DECLASSIFIED E.O. 11652 SEC. 3(E) AND 5(D) OR (E) NNDG # 773 072

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DECLASSIFIED E.O. 11652 SEC. 3(E) AND 5(D) OR (E) NNDG # 773 072

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Interim Economic
Directive and
Morris Hairis
Comment

DECLASSIFIED AND RELEASED UNDER E.O. 12356, SEC. 3.3(b) AND 3.4(b) OR (c) NNDG # 775012

GENERAL HEADQUARTERS, FAR EAST COMMAND
ADJUTANT GENERAL'S OFFICE
RADIO AND CABLE CENTER

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AEM

INCOMING MESSAGE

Restricted

ROUTINE

3 Dec 48

FROM : JCOS

TO : CINCFE (PERSONAL TO MACARTHUR)

NR : W 80523

The following directive, Ser Nbr 95, prepared by the State Dept to implement the policy adopted by the FEC on Nov 18, 48, under the provisions of Para II, A, 1, of its terms of reference has been received from the State, Army, Navy, Air Force Departments for transmission to you for your guidance in accordance with Para III, 1, of its terms of reference:

"DIRECTIVE REGARDING CONDUCT OF TRADE WITH JAPAN"

1. In so far as is compatible with the basic post surrender policy for Japan (FEC-014/9, approved 19 Jun 47 and forwarded to the Supreme Commander on 26 Jun 47 as Dir Ser Nbr 82) and other policy decisions of the Far Eastern Commission including this policy decision, Japan's Foreign Trade should be conducted so as to:

a. Foster the development and balanced growth of Japanese Foreign Trade to a level consistent with Japan's peaceful needs as defined by the Far Eastern Commission;

b. Encourage and increase in Japanese exports:

(I) In order that these exports may, as soon as possible, pay for the imports required for the prevention of disease and unrest within Japan, and for the reestablishment of a self-sustaining economy;

(II) In order that Japan may participate in providing goods for International Trade;

c. Insure competitive conditions in trade free of contracts or arrangements which limit access to markets or foster monopolistic controls, and prevent excessive concentration of economic power in Japan and monopolies

(over)

13807 ROUTINE

-1-

Paraphrase not required. Handle as correspondence of classification carried hereon per paragraphs 51*i* and 60a, AR 380–5.

DECLASSIFIED Authority NND 963172 DEC. 5(E) AND 5(D) OR (E) NNDG # 963172

DEC 1948

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ROUTINE

FROM: JCS NR: WAR 80523 3 DEC 48 CONTINUED

in Japanese Foreign Trade, whether with the participation of Japanese or Foreign Capital.

2. In addition to Allied Trade Representatives whose entry into Japan has been or may be approved consequent upon policy decisions of the Far Eastern Commission, persons in the following categories should be permitted to enter and reside in Japan in accordance with regulations established by the SCAP:

a. Merchants and other traders (including representatives of commercial organizations, governmental or otherwise) who are prepared to purchase or to make arrangements for futhur purchases of potential exports, or to provide raw materials or other commodities which Japan must import;

b. Representatives of banks, insurance companies, airlines, shipping and other companies who are prepared to render necessary services in connection with Japan's Foreign Trade either to provide non-Japanese businessmen, to the SCAP, or to Japnese persons or agencies approved by him;

c. Representatives of companies or individuals who had prewar property interests in Japan, the renewed operation of which would contribute to the accomplishment of the objectives in Para 1;

d. Representatives of companies or individuals who had substantial prewar property interests in Japan, for the purpose of inspection of those interests.

3. Nothingin this policy decision is to be understood as requiring the reopening or operation of factories in Japan.

4. There should be no discrimination against any foreign trade representatives or businessmen in Japan and all should be accorded equality of opportunity to transact business. Accommodations should be allocated to such persons entering Japan under the provisions of this policy decision on an impartial basis.

5. Yen acquired by foreign nationals through activities envisaged in this policy should be useable for local expenditures in accordance with laws and regulations enforced in Japan.

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GENERAL HEADQUARTERS, FAR EAST COMMAND
ADJUTANT GENERAL'S OFFICE
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ROUTINE

FROM: JCOS NR: WAR 80523 3 DEC 48 CONTINUED

6. The SCAP may impose port and service charges upon foreign vessels entering Japanese Ports for commercial purposes with the exceptions enumerated below:

a. No port charges should be imposed on vessels entering Japanese Ports in so far as they are carrying Occupation Force Cargo or are engaged in the removal of reparations or restitution goods. Where vessels are also engaged at the same time in normal commercial operations, port charges should be imposed in proportion to the bulk of commercial cargo carried.

b. All port charges on commercial vessels as well as the services rendered to commercial vessels in Japanese Ports should be subject to appropriate and non-discriminatory payment in any foreign exchange useful for the purchase of imports for Japan or in local currency, in accordance with laws and regualtions enforced in Japan.

7. The persons referred to in Para 2 should be afforded opportunity for direct access to individual Japanese firms of their own choosing, and should have the opportunity to move freely in Japan subject only to availability of transport and accommodations. Any regulations pertaining to the participation of firms or government agencies, whether Japanese or foreign, in foreign trade should be non-discriminatory in character and confined to measures essential to achieving the principles and objectives set forth in this policy and should be based upon criteria established by and under the supervision of the SCAP.

8. Foreign trade may be conducted by the Japanese Government or agency thereof to the extent deemed by the SCAP to be necessary for the purpose of maximizing export proceeds or for other purposes consistent with the principles and objectives stated in this policy.

9. An exchange rate for the yen should be established as soon as practicable.

(over)

13807 ROUTINE

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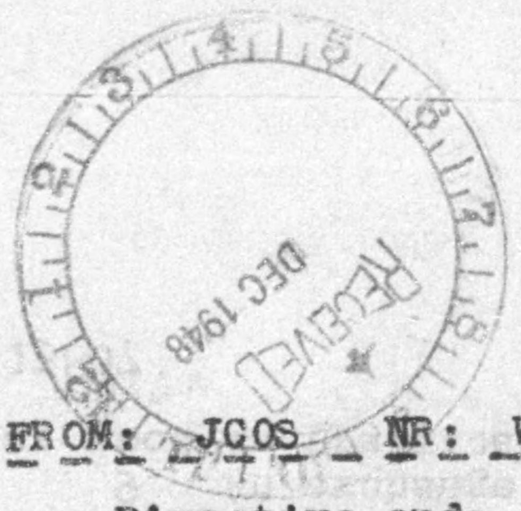
16—50735-1 GPO O—795839

DECLASSIFIED EXEC. ORDER 11652 SEC. 3(E) AND 5(D) OR (E) NNDG # 773 072



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ROUTINE

FROM: JCOS NR: WAR 80523 3 DEC 48 CONTINUED

Directive ends.

In approving the policy decision on which the enclosed draft directive is based, several members read into the minutes various statements of understanding as to the meaning of certain portions of said policy decision. These statements as recorded in the minutes are included in the following quoted excerpt and are forwarded for your info.

EXCERPT FROM THE DRAFT MINUTES OF THE 128TH FAR EASTERN COMMISSION MEETING

ITEM 2-CONDUCT OF TRADE WITH JAPAN (FEC-273/19, FEC-273/21; 273d Series).

GENERAL MCCOY recalled that on 4 Nov the Chinese and Soviet representatives had agreed, in consultation with the Chairman, to a wording for Para 1 b 2 of FEC-273/19 (Circulated as FEC-273/21), and agreement had been reached among the Chinese, Soviet, and United States Representatives to amend Para 1 c by the deletion of the words 'Restricted Competition.' Further consideration had been postponed to afford the Chinese Representative additional time to consider Para 9.

DR KOO then made the following statement:

'We consider Article 9 regarding the early establishment of an exchange rate as unnecessary and premature. Its language is vague and needs clarification as to the authority which should be called upon to establish an exchange yen rate, and as to the time element in the phrase "As soon as practicable." But we do not wish to insist upon its deletion, since that might affect the passage of the whole paper--a paper to which we, the Chinese Delegation, like other delegations, attach great value and importance. For this reason, we shall vote for this paper with the understanding that when the time is considered as mature for establishing an exchange yen rate, the Far Eastern Commission will be informed of this development and an opportunity given to the members of FEC to express their views on the subject.'

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GENERAL HEADQUARTERS, FAR EAST COMMAND
ADJUTANT GENERAL'S OFFICE
RADIO AND CABLE CENTER

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ROUTINE

FROM: JCS NR: WAR 80523 3 DEC 48 CONTINUED

MR NAGGIAR said, with reference to Para 9 of FEC-273/19, that the French Delegation could vote for the proposed policy on the understanding that Para 9 referred only to the establishment of an exchange rate for foreign trade transactions and on the further understanding that the Far Eastern Commission was the authority for establishing such an exchange rate.

GENERAL MCCOY said that he understood that the Chinese and French statements had to do simply with the respective understandings of these 2 governments in regard to the present proposed policy, and did not represent the view of the Commission as a whole. These statements of understanding would, however, be communicated to the US Government with the request that they be forwarded to the Supreme Commander. The Commission was, of course, not directly concerned with attempts to fix an exchange rate for the yen. This complex and technical matter concerned the Commission only in its relation to broad policy and had therefore been discussed in the most general way with a wise avoidance of any attempt to establish a procedure for fixing an exchange rate.

GENERAL MCCOY referred again to the amendments to Para 1 b 2 and 1 c which had been agreed on by the Chinese, Soviet and United States Representatives at the meeting of 4 Nov. If there were no objections, he would assume that these amendments were acceptable to all representatives and would consider them incorporated in the proposed policy decision.

"There was no objection to the amendments in question and accordingly FEC-273/19 was voted on and approved unanimously as a policy decision."

The Commission has agreed to release the policy decision upon which the foregoing directive is based to the press after its receipt in Tokyo, therefore acknowledgment of receipt is requested. The directive will be declassified at the time of the press release.

ACTION : SECY GEN STAFF NO SIG
INFORMATION : COMMANDER IN CHIEF, CHIEF OF STAFF, G-1, G-2, G-3, G-4, AG, GOVT, STAT & RPTS, ECON & SCI, LEGAL, DIPLOMATIC

13807 ROUTINE TOO: 022326 Z
MCN: 88949

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COPY No.

DECLASSIFIED EXEC. ORDER 11652 SEC. 3(E) AND 5(D) OR (E) NNDG # 775 072

GENERAL HEADQUARTERS
SUPREME COMMANDER FOR THE ALLIED POWERS
Government Section

20 April 1948

MEMORANDUM FOR THE CHIEF, GOVERNMENT SECTION.

SUBJECT: "Deployment of Employment", a pamphlet by Bard Priddy.

DESCRIPTION

1. Beginning with definitions of a few basic economic concepts in somewhat novel terms, the author first makes the point that the prices of goods fluctuate more slowly than wage and salary costs because included in the total costs is the cost of the capital goods utilized in the production process, a factor which does not fluctuate with current wages. Since living costs are high or low for most individuals only in relation to their income, rises in dollar prices of goods and services are not injurious so long as wages and salaries move in equilibrium with prices. Consequently what most people call inflation is not to be feared. The author, however, decries the traditional methods of wage and salary adjustments as unduly wasteful.

2. Existing protection against panics and depressions is inadequate. The Federal Reserve System, bank deposit insurance, unemployment insurance and social security are nothing but "economic stop-gaps, pain killers and issue dodgers". All of them put together will never insure mass consumption, mass employment and mass production, considered by the author to be the keys to economic prosperity.

3. Because consumption, employment and production are intimately inter-related none can exist without the others but consumption comes first. Maximum prosperity is possible only with maximum consumption of goods and services. Eight great necessities of modern living are listed: food, clothing, shelter, transportation, communication, education, medication and recreation. The prosperity of each of these great necessities of modern living depends upon the wages and salaries earned by the people engaged in all of their production. Thus, by making wages and salaries perpetual America's nation-wide prosperity will automatically be made perpetual.

4. The author proposes two specific schemes. The first, and evidently minor one, is an insurance system covering all the wage and salary earners of America, the basic feature of which would be a standard, combination all-purpose insurance policy including life, accident, health and retirement insurance, to be written on a co-insurance basis by all the strong private insurance companies and guaranteed by the government. This system, by

preserving the purchasing power of those retired from productive employment by injury, sickness or old age, would contribute to continuous mass consumption of goods and services. It would replace the present systems of unemployment insurance and social insurance. The second and major proposal is the perpetual wage, a system whereby all employers would guarantee their employees continuous employment at full wages through periods of slack production as well as in times of full production. By means of this device whenever, as a result of over-production in any line, the demand for a product slackens, the employer will not resort to mass dismissal thereby helping to destroy the purchasing power of all of the country's wage earners, but will utilize the lull in the demand for his product to improve the operating efficiency of his plants and workers. In this way, mass purchasing power will be sustained, mass consumption will continue and panics will be abolished. Basing his calculations on an average duration of 1 and 3/4 years for panics and a maximum of 1/3 of wage and salary earners having lost their jobs during the panic of the 1930's, the author concludes that reserves large enough to maintain full wages and salaries for a six-month period for all employees would make the plan possible. Such reserves would be financed by means of special tax allowances, "wage maintenance debentures" and "wage maintenance preferred" stocks.

APPRAISAL

5. The author's main idea has merit but like all schemes put forth as cure-alls entirely too much is claimed for it. There is no denying that a combination of a guaranteed income for most wage and salary earners combined with comprehensive life insurance against personal disability would, by maintaining the purchasing power of a large section of the population, mitigate the sufferings caused by business slumps and, might possibly, to some extent, check the rapidity and violence of business cycles provided they were minor ones. In the presence of a depression such as that which followed the 1929 panic, however, the author's scheme would not only not prevent the depression, but would, in all probability, prove inadequate to provide even the financial personal assistance to workers for which it is primarily intended.

6. Business cycles are international, not local. The American economy is not self-contained. The American business boom of the 1920's was closely related to similar prosperity in the other industrialized countries. It was built primarily upon demand for new construction and for automobiles, but was sustained in large part by the contemporary prosperity of world markets financed by American banking credits. After those credits ceased and foreign markets shrank panic and depression struck both abroad and at home. No system of artificially guaranteeing the purchasing power of the American consumers' market alone would prevent recurrences of panic and depressions resulting from economic maladjustments which are international in scope. Further, when depressions occur, by far the largest percentage of decline in production occurs in capital goods, not in consumers' goods. People do not stop using and replacing the daily necessities. They do, however, postpone buying new automobiles and new homes or building new factories.

7. The author's treatment of inflation and its effects on the people is somewhat casual. While it is true that living costs affect individual pocketbooks only as a percentage of current income and, therefore, persons whose incomes rise with rises in prices are not pinched in their current living expenses, this reasoning leaves out of account the percentage of the population whose incomes do not rise with rising prices. Further, even those whose current incomes are flexible are hurt by price rises to the extent that their savings are invested in mortgages, bonds, bank savings, insurance policies and other media expressed in terms of a fixed number of dollars. Lastly, even though the actual cost of capital goods does not rise with rising wages and prices as the author maintains, the fact that the reproduction cost of such capital goods does follow price trends has a very real bearing on costs of production and is one of the determining factors in the final price maladjustments which bring about the reluctance of buyers and the glutting of markets which initiate business slumps.

8. Since the pamphlet deals in generalities it does not deal with a number of practical considerations such as how the plan he proposes can be put into universal operation (even in the United States alone) by <u>voluntary</u> action. No mention is made of the numerous small organizations which contribute to the over-all business of the United States whose resources might not permit the setting aside of reserves sufficient to operate the scheme, nor has the author considered what would happen in the event a depression lasted longer than the statistical average on which he has based his computations, thus exhausting the wage maintenance reserves. Presumably, as in all such schemes, the burden would eventually fall upon the government.

Frank Rizzo

FRANK RIZZO
Special Advisor

DECLASSIFIED E.O. 12958 SEC. 3(E) AND 3(B) OR (E) NNDG # 775 012

The Japanese Government

11 June, 1947.

Emergency Economic Measures

Public finance in continuous deficit, and both major industries and individual households also in deficit -- such is the stark reality of the Japanese economy to-day. This state of affairs cannot last very long. For it means, on the one hand, that the basis for the reproduction of national economy will ever be narrowing itself from day to day, and, on the other, that the possibility of avoiding vicious inflation becomes harder and harder.

The economic situation such as this and the way to cope with it were clearly pointed out in General MacArthur's letter to the former Prime Minister Yoshida as early as March 22, and surely the Japanese people regard with great respect the insight shown in the Supreme Commander's judgement. But it also reminds us severely that the key to surmounting these difficulties is to be found less in contriving some new-fangled measures than in <u>putting into actual practice sincerely and boldly those measures which we profess to follow</u>.

Nearly two years have elapsed since the end of the war. It cannot be said, however, that we have yet been freed from various sufferings and privations attendent to the fact of defeat in the war. Nevertheless, we are hopeful, because we

DECLASSIFIED E.O. 12032 SEC. 3(E) AND 3(D) OR (E) NNDG # 775 012

are confident that, through the efforts of entire nation, we are making a steady progress towards a democratic and independent nation.

Restoration of Japan to a normal position in the community of nations may be said to be daily coming closer to the realization. We realize, however, that the most important minimum prerequisite for arriving at this goal is for us to exhaust at this juncture all the feasible measures at our command for the stabilization of our economy.

This, of course, is easier said than done. It is high time for us to realize that what will save our economy in the long run is nothing less than the undiminished perseverance, the cooperation among all of us, and most of all, the unstinting labor of working people. However, the life of want will be easier for us to bear, if we can bring about a more equitable distribution and eliminate unjustifiable profiteers and if we succeed in shrinking the intermediary steps of distribution which now separate from each other those who are honestly engaged in the production of goods and services.

Having such ideas as our basic attitude, the Government is prepared, in order to tide over the critical situation now confronting us, to put into effect the following eight groups of measures as requiring our especial and immediate attention. Details of each of the items will be duly made public to invite the cooperation of you citizens as the

occasion arises.

I. <u>Since it is of fundamental importance to secure firmly the supply of foodstuffs as the basis of our nation's livelihood, and, in particular, as that of labor, every effort will be made towards minimizing ration-delays and stopping the flow into black market channels</u>.

(1) Make a fundamental change on the collection system of major food items. By making use of democratic organizations, allocate in advance the fertilizers and other production materials in accordance with the area cultivated and of the fertility of soil, then roughly determine the planned quantity of production corresponding thereto, and make the collection allocations on the basis of this quantity.

(2) Revise the Government purchase prices of this year's crops of wheat and Irish potatoes in conformity with the price level newly to be established, and imporve the contents of the link system with compensatory goods.

(3) Devise a method by which those farmers who have completed their delivery can send to their relations in cities a certain amount of staple food to be rationed through official channels.

(4) Inasmuch as it is unavoidable to rely upon staple-food-other-than-rice during the transition period, place special emphasis on the improvement of eating habits, in particular on the securing of protein nutritions. Carry out strictly the control regulations of fresh fish and shells and extend similar method to processed marine products. Increase

the ration of other non-staple foods and seasoning materials.

(5) In order to help increase vegetable supply in urban consuming districts, encourage the revival of special production localities, connect them in a planned manner with consuming cities, and also take measures to help self-sufficiency in vegetables through home gardens.

(6) Operate more reasonably the supplementary ration to workers in accordance with the actual working conditions, while maintaining its basic level.

(7) Close throughout the country those restaurants and eating places which are not operated on legitimate rationed goods.

(8) Whether or not the immediate food crisis can be staved off depends to a great extent upon the delivery of foodstuffs by farmers on their own initiative. The Government expects farmers to bend their further efforts in this direction and will take a most sternest attitude against those who stand in the way.

(9) In order to reinforce the fishing industry, bend efforts towards making the industry more scientific, expanding the fishing areas, and securing priority on matterials needed for the industry.

(10) On the basis that we fulfill completely the above internal measures, exert our full efforts for asking the importation of foodstuffs.

II. <u>We will establish an effective distribution system at</u>

official prices, which is essential to securing of foods, stabilization of prices and other economic stabilization of prices and other economic stabilization measures as a whole.

(1) Assure the distribution by a Kodan system for those essential materials, such as basic production materials, major consumer goods, important foodstuffs, etc., on which we require a most strict control.

(2) Continue or extend the allocation certificate system with regard to materials which come next to the above-mentioned items in their need of control; and make necessary improvements on the operation of the coupon system in such manner as the government may be able to have the actual flow of goods well in hand and know the result of their utilization.

(3) As for the allocation system, avoid the method of relying upon the past results, and instead improve in such a way as to promote a fair competition among enterprises, paying special attention to the questions of efficiency and effective utilization of inventories.

(4) Carry through energetically the exposure and utilization of hoarded materials.

(5) Intensify the inspection system with respect to economic administration and emphasize especially the policy of indicting the large-scale black market operators.

(6) Intensify controls on transportation and check the movement of black market goods.

III. <u>Since the existing official prices, being the legacy of the past economic disequilibria, are so far out of line that they are becoming a serious hindrance to the normal industrial activity, we will revise at this time the entire structure of price and wages, and make efforts toward maintaining them.</u>

(1) Revise and adjust promptly and in a coordinated fashion the entire official price structure and maintain firmly a new price system.

(2) For the determination of prices use as a rule the cost of production method, and as for the method of computing various cost components, such, for example, as profits and depreciation, make appropriate adjustments in the light of specific characteristics of each industry. As for the prices of major agricultural commodities determine them on the basis of their balance with the prices of those industrial commodities which are relevant to the agricultural production.

(3) Discontinue indiscriminate compensatory financing for the deficit of enterprises, and utilize price adjustment subsidies only when they are required from the overall economic point of view.

(4) Tax away the appreciation profits arising out of the upward revision of prices.

(5) Drop out from the sphere of price control those minor items for which it is of a little use of fix official prices, thus overhauling the items under the price control.

(6) With regard to the relation between the wages and

prices, direct our principal efforts towards maintaining real wages by enlarging the sphere of distribution of goods through official channels. We shall not resort to such measures as a mechanical wage freeze.

(7) As for the nominal money wages, use as a rule the method of determining them, in the light of preceding paragraph, simultaneously with the revision of official prices and in view of the quantity of consumer goods rationed through the official channels.

IV. <u>In order to eradicate the cause of inflation from the side of currency we will strengthen our efforts in maintaining sound policy of finance</u>.

(1) Maintain public finance on sound basis, keeping, however, in mind that the prime objective of the public finance policy will be the effectuation of smooth operation and reconstruction of national economy as a whole.

(2) Set up a working budget for the purpose of postponing and economizing the government expenditures.

(3) In order to meet an unavoidable increase of expenditures, cover them as far as possible by increasing tax revenue through the proper and effective execution of the existing tax system, but, if necessary, consider an increase in tax rates.

(4) Strengthen the taxation on the income of profiteers who are taking advantage of inflation or black market operations by reinforcing the tax collection organization and improving the method of inspection.

(5) On enterprise special accounts carry out the principle of "the independent account system."

(6) Strengthen the inspection on actual operation of the budget.

(7) Maintain and strengthen the fund control. Restrain severely deficit loans to enterprises; however, adequate funds will be made available to essential industries.

(8) Make efforts towards regulating the currency in circulation within reasonable limits, by utilizing the function of the Currency Issue Council (Tsuka Hakko Shingikai) and adjusting by time in an appropriate manner the revenues and expenditures of public finance and industrial funds.

(9) Continue and extend enorgetically the savings compaign.

V. The increase of production and the raising of productive efficiency are basic to economic rehabilitation. Therefore, we will attempt to realize them by continuing the policy of selective emphasis in production and by taking measures towards putting the enterprise management on a sound basis.

(1) Continue to give the highest priority to the increase of production of coal and other basic materials and the strengthening of land and water transportation.

(2) Take positive steps towards planning and execution of reorganization of each industry in close collaboration with the Economic Rehabilitation Conference, and bring about the maximum increase of productive efficiency.

In this connection, prepare a long-term economic program for the purpose of establishing a clear-cut guidance for the industrial reconstruction.

(3) Under close cooperation with the fields of science and technique and by making the best use of them, develop and utilize our national resources to the utmost.

(4) Take measures to encourage those enterprises which are heavily burdened with surplus workers; take reasonable measures for reallocation and shifting of workers, thus contributing towards the healthy developiment of enterprises. Such steps will be taken first of all in the Government enterprises.

VI. Inasmuch as the increase of labor efficiency originated from the self-will of working people is the motive power of production enhancement, we will put into effect, even at the expense of scarce national strength, necessary measures for securing life and employment of working people.

(1) Government will strive towards securing the consumers' goods necessary for labor and securing housing for the working people.

(2) Hoping for the positive co-operation between labor and management, backed by the Economic Rehabilitation Conference, make efforts to extend the method of wage payment which encourages efficiency and labor morale and also to maintain normal appropriate working rules.

(3) Make all-out efforts for the creation and expansion of productive employment, in particular, export industries, and at the same time try to help absorb unemployed as far as possible by putting into practice productive public works.

(4) Make employment service and vocational training system work effectively, thus promoting employment of the unemployed, especially of those who have been repatriated.

(5) Establish promptly unemployment compensation or unemployment insurance system, thereby making the life of the unemployed secure.

VII. <u>In order to secure funds to import foodstuffs and basic raw materials, and secondly to make as much contribution as possible to the rehabilitation of the countries in the Far East, we will take measures to promote our export to the utmost even if we have to curtail temporarily our domestic consumption still further</u>.

(1) In view of the severe shortage of internal resources under the present circumstances, endeavor to extend the export of finished goods manufactured from the imported materials and prepare a rational export program.

(2) Secure specifically export goods and materials for their production in the demand and supply program, and take special precautions to prevent their diversion into internal consumption.

(3) Endeavor not only to increase our export to the United States but also to develop our trade with the Far East.

(4) In preparation for the reopening of normal inter-

national trade, effect necessary improvements in relevant aspects of the economy, in such a way as will encourage and promote lively activities on the part of those concerned with international trade on their own initiative.

VIII. To make the execution of above mentioned measures effective, the following supporting measures will be taken.

(1) Effect necessary controls on the enterprises in case where private enterprises in case where private enterprises in the key industry (which is basic to economic reconstruction and security of national life) cannot attain their expected goal on account of some reasons inherent to private enterprise system such as apprehension for big risk.

Execute control in such a way that the Government will take direct responsibility in the management of the enterprises. In executing controls, respect the status and technical ability of the existing employees and utilize their initiative and experience.

(2) Formalize and encourage production cooperatives constituted by working people and revise so as to be based on communal equipments of medium-sized and small enterprises.

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SECRET

17 April 1947

EMERGENCY PROGRAM TO CHECK INFLATION IN JAPAN

1. In order to check the present spiralling inflation in Japan, immediate drastic action by SCAP is imperative. This action must be directed toward a rigidly controlled economy of temporary duration. If the present inflation continues it will completely wipe out productive activity in Japan by legitimate entrepreneurs thereby making the long-range objective of establishing a system of democratically owned free private enterprise impossible to achieve. Continuation of the inflation will also nullify any hope that Japan will be able to pay even a fraction of the costs of occupation.

2. It is fully realized that such action by SCAP will suspend for the duration of the emergency the movement toward free enterprise economy but such temporary suspension is necessary in order to balance the forces of supply and demand sufficiently for the economy to operate on its own strength at increasing levels after the controls are relaxed. In addition, action must be taken to insure a minimum standard of living for the ordinary man who derives his livelihood from salaries, wages, or legitimate business profits. In the crisis which is generally recognized to exist, failure to intervene drastically will lead to economic collapse and social unrest.

3. The following seven point program is directed:

a. To reduce the monetary supply.
b. To increase the supply of goods.
c. To stabilize the price wage relationship:

(1) Reduce Outstanding Currency by Means of a Conversion Plan on a Graduated Scale.

(2) Levy Windfall Tax on Profits due to Inflation.

(3) Write off Fictitious Assets and Liabilities, Including Cancellation of Government Debt Representing Wartime expenditures, with Appropriate Exemptions to Small Holders.

(4) Temporarily Curtail Production for Export in Order to Maximize Production of Consumer Goods for Domestic Use.

(5) Restaff Immediately the Economic Stabilization Board and the New Public Distribution Agencies With Personnel Sympathetic to the Existing Program of Allocating Scarce Materials to

SECRET

Essential Industries and Enforcing Legal Prices.

(6) Order Apprehension and Prosecution With Severe Penalties of High Japanese Government Officials and Business Men Who Have Acted in Collusion With Large-scale Black Market Profiteers.

(7) To Reduce the Inflationary Gap (i.e. Deficit) In the Japanese Budget by

(a) Fiscal Retrenchment Through Elimination of All Expenditures not Indispensable for the Operation of the Government (e.g. Subsidies to Special Pressure Groups).

(b) Reduction of Occupation Costs by Treating the Cost of Maintenance of Dependents in Japan the Same as Troop Pay. (An Alternative to This Method of Handling the Severe Burden on the Japanese Economy of Providing Services and Facilities for Dependents Would be to Grant the Japanese Government Equivalent Dollar Credit Which Can Be Used to Import Goods Necessary to Stimulate Industrial Recovery.)

TOP SECRET

GENERAL HEADQUARTERS
SUPREME COMMANDER FOR THE ALLIED POWERS
Government Section

3 March 1947.

MEMORANDUM FOR THE RECORD.

SUBJECT : Responsibility of the Supreme Commander for Japanese Economic Affairs.

1. The Basic Directive for Post-Surrender Military Government in Japan Proper (JCS 1380/15) states five objectives in the economic field: industrial disarmament; economic demobelization; reparations and restitutions; democratization, and the supervision and control required to achieve the first four. (Ref: par.11). To achieve these objectives the Supreme Commander for the Allied Powers has the authority to use the existing machinery, cause it to be altered, or take direct action (par. 12). The Supreme Commander has no responsibility for the economic rehabilitation of Japan. In fact, he is enjoined from assuming such responsibility, (par. 13).

2. The Japanese authorities, on the other hand, are expected to carry out programs that will enable them to: avoid acute economic distress; assure just distribution of available supplies; meet occupation demands, and meet reparations, (par. 19). To accomplish this they are to be permitted, on their own responsibility, to establish and administer such controls as are necessary, subject to the SCAP's approval (para 21).

3. The above principles are basic in nature and of general application in the exercise of the Supreme Commander's authority in Japanese economic matters. Paragraph 22, recognising that serious inflation will retard ultimate objectives, calls upon the SCAP to direct the Japanese authorities to make every feasible effort to avoid inflation, but does not permit even the threat of such inflation to subordinate the basic objectives.

4. The Japanese authorities have been instructed as required. There is reason to believe they are doing less than their utmost. This does not, however, call for direct intervention by the SCAP, nor for such close supervision of their administration as to amount to direct operation. Having regard for both the limitations of available personnel and the established policy of leaving internal administrative matters to the Japanese, the solution indicated is one of holding the Japanese authorities responsible for their acts, removing the uncooperative whenever necessary. For this purpose no new directives are necessary, but consistently firm policy should bring results.

1 Incl: Extract fr JCS 1380/15
(3 Nov 45).

FRANK RIZZO.

TOP SECRET

Extract from JCS 1380/15 (3 Nov 45) - "Basic Directive for post-surrender Military Government in Japan proper".

Paragraphs bearing on responsibilities of the Supreme Commander for the Allied Powers in relation to Japanese economy.

11.e. To supervise and guide the operations of Japanese economic arrangements and operations to assure that they conform to the general purposes of the occupation, and make possible the eventual readmission of Japan to the ranks of peaceful trading nations.

13. You will not assume any responsibility for the economic rehabilitation of Japan or the strengthening of the Japanese economy. You will make it clear to the Japanese people that:

a. You assume no obligation to maintain, or have maintained, any particular standard of living in Japan, and

b. That the standard of living will depend upon the thoroughness with which Japan rids itself of all militaristic ambitions, redirects the use of its human and natural resources wholly and solely for purposes of peaceful living, administers adequate economic controls, and cooperates with the occupying forces and the governments they represent.

19. The Japanese authorities will be expected to develop and effectively carry out programs of working activity that will enable them out of their own resources and labor to accomplish the following:

a. To avoid acute economic distress.

b. To assure just and impartial distribution of available supplies,

c. To meet your demands for the needs of the occupying forces,

d. To meet the requirements for such reparations deliveries as are agreed upon by the Allied Governments.

In order to achieve these aims, the Japanese authorities will have to make the utmost effort to maximize production of agricultural and fishery products, coal, charcoal, housing repair materials, clothing and other essentials. In the event that they fail to do so, you will direct them to take such measures as in your judgment are necessary.

21. The Japanese authorities shall be permitted, on their own responsibility, to establish and administer any controls over economic activities that are appropriate or necessary in order to achieve the economic ends specified in Paragraph 19. Both the policy and the administration of these controls shall be subject to your approval and supervision, particularly insofar as they may conflict with Paragraph 15*. This paragraph shall not preclude your taking direct action as provided in Paragraph 12**.

22. Serious inflation will substantially retard the ultimate objectives of the occupation. You will, therefore, direct the Japanese authorities to make every feasible effort to avoid such inflation. However, prevention or restraint of inflation shall not constitute a

* Paragraph 15 deals with economic disarmament, reparations & restitution.

** Paragraph 12 deals with the use of the Emperor and the machinery of the Japanese Government with possible exceptions.

reason for limiting the removal, destruction or curtailment of productive facilities in fulfillment of programs for reparations, restitution, demilitarization, or economic disarmament.

29. You will assure that all practicable economic and police measures are taken to achieve the maximum utilization of essential Japanese resources in order that imports into Japan may be strictly limited. Such measures will include production and price controls, rationing, control of black markets, fiscal and financial controls and other measures directed toward full employment of resources, facilities and means available in Japan.

44.B. You will insure that Japanese public expenditures are consistent with the objectives stated elsewhere in this directive.

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Economy

P

PRIORITY
CONFIDENTIAL

CINC CW/eh

8 JANUARY 1949

FROM : SCAP

TO : DEPARTMENT OF ARMY

PAREN PAREN PERSONAL FOR UNDERSECRETARY DRAPER PD

REURAD WILLIAM EIGHT TWO THREE EIGHT ONE PD THANKS FOR YOUR MESSAGE PD ITEM CAN FULLY UNDERSTAND YOUR BETRAYAL BY THE PRESS AND APPRECIATE YOUR SUGGESTED MEANS OF CLARIFICATION PD ITEM AM MAKING EVERY EFFORT CMA HOWEVER CMA TO COMPOSE THE SITUATION WITHOUT EMPHASIS UPON THE ELEMENT OF FORCE PD BELIEVE THEREFORE THAT YOUR SUGGESTION OF ABLE NEW STATEMENT TO HARRIS WOULD BE INADVISABLE AT LEAST FOR THE PRESENT PD HAD ITEM KNOWN THAT YOU WERE IN ANY WAY INVOLVED ITEM WOULD NOT REPEAT NOT HAVE ACTED IN THIS PARTICULAR CASE PD MACARTHUR

OFFICIAL.

R.M. LEVY,
Colonel, A.G.D.,
Adjutant General.

DISTRIBUTION:

CinC, GofS, Diplomatic

W-82381 Jan 7, 1949.

Economy

P

PRIORITY
CONFIDENTIAL

CINC CW/sh

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Colonel, A.G.D.,
Adjutant General.

DISTRIBUTION:

GinC, GofS, Diplomatic

W-82361 Jan 7, 1949.

FAR EAST COMMAND

GENERAL HEADQUARTERS, [redacted]

ADJUTANT GENERAL'S OFFICE

RADIO AND CABLE CENTER

INCOMING MESSAGE

LRS
wla

LRS

196

Confidential

PRIORITY

7 Jan 49

FROM : DA (DRAPER)

TO : SCAP (PERSONAL TO MACARTHUR)

NR : W 82381

Upon investigation I find the distorted dispatch referred to in ur C 66781 had its origin in a brief background conversation I had with Harris about 3 weeks ago when question was asked whether recent legislation which prohibited strikes by government employees applied to industrial workers not in government employ. The answer obviously was no. There was, of course, no intention to indicate any criticism of SCAP's handling of labor relations under the economic directive. Both the timing of the dispatch and the fairly clear indication as to the spokesman involved, as well as the actual quotation, which was incorrect, were unfortunate and unjustified. Harris assures me the timing was unintentional and he regrets the whole matter very much.

As a matter of fact, I had personally, as you know, on 29 Dec, suggested including in the press, statement here reference to your report that all major strikes had been terminated by prompt agreement upon all pending issues.

I am quite willing to release exclusively to Harris a statement along the following lines, if you think it would be helpful.

"When questioned today, Under Secretary of the Army William H Draper stated that the recent economic stabilization directive transmitted to the Japanese government by General MacArthur did not change current instructions and policy directives concerning Japanese labor under which General MacArthur may prohibit strikes and work stoppages which directly prejudice the directives and need of the occupation. As General MacArthur has set forth clearly to the Japanese in his New Year's message, economic reconstruction is now a major objective of the occupation. Secretary Draper stated further that from General MacArthur's

(over)

25932

PRIORITY

Confidential

Paraphrase not required. Handle as correspondence of classification carried hereon [redacted] per paragraphs 51*i* and 60*a*, AR 380–5.

[redacted]

16—48710-1 GPO

Confidential

PRIORITY

FROM : DA (DRAPER) NR : W 82381 7 JAN 49 CONT'D

recent reports all major industrial differences had been terminated by prompt agreement between unions and employers in recognition of the cooperative and intensified economic effort required by the directive on the part of all elements of the Japanese people."

NO SIG

INFORMATION : COMMANDER IN CHIEF, CHIEF OF STAFF, DIPLOMATIC

25932 PRIORITY TOO : 070041 Z
MCN : 91115

Confidential

COPY CONFIDENTIAL COPY

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To : SCAP (Personal to MacArthur)

NR : W-82381

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No sig

Info: C in C
C/S
DS

CONFIDENTIAL

R

ROUTINE
CONFIDENTIAL

C

CINC CH/sh

8 JANUARY 1946

FROM : SCAP (MACARTHUR)

TO : DEPARTMENT OF THE ARMY

PARIS C-66781 PAREN FOR UNDERSECRETARY DRAPER PD THE FOLLOWING PARTIALLY QUOTED ASSOCIATED PRESS DISPATCH UNDER THE BYLINE OF MORRIS HARRIS WITH DATELINE WASHINGTON CMA DECEMBER THREE ZERO CMA HAS BEEN RECEIVED IN TOKYO COLON PARA QUOTE ABLE HIGH GOVERNMENT SOURCE SAID TODAY JAPAN APOSTROPHE SUGAR LABOR UNIONS RETAIN THE RIGHT TO STRIKE UNDER THE NEW ECONOMIC PROGRAM THIS GOVERNMENT DECREED FOR JAPAN DECEMBER ONE SEVEN PD PARA QUOTE THIS SPOKESMAN CMA WHO WIELDS FAR REACHING INFLUENCE OVER AMERICA APOSTROPHE SUGAR ASSISTANCE PLANS FOR JAPAN CMA REFUSED FURTHER IDENTIFICATION BUT CONTINUED COLN INNER QUOTE THERE IS NOTHING IN THIS NEW PROGRAM INTENDED TO PREVENT JAPANESE LABOR FROM ENJOYING ITS LEGALLY ESTABLISHED RIGHTS FOR SELF HYPHEN BETTERMENT PD CLOSE INNER QUOTE UNQUOTE PARA THIS STATEMENT HAS BEEN CONSPICUOUSLY HEADLINED IN THE JAPANESE PRESS WITH THE INEVITABLE RESULTING INTERPRETATION THAT THE ECONOMIC RECOVERY PROGRAM DOES NOT NECESSARILY IMPOSE UPON LABOR THE OBLIGATION TO WORK TOWARD ACHIEVEMENT OF THE STATED OBJECTIVES PD THERE HAS BEEN A CORRESPONDING BENILDERMENT AMONG THE JAPANESE MASSES CMA AND WITH IT THE INCITATION OF COMMUNISTS AND OTHER RADICAL ELEMENTS CMA WHO

OPPOSE RECOVERY CMA TO GREATER EFFORT FD THE STATEMENT ITSELF IS COMPLETELY MISLEADING ALMOST TO THE POINT OF DECEPTION FD AS MUST HAVE BEEN KNOWN TO THE SOURCE FROM WHENCE IT CAME CMA THE ECONOMIC REHABILITATION OF JAPAN NOW FORMALLY BEING AN OBJECTIVE OF THE OCCUPATION CMA SUPPRESSION OF ANY STRIKE WHICH IMPEDES ITS ACHIEVEMENT IS CMA OF COURSE CMA RECOGNIZED BY ARTICLE FIVE OF THE FOX EASY CHARLIE LABOR POLICY FD PARA THE BLUNT REAFFIRMATION CMA HOWEVER CMA BY WASHINGTON OF THE RIGHT TO STRIKE CMA A PREROGATIVE CAREFULLY PRESERVED THROUGHOUT AN ERA OF COMPLETE LABOR IMMATURITY CMA APPEARS AT THIS TIME TO BE OPEN TO SERIOUS QUESTION AS TO MOTIVE CMA AS IT COULD NOT FAIL TO RESULT IN ENCOURAGEMENT TO THOSE MISGUIDED ELEMENTS WHICH MAINTAIN THAT SUCH RIGHT TRANSCENDS ALL PRECEPTS OF LABOR DOCTRINE CMA AND THOSE WHO ON IDEOLOGICAL GROUNDS ARE FUNDAMENTALLY OPPOSED TO ECONOMIC AND POLITICAL STABILITY AT THIS TIME AND THE VIGOROUS IMPLEMENTATION OF AMERICAN POLICY AND DEFENSE OF AMERICAN INTERESTS FD INDEED CMA AS REPORTED IN THIS DISPATCH CMA WITHOUT THE ATTENDANT REFERENCE TO THE RESPONSIBILITY FOR FOREGOING WORK STOPPAGES IN THE INTEREST OF NATIONAL REHABILITATION CMA THE STATEMENT UNQUESTIONABLY WILL BE PROPAGANDIZED IN MANY QUARTERS AS AN INVITATION TO STRIKE AND EMPHASIZED AS ABLE BASIC DIFFERENCE OF OPINION BETWEEN WASHINGTON AND THIS HEADQUARTERS ON THE STRIKE CONCEPT FD PARA THE PROGRESS NOTED IN OURAD CHARLIE SIX SIX SIX ZERO ZERO HAS BY THIS IRRESPONSIBLE STATEMENT BEEN PLACED IN ACUTE JEOPARDY FD THERE COULD CMA INDEED CMA HAVE BEEN NO GREATER DISSERVICE TO THE CAUSE OF ORDERLY IMPLEMENTATION CMA WITHOUT COERCIVE FORCE CMA OF THE UNITED STATES ECONOMIC POLICY DIRECTIVE THAN SUCH A STATEMENT FROM ABLE SEEMINGLY AUTHORITATIVE AND RESPONSIBLE WASHINGTON SOURCE FD OBVIOUSLY INTENDED FOR THE JAPANESE RATHER THAN THE AMERICAN PRESS CMA IT IS RABBLE HYPHEN ROUSING IN EFFECT CMA IS SUSCEPTIBLE TO LOCAL INTERPRETATION AS COMPLETE LACK OF WASHINGTON SUPPORT

OF SUGAR CHARLIE ABLE PETER APOSTROPHE SUGAR EFFORTS CHA AND FURNISHES ENCOURAGEMENT AND AMMUNITION TO THOSE WHO SEEK TO BLOCK SUCCESSFUL IMPLEMENTATION OF THE RECOVERY PROGRAM CHA TO DESTROY THE PRESTIGE OF THE OCCUPATION CHA AND SERIOUSLY TO PREJUDICE THE AMERICAN POSITION IN JAPAN FD PARA ITHE CANNOT TOO STRONGLY URGE THAT EVERY EFFORT BE MADE TO BRING UNDER CONTROL THIS TYPE OF UNDERMINING PROPAGANDA WHICH AMOUNTS TO AN INDITATION OF ABLE CONQUORED PEOPLE TO RESIST THE SETTLED AND PROCLAIMED POLICIES OF THE OCCUPYING POWER AND WHICH SEEMS TO EMANATE FROM PERSONS OCCUPYING OFFICIAL POSITIONS WITHIN THE AMERICAN POLICY HYPHEN MAKING GROUP AND YET WHO HIDE BEHIND THE SINISTER CLOAK OF ANONYMITY FD MACARTHUR

OFFICIAL:

R. M. LEVY
Colonel AGD
Adjutant General

AP WORLD SERVICE

1ST ADD

BY MORRIS HARRIS

WASHINGTON, DEC. 30—(AP)—A HIGH GOVERNMENT SOURCE SAID TODAY JAPAN'S LABOR UNIONS RETAIN THE RIGHT TO STRIKE UNDER THE NEW ECONOMIC PROGRAM THIS GOVERNMENT DESIGNED FOR JAPAN DECEMBER 17.

THIS SPOKESMAN, WHO WIELDS FAR REACHING INFLUENCE OVER AMERICA'S OCCUPATION PLANS FOR JAPAN, REFUSED FURTHER MORE IDENTIFICATION, BUT CONTINUED:

"THERE IS NOTHING IN THIS NEW PROGRAM INTENDED TO PREVENT JAPANESE LABOR FROM EXERCISING ITS LEGALLY ESTABLISHED RIGHTS FOR SELF GOVERNMENT."

HE ADDED, HOWEVER, "THIS DOES NOT MEAN THAT JAPANESE REGULATIONS CONCERNING STRIKES BY GOVERNMENT EMPLOYEES ARE CHANGED."

TOKYO REPORTS THAT JAPANESE BUSINESS, LABOR AND BOARDS ARE AWAITING CLARIFICATION OF THE NEW ECONOMY PROGRAM. BUT APPARENTLY THERE WILL BE NO FURTHER EXPLANATION HERE.

INSTEAD OF AMPLIFYING THE PROGRAM HERE, "WASHINGTON IS EXPECTED TO ASSUME HIS OWN METHODS FOR CARRYING THE NEW PROGRAM," THIS OFFICIAL SAID.

HE ADDED: "WASHINGTON IS NEITHER CONCERNED WITH NOR INTERESTED IN A HOST OF DETAILS RELATED TO MAKING THIS PROGRAM SUCCESSFUL."

TO TOKYO KNOWS THAT FOR DECISIVE CHANGES IN THE JAPANESE ECONOMIC SYSTEM TO COME, THE OFFICIAL SAID "WHAT TO DO ABOUT THE YEN ESPECIALLY CAN BE DECIDED ONLY AFTER SOME IMMEDIATE PROBLEMS OF INTERNATIONAL TRADE ARE SOLVED."

U.S. SOURCES ARE ALSO QUIET ABOUT THE SIDE YEN PROPOSES TO RELIEVE THAT AN AGREEMENT AMONG THE PACIFIC ALLIES IS NEAR ON THE LONG PENDING JAPANESE REPARATIONS PROBLEM.

-WIRE-

AP WORLD SERVICE

WED 17TH 43 JAPA NEWS LAGOS,NIGERIA(REUTER) X X X SEPARATISTS PROBLEM.

REPRESENTATIVES OF SEVERAL CENTRAL COUNTRIES SEEKING

SEPARATION BY JAPANESE GOVERNMENT AND BUSINESS CIRCLES HAVE CONCLUDED

THAT JAPAN POSSESSES GREATER INDUSTRIAL RESOURCES THAN REQUIRED TO

ENSURE BY 1952 THE ALLIED APPROVED 1930-1934 LIVING STANDARD, AND THAT

THEREFORE THESE ALLIED OWNED INDUSTRIAL EQUIPMENTS ARE AVAILABLE FOR

REPARATIONS AND SHOULD BE DISTRIBUTED QUICKLY.

REPRESENTATIVES OF THESE NATIONS HAVE GIVEN THE OPINION

THAT THE FINAL DECISION WOULD BE TO APPROVE SUFFICIENT CLAIMS AGAINST

JAPANESE ASSETS.ES

THE U.S. ARMY AND STATE DEPARTMENT STILL SAY THEY ARE HOPEFUL

OF AN EARLY SOLUTION TO THE REPARATIONS QUESTION, BUT DECLINE TO INDICATE

ITS NATURE OR TIMINGS.

-REUTER-

CONFIDENTIAL

GENERAL HEADQUARTERS
FAR EAST COMMAND
Office of the Signal Officer

4 January 1949

MEMORANDUM :

TO : Brigadier General Courtney Whitney

The following message was received for you this date from Signal Officer, Washington, D.C.:

"Author of article recently talked on same subject with same party. Res ipsa. Saturday's wire was party's statement to me verbatim. Signed Kades."

GEORGE I. BACK
Brigadier General, Signal Corps
Signal Officer

NO REFERENCE SHOULD BE MADE TO THIS MESSAGE IN OFFICIAL COMMUNICATIONS

PARAPHRASE NOT REQUIRED
HANDLE AS CONFIDENTIAL
CORRESPONDENCE PER PARAGRAPH
31 D 51 1. AND 60 A AR 380-

CONFIDENTIAL

PRESS RELEASE

18 December 1948
0700 hrs.

1. "The Departments of State and Army announced today that SCAP will direct the Japanese Government to carry out an effective Economic Stabilization Program calculated to achieve fiscal, monetary, price and wage stability in Japan as rapidly as possible, as well as to maximize production for export. The action of the Supreme Commander will be taken pursuant to an interim directive issued to him by the United States Government which is in accord with the terms of the Far Eastern Commission.

2. "Economic stability is a most urgent requirement for assuring the continuation of Japan's economic recovery and to insure the maximum effect from use of US appropriated funds. General MacArthur and responsible officials in Washington have been encouraged by the marked general recovery in Japanese industrial production through 1948 (with November at 62 per cent of the 1930-34 average and 47 per cent above a year ago) and by the anticipated increase in exports this year to about $260,000,000, 48 per cent above 1947. General price and monetary inflation have continued, however, with the consumer price level and note issue increasing 60 per cent over the period between November 1947 and November 1948. The retarding effects of this general and continuing inflation, together with the dangers to the gains already achieved, have made apparent the necessity for more resolute and intensive action by the Japanese.

3. "Improvements in the Japanese general standard of living will be contingent on the degree to which the Japanese give whole-hearted support to the achievement of economic stabilization and recovery. Their performance in carrying out their program will be weighed in connection with future requests for appropriated funds for Japan.

4. "Countries which are recipients of US assistance under the Economic Cooperation Act of 1948 have also undertaken certain measures similar to those specified in this program. These include financial and monetary measures necessary to stabilize their currencies, establish or maintain valid rates of exchange, to balance their budgets as soon as practicable and generally to maintain confidence in their monetary system. The action in Japan is in line with the efforts of the US in other parts of the world to contribute to general economic recovery.

5. "The necessity for such a program was recognized by General MacArthur in July 1948 when he urged upon the Japanese Government a program which was substantially that which he will now direct they carry out. The specific objectives of the program are:

PRESS RELEASE

18 December 1948
0700 hrs.

1. "The Departments of State and Army announced today that SCAP will direct the Japanese Government to carry out an effective Economic Stabilization Program calculated to achieve fiscal, monetary, price and wage stability in Japan as rapidly as possible, as well as to maximize production for export. The action of the Supreme Commander will be taken pursuant to an interim directive issued to him by the United States Government which is in accord with the terms of the Far Eastern Commission.

2. "Economic stability is a most urgent requirement for assuring the continuation of Japan's economic recovery and to insure the maximum effect from use of US appropriated funds. General MacArthur and responsible officials in Washington have been encouraged by the marked general recovery in Japanese industrial production through 1948 (with November at 62 per cent of the 1930-34 average and 47 per cent above a year ago) and by the anticipated increase in exports this year to about $260,000,000, 45 per cent above 1947. General price and monetary inflation have continued, however, with the consumer price level and note issue increasing 60 per cent over the period between November 1947 and November 1948. The retarding effects of this general and continuing inflation, together with the dangers to the gains already achieved, have made apparent the necessity for more resolute and intensive action by the Japanese.

3. "Improvements in the Japanese general standard of living will be contingent on the degree to which the Japanese give whole-hearted support to the achievement of economic stabilization and recovery. Their performance in carrying out their program will be weighed in connection with future requests for appropriated funds for Japan.

4. "Countries which are recipients of US assistance under the Economic Cooperation Act of 1948 have also undertaken certain measures similar to those specified in this program. These include financial and monetary measures necessary to stabilize their currencies, establish or maintain valid rates of exchange, to balance their budgets as soon as practicable and generally to maintain confidence in their monetary system. The action in Japan is in line with the efforts of the US in other parts of the world to contribute to general economic recovery.

5. "The necessity for such a program was recognized by General MacArthur in July 1948 when he urged upon the Japanese Government a program which was substantially that which he will now direct they carry out. The specific objectives of the program are:

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

B. Accelerating and strengthening the program of tax collection and insuring prompt, widespread and vigorous criminal prosecution of tax evaders.

C. Assuring that credit extension is vigorously limited to those projects contributing to economic recovery of Japan.

D. Establishing an effective program to achieve wage stability.

E. Strengthening and, if necessary, expanding the coverage of existing price control programs.

F. Improving the operation of foreign trade controls and tightening existing foreign exchange controls, to the extent that such measures can appropriately be delegated to Japanese agencies.

G. Improving the effectiveness of the present allocation and rationing system, particularly to the end of combating exports.

H. Increasing production of all essential indigenous raw material and manufactured products.

I. Improving efficiency of the food collection program.

6. "The above plans will be developed to pave the way for the early establishment of a single general exchange rate."

GENERAL HEADQUARTERS
FAR EAST COMMAND
Public Information Office

Future Release:
THIS IS A FUTURE RELEASE TO BE RELEASED TO THE PRESS AT 0700 HOURS TOKYO TIME 18 DECEMBER 1948. THIS IS BEING RELEASED SIMULTANEOUSLY IN WASHINGTON, D.C.

ECONOMIC STABILIZATION PROGRAM DIRECTED FOR JAPAN

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(more)
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AUTHORITY NND 973272 BY NARA DATE 12/19/97

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DECLASSIFIED BY AUTHORITY OF E.O. 11652 SEC. 5(E) AND 5(B) OR (E) NNDC # 75-072

GENERAL HEADQUARTERS
FAR EAST COMMAND
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(more)
(over)

DECLASSIFIED E.O. 12958 SEC. 3(E) AND 3(D) OR (E) MNDD # 775 972

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DECLASSIFIED E.O. 11652 SEC. 3(E) AND 3(D) OR (E) NNDG # 773 072

GENERAL HEADQUARTERS, FAR EAST COMMAND
ADJUTANT GENERAL'S OFFICE
RADIO AND CABLE CENTER

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INCOMING MESSAGE

URGENT

11 Dec 48

FROM : DA (JOINT CHIEFS OF STAFF)

TO : SCAP (MACARTHUR)

NR : W 81058

The following Interim Directive of the US Govt, Serial Nbr 96, prepared by the DA in accordance with Par III, 3 of the terms of ref of the Far Eastern Commission and concurred in by the National Security Council, has been received from the DA for transmission to you for necessary action:

Interim Directive begins;

"1. You will direct the Japanese Govt immediately to carry out a program of economic stabilization by adopting whatever measures may be required rapidly to achieve fiscal, monetary, price and wage stability in Japan and to maximize production for export.

"2. In the development of the above program you will direct the Japanese Govt to adopt measures designed to:

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

b. Accelerate and strengthen the program of tax collection and insure prompt, widespread and vigorous criminal prosecution of tax evaders.

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

d. Establish an eff program to achieve wage stability.

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

f. Improve the operation of foreign trade controls and tighten existing foreign exchange controls, to the extent that such measures can appropriately be delegated to Japanese agencies.

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URGENT

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COPY No. 29

DECLASSIFIED E.O. 12958 SEC. 3(E) AND 3(D) OR (E) NNDG # 773 072

Secret

URGENT

FROM : DA NR : W 81058 11 DEC 48 CONT'D

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

h. Increase production of all essential indigenous raw material and manufactured products.

i. Improve efficiency of the food collection program.

"3. The above plans will be developed to meet a target date for the establishment of a single general exchange rate not later than 3 months after the initiation of the stabilization program by the Japanese Govt."

NO SIG

REVISED : (11 Dec 48)

ACTION : ECON & SCI

INFORMATION : COMMANDER IN CHIEF, CHIEF OF STAFF

NOTE: This message removed from SECURITY HANDLING per instructions from Secretary General Staff.

13821

URGENT

Secret

TOO : 110047 Z
MCN : 89498

DECLASSIFIED ENT. PROV. SEC. 3(E) AND 3(D) OR (E) NNDG # 775 072

GENERAL HEADQUARTERS, FAR EAST COMMAND
ADJUTANT GENERAL'S OFFICE
RADIO AND CABLE CENTER

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INCOMING MESSAGE

Confidential

PRIORITY AEM

11 Dec 48

FROM : DA (SAOUS)

TO : SCAP

NR : W 81014

1. With reference to our rad 80566 and 80640, your comments made some months ago have been fully taken into account and the National Advisory Council and the National Security Council have come to the conclusion that the situation is sufficiently serious, despite progress made in recent months, so that recommendations to the Japanese Govt are no longer sufficient and that it must be directed to carry out this necessary program of stablization. In consequence, the JCS is sending you an interim directive as agreed upon and concurred in by the National Security Council. This action by the National Security Council disposes of any possible inconsistency between Para b and Para 15 of NSC 13/2 and determines that national policy requires that the Japanese Govt be directed to adopt and carry out an economic stabilization program.

2. In view of the very substantial amounts which this govt is appropriating for economic assistance to Japan, this action is consistent with the requirements for certain very definite actions by sovereign nations in the fields of both foreign and domestic economic policy as condition of the receipt of American aid under the Economic Cooperation Act. For example Section 115 B (2) of PL 472, 80th Congress, provides that each country receiving assistance from ECA shall take "financial and monetary measures necessary to stabilize its currency, establish or maintain a valid rate of exchange, to balance its governmental budget as soon as practicable, and generally to restore or maintain confidence in its monetary system". The fact that such conditions must be required of the Japanese by SCAP administering the occupation, rather than by the US Govt dealing directly with the Japanese Govt in connection with US aid, is not considered to impart an undemocratic character to the requirement.

16822

(over)

PRIORITY

Confidential

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COPY No.

DECLASSIFIED E.O. 12065 SEC. 3(E) AND 3(D) OR (E) NNDG # 775 012

Confidential

PRIORITY

FROM : DA (SAOUS), NR : W 81014, 11 DEC 48, CONT'D

In issuing the appropriate directives to the Japanese Govt you should make it clear that continuance of large scale aid to Japan by the US depends on the Japanese Govt's taking those necessary steps, harsh and difficult as they may be, which are designed to bring about internal economic stability, and that such a program of austerity alone can save the people of Japan from economic disaster and even greater suffering.

3. The directive being sent you properly leaves the choice of specific measures to your discretion but it is well understood here that the program will of necessity include measures which will be unpalatable and will create temporary hardships. Implementation of the stabilization program will require the issuance of specific directives to the Japanese Govt and continuing close surveillance to assure prompt and vigorous implementation. It will require substantial reductions in governmental expenditures, increase in revenues, stabilization of wages and prices, rigorous control and limitation of credit, improved effectiveness in existing allocation and rationing programs, and increased production of indigenous raw materials. Removal of excess pers from payrolls of govt and govt enterprises and the reduction or elimination of governmental programs of low pri will be required. An increased and expanding production for export must be required, looking toward the eventual balancing of exports and required imports. The program which the Japanese Govt is to be directed to enforce follows closely the stabilization program already recommended to the Japanese Govt by you, together with the establishment of a single exchange rate shortly after the stabilization program has been initiated.

4. Please advise if and what additional expert assistance is required in connection with this program.

5. The directive will be filed with the Far Eastern Commission on a classified bases. We intend to publish the directive simultaneously here and in Tokyo but wish your recommendation first as to wheather publication of last sentence respecting the single exchange rate would be damaging.

Part 2. For your info the directive which you will receive from the JCS follows:

"You will direct the Japanese Govt immediately to carry out a program of economic stabilization by adopting whatever measures

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(over)

PRIORITY

Confidential

DECLASSIFIED E.O. 12032 SEC. 3(E) AND 3(D) OR (E) NNDG # 773 012

GENERAL HEADQUARTERS, FAR EAST COMMAND
ADJUTANT GENERAL'S OFFICE
RADIO AND CABLE CENTER

INCOMING MESSAGE

PRIORITY

FROM : DA (SAOUS), NR : W 81014, 11 DEC 48, CONT'D

may be required rapidly to achieve fiscal, monetary, price and wage stability in Japan and to maximize production for export.

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B. Accelerate and strengthen the program of tax collection and insure prompt, widespread and vigorous criminal prosecution of tax evaders.

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

D. Establish an effective program to achieve wage stability.

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F. Improve the operation of foreign trade controls and tighten existing foreign exchange controls, to the extent that such measures can appropriately be delegated to Japanese Agencies.

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I. Improve efficiency of the food collection program.

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NO SIG

ACTION : ECON & SCI

INFORMATION : COMMANDER IN CHIEF, CHIEF OF STAFF

16822 PRIORITY TOO : 102133 Z
(Confidential) MCN : 89493

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16—50735-1 GPO O—795839

DECLASSIFIED DOD 5200.9 SEC. 5(E) AND 5(D) OR (E) NNDG # 773 072

GENERAL HEADQUARTERS, FAR EAST COMMAND
ADJUTANT GENERAL'S OFFICE
RADIO AND CABLE CENTER

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INCOMING MESSAGE

GPM

Secret
URGENT

16 Dec 48

FROM : CSCAD RA

TO : SCAP

NR : W 81283

Subject is press release re Economic Stabilization Program for Japan.

Your comments requested by 1100 Z time 17 Dec, on fol text of proposed press release for release Washington and Tokyo AM papers 18 Dec Washington time. You will be informed of exact time of release.

1. "The Depts of State and Army announced today that SCAP will direct the Japanese Government to carry out an effective Economic Stabilization Program calculated to achieve fiscal, monetary, price and wage stability in Japan as rapidly as possible, as well as to maximize production for export. The action of the Supreme Commander will be taken pursuant to an interim directive issued to him by the United States Government which is in accord with the terms of the Far Eastern Commission.

2. "Economic stability is a most urgent requirement for assuring the continuation of Japan's economic recovery and to insure the maximum effect from use of US appropriated funds. Gen MacArthur and responsible officials in Washington have been encouraged by the marked general recovery in Japanese industrial production through 1948 (with Nov at 62 per cent of the 1930-34 average and 47 percent above a year ago) and by the anticipated increase in exports this year to about $?60,000,000, 48 per cent above 1947. General price and monetary inflation have continued, however, with the consumer price level in Nov 1948 60 per cent above a year ago, and with the note issue expanding over the same period by about 100 per cent. The retarding effects of this gen and continuing inflation, together with the dangers to the gains already achieved, have made apparent the necessity for more resolute and intensive action by the Japanese.

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DECLASSIFIED E.O. 12032 SEC. 3(E) AND 3(D) OR (E) NNDG # 775 072

Secret
URGENT

FROM: CSCAD RA NR: W 81283 16 DEC 48 CONT'D

3. "Improvements in the Japanese general standard of living will be contingent on the degree to which the Japanese give whole-hearted support to the achievement of economic stabilization and recovery. Thier performance in carrying out their program will be weighed in connection with future requests for appropriated funds for Japan.

4. "Countries which are recipients of US assistance under the Economic Cooperation Act of 1948 have also undertaken certain measures similiar to those specified in this program. These include financial and monetary measures necessary to stabilize their currencies, establish or maintain valid rates of exchange, to balance their budgets as soon as practicable and generally to maintain confidence in their monetary system. The action in Japan is in line with the efforts of the US in other parts of the world to contribute to general economic recovery.

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

B. Accelerating and strengthening the program of tax collection and insuring prompt, widespread and vigorous criminal prosecution of tax evaders.

C. Assuring that credit extension is vigorously limited to those projects contributing to economic recovery of Japan.

D. Establishing an effective program to achieve wage stability.

E. Strengthening and, if necessary, expanding the coverage of existing price control programs.

F. Improving the operation of foreign trade controls and tightening existing foreign exchange controls, to the extent that such measures can appropriately be delegated to Japanese agencies.

G. Improving the effectiveness of the present allocation and rationing system, particularly to the end of maximining exports.

H. Increasing production of all essential indigenous raw material and manufactured products.

I. Improving efficiency of the food collection program.

18454

URGENT
Secret

DECLASSIFIED E.O. 11652 SEC. 3(E) AND 3(D) OR (E) NNDG # 773 012

GENERAL HEADQUARTERS, FAR EAST COMMAND
ADJUTANT GENERAL'S OFFICE
RADIO AND CABLE CENTER

INCOMING MESSAGE

URGENT

FROM : CSCAD RA NR : W 81283 16 DEC 48 CONT'D

To Lovett

6 "The above plans will be developed to pave the way for the early establishment of a single general exchange rate.

7. "You may wish to substitute the fol for beginning of last sentence for release in Tokyo 'Gen MacArthur announced, etc.'"

NO SIG

ACTION : SECY GEN STAFF

INFORMATION : COMMANDER IN CHIEF, CHIEF OF STAFF, ECON & SCI

18454

Secret URGENT

TOO : 160139 Z
MCN : 89817

Handling and transmission of literal plain text of this message as correspondence of the same classification has been authorized by the War Department in accordance with the provisions of paragraphs 16-C, 18-E, 53-A, 53-D (1) (2) (3), and 60-A (1) (2) (3) (4), AR 380-5, 6 March 1946.

COPY No.

16—50735-1 GPO O—795839

DECLASSIFIED E.O. 12032 SEC. 3(E) AND 3(B) OR (E) NNDG # 773 012

Economy

Tokyo, Japan

19 December 1948

Dear Mr. Prime Minister:

I am just in receipt of an interim directive from the Government of the United States forwarded to me in accordance with the terms of references of the Far Eastern Commission. This directive establishes a series of objectives designed to achieve fiscal, monetary, price and wage stability in Japan as rapidly as possible, as well as to maximize production for export. Such objectives, which are listed as an inclosure to this letter, are clear and explicit, and as pointed out in the public release of the United States State and Army Departments follow an objective pattern, the general aspects of which have heretofore been communicated to the Japanese Government as a means toward the ultimate desired stability.

The directive proceeds from the premises that the prompt economic stabilization of Japan is a primary objective common both to the Allied Powers and the Japanese people; that the American people so long as called upon to underwrite existing deficits in the indigenous resources required to sustain Japanese life are entitled to the maximized industry of the Japanese people and the minimized loss incident to a maldistribution of available resources or failure vigorously to produce native raw products or curb extravagance and waste in the operation of government and industry; and that by positive Allied intervention may obstructions incident to improvidential political conflicts, unobjective labor strife, and destructive ideological pressures best be avoided.

The fundamental objective of this action, reduced to language which all may understand, is the prompt achievement of that degree of economic self-sufficiency which alone can justify and insure political freedom. For there can be no political freedom so long as a people's livelihood is dependent upon the largess of others. Nor may a people fully mobilize the collective will as an impregnable barrier against evil and destructive ideological pressures and as an irresistible force toward progressively improved living standards, if lacking in that resolute dignity which alone springs from mastery over its own deficiencies.

Necessarily, the action of the United States is tied in to the problem of relief and recovery appropriations, which may be expected in future only in ratio to progress made through the combined efforts of the Japanese people toward achievement of the stated objectives. This will call for a reorientation of Japanese thought and action, with both subordinated to a primary purpose common to all of the people. It will call for increased austerity in every phase of Japanese life and for the temporary surrender of some of the privileges and immunities inherent in a free society.

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There will be no place for interference by management or labor with the acceleration of production, for the burden will be shared by every segment of Japanese society. There will be no place for political conflict over the objectives to be sought as these objectives are stated with crystal clarity. Nor will there be any place for ideological opposition as the purpose to be served is common to all of the people, and any attempt to delay or frustrate its accomplishment must be curbed as menacing the general welfare.

In keeping with my long established policy, insofar as is possible, I shall look to the Japanese Government and people for the vigorous and faithful fulfillment of this stabilization program. I have faith in their ability, however stern the requirement and great the personal sacrifice, to achieve so worthy a national goal. The course ahead may well prove difficult but its impact upon individual life will be minimized if the burden is equalized among all of the people.

It is my earnest hope and indeed my confident expectation that all Japanese men and women will rally with vigor and determination to the challenge of this objective. If they do, Japan will evolve a pattern of progressive stability for all of strife-torn Asia to emulate. If they do not, Japan may perish.

Very sincerely,

DOUGLAS MacARTHUR

Incl: As stated

The Prime Minister
Tokyo, Japan

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OBJECTIVES SET FORTH IN INTERIM DIRECTIVE OF THE UNITED STATES

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

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

3. To assure that credit extension is vigorously limited to those projects contributing to economic recovery of Japan.

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

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

6. To improve the operation of foreign trade controls and tighten existing foreign exchange controls, to the extent that such measures can appropriately be delegated to Japanese agencies.

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

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

9. To improve efficiency of the food collection program.

10. To develop the above plans to pave the way for the early establishment of a single general exchange rate.

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CONFIDENTIAL

Economy ?

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GENERAL HEADQUARTERS
SUPREME COMMANDER FOR THE ALLIED POWERS
AND
FAR EAST COMMAND

OUTGOING MESSAGE CofS: PJM/wrb

FROM: SCAP 12 December 1948

TO : DEPT OF ARMY . . . . . .PRIORITY

PAREN C-66236 PAREN FOR SUGAR ABLE OBOE UNCLE SUGAR PD REURAD WILLIAM (W) EIGHT (8)
ONE ZERO ONE FOUR (1014) PD PART ONE PD REFERENCE QUERY CONTAINED IN PARAGRAPH FIVE CMA
NO LOGICAL REASON IS SEEN FOR THE EXCLUSION OF LAST SENTENCE RESPECTING THE SINGLE
EXCHANGE RATE PD PARA PART TWO PD DIRECTIVE CALLS FOR THE IMPOSITION OF ECONOMIC
CONTROLS PROBABLY WITHOUT HISTORICAL PRECEDENT PD ITS IMPLEMENTATION WILL REQUIRE
REVERSAL OF THE EXISTING TREND TOWARD FREE ENTERPRISE UNDER THE INFLUENCE OF JAPANESE
THOUGHT AND INITIATIVE CMA AND NEGATION OF MANY OF THE FUNDAMENTAL RIGHTS AND LIB-
ERTIES HERETOFORE EXTENDED TO LABOR AND OTHER SEGMENTS OF JAPANESE SOCIETY PURSUANT
TO THE PHILOSOPHY UNDERLYING CONTROLLING ALLIED POLICY PD IMPOSED AT THIS TIME WHEN
THE JAPANESE ARE REGISTERING SUCH MARKED AND DECISIVE STRIDES TOWARD THEIR OWN
ECONOMIC REHABILITATION AND WHEN THE AUSTERITY OF JAPANESE LIFE IS ALREADY REFLECTED
IN AN AVERAGE MONTHLY WAGE EQUIVALENT TO LESS THAN TWENTY DOLLARS UNITED STATES
CURRENCY AND FOR WHOM A ONE FIVE ZERO ZERO DAILY CALORIC BASIC RATION IS STILL AN
OBJECTIVE RATHER THAN A REALIZATION CMA ITS EFFECT UPON THE LOCAL SITUATION IS IM-
POSSIBLE ACCURATELY TO GUAGE PD IN THESE CIRCUMSTANCES SUCCESS OF THE PROGRAM WILL
DEPEND UPON THE QUALITY OF THE SPIRITUAL LEADERSHIP WE HAVE DEVELOPED IN THE COURSE
OF THE OCCUPATION CMA AS ITS IMPLEMENTATION BY FORCIBLE MEANS IS OUT OF THE QUESTION
EVEN HAD WE AVAILABLE AN INFINITELY STRONGER FORCE THAN WE NOW HAVE PD IF THE JAPAN-
ESE PEOPLE FOLLOW US CMA IF THE WORKERS REMAIN AT THEIR JOBS DESPITE THE FREEZING OF
THEIR WAGES AND SHARP CURTAILMENT OF THE RIGHTS AND LIBERTIES LONG EXTENDED THEM AS
INHERENT IN ABLE FREE TRADE UNION MOVEMENT AND THEY IGNORE THE HEAVY COMMUNIST PRES-

DECLASSIFIED E.O. 12065 SEC. 3(E) AND 3(D) OR (E) NNDG # 775 072

SURE WHICH IS INEVITABLE IN SUCH ABLE SITUATION CMA IF CAPITAL AND MANAGEMENT MOVES WITH VIGOR AND DETERMINATION AND ENTERPRISE CMA DESPITE THE CONTROLS INVOLVED CMA AND IF JAPANESE POLITICIANS AND POLITICAL PARTIES FAITHFULLY SUBORDINATE THEMSELVES AND THEIR POLICIES AND POLITICAL EFFORTS TO THE STATED OBJECTIVE AND THE MEANS PRESCRIBED FOR ITS REALIZATION CMA WE WILL SUCCEED PD IF ANY OF THESE HUMAN FORCES FAIL IN THEIR PART CMA EXPLOSIVE CONSEQUENCES WELL MAY RESULT CMA BUT ITEM SHALL DO MY BEST SIGNED MACARTHUR

OFFICIAL:

R. M. LEVY
Colonel, AGD
Adjutant General

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Cof S
E&SS