters. It is a challenge which they doubtlessly have already visualized. To meet the situation they must even more than ever before seriously consider the rationalization of the export industry. Greater efforts will be needed to cut production costs, not by slave labor, but by more efficiency. At the same time, emphasis should be placed on better quality products. This is an inevitable step if Japan expects to remain in competition on the world market.

"Greater efforts by the Japanese together with the consideration of other means to cut export costs as the use of Japanese bottoms, the lowering of duties, and the purchase of more goods from the soft currency areas will surely enable the nation to hold its own on the export market. Many of the measures, to be sure, are outside the purview of the Japanese themselves, but sincere efforts by the people to forego austerity in order to spur exports will surely bear fruits."

SCAP Announces Steps Taken on Pound-Yen Rate

General MacArthur announced on 20 September that appropriate administrative action had been taken to permit the Japanese Government to revise Pounds Sterling (English)-Japanese Yen rates in consonance with the devaluation action taken by the United Kingdom.

As of 0001 hours, 19 September, transactions relating to Pounds (English)-Japanese Yen would be based upon $\text{¥}1,008$ to $\text{£}1$ (Sterling) rather than $\text{¥}1,450.8$ to $\text{£}1$ (Sterling) previously existing.

The following memorandum was communicated to the Japanese Ministry of Finance (by Calvin Verity, Acting Chief of the Economic and Scientific Section, GHQ), which provided the basis for the above actions:

"1. References are:

"a. SCAPIN 1997, subject: Establishment of Official Exchange Rate for Japanese Yen, dated 23 April 1949.

"b. Letter to Ministry of Finance, File No. 123 (3 June 49)

RSS/VIN, subject: Exchange Rates, dated 3 June 1949.

2. Reference b above is hereby rescinded and provisions of this memorandum are made effective this date.

"3. As of 0001 hours, 18 September 1949, computations relating to Pounds Sterling (English)-Japanese Yen transactions should be based upon ¥1,008 (Yen one thousand and eight) to £1/-/- (One Pound, sterling).

"4. It should be noted that there are presently only two (2) currencies approved as acceptable to the Supreme Commander for the Allied Powers: U. S. Dollars and Sterling (English). Others will be designated and rates established only as and when necessary."

SCAP officials, at the same time, advised that the temporary cessation of business with the Sterling areas would terminate as of midnight 20 September. Contracts approved by the Japanese Government prior to the close of business on Saturday, 17 September, would be honored at the old rate of ¥1,450.8 and new contracts approved after 20 September would be honored at the new rate of ¥1,008.

Cabinet Tentatively Approves
Finance Ministry's Budget Plan

At a press conference on 23 September, Finance Minister Hayato Ikeda revealed that the Government planned to submit to the special Diet session in October a ¥55 billion supplementary budget revision for the current fiscal year. At the same time, the press noted that the Finance Ministry was planning to reduce taxes by ¥20 billion during the current fiscal year.

Finance Minister Ikeda estimated that the General Account budget for the next fiscal year would be in the neighborhood of ¥580 billion. In the event that national bond retirement expenditures were included, Ikeda believed the General Account budget for the 1950-51 fiscal year would be raised to ¥600 billion. The Finance Minister estimated that Government revenues would exceed expenditures by some ¥40 billion in the next fiscal year. If possible, he stated, the Government had hopes of setting aside this surplus fund as a source for possible tax reductions. However, Ikeda was mindful of the fact that the Government had the obligation of retiring its national debts and consequently, at least, a portion of this fund would be appropriated for this purpose.

According to press reports of the Finance Minister's press conference,

Ikeda expressed the opinion that the current dollar-yen exchange rate should not be lowered. He believed that maintenance of the current rate would not hamper Japanese trade, but, instead, would serve to stimulate and increase the buying power of Japan.

The Cabinet on 30 September adopted the Finance Ministry's drafts of the 1950-51 fiscal year budget, as well as a supplementary budget bill for the current year. The General Account budget for 1950-51 will provide for ¥615,300,000,000 in revenue and ¥587,300,000,000 in expenditures. (The expenditures in the Government's General Account budget plan were increased by ¥2 billion over the Finance Ministry's original estimates).

Acting in accordance with the Shoup Mission's recommendation, the Cabinet on 29 September earmarked ¥120,000,000,00 of the proposed 1950-51 budget for the Equalisation Fund.

ESB Deputy Director Appointed

The Cabinet on 16 September approved the Economic Stabilization Board's plan for the reduction of the Government's price differential subsidies by ¥35,000,000,000 during the current fiscal year. The subsidy cut, carried out in accordance with the Dodge "economic line" to pull away abnormal props from under Japan's economic structure, was expected to result in an increase of iron, steel, and fertilizer prices from 20 to 50 percent.

A breakdown of the total subsidy cut revealed that iron and steel cuts will amount to ¥14,800,000,000; fertilizer to ¥2,600,000,000; copper to ¥1,400,000,000; coke coal to ¥3,500,000,000; coal used for gas production to ¥2,500,000,000; and others to ¥2,850,000,000. In the import field, subsidies on copra would be most heavily slashed with a cut of ¥2,490,000,000, followed by Manila hemp reduced to ¥1,860,000,000, ammonium nitrate to ¥1,700,000,000, and raw rubber to ¥1,300,000,000.

(Finance Minister Hayato Ikeda had requested a further ¥1,000,000,000 cut in subsidies to the fertilizer industry).

The Government on 21 September announced the appointment of Yoneji Yamamoto, a member of the Finance Ministry's Foreign Exchange Control Council, and a former director of the Bank of Japan, as Deputy Director-General of the Economic Stabilization Board. Yamamoto succeeded Shino, Hoda, who resigned from the post to accept the position as Dean of the Politics and Economics School of Seikei University.

LOCAL GOVERNMENT

First Recall of a Mayor

For the first time since the surrender, the people of a Japanese city exercised their right to recall their chief executive. On 25 September, Mayor Chizo Yatsushiro of Moriguchi City in Osaka Prefecture was removed from his post as the result of a popular referendum.

Mayor Yatsushiro was a Social Democrat, whose recall was demanded by members of the Democratic Liberal Party who charged that the chief executive was "causing undue damage to the people by: (1) illegal purchase of public commodities; (2) illegal purchase of fuel and other similar activities."

An average of 63 percent of the registered voters of the city participated in the recall, including 66 percent of the male voters and 69.9 percent of the female voters. Total ballots cast were 17,901, including 482 invalid ballots. The results were: 9,396 votes cast in favor of Mayor Yatsushiro's resignation, and 8,023 votes against.

REPORT OF LOCAL ELECTIONS, SEPTEMBER 1949

During the month of September, 155 local elections were held. In these local elections a total of 348,845 ballots were cast by an average voter participation rate of 68.62 percent.

In the elections, 745 candidates competed for 583 vacant offices.

Included among these candidates were:

233 who were accorded seats in "no poll" races when no rival candidate filed and actual balloting was unnecessary; and

512 who vied for 350 contested seats in "voting" elections.

The number of seats won by each party was as follows:

<u>Party</u>	<u>Number of Seats</u>	<u>Percentage of Seats</u>
Social Democratic Party	8	1.37
Democratic Party	10	1.71
Democratic Liberal Party	34	5.83
Communist Party	4	0.68
Minor Parties	9	1.54
Independents	518	88.87
	<u>583</u>	<u>100.0</u>

The percentage of the total votes garnered by each competing political party was as follows:

Social Democratic Party	6.10
Democratic Party	0.53
Democratic Liberal Party	30.01
Communist Party	8.31
Minor Parties	0.43
Independents	54.62
	<u>100.0</u>

The following 9 tables are a more detailed statistical breakdown of the results of the elections compiled from reports furnished by the National Election Administration Commission:

TABLE 1**SCHEDULE OF LOCAL ELECTIONS, SEPTEMBER 1949**

<u>Type of Election</u>	<u>Number of Seats Contested</u>	<u>Number of Voting Elections</u>	<u>Number of No Poll Elections</u>	<u>Total Number of Elections</u>
Prefectural Assembly	3	3	0	3
Mayor	2	2	0	2
City Assembly	2	1	0	1
Town Headman	11	6	5	11
Town Assembly	109	9	4	13
Village Headman	55	23	32	55
Village Assembly	401	38	32	70
Total	563	82	73	155

TABLE 2**PERCENTAGE OF PARTICIPATION, LOCAL ELECTIONS, SEPTEMBER 1949**

<u>Type of Election</u>	<u>Percentage of Participation</u>
Prefectural Assembly	61.09
Mayor	65.21
City Assembly	70.08
Town Headman	65.46
Town Assembly	77.80
Village Headman	81.17
Village Assembly	74.40
Average	69.62

TABLE 3
CANDIDATES BY PARTIES, SEPTEMBER 1949

<u>Type of Election</u>	<u>SP</u>	<u>R</u>	<u>DL</u>	<u>G</u>	<u>MIN</u>	<u>IND</u>	<u>Total</u>
Prefectural Assembly	0	0	2	3	0	3	8
Mayor	1	0	1	2	0	3	7
City Assembly	1	0	1	1	0	0	3
Town Headman	0	0	1	1	1	18	21
Town Assembly	1	1	4	5	0	119	130
Village Headman	6	0	8	1	1	66	82
Village Assembly	10	12	27	16	9	420	494
Total	19	13	44	29	11	629	745

TABLE 4
SEATS WON BY POLITICAL PARTIES IN ALL ELECTIONS, SEPTEMBER 1949

<u>Type of Election</u>	<u>SP</u>	<u>R</u>	<u>DL</u>	<u>G</u>	<u>MIN</u>	<u>IND</u>	<u>Total</u>
Prefectural Assembly	0	0	2	0	0	1	3
Mayor	0	0	1	0	0	1	2
City Assembly	1	0	1	0	0	0	2
Town Headman	0	0	1	0	0	10	11
Town Assembly	1	1	3	2	0	102	109
Village Headman	1	0	4	0	1	49	55
Village Assembly	5	9	22	2	8	355	401
Total	8	10	34	4	9	518	583

TABLE 5**SEATS WON BY PARTIES IN 82 VOTING ELECTIONS, SEPTEMBER, 1949**

<u>Type of Election</u>	<u>SP</u>	<u>D</u>	<u>BL</u>	<u>C</u>	<u>MIN</u>	<u>IND</u>	<u>Total</u>
Prefectural Assembly	0	0	2	0	0	1	3
Mayor	0	0	1	0	0	1	2
City Assembly	1	0	1	0	0	0	2
Town Headman	0	0	0	0	0	6	6
Town Assembly	1	1	1	1	0	74	78
Village Headman	1	0	3	0	0	19	23
Village Assembly	5	8	21	2	6	194	236
Total	8	9	29	3	6	295	350

TABLE 6**SEATS WON BY POLITICAL PARTIES IN 73 NO POLL ELECTIONS, SEPTEMBER 1949**

<u>Type of Election</u>	<u>SP</u>	<u>D</u>	<u>BL</u>	<u>C</u>	<u>MIN</u>	<u>IND</u>	<u>Total</u>
Town Headman	0	0	1	0	0	4	5
Town Assembly	0	0	2	1	0	28	31
Village Headman	0	0	1	0	1	30	32
Village Assembly	0	1	1	0	2	161	165
Total	0	1	5	1	3	223	233

TABLE 7**PERCENTAGE OF SEATS WON BY POLITICAL PARTIES, SEPTEMBER 1949**

<u>Type of Election</u>	<u>SD</u>	<u>D</u>	<u>DL</u>	<u>C</u>	<u>MIN</u>	<u>IND</u>
Prefectural Assembly	0	0	66.66	0	0	33.34
Mayor	0	0	50.00	0	0	50.00
City Assembly	50.00	0	50.00	0	0	0
Town Headman	0	0	9.10	0	0	90.90
Town Assembly	.91	.91	2.75	1.83	0	93.60
Village Headman	1.81	0	7.27	0	1.81	89.11
Village Assembly	1.24	2.24	5.48	.49	1.99	88.56
Total	1.37	1.71	5.83	.68	1.54	88.87

TABLE 8**VOTES GARNERED BY POLITICAL PARTIES IN 62 VOTING ELECTIONS, September 1949**

<u>Type of Election</u>	<u>SD</u>	<u>D</u>	<u>DL</u>	<u>C</u>	<u>MIN</u>	<u>IND</u>	<u>Total</u>
Prefectural Assembly	0	0	60,794	12,276	0	39,959	113,029
Mayor	7,193	0	17,160	7,305	0	10,847	42,505
City Assembly	8,534	0	14,891	5,117	0	0	28,542
Town Headman	0	0	0	458	426	18,023	18,907
Town Assembly	251	426	478	752	0	32,606	34,513
Village Headman	3,610	0	6,187	325	0	30,604	40,726
Village Assembly	1,714	1,433	5,211	2,785	1,089	58,391	70,623
Total	21,302	1,859	104,721	29,018	1,515	190,430	348,845

TABLE 9

PERCENTAGE OF VOTES GARNERED BY POLITICAL PARTIES IN SEPTEMBER 1949

<u>Type of Election</u>	<u>SD</u>	<u>R</u>	<u>DL</u>	<u>L</u>	<u>MIN</u>	<u>IND</u>
Prefectural Assembly	0	0	53.78	10.86	0	35.36
Mayor	16.92	0	40.37	17.18	0	25.53
City Assembly	29.90	0	52.17	17.93	0	0
Town Headman	0	0	0	2.42	2.25	95.33
Town Assembly	172	1.23	1.38	2.17	0	94.50
Village Headman	8.86	0	15.19	.79	0	75.16
Village Assembly	2.42	2.02	7.37	3.94	1.54	82.71
Total	6.10	.53	30.01	8.31	.43	54.62

REPORT OF PREFECTURAL LAND COMMISSIONS ELECTIONS

More than 100,000 eligible voters went to the polls on 20 September 1949 to choose the 10-member prefectural land commissions in each prefecture. The commissions are responsible for completing the important task of Japan's post-war agrarian reforms. As in the case of the Local Land Commissions, members of these prefectural commissions are divided into 3 groups:

- A. Tenant farmer group - 2 members
- B. Landowner group - 2 members
- C. Owner-cultivator group - 6 members

In addition to the 10 elected members, the governor of the prefecture may appoint three persons. The three may be appointed at any time within the two-year term.

The Communist Party in particular gave strong support to their candidates. They were reported to have taken advantage of this opportunity for publicity on the theory that it would carry over in part to the House of Councillors' election scheduled for the spring of 1950. Hence, some observers believed that the contest would afford a sampling which would in some degree reveal the relative strength of each party. This despite the fact that, the election was not one in which all voters would participate.

Qualified voters included only the successful candidates of the Local Land Commissions elections held during August 1949. (See Review of Government and Politics in Japan, August 1949). Successful candidates of Group A in that election were eligible to vote for Group A prefectural land commissioners in this poll. Successful candidates of Groups B and C of that election were eligible to vote respectively for Groups B and C prefectural land commissioners in this poll. In all, there were 110,723 persons qualified to vote. According to reports of the National Election Administration Commission, the strength of the electorate by political parties was:

Democratic Liberal and Democratic	12,850
Social Democratic	4,532
Communist	953
People's Cooperative	731
Minor Parties	469
Independents	91,188

Candidates, however, were not restricted to those eligible to vote. Any person who was qualified to vote in the former election was eligible to be a candidate for the prefectural commission. Any person qualified to vote in Group A, B or C of the August poll could file his candidacy in his respective group for the September race.

Candidates for the 460 seats under contest totalled 1,640 (some of whom withdrew in the course of the campaign).

The tenant farmer group ran 367 candidates for 92 seats. The landowner group put up 392 candidates for 92 positions. And the owner-cultivator group totalled 881 candidates for the 276 seats. Eighty-seven candidates withdrew from the 3 groups before the close of the polls. The number of candidates by political party was:

Democratic Liberal	164
Democrat	52
Social Democrat	222
Communist	102
Labor Farmer	14
Japan Farmer	11
Minor Parties	20
Independents	968
Total	1,553

The turnout for the voting was the highest on record for any election, according to Kyodo. The prefecture with the highest percentage of voter participation was Yamagata with 99.8 percent, followed by Akita with 99.3 percent, and the lowest was Okayama with 84.0 percent. The average throughout Japan was 95.6 percent, which was a great increase over the 92.8 percent record set in the first prefectural farm land election of February 1947.

The most outstanding characteristic as shown by the results of the voting was the sharp advance made by the Social Democratic Party candidates and the complete drop of the Communist Party influence. The Social Democrats won nearly as many of the posts as all other parties combined, while only 2 out of the 102 Communist candidates were successful. Seats won by political parties, as reported by the National Election Administration Commission were:

Democratic Liberal	54
Democrat	17
Social Democrat	75
Communist	2
Labor Farmer	3
Japan Farmer	3
Minor Parties	7
Independents	<u>296</u>
Total	457

Prefectures in which candidates obtained equal votes were Hyogo with two cases, and Osaka and Nara with one each. The winning candidate in each instance was selected by lot.

Because of the last minute dropping out by candidates, there were uncontested or no poll districts, which included the following: 2 seats to be filled in the tenant farmer group in Shimane and Kagawa; the case in the landlord group in Fukuoka where only one candidate filed for the two seats to be filled in that group; and the case in the owner-cultivator group in Miyazaki where only three men ran for the six seats.

Although there were a total of 460 seats in the elections, only 457 were filled. Hence, re-elections are expected to be held in the near future in Miyagi, Hyogo, and Kagoshima since one candidate in each of these prefectures failed to garner the legally required number of votes.

* * * *

When the results of the election definitely became known, Brig. General Courtney Whitney, Chief of SCAP's Government Section, issued the following statement on 27 September commenting on the elections:

"I note that in the balloting to elect 460 members of the highly important prefectural land commissions, Communist Party candidates secured only two seats, or less than one-half of 1 percent of the total in issue. This provides further confirmation of the progressively growing strength of Japanese public opinion as a barrier to the inroads of any movement calculated to threaten a peaceful and orderly Japanese society, and gives striking corroboration to General MacArthur's statement of 2 September 1949, that '...the threat of Communism as a major issue in Japanese life is past. It fell victim of its own excesses. The Japanese mind penetrated the hypocrisy supporting its position. This test of strength, while disturbing to orderly progress, served to bring to light for the first time the full latent power of the Japanese devotion to the concepts of freedom and the integrity of their constitutional processes.....'

"This devotion has found further expression in these elections just held wherein has been firmly established the worth of the land reform program not only as a measure of economic and social justice but as a powerful force for political stability.

"The farmers of Japan have thus demonstrated the accuracy of General MacArthur's statement that '...having a stake in the economic well being of the country (they) will support the ideal of democracy as their way of life and will reject with scorn any will-of-the-wisp economic utopias which require the surrender of the individual's freedom to the State.'"

Also commenting on the prefectural land commissions elections, HIPPOB Times, on 26 September, wrote editorially as follows:

"Viewed as a partial barometer for the House of Councillors next year, the voting for the members of the Prefectural Farm Land Committees was watched with particular interest by all circles. The election also held significance in its own right as determining the complexion of the committees which will have the wide powers over the farm land reform program and will tackle important problems of vital interest to the nation's agricultural communities.

"This great interest was fully reflected by the turnout of 96 per cent of the electors who had been chosen earlier in the election of the city, town and village farm land committees. The turnout as compared to the 92 per cent of the previous election demonstrated the growing political consciousness of the agricultural communities.

"The most surprising result of the election, however, was the miserable showing of the Communist Party candidates. Stressing their 'regional struggle to gain power,' the Communists had concentrated all their energy into the election and had put up 110 candidates. They elected only two members to serve on the prefectural committees. The results showed as it is being demonstrated in other fields that the zenith of Communist popularity in January this year when the Reds captured 26 Lower House seats has long since passed. Even the farmers, hitherto considered most backward in feeling the political tides, soundly repudiated them.

"In contrast to the Communist defeat, the Socialists picked up 86 posts, thus vindicating their setback at the January polls. The Socialists actually lost some of their following as compared to the previous farm land election results, but their comeback from the January defeat is worthy of close attention as indicating a trend which has followed the Communist excesses in pursuing their tactics. It signifies that the Communist drop from 46 members to two has been the Socialist gain.

"The 56 members elected by the Democratic-Liberals and the 22 selected from among the Democratic Party candidates showed no startling change from the previous election. While the Democratic-Liberals did not lose any of their seats, the election did prove that the magic of the Democratic-Liberal label is showing signs of wearing off. The Democratic-Liberals ranked fourth in the percentage of successful candidates with only 28 per cent. The whole tenor of the agricultural communities, however, is still conservative, for the vast majority of the 284 independent members elected indicates that the regional 'bosses' still hold wide powers.

"Another surprise of the election was the poor showing made by the People's Cooperatives, the Labor-Farmerites, and the New Farmers, which supposedly have deep roots in the agricultural communities. The Labor-Farmerites, of course, are far to the left, but the other two parties were expected to make a better showing. It does not show that the farmers are fully aware that the policies of these parties have failed to penetrate into the real needs of the farming populace.

"These facts and the fact that 60 per cent of the newly elected members were elected for the first time all point to the growing political consciousness of the farmers. They prove that the democratic seeds are slowly beginning to sprout in the form of quick reaction and judgment of political trends by the farmer as a responsible individual. This awakening must be nurtured as the nation moves on toward the establishment of a free and democratic society."

REPATRIATION HIGHLIGHTS

The press reported on 3 September that the "fourth phase" of the repatriation program had been completed with the arrival of 1,800 repatriates aboard the "Meiya Maru" on the previous day. On the following day, the press carried an official SCAP release (issued on 3 September) noting that the Soviet Union had returned 48,712 Japanese prisoners of war between the period of resumption of repatriation in June of this year through 31 August.

The SCAP headquarters statement also revealed that the Soviet Mission had requested GHQ for shipping to repatriate 18,000 Japanese nationals from Siberia during September. A letter addressed to General MacArthur by Lt. General Kuzma Derevyanko, Chief of the Soviet Mission and Soviet member of the Allied Council, requested that ships of 2,000-passenger capacity make "lifts" from Nahodka, Siberia, on September 15, 17, 19, 21, 23, 25, 27, 29, and 30. The SCAP announcement noted that shipping was available and standing by for the shuttle runs from Maizuru, Japan.

* * * * *

The first group of 1,127 Japanese repatriates from Communist China arrived at Maizuru on 24 September on board the "Takasago Maru." According to the Medical Section of the Maizuru Repatriation Relief Board, which examined the repatriates, virtually all of the group, including 898 civilians (among them 552 women and children), 172 former soldiers, and 97 former army employees, were suffering from malnutrition. In addition, it was found that most of the women repatriates were infected with syphilis, with 16 unmarried women among them pregnant. The repatriates all complained that their poor health condition was due to the poor food supply, consisting only of corn-meal and soy bean bread given them during their three-month's interment in the Communist-held port of Dairen before returning to Japan. Because of the malnutrition, about 60 percent of the repatriates aboard the "Takasago Maru" had contracted tuberculosis, according to a statement by Maizuru Repatriation Relief Board's Medical Section. The unmarried pregnant women claimed that they were forced

to become the concubines of Chinese and Manchurians in order to keep alive. Other repatriates reported that they had been indoctrinated to communist ideology for fifty days at the quarantine office in Dairen before they were allowed to board the repatriation vessel.

Leaders of the repatriated group issued a statement immediately upon disembarking claiming that there were still between 60,000 and 70,000 Japanese in Communist China to be repatriated and appealing to the Japanese Government and the people for combined efforts to speed up the process of their repatriation. The statement concluded by noting that a minority of the group aboard the "Takasago Maru", who supported Chinese Communist policies, had opposed issuance of the statement.

INVESTIGATIONS AND PROSECUTIONS

Textile Bureau Case Comes to an End With Convictions

The Textile Bureau case,--which was closed by the procurators on 31 December 1948 with the indictment of the chief protagonists in the case,--came to an end on 30 September when the Tokyo District Court handed down three convictions in the bribery scandal. (For full details of the case, see Review of Government and Politics in Japan, December 1948).

The trial of Shigeo Suzuki, former chief of the Textile Bureau of the then Ministry of Commerce and Industry, and eight others,--including Tadashi Nakayama, former technical official of the Ministry of Commerce and Industry; Hiroshi Sakai, former chief of the Shikoku Commerce and Industry Bureau; and Yoshifumi Higaki, former administrative official of the Ministry of Agriculture and Forestry--who were suspected of having received bribes and gifts from Kiyoshi Uemura, president of the Toa Kogyo Company, from Gisaburo Kokubo, president of the Kokubo Industrial Company, and from other prominent textile magnates, opened in the Tokyo District Court on 27 January.

On 30 September, the Tokyo District Court sentenced Suzuki to two years imprisonment and a fine of ¥330,000 on charges of graft. At the same time, the court sentenced Kokubo to six months' imprisonment with probation for three years, and Uemura to three months' imprisonment with probation for three years. Both men had been accused of amassing billions in yen during the short-lived textile boom following the war through special allocation privileges from officials in the former Commerce and Industry Ministry.

The other defendants (Sakai, Higaki, et. al.) were acquitted.

More Arrests in Mitaka Case

Three more persons, suspected of having participated in the Mitaka derailment case, were arrested on 7 September.

It is expected that the public trial of the defendants in the case will open in the Tokyo District Court in November.

Communist Branch Headquarters in Osaka Area Raided

The Osaka metropolitan police on 6 September raided the Kisugawa district committee headquarters of the Communist Party and the homes of ten committee members in search of documents and other evidence relating to suspected tax evasion by the Communist Party district committee. The search was made, according to press accounts, in connection with a complaint against the committee filed by Governor Bunzo Akama of Osaka Prefecture charging that it had evaded payment of admission taxes totalling ¥100,000 on performances by the Zenshinza theatrical troupe sponsored by the committee.

Democratic Party Diet Members Cited for Illicit Activities

The Tokyo District Procurator's Office on 5 September indicted Shigeyoshi Fukuda, opposition Democratic Party member of the House of Representatives from Kagawa Prefecture, on charges of blackmarketing rubber tires. Fukuda was charged with selling on the blackmarket 350 truck tires obtained from the Rubber Tire Union during the period March 1948 to May 1949 and to have reaped a profit estimated at ¥5,000,000.

Press accounts on 21 September reported that the Takamatsu police had arrested Kiyoshi Hashimoto, Managing Director of the Central Transportation Company of Takamatsu City, on charges of having blackmarketed the tires jointly with Diet member Fukuda.

Another opposition Democratic Party member of the House of Representatives, Takashi Kanazuka, from Ibaragi Prefecture, was indicted on 15 September by the Tsuchiura Tax Office (Ibaragi Prefecture) on suspicion that he evaded tax payments totalling ¥30,000,000. In addition to serving as a Diet member, Kanazuka was also president of the Nishin Brewery Company.

Oyama Arrested

Leftist Ikuo Oyama, a professor at Waseda University since his return to Japan in October 1947 after a 15-year exile (most of which was spent in the United States), was arrested by the Tokyo Metropolitan Police on 27 September on charges of having delivered "false statements against the Occupation" in the course of a public speech. He was released on the day following his arrest, when the case was dropped.

The specific charge that caused Oyama's arrest was a speech delivered on 17 September in Tokyo at a meeting sponsored jointly by the Chinese Research Institute (Chungkuo Kenkyu Sho) and the Society for the Protection of Democracy (Minshi Shugi Yogo Dantai), two leftist organizations. At this meeting, Oyama, who represented the Society for the Protection of Democracy, was reported to have made the following statement in the course of his speech:

"The Yoshida Government is acting as a tool of a capitalistic nation and committing acts in violation of the Potsdam Declaration. The Yoshida Government is not cooperating with a true democratic nation [meaning the Soviet Union], and if this situation continues, Japan will never attain a democratic government."

Activities of the Diet Special Examination Committee

The Special Examination Committee of the House of Representatives continued its probe of cases of labor disturbances occurring during June and July. The Committee held two formal hearings on these cases during the month (12 and 13 September), when Telecommunications Minister Saeki Osawa, Labor Minister Kasabuni Suzuki, State Minister Senze Kigai (in charge of police affairs), and Chief Noboru Saite of the National Rural Police Headquarters were summoned to testify. Two Communist members of the House of Representatives, Shoichi Kasuga and Gyohei Tanaka, also testified at the hearings.

The Committee is expected to submit to the Diet a formal report of its investigations in October. This comprehensive report will supplement the Committee's "interim report" submitted on 10 August. (See Review of Government and Politics in Japan, August 1949).

THE PURGE

During the month of September, nine new cases of suspected violations of the purge ordinance were transferred, after preliminary investigations, to the procurators for possible indictment. Six new cases of alleged purge violations were indicted for trial before various district courts during the same period.

The district courts passed sentences of imprisonment (ranging from four months to one year) on six individuals who had violated the purge ordinance; seven other individuals received sentences of penal servitude ranging in terms from three to ten months with execution of sentences suspended for two and three years; three individuals were fined ¥10,000 each; and one individual was acquitted during September.

The higher courts, during the same period, sentenced two individuals to terms of imprisonment of three and six months respectively, for purge violations. Four other individuals were given two to four months' penal servitude, with execution of their sentences suspended for two to three years. One individual was fined ¥10,000, while another individual was acquitted by the higher courts.

The Supreme Court dismissed the appeal of one case of purge violation and confirmed the sentence of five months' imprisonment passed by a lower court in another case.

During September, eight organizations were ordered dissolved by the Office of the Attorney General pursuant to provisions of Cabinet Order No. 64 of 4 April 1949 ("Organization Control Order"). These were as follows:

A. On 8 September, the Office of the Attorney General formally designated four Japanese terroristic organizations which were formed by gamblers and thugs who conducted activities ranging from petty theft to murder in their respective localities. These organizations were:

1). Kyushin Kai (Society of Chivalrous Spirit), formed in 1946 by an individual by the name of Uichiro Okada and 45 of his henchmen at Iavata City in Kyoto Prefecture, who launched a very effective, strong-armed policy in "controlling" parts of Kyoto, Osaka, and Kobe districts.

2). Morofuji Ikka (The Morofuji Group), organized in 1941 at Yano-gun in Fukuoka Prefecture by Yoshio Morofuji and 10 other gangsters

following the principle of "Gyabun and Kobun" committed crimes of murder, arson, and intimidation. This group had close relationship with the Ryu Ikka (The Ryu Group), which was dissolved on 14 May of this year.

3). Murakami Gumi (Murakami Group), organized in August 1945 in Hiroshima Prefecture by Fukuichi Sugiuchi (alias Sanji Murakami) and 30 of his followers, who exerted a tight rein over the local police and population by resorting to force, violence, and intimidation.

4). Oka Gumi (Oka Group), organized in August 1945 in Hiroshima City in Hiroshima Prefecture by Toshiro Oka and 12 other gangsters. Oka organized his group through the use of contracting business "front" and wielded power throughout the eastern districts of Hiroshima City through the medium of murder, intimidation, destruction of property, gambling, and other terroristic activities.

B. On the same date (8 September), four Korean organizations were also ordered dissolved by the Office of the Attorney General. These organizations were:

1). Zai Nippon Chosenjin Renmei (League of Koreans in Japan), also known as Chosen. Included in the order of dissolution were the central headquarters of the organization, headquarters and branches of metropolis, Hokkaido, and prefectures, 1,164 sub-branches and other sub-organizations, and 619 "district conferences" of the organization. Nineteen members of the organization were also ordered purged at the same time.

2). Zai Nippon Chosen Nishin Seinen Domei (Korean Democratic Young Men's League in Japan), also known as Ningsi. Included in the order of dissolution were the central headquarters of the organization, 442 headquarters and branches of the Metropolis, Hokkaido, and prefectures, 206 sub-branches and other subsidiaries of the organization. This was a youth organization affiliated with the above-cited Zai Nippon Chosenjin Renmei and joined with that organization in committing acts resisting or opposing occupation objectives and other acts encouraging or justifying a tradition favoring terroristic methods. At the same time nine members of the organization were designated as being subject to the purge.

3). Zai Nippon Dai Kan Nishoku Kwanmin Dan Miyagi Ken Honbu (Miyagi Prefectural Headquarters of Resident Community of the Great Korean

Republic in Japan), also known as Kindan Miyagi Headquarters. The order of dissolution included the headquarters of the organization in Miyagi Prefecture and all sub-branches and subsidiary organizations. This organization was a branch organization of the Kindan group (rightist Korean organization), whose members had committed arson, extortion, murder, and engaged in other terroristic activities. Five members of the organization were purged at the same time.

4). Dai Kan Ninkoku Kenkoku Seinen Dosei Shioyama Honbu (Shioyama Headquarters of the Great Korean Republic National Construction Young Men's League), also known as Kinggi, Shioyama Branch in Miyagi Prefecture. The order of dissolution included the Shioyama headquarters and all sub-organizations. This organization was a youth branch affiliated with the above-cited Zai Nippon Dai Kan Ninkoku Kyoryuin Dan (Society of Great Korean Residents in Japan). The members of this organization had committed crimes of murder, arson, intimidation, and fraud. Three members were also designated purged at the same time.