

Enclosure No. 2 to Despatch No. 1112, dated June 14, 1947, from the United States Political Adviser for Japan, Tokyo, on the subject: "Economic Program Announced by Japanese Government, June 11, 1947".

Copy

March 22, 1947

Mr. Prime Minister:

Last year at this time the Japanese people were confronted with a serious food crisis which disrupted the entire economy and brought severe hardships to the people. In this emergency, the United States shipped substantial quantities of food to Japan which enabled the Japanese people to escape widespread starvation.

Food imports have been scheduled for Japan again this year in order to supplement indigenous supplies and to meet the essential minimum requirements of the Japanese people. However, I must advise you that these food imports are calculated on a minimum basis and presuppose the maximum utilization of these supplies.

To maximize collections of food into official channels and to bring about a proper transfer of food from surplus to deficit prefectures so as to achieve continuation of food rationing are clear responsibilities of the Japanese Government.

At this time I wish to call to your attention Directive No. 3, which I issued to the Imperial Japanese Government on 22 September 1945.

This directive made it the responsibility of the Japanese Government to maintain a firm control over wages and prices and to initiate and maintain a strict rationing program for essential commodities in short supply so as to insure that such commodities are equitably distributed.

It is imperative that the Japanese Government carry out this responsibility to the Japanese people. The Allied Powers, of course, are under no obligation to maintain or to have maintained any particular standard of living in Japan, nor is there any responsibility to import foodstuffs to meet deficits arising from the failure of Japan to assure the just and efficient distribution of its own food supplies.

The food problem, though basic to the peaceful reconstruction of Japan, is not an isolated phenomenon, but is on the contrary only one part of the overall problem of economic stabilization which includes the additional factors of increased production of raw materials and industrial products, stabilized wages and prices, maximum exports, and sound public finance.

By the same token, black marketing of food and failure to realize full collections are only two manifestations of general maldistribution.

These problems are so inextricably inter-woven that it is not practical to think in terms of a solution for one independent of the others.

What is required is an integrated approach across the entire economic front. Accordingly, it is essential that the Japanese Government, through the Economic Stabilization Board which was created for this purpose, take early and vigorous steps to develop and implement the integrated series of economic and financial controls which the current situation demands. These economic objectives are national in scope, transcending the special interests of any group, and therefore should be non-partisan.



Page No. 2  
Enclosure No. 2 to Tokyo's Despatch No. 1112  
June 14, 1947

Unless determined measures are undertaken at once by the Japanese Government, the inflationary condition of the economy together with its attendant maldistribution of food and other necessities, will become increasingly serious, industrial recovery will be further retarded, and the achievement of the social and political objectives toward which the Japanese people have made such an encouraging start will be endangered.

The social and economic welfare of Japan will depend largely on Japan's own efforts in the redirection of its human and natural resources to peaceful living and upon competent public administration of democratic and effective economic controls.

Aid to Japan cannot be expected upon a scale sufficiently great to overcome maldistribution and inflation within Japan. Outside assistance is contingent upon full utilization of indigenous resources, which is entirely a responsibility of the Japanese Government.

Sincerely yours,

DOUGLAS MacARTHUR

Mr. Shigeru Yoshida,  
Prime Minister of Japan,  
Tokyo.



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FILE NO.

894.50/6-1847

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SEP 30 1947



**INCOMING TELEGRAM**DEPARTMENT OF STATE—DIVISION OF COMMUNICATIONS AND RECORDS  
DEPARTMENT OF STATE

TELEGRAPH BRANCH

REPRODUCTION OF WAR DEPT MESSAGE TO STATE FOR INFO  
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Control 6806

Rec'd June 19, 1947  
6:23 p.m.

FROM: CINCPAC Tokyo, Japan

TO: WDCSA

NO: Z-11003

June 18, 1947

Section 2 operations report Japan.

Part 1. Ministry of Agriculture and Forestry reports livestock slaughtered listed by number and carcass weight in metric tons.

March-cattle 15396 and 2,806, calves 556 and 17, hogs 7,025 and 377, horses 4,016 and 651, goats 313 and 5, sheep 22 and 0.4.

April-cattle 14,092 and 2,407, calves 595 and 24, hogs 7,289 and 345, horses 4,063 and 583, goats 320 and 5, sheep 22 and 0.4

Approximately 13,000 national and local trade-union officials, education directors and shop stewards representing nearly 60 percent of current union leadership, attended series of lecture and discussion meeting held as part of Labor Education Program from 12 May through 12 June in Tokyo, Osaka, Fukuoka, Kyoto, Nagoya and Kobe.

Seventh amendment to master list of radio frequencies assigned Japanese issued. Revision adds three new radio stations and discontinues one, current total radio stations all types 625.

Part 2. Cabinet decided 17 June to request National Diet to extend present recess until 1 July to allow government more time to prepare its bill for presentation

to legislature

MC IN 57303 (18 June 47)

PLAIN

INFORMATION COPY

894.50/6-1847



PLAIN

-2- Control 6806, from Tokyo

to legislature. Diet reopening originally set for 23 June.

Cabinet announced 17 June appointment of 5 Social Democrats, 5 Democrats and 1 People Cooperative as parliamentary vice-ministers to serve as liaison representatives between Diet and various ministries.

Parliamentary Councillors Posts abolished.

Rules Committee of House of Representatives decided to allow speaker and vice-speaker to attend and speak during all sessions of lower house committees. Rules committee also vote to permit state minister and vice-ministers to retain membership on Diet committees.

Parts 3 and 4. Nil.

ACTION: CAD

MC IN 57303 (18 June 47)

WLB

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FILE NO.

894.50/6-3047

DESP. 1545 FROM LONDON

APR 18 1948

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DC/R  
CONTROL COPY  
FBAmerican Embassy  
London, June 30, 1947

AIR MAIL

JUL 11 1947

UNCLASSIFIED

No. 1545

Subject: Transmitting Article from Manchester Guardian  
on Australian View of Future of JapanThe Honorable  
Secretary of State,  
Washington

Sir:

I have the honor to enclose a clipping of an article entitled "The Future of Japan" which appeared in the June 24, 1947, issue of the Manchester Guardian.

The chief significance of the article appears to be that it reflects a rather typical Australian apprehension that the United States proposes to rehabilitate the Japanese economy in such a way and to such an extent that it threatens the Australian economic position in the Far East.

Respectfully yours,

For the Ambassador:

Everett F. Drumright  
First Secretary of EmbassyEnclosure:  
Clipping, as stated(Original and four copies to Department)  
Copy to U.S. Political Adviser, SCAP, Tokyo  
Copy to Embassy, Canberra

EFDrumright/wg

8-15-50/7-30-47



James Roosevelt

714 South Hill Street  
Los Angeles 14, California

DE - Mr. Tolson, Special Assistant  
to the Under Secretary  
for Economic Affairs  
JUL 8 1947  
DEPARTMENT OF STATE  
*File*

DC/R.

July 2, 1947

Mr. George Magee  
State Department  
Washington, D. C.

Dear Mr. Magee:

This letter is written to introduce to you Mr. J. Meyer Friedman -- who, incidentally, is a good friend of mine and with whom I have had business associations.

Mr. Friedman is very much interested in obtaining from you information regarding certain operations in Japan, and any advice you feel free to give him will be most gratefully appreciated by me.

Thank you so much for your grand cooperation in the past and I do hope you will be able to afford Mr. Friedman a little of your already crowded day. Would you be kind enough to let me know the time and place that is most convenient to you.

Very best wishes and kindest regards.

Sincerely yours,

*James Roosevelt*  
JAMES ROOSEVELT

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DCS: IEP Unit  
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Rev. *MR*  
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*Roosevelt*

*Personnel*

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*DC/R*

July 10, 1947

In reply refer to  
U/GT

My dear Mr. Roosevelt:

Your letter of July 2, 1947, with regard to Mr. J. Meyer Friedman and his interest in obtaining information regarding certain operations in Japan has been received.

If you will have Mr. Friedman call my office here in Washington, Republic 5600, extension 2686, I shall be happy to direct Mr. Friedman to some one in the Department of State who will be able to assist him. It is my thought, from the context of your letter, that he may wish to talk with Mr. John Carter Vincent, Office of Far Eastern Affairs, or with Mr. Edwin M. Martin, Division of Japanese and Korean Economic Affairs, Office of Economic Security Policy.

Sincerely yours,

George C. McGhee  
Coordinator of Aid  
to Greece and Turkey

Mr. James Roosevelt,  
714 South Hill Street,  
Los Angeles 14, California.

Mr.	
Mrs.	
Mr.	
Mrs.	
Mr.	
Mrs.	

*ODH*

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*FW 844 5/17-249*



STANDARD FORM NO. 64

## Office Memorandum • UNITED STATES GOVERNMENT

TO : OFD - Mr. Ness

DATE: July 10, 1947

FROM : ED - Mr. Walker *MAW*SUBJECT: Proposed SWNCC Paper on the Revival of the Japanese Economy

1. In this revision of the subject paper, now circulated for formal clearance, JK has taken into account the points made by ED and other Divisions with respect to the earlier drafts. The points which we raised in our memorandum of May 21, (copy attached) appear to have been met satisfactorily, with the possible exception of the provision relating to acceptance in foreign currencies of Japanese repayments of occupation costs. The present paper, page 4, (para. 13), modifies the original more positive provision by providing merely that the U.S. takes the position of "reserving the right" to accept such payments in foreign currencies. We still have reservations on this provision on two grounds: 1) we doubt that the U.S. would ever in fact wish to exercise such right; and 2) its inclusion might make it appear to Far Eastern claimant countries that the U.S. wishes to retain, in effect, a veto power over the level of current reparations, since to the extent that the U.S. were to utilize this right it would conflict with payment of reparations out of current production.

The reservation of this right is a matter for FN clearance, and both Spiegel and MacGuire objected to inclusion of the original provision on technical grounds.

2. Messrs. Tyson and Magill have carefully reviewed the revised text, and after discussing the paper with them I should like to raise with JK the advisability of making certain changes in wording which would serve (1) to correct the impression given at some points in the paper that the "cranking-up" process is envisaged merely as a matter of supplying increased imports; (2) to make it clear that Congressional appropriations are to be utilized only to the extent that imports cannot be financed by other means; and (3) to clarify that achievement of an actual export surplus--rather than merely an equivalence between exports and imports as connoted by the phrase "after Japan becomes self-supporting"--is necessary for repayment of occupation costs or reparations out of current production. These points, and certain others of less importance, would be taken care of by the following revisions in wording in the JK text:

a. In place of paragraph 4-a, substitute "before Japan becomes self-supporting, to increase Japanese imports, and to ensure such utilization of those imports as well as of Japanese domestic resources, as to render Japan self-supporting by about 1950."

COMMENT: Imports alone will not permit Japan to become self-supporting.

b.

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b. Paragraph 6. Delete the last sentence and add "These steps should include efforts to increase imports through encouragement of private financing, trade and investment, and to secure imports, insofar as possible, by financial arrangements which do not require dollar payment."

COMMENT: The introductory paragraph 6 should emphasize private arrangements, which would reduce the amount of U.S. Government appropriations required, in order to be more consistent with the sub-paragraphs under Section 7.

c. Paragraph 7-a. It might be desirable to change title from "Loans" to "Loans and Investments" and insert "and the investment of private foreign capital" before the words "should be encouraged" in the first sentence of this paragraph.

COMMENT: Although the level of private investment in Japan is perhaps problematical, it seems desirable to include investment as a source of import payments in order to emphasize the need for taking steps to encourage private investment.

d. Paragraph 7-b. In the second sentence delete the words "some amount of these finished goods to be returned as payment to such countries"; and in place of the words "The amount so returned" in the following sentence, insert the words "The arrangements."

COMMENT: Unless there is exceptionally good reason, there appears to be no cause for the U.S. to emphasize and support the desirability of a bilateral trade arrangement.

e. Paragraph 7-d. Retain the heading and first sentence and substitute the following for the remainder of the paragraph. "No exact estimate can be made at this time of the total amount of U.S. appropriations required to render Japan self-supporting by 1950, since this amount will depend, among other factors, upon the unpredictable availability of non-U.S. Governmental credits and investments and on Japan's ability to mobilize its own resources and to find export markets. On the basis of certain arbitrary assumptions, however, it now appears that appropriated funds in the general order of magnitude of \$450 million will be needed between July 1, 1947 and January 1, 1950. This represents a rate of expenditure for fiscal 1948 somewhat above the present level of appropriations

now



-3-

now required to prevent disease and unrest, and provides for a declining rate of appropriation thereafter. However, appropriations for the years after fiscal 1948 should be requested only after Japan's progress and ability to increase production and exports with its own and private foreign resources can be more correctly appraised."

COMMENT: The assumptions on which the estimate of \$464,600,000 is based are highly conjectural. Moreover, the estimate ignores the possibility of private investment and private credits which do not have to be secured by liens upon convertible assets.

f. Paragraph 13. In the first sentence after the words "all proceeds of raw silk exports," add "but not in excess of an amount equal to Japan's export surplus."

COMMENT: Without this qualifying clause, Japan would be required to make dollar payment even if such payments were to reduce her ability to import below the level required for self-support. Furthermore, since a similar clause is included in paragraph 14-c in relation to current reparations, it would appear desirable that the U.S. should be willing to accept the same type of treatment for the re-payment of occupation costs.

g. Paragraph 14. At the end of the second sentence, insert the words "in principle" following the phrase "not prevent such adoption."

COMMENT: The word "adoption" without modification may be taken to imply detailed formulation. Since the amount of current reparations which might become available under the prescribed formula (paras. 14-a-c) is highly problematical at this time, the U.S. should not now go further than agreement in principle to a current reparations program.

h. Paragraph 14-a. Delete the words "after Japan becomes self-supporting" and add "Japan is able to achieve a surplus in its balance-of-payments."

COMMENT: This modification is in accord with paragraph 14-c which states that the amount of reparations shall be measured by the balance-of-payments surplus.

Attachment:

Memorandum of May 21, 1947.

ED: *[Signature]* Tyson:mhp *[Signature]*



OFD - Mr. Norman Ness

May 21, 1947

ED - Melville H. Walker

Draft SWNCC paper on U.S. policy with respect to promotion and control of Japanese economic recovery.

Following are my comments on principal points with respect to the draft SWNCC paper, now under preparation in JK, on U.S. policy with respect to promotion and control of Japanese economic recovery. At Mr. Martin's request, this paper was brought to me by Mr. Henry Owen, JK, for review and comment prior to its circulation for formal clearance within the Department.

### 1. Objective.

The U.S. objective in promoting Japanese economic recovery appears too narrowly expressed, and too explicitly linked with 1950 as the date when the stated goal is to be attained. A more general statement of U.S. objectives would seem desirable, one which would indicate that U.S. policies aim at promoting Japanese economic recovery in peace-time industries as rapidly as possible, to provide the minimum consumption needs of the Japanese people, and (a) to stop the burden of U.S. occupation expenditures; (b) to permit a beginning of repayment of occupation costs; and (c) to assure as rapidly as possible Japan's contribution to reconstruction in other Far Eastern countries.

Unless the objective set forth under (c) above is explicitly stated at the outset, and the views and needs of other Far Eastern countries are taken into account in development of the "cranking-up" program and the determination of levels of consumption to be permitted in Japan, the U.S. program will undoubtedly encounter resentment from PAC member countries which will react unfavorably upon the attainment of U.S. objectives elsewhere in the Far East, and upon the success of the Japanese program itself.

### 2. Withdrawal from Japan.

If an objective of the program proposed is to facilitate an early withdrawal of occupation forces from Japan, certain problems immediately become apparent. Increased imports into Japan, over and above disease and unrest requirements, are to be utilized to promote Japanese exports with a view to rendering that country self-supporting by 1950. Utilization of such imports in the intended way, the paper maintains, is to be assured by more stringent enforcement of economic controls by SCAP, either directly or through the Japanese Government. The paper does not make clear, however, how this process of intensifying SCAP's participation in the actual administration of the Japanese economy will make it easier by 1950 for SCAP to withdraw.

An



-2-

An answer to present problems which calls for SCAP to exercise more intensively and directly its powers over the Japanese economy would appear to magnify the problem of withdrawal, and to underline the question for 1950, "where do we go from here?" Does military occupation go on? Are affairs to be turned over to a civilian control agency or is the Japanese Government itself to take over?

3. Attainment of "self-supporting" basis, and emergence of an annual export surplus of \$200 million after 1950.

From the standpoint of economic analysis and projections, perhaps the least convincing section of this paper is the estimation that Japan can be expected to achieve a \$200 million export surplus annually after 1950 in direct and immediate consequence of the "cranking-up" program. Under "favorable but not improbable assumptions", it is estimated that Japanese exports are to be expanded to equal imports by 1950 at a level equivalent approximately to US\$1 billion, and to expand thereafter (following cessation of US assistance from appropriated funds) to provide the above-mentioned surplus of \$200 million annually, of which, on the basis of a lien against silk exports, perhaps \$50 million would go to the U.S. for repayment of occupation costs and \$150 million would be available for payment of reparations on current account. Because the estimates cited are necessarily based upon so many presently imponderable factors, it would appear premature to specify actual magnitudes for annual repayment of occupation costs or to set up any precise schedule for payment of reparations out of current account. The statistical estimates are probably the best that we can get at this time, but they afford a very weak prop for a limb to climb out on.

4. Reparations out of current production.

My principal comment regarding this phase of the proposed program follows from what has just been said. It would appear premature now to specify the magnitude of reparations out of current production, as the draft paper does, at twice the value of unclaimed industrial reparations facilities. We have no way of knowing now what, in practice, this figure would amount to. It was selected on the basis of a calculation of the export surplus which Japan is expected to have over a ten-year period after 1950 in relation to the estimated value of the industrial facilities available for transfer from Japan on reparations account, but which it is presently estimated will not be claimed by the receiving countries. Would it not be better at this point to agree in principle, under stated conditions, to payment of reparations out of current production, but to leave formulation of details concerning the plan until such time as facts are available to permit realistic planning?

5.



-3-

5. Payment of occupation costs in other currencies.

The paper suggests that the U.S. may, at its discretion, also accept occupation cost payment from Japan in currencies not convertible into dollars, particularly when it can make use of these currencies through loans or grants-in-aid which it wishes to assign to nations in need of goods purchasable with these currencies. This is a point which would require FN clearance, and I believe that both Mr. Spiegel and Mr. McGuire would oppose inclusion of this provision in the paper. It pre-judges that the U.S. is embarking on a vast loan or grant-in-aid program, and it raises technical questions which I believe would also lead the Treasury and the Army to oppose its inclusion.

I propose to convey these views, and a number of less important drafting points, to Mr. Owen for JK's consideration before the SWNCC paper is circulated for formal clearance.

ED:MMWalker:mhp



DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

DEPARTMENT OF STATE INCOMING TELEGRAM

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Action: ITP

Info:

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- EUR
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FROM: Shanghai

TO : Secretary of State

NO : 1683, July 11, 9 p.m.

Rec'd July 11, 1947 10:10 p.m.

MESSAGE CENTER

JUL 12 AM 10 17

OFFICE OF INTERNATIONAL TRADE POLICY

*for action*  
*File*

There has been very little further publicity in proposed economic plan (reference DEPTTEL 1112 to Shanghai, 831 to Nanking, 114 to Tientsin). That portion which related to permission for exporters to use their exchange for imports (i.e. for institution of link system) was referred back to Central Bank for further study as many of the problems for equitable handling had not been settled.

Re point one certain of control authorities express view that it could not increase import trade even if it stimulated exports to some degree as already exchange releases for imports are so far in excess of exports and remittances that import control measures would have to be continued.

No consideration has apparently been given to point two.

For the reason that such questions raised in point three are unsettled, the matter has been referred back to Central Bank.

Officials believe link system if adopted would be applicable in all currencies.

Shall report any further developments when more is known of progress of study.

Sent Department as 1683, repeated Nanking as 1231, to Tientsin as 168; Department please repeat to Geneva for US delegation ITO Conference.

DAVIS

NOTE: Repeated to Geneva 7-12-47, 2 a.m., IWH

SMD:ABC

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AUG 1 - 1947

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*[Handwritten notes and signatures]*



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HARVARD UNIVERSITY  
GRADUATE SCHOOL OF PUBLIC ADMINISTRATION

INTERNATIONAL ECONOMIC RELATIONS SEMINAR

LITTAUER CENTER  
CAMBRIDGE 38, MASSACHUSETTS

July 15, 1947

Mr. Edward Martin  
U. S. Department of State  
Washington, D. C.

*LC/R file*  
OFFICE OF JAPANESE AND KOREAN  
ECONOMIC AFFAIRS  
DEPARTMENT OF STATE  
*Reply to [unclear]*  
*7/27*

Dear Mr. Martin:

1947

I would appreciate very much having a few  
copies of the white paper on the Japanese economic  
situation.

With many thanks,

Sincerely yours,

*Seymour E. Harris*  
Seymour E. Harris

H:B

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*Letter to Professor Harris*  
*J.K. H. Owen: 11*  
*7/23/47*

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JUL 30 1947

In reply refer to  
JK

My dear Professor Harris:

The "white paper on the Japanese economic situation" which you request in your letter of July 15 is not presently available in Washington. Copies have, however, been requested from Tokyo and you will be sent one as soon as they arrive.

The white paper is, as you probably know, rather discursive and about 100 pages long. The economic program to be adopted by the present Japanese Cabinet has, however, been stated in a seven page Japanese Government release which is available in Washington. Copies will be sent to you under separate cover.

Sincerely yours,

DCP - ITP Unit	
Anal.	<i>ll</i>
Rev.	<i>ll</i>
Dist.	<i>ll</i>

Edwin M. Martin  
Acting Director  
Office of Economic Security Policy

Under separate cover:

1. Japanese release
2. Copy of General MacArthur's letter to Japanese Government.

Professor Seymour E. Harris,  
Graduate School of Public Administration,  
Harvard University,  
Cambridge 38, Massachusetts.

JUL 28 1947

JK:HOWen:il

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FILE NO.

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DESP. 1180 FROM TOKYO

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AUG 11 1947

Tokyo, July 21, 1947

UNCLASSIFIED

No. 1180

Rec'd  
Aug. 1, 1947ACTION: SUBJECT: Economic Policy Statements of the Japanese Government.  
FE-enc.INFO:  
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The United States Political Adviser has the honor to enclose copy of a translation of an eight-point economic policy statement made by the Katayama Cabinet on June 11, 1947. The successful implementation of this policy, which makes broad general promises, appears most difficult in the face of a severe shortage of basic materials and the continued inability of appropriate Japanese agencies to enforce economic controls.

WAR-enc

NAVY

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LABOR

A-O-O-O

There are also enclosed five copies in English translation and one copy in Japanese of a so-called "white paper" published July 4, 1947 in which the Economic Stabilization Board draws certain general conclusions from a statistical analysis of the present critical economic situation in Japan. In the paper an attempt is made to explain national economic and financial difficulties to the public by comparing them to similar problems faced by Japanese families. The Board's research into the matter is presumed to have been instituted as a result of a letter dated March 22, 1947 from the Supreme Commander of the Allied Powers to former Prime Minister Yoshida, drawing attention to the necessity for economic stabilization. It is probable that the cabinet published the study in an attempt to explain increasingly stringent economic conditions to the Japanese public, a considerable part of which seems to have expected miraculous results from the new cabinet.

4/ A more pressing reason for publication of the "white paper" became  
5/ apparent on July 5, 1947 with the announcement by the Japanese Price Board of a wage-price policy supporting an average wage one-third less than that demanded by the labor unions. There is enclosed a copy of this statement in Japanese with a translation thereof. Inasmuch as the Social Democratic Party derives its principal support from labor it may have been felt politically necessary to explain the refusal of the latter's wage demands in the light of Japan's deplorable economic state and to justify beforehand a low-wage policy. The wage-price policy statement points out that the worker is benefited from an increase in "real" wages rather than "money" wages and declares that the best method of increasing the former is to freeze the latter, improve distribution, and increase production.

6/ With regard to the "white paper", editorials in the Yomiuri, Jiji, Mainichi, Nippon Keizai, and Asahi newspapers of July 5, 1947 (enclosed in Japanese original together with a summary thereof by Interpreter Y. Kamii of this Mission) welcomed the publication of an admittedly unfavorable statistical study, a new departure in Japanese governmental

tradition.

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Tokyo's No. 1180  
July 21, 1947

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tradition. Several of the newspapers saw in the publication of such a study a possible attempt on the part of the Katayama cabinet to prepare an excuse usable in the event of future failure of its economic policy. Most of the editorials warned of the necessity for forbearance and patience on the part of the public and one newspaper drew the conclusion that only by such patience could foreign economic aid so necessary to economic rehabilitation be obtained.

Enclosures:

1. Copy of Katayama Cabinet's economic policy statement, June 11, 1947.
2. Five copies of a translation of the "white paper".
3. Copy of Japanese Government's "white paper" concerning economic conditions, July 4, 1947 (in Japanese).
4. Copy of Japanese Government's wage-price policy statement, July 5, 1947 (in Japanese).
5. Copy of a translation of the wage-price policy.
6. Editorial comment on the "white paper" from Yomiuri, Jiji, Mainichi, Nippon Keizai, and Asahi newspapers of July 5, 1947, with a summary thereof in English.

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Enclosure No. 1 to Despatch No. 1180 dated July 21, 1947 from the United States Political Adviser for Japan, Tokyo, on the subject: "Economic Policy Statements of the Japanese Government".

COPY

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 judgment. 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 putting into actual practice sincerely and boldly those measures which we profess to follow.

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 attendant to the fact of defeat in the war. Nevertheless, we are hopeful, because we 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 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 nother 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 special 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.



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I. 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.

(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 improve 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 nutrients. 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 materials 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.



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II. We will establish an effective distribution system at official prices, which is essential to securing of foods, stabilization of prices and other economic stabilization measures as a whole.

- (1) Assure the distribution by a Kodan system for these 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. Since the existing official prices, being the legacy of the post 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.

- (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.



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Tokyo's 1180,  
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-3-

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(5) Drop out from the sphere of price control those minor items for which it is of a little use to 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. In order to eradicate the cause of inflation from the side of currency we will strengthen our efforts in maintaining sound policy of finance.

(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 energetically the savings campaign.

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 enterprised management on sound basis.



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(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.

(3) 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 development 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. 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 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.



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(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 international 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 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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COPY

Economic Stabilization Board  
5 July, 1947.

Draft of government's statement on stabilization of wages and prices.

1. The government's view as to where the foundation for the stabilization of prices and wages lies, is shown in its announcement of Emergency Economic Measures made public on 11 June. The basic attitude of the government is that the only approach to the stabilization of prices and wages is through maintaining the present level of money wage while increasing distribution at official prices. This view is based on the candid recognition of the economic difficulties now confronting our country. It is the fundamental standpoint of the government that under the present abnormal circumstances where public finance, enterprises and individual households are all in deficit, the way for stabilizing economy is not to be found but in reducing government expenditures, rationalizing enterprise management and curtailing household spendings, through the perseverance of the whole nation, thereby improving the effective living standard with the increased per capita production.

2. To raise money wage is undoubtedly a policy to promote the interest of the worker in normal days. It goes without saying that the government admits this fact in principle. However it should be borne in mind at the same time that the interest of the worker is not originally in money wage itself, but is in the effective substance of living to be made available by such wage. If the raise of wages were to lead to bankruptcy of enterprises, could it be said that such raise were to the interest of the worker? and, if the raising of wages were to result increases in commodity prices, increased deficit in public finance and aggravation of inflation, it could never be said to be beneficial to the worker. The raise of wages is to the benefit of the workers only in so far as it does not balk operation of enterprises, interfere with the stabilization of economy, and cause aggravation of inflation. If the economic recovery will be stimulated and the improvement of living standard be attained through the raise of wage, it will certainly be to the benefit not only of the worker, but also of the people as a whole. The government sincerely hopes that the interest of the worker will be promoted in such a manner.

3. Having examined from various angles the proposal for the raise of the national average wage of industrial worker to ¥2,600, the government has reached the conclusion that under the existing situations where public finance, enterprises and household are all in deficit, it is extremely difficult to improve the real living standard of working people by such a sharp increase of wages. Let us suppose that the national average wage of industrial worker were raised to ¥2,600. Then the official prices of consumer goods will have to be raised to 3.5 times in average as high as the current level, a level 44% higher than their levels in case of average wage is set at ¥1,800 per month, or enterprises will be short of money to pay wages and inevitably be in an awkward predicament. Furthermore, as the result of such sharp price increase the household budget will be again in deficit to the extent of some ¥1,300 monthly. Consequently wages will have to be raised again. If wages and prices are spiralled up in this manner, the wage level must rise to the national average of ¥4,500 and the price level to six times the present level. This will result in a deficit of over ¥200,000,000,000 in public finance,



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through the increase in salaries and in supply expenses.

This assumption will be somewhat too modest; for we have to take into account the dangerous possibility that such a sharp rise in the levels of prices and wages, and such vast accumulations of fiscal deficits will undermine the people's so far maintained confidence in prices or currency, the greatest support for the stabilization of commodity prices and wages. If these things should happen, black market prices will sharply rise and wage-price relationship will never be stabilized. Such state of affairs will be the very opposite of the stabilized economy and will be incompatible with the interest of the working people.

Thus it is only too clear that the true protection of the workers' interest lies in maintaining real wage and that there are no means of maintaining real wage but increased production and substantial reduction of black-market activities. It is solely for this reason that the government has taken up firstly the issue of securing food supply and secondly, that of reestablishing distribution order, as emergency economic measures with a view to simultaneous stabilization of prices and wages.

4. Needless to say, the government has made careful study about serious effects on worker's family budget the proposed over-all revision of official price structure will cause. But at the same time thorough scrutinies have been made as to possibilities of cushioning or absorbing these repercussions by securing firmly the supply of the rationed quantity of foodstuffs, through the Emergency Foodstuff Measures, and by checking the advance in prices by means of price difference subsidies. As the result of these examinations, the conclusion has been reached that if average industrial wages could be raised to the level of ¥1,800 in monthly average by paying the price difference subsidies of some ¥12,000,000,000 in support of the new official price structure, the effect on the household expense to the extent of some 22%, caused by the revision of official prices, could be absorbed in its large part by the increase of the ensured quantity of foodstuff. In addition to this, if the burden of the earned income tax could be adjusted, the strait in the household budget may be relaxed somewhat further. This side of the issue is now being considered in the light of the existing situation of the public finance.

This does not mean the immediate dissolvment of various sufferings now undergone by enterprized and households. The government is by no means closing its eyes to the fact that the contents of living of the worker are considerably reduced in comparison to those of the pre-war time. The government, nevertheless, cannot but admit candidly the fact that the economic situations confronting this country, that of foodstuff in particular, is remarkably critical. Aiming at minimizing the burdens that might be anticipated to occur respectively in public finance, enterprizes, and households, on the basis of this fact, the government has thought out the conclusion that the simultaneous stabilization of prices and wages should be secured at the level of the average wage of ¥1,800. To carry out on a systematic and planned basis the eradication of black-marketeering and the improvement of rationing is the basic premise for sharing the scarcity in this manner. Putting into practice these measures with sincerity and determination, with the cooperation of all sober-thinking workers, the government are hoping to tide over the impending critical period of serious food shortage and to open up the road toward the stabilization and improvement of the people's living.



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5. Whether to march the road leading to the economic stabilization through rationally adjusting the relation between wages and prices, or to go down the road toward the utter collapse by giving up the effort of adjusting the relation between wages and prices, the economy of this country should be said now to be standing at a critical cross-road. Whichever road you may take, the right to choose is in your own hands. So the government should like to make a proposal to you, give the government an full opportunity to test its resoluteness, sincerity and ability for the stabilization of economy, and judge its ability by its achievement in this task. The government's efforts for the rehabilitation and stabilization has only just begun. Moreover its task is to reconstruct on the ground-work of economy that has been gradually enervated. It is needless to say how much time and effort this task should need. The government hopes that you would fully understand these circumstances, and with intelligence and tolerance, would give the government your support and encouragement.

6. The government has up to now pursued the policy of leaving the determination of the average wages in the hand of the wage investigation Committee. However, it came that in spite of assiduous efforts made by members of the Committee, it will take still some time before the Committee will reach full understanding with regard to the government's policy on stabilization of prices and wages. Furthermore the government cannot for obvious reasons change its plan to revise general price levels at the beginning of July. And the Committee has agreed that the determination of occupational average wages should be made by the government at its own responsibility.

Under these circumstances, the government has decided to carry out its original plan of price revision, adopting a wage level at ¥1,800 per month for average industrial worker and occupational average wages calculated through the methods agreed upon by Special sub-committee of the wage investigation Committee. The government recognizes the valuable work done by the Wage Investigation Committee in determining the methods of calculating the occupational average wage levels.

The Government shall not freeze wages at this level, as was stated in its announcement of Emergency Economic Measures, but is prepared to consider with sincerity all those recommendations made by the wage investigation Committee. We may add that we will do our best to achieve stabilization of prices and wages at the proposed levels and in any case maintain a fair relationship between prices and wages.

It is much to our regret that we cannot wait until a final decision of the Committee as originally intended. We wish to take this opportunity to extend our heartfelt respect to those Committee members who tackled this problem with fair-play spirit for several weeks and also to call upon working people, industrial operators and the whole nation to understand our position and cooperate with us in carrying out these emergency economic measures.

COPY



Encl. No. 6 to  
Tokyo's 1180,  
July 21, 1947.

COPY

TRANSLATION

A consensus of Editorial Comment Published July 5, 1947 on  
the Japanese Government's "White Paper", Issued July 4, 1947.

On July 5, 1947 editors of all important newspapers in Tokyo, referring to the White Paper issued by the Japanese Government on July 4, 1947, expressed gratification at the disclosure of the critical economic condition of Japan and the effort to gain the understanding and cooperation of the people in overcoming the national crisis. They agreed that such facts would not have been publicized under the old regime.

The Yomiuri and Jiji, however, commented unfavorably on the White Paper. The Yomiuri contended that it cannot be concluded from such economic data that the emergency economic measures previously announced by the Government are the only way to economic stability. Economic control without consideration of human nature is bureaucratic and doomed to failure, the paper said. The editorial, criticizing the Government's interpretation of the facts as a totalitarian method of approach, concluded that what was necessary was a reexamination of the bureaucratic method of control. The Jiji criticized the document as a product of pessimism all the way through, and decried the admitted inaccuracy of the government's statistical data.

Although commenting favorably in general, the Mainichi and Nippon Keizai newspapers foresaw and deplored a possibility that the Katayama government was preparing for itself an excuse in the event of failure. The Nippon Keizai concluded with the statement that foreign assistance, upon which the nation's rehabilitation depends, cannot be obtained without forbearance and patience on the part of the people.

In clarifying the economic situation of the country, the Asahi newspaper said, the document clearly indicates the necessity for ending wage-price competition, setting up an efficient distribution system, stopping black marketing, and increasing the worker's productivity, with particular emphasis on coal production. The newspaper urged that the government establish as soon as possible a concrete plan for industrial rehabilitation so that the people will not be driven blindly into self-protection.

The Mainichi termed the paper a statement of Japan's approaching bankruptcy and a diagnosis of a critical but not hopeless case. According to this newspaper a hopeful prescription was given in the form of emergency economic measures, the success of which depends upon forbearance and patience on the part of the people. The editorial recommended courageous action by the cabinet and agreed with the Prime Minister that this is the last opportunity for the people to choose life or death.

COPY



JUL 25 1947

894.50/7-2247

Dear Mr. Petersen:

This is in further reference to my letters in regard to the appointment of a War Department expediter. The Department of State has just submitted to the State-War-Navy Coordinating Committee a proposed SWNCC paper No. 381 entitled "Revival of the Japanese Economy". The Department of State considers that the program proposed in this paper is of the utmost importance and that it should be treated as a matter of the highest priority within the United States Government.

894.50/7-2247

Past experience, for example with reference to the Greek and Turkish Aid Program, would seem to indicate that the many and varied Washington functions necessary to this program's success will only be performed adequately if one person is specifically responsible for that performance and has sufficient time and authority to take the initiative in bringing it about. It is believed that the above program is too important, too large, and too specialized to be included among the functions of some existing group or persons.

It is therefore suggested that an executive of unquestionable stature and ability be appointed to coordinate all operations in the United States relating to the program for rendering Japanese self-supporting proposed in SWNCC 381. This executive could also very well function as Expediter for Japanese trade developments in cooperation with the Advisory Committee on Occupied Areas Affairs thereby permitting the present Expediter to specialize in problems relating to German trade development.

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69410031

I shall appreciate your views on the possibility of an early appointment of such an additional executive.

CS/A

Sincerely yours,

J. H. Hildring  
Assistant Secretary

The Honorable  
Howard C. Petersen,  
Assistant Secretary of War.

JK:HOwen:il

AH:ABMoreland:dmd 7/23/47

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*Signed and  
Received in  
London 7/22/47  
J.H.M.*

CONFIDENTIAL

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file*

MEMORANDUM FOR THE SECRETARY, SWNCC

Subject: Proposed SWNCC paper on the revival  
of the Japanese economy

Attached is a proposed policy statement on this  
subject representing the views of the State Department.  
It is requested that the paper be referred to the  
Subcommittee for the Far East for consideration.

894.50/7-2247

J. H. Hilldring  
State Department Member  
State-War-Navy Coordinating Committee

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JUL 30 1947

**CONFIDENTIAL**

No. 538

To the

United States Political Adviser for Japan,  
Tokyo.

The Secretary of State encloses for the information of the Political Adviser a copy of SWNCC 381, entitled "REVIVAL OF THE JAPANESE ECONOMY", dated 22 July 1947. It should be noted that this paper has not yet been considered by the State-War-Navy Coordinating Committee.

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DOB - ITF Unit	
Anal.	<i>[Handwritten initials]</i>
Rev.	<i>[Handwritten initials]</i>
Dist.	<i>[Handwritten initials]</i>

Enclosure:

SWNCC 381, copy no. 34,  
dated 22 July 1947.

A true copy of the signed original.

CR ✓  
JUL 29 1947 P.M.

*[Handwritten initials]*

**CONFIDENTIAL**

FE:JKPenfield:bar  
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AUG 11 1947

OFFICIAL BUSINESS - INFORMAL  
CONFIDENTIAL

Dear Don:

The enclosures to this letter are more important than my comments. I am sure you will be interested in the paper for economic revival of Japan. Let me point out certain procedural items in connection with the paper.

1. The document was developed in the Department over a number of months. It is now being discussed simultaneously with the War and Navy Departments (SWNCC) and with the other civilian agencies, Commerce, Treasury, etc. We will probably get a number of useful comments from these sources.

2. The paper has been sent to SCAP and we may make arrangements to discuss the paper in Tokyo and bring back SCAP comments by hand. It is likely that I will be the State Department representative and if so I would plan also to see you in Shanghai to review the proposal, particularly from the Chinese point of view.

3. After the above steps we will be prepared to present the essentials of the plan to other FEC countries. We had thought we should make the initial presentation to the FEC, but some people suggested that we might do better to have the presentation by our missions directly to the governments concerned.

I am troubled, as you will be, about the Japan centric nature of the program. We will be subject to

counter

Mr. Donald S. Gilpatric,  
C/o American Consulate General,  
Shanghai, China.

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OFFICIAL BUSINESS - INFORMALCONFIDENTIAL

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counter attack along the line we should have the Far East equivalent of the Marshall plan and fit the Japanese recovery into a regional program. I know that you want a more genuine regional approach. I do too, but I fail to see how we have the political basis for it. Furthermore, the internal conditions of other countries make it extremely difficult to set up a plan that will work. For example, how can one plan trade between China and Japan and not know whether or not the Chinese Government will be able to deliver? As long as we stick to a program for Japan we can have alternate plans; one if China can furnish coking coal and another for purchase of coal from the United States. This latter alternative would be expensive but it will probably be less costly than failure to revive Japan's steel industry.

We are working on some ways of tying the interest of other countries more directly into revival of Japan's economy than the present paper indicates, but by something short of complete regionalism. I am sure you will have some ideas on this and I would like to have them very soon.

I am not certain that the limited proposals for reparations out of current production will meet the desires and interests of other countries to the point that it will get them to cooperate with the economic revival of Japan, but we do not now have an alternative to the Marshall program for Europe. However, we have asked our research people to go into it more thoroughly as you will see from the third attachment. Also a note of comment on your memorandum of May 5. We may discuss all this further in Shanghai. In any case please write me.

Sincerely yours,

Roswell H. Whitman  
Associate Chief,  
Division of Japanese and Korean  
Economic Affairs

(For enclosures, see following page.)



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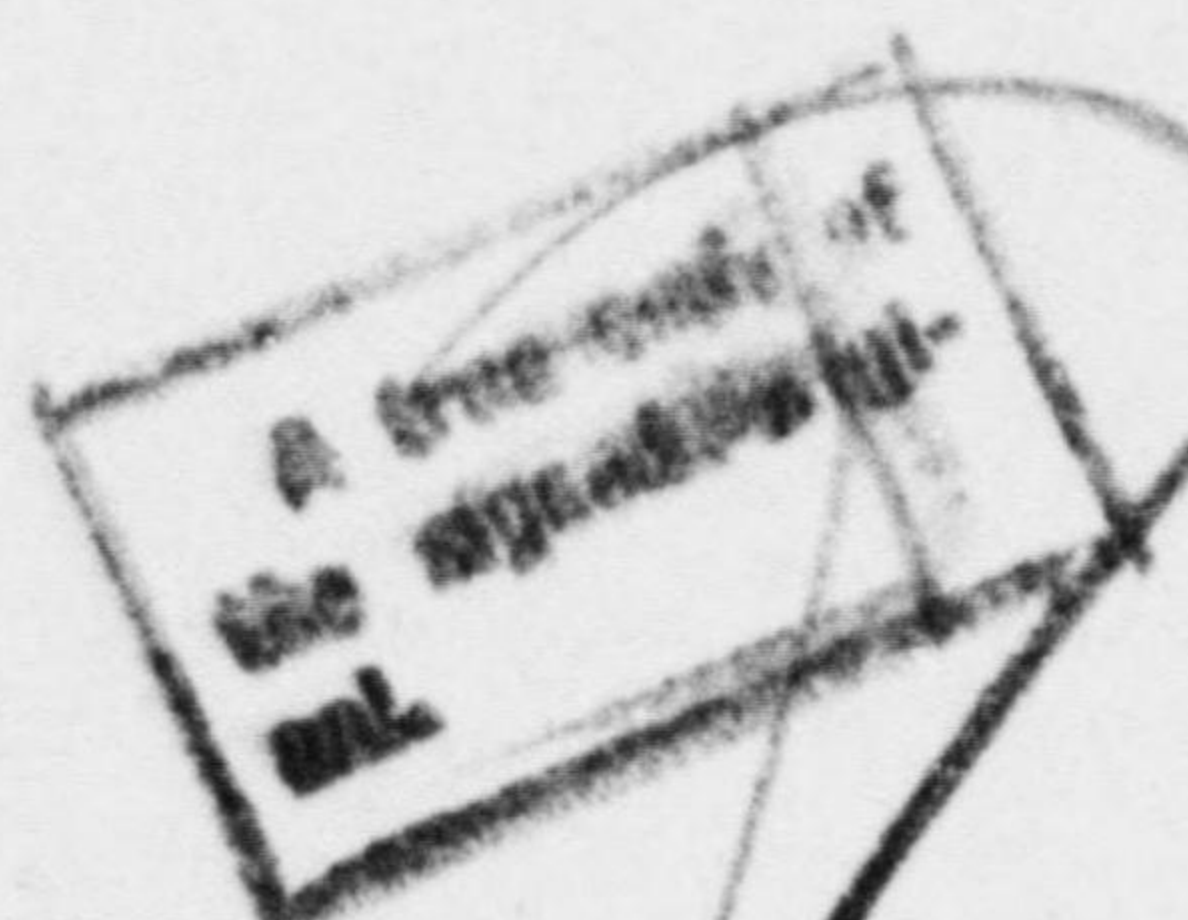
**Enclosures:**

1. Memorandum of comments to  
Memorandum dated May 5.
2. Memorandum of comments on  
Economic Integration in the  
Far East.
3. Copy of SWNCC 381 - Revival  
of the Japanese Economy.

OR ✓

JUL 31 347 P.M.

JK:REWhi tman:emh 7-31-47





MEMORANDUM TO THE SECRETARY, SWNCC

SUBJECT: SWNCC 380, "Unilateral Action on Japanese Economic Problems".

I disapprove SWNCC 380 for the following reasons:

The purpose of this paper is to provide for procedure to avoid future delays in the FEC which are harmful to the occupation. The Terms of Reference of the FEC provide a ready means for achieving this end by the issuance of interim directives. The only substantive proposal in SWNCC 380 appears to be the provision that with each US paper introduced into the FEC, a deadline for FEC action should be set and an interim directive issued if the FEC has not issued its own policy decision by that time. It is not clear whether it is intended that the FEC should be informed of this deadline. It would appear desirable that the U. S. should determine, in connection with each proposed FEC policy decision, the date by which we feel action must be completed. However, it would seem unwise to exert advance pressure on the FEC by informing the other members of the Commission of the deadline date in each case.

No opposition is perceived to the purpose of SWNCC 380, but it is believed unnecessary to adopt a policy paper on the subject. It is therefore recommended that SWNCC approve the following: SWNCC should determine the date by which it is felt action must be completed in connection with each proposed policy decision simply by including a statement to that effect in the "Recommendations" of the pertinent SWNCC paper. If the FEC has not reached a decision on the paper by that time, the question of issuing an interim directive should then be taken up by SWNCC. This would take care of any new developments that might have occurred which would vitally affect the decision during the period FEC had the paper under consideration.

J. H. Hildring  
State Department Member  
State-War-Navy Coordinating Committee

*AP*  
*Class Shell Makers*

*WHA* A-H:WARudlin;hjh 8/7/47

*FE*  
*(cleared with)*  
*Mr. Penfield)*  
*and Mr. Boston*

*NA*  
*(cleared with)*  
*Mr. Boston)*

*BE*  
*(cleared with)*  
*Mr. Master)*

*ah 2459*

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STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

DATE: July 25, 1947

TO : A-H General Hilldring *file*  
 FE Mr. Penfield  
 FROM : ESP Mr. Martin *PMM for Martin*  
 NA *HBorton*  
 SUBJECT : SWNCC 380

I agree with Mr. Penfield that a policy paper on the subject is unnecessary.

In reference to the suggestion that the recommendations of SWNCC papers should include "the date by which we feel action should be completed" on any single paper, I recommend further that if the FEC has not reached a decision on a paper by that date, the question of issuing an interim directive should then be taken up by SWNCC. The purpose of this proposal is to take care of any new developments that may have occurred which would vitally affect the decision during the period FEC had the paper under consideration.

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JUL 27 1947  
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STANDARD FORM NO. 64

SECRET

Office Memorandum • UNITED STATES GOVERNMENT

TO : NA Mr. Borton  
 ESP Mr. Martin  
 A-H General Hilldring

FROM : FE Mr. Penfield

SUBJECT: SWNCC 380

DATE: July 24, 1947

The purpose of SWNCC 380 is to provide for procedure to avoid future delays in the FEC which are harmful to the occupation. The Terms of Reference of the FEC provide a ready means for achieving this end by the issuance of interim directives. The only substantive proposal in SWNCC 380 appears to be the provision that with each US paper introduced into the FEC, a deadline for FEC action should be set and an interim directive issued if the FEC has not issued its own policy decision by that time. It is not clear whether it is intended that the FEC should be informed of this deadline. It seems to me logical that the US should determine, in connection with each proposed FEC policy decision, the date by which we feel action must be completed; but there seems to be no reason why this could not be accomplished simply by including a statement on the subject in the pertinent SWNCC paper. It seems to me that it would be very unwise to hold a gun to the back of the FEC by informing the other members of the Commission of the deadline date in each case.

In summary, while perceiving no objection to the purpose of SWNCC 380, I fail to see why a full-fledged policy paper on the subject is necessary.

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FW.

Mr. Penfield

Mr. Hilldring

Mr. Martin

Mr. Borton

Mr. [unclear]

FE:JKPenfield:bar

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FAR EASTERN COMMISSION  
2516 MASSACHUSETTS AVENUE, N.W.  
WASHINGTON 8, D. C.

August 11, 1947



Dear General Hildring:

During our last conference, on July 23, you may remember that you raised the question of the desirability of obtaining an early policy decision on The Level of Economic Life in Japan (FEC-218). You wished to have this policy decision before August 15 when you would be leaving the Department, even if it should be necessary to issue a U.S. interim directive for this purpose. I presented the views which I have held, that a situation may arise which would justify an interim directive, but that this should be done only in cases of genuine urgency and as a last resort.

DIVISION OF  
NORTHEAST ASIAN AFFAIRS  
SEP 2-1947

Now that the date of your departure is approaching, I have been giving careful consideration to this paper and have been pondering the question whether it would be advisable for the United States Government to send the paper to SCAP as a U.S. interim directive.

DEPARTMENT OF STATE

I have reached the conclusion that for the following reasons it would be inadvisable for the United States Government to issue an interim directive on this subject at the present time:

1. There appears to be no urgency in sending this policy decision to SCAP at this time. I believe that the next step in executing reparations policy is to put into effect the previous U.S. interim directive on Advanced Transfers of Japanese Reparations. This directive was sent to SCAP over four months ago, but as yet no delivery of reparations has been made, and, I am informed that it will probably be several weeks before deliveries will begin. Until these advanced transfers have been completed there would seem to be no real need of this pending paper on the complete Level of Economic Life in Japan.

I am also informed that the immediate and serious obstacles to the revival of Japanese industry are not to be found in the absence of a final determination of the levels of Japanese industry, but in the shortage of coal and raw materials, which will continue for some months to come.

Major General John H. Hildring  
Assistant Secretary of State  
Washington, D. C.

DIVISION OF JAPANESE AND KOREAN  
ECONOMIC AFFAIRS  
DEPARTMENT OF STATE  
Reply drafted  
AUG 13 1947  
OE - Whitman  
8/28/47

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2. The Far Eastern Commission has worked hard on this paper and has it now under continuing consideration. There is a good prospect that the Commission will reach an agreement on it in normal course.

Already it is evident that a majority of the Commission wish to modify the provisions of the paper in certain respects. Under these circumstances, if the United States Government should send the original U.S. policy proposal (FEC-218) as an interim directive, it would be acting in opposition to the expressed views of a majority of our colleagues on the Commission.

3. The immediate issuance of a U.S. interim directive on this subject would be resented by the other states on the Far Eastern Commission and would arouse an antagonism on the part of some of the other Governments which would be unnecessary and would be prejudicial to the United States in the coming Peace Conference. The states on the Far Eastern Commission are opposed to U.S. interim directives except when issued as a matter of urgency and, possibly, as a last resort.

4. The problem whether the United States Government should send the pending paper to SCAP at the present time as an interim directive raises a fundamental issue regarding international cooperation. The United States Government strongly supports as a basic policy the principle of international cooperation. It would appear to be inconsistent with this policy and this principle for the United States, after taking over a year to formulate its own views on this subject, to send this paper as an interim directive when the Far Eastern Commission has been studying it for only four months and before the final views of all the other states on the Commission have been received.

In view of these considerations I believe that it will best serve the interests of the United States to postpone the issuance of an interim directive and to avoid interrupting the work of the Far Eastern Commission looking toward an agreement on a policy decision on this subject in accordance with its normal procedure.

Yours sincerely,

*Frank R. McCoy*

Frank R. McCoy  
U.S. Representative  
Far Eastern Commission







SEP 9 1947

In reply refer to  
OE

894.50/8-1147

My dear General McCoy:

On August 11, 1947 you wrote to General Hilldring recommending that no interim directive on the Level of Economic Life in Japan (FEC-218) be issued at this time. An answer to your letter has been delayed pending consideration of the problem by the Acting Secretary.

At a meeting with Secretary Royall on August 26, the Acting Secretary took the position that no interim directive should be issued at the present time. It was agreed that both the War and State Departments would increase their efforts to obtain an early Far Eastern Commission decision establishing a level of economic life in Japan.

Sincerely yours,

Charles E. Saltzman  
Assistant Secretary

CS/V

General Frank R. McCoy,  
United States Representative,  
Far Eastern Commission,  
Washington, D. C.

OE:RHWhitman:emh 8-28-47  
A-S:ABMoreland:mds 9/8/47

SEP 8 1947

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A-S 2582



FAR EASTERN COMMISSION  
2516 MASSACHUSETTS AVENUE, N. W.  
WASHINGTON 8, D. C.



August 11, 1947

Dear General Hilldring:

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94.50/8-747*

I have read with care the paper on Unilateral Action on Japanese Economic Problems (SWNCC 380), a memorandum, with enclosures, submitted to SWNCC by the War Member. The paper, as you know, states that U.S. policies, after adoption by SWNCC, "frequently encounter lengthy delay before adoption as policy by the Far Eastern Commission." The War Member is quoted as stating, "we must...no longer be balked by the FEC." In his memorandum he says:

"I further believe it desirable for the United States to adopt the policy of exercising this power [of issuing Interim Directives to the Supreme Commander] whenever possible in the solution of economic problems presented by the occupation of Japan."

In the draft paper, it is concluded:

"c. In subsequent determinations of U.S. policy proposals, decisions and statements, there should be included a stipulation of a date by which time such proposal, decision, or statement shall be issued unilaterally by the U.S. Government to the SCAP for implementation should FEC approval thereof not be obtained by that date."

I wish to submit for your consideration the following comments on this paper:

1. The United States Government has frequently stated that it supports as a basic policy the principle of international cooperation; and that national action in accordance with this principle lays the foundation for international peace. In line with this policy the United States took the lead in establishing the Far Eastern Commission and in granting to it the authority to formulate the policies and principles in accordance with which Japan should fulfill its obligations under the Terms of Surrender. A clause in the Terms of Reference of the Far Eastern Commission states that the United States may issue interim directives, but only in cases of urgency and pending action by the Commission.

General John H. Hilldring  
Assistant Secretary of State  
Washington, D. C.

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2. An international body, such as the Far Eastern Commission, normally reaches its conclusions more slowly than does a single state. The United States Government could make policy decisions much more quickly than the Far Eastern Commission. This delay, however, is the price which any state must pay for the recognized advantages of the policy of international cooperation. ✓

3. The assumption in the paper by the War Member of SWNCC that the Far Eastern Commission is under an obligation to approve within a few days, such as 21 days, United States policies submitted to it, when the United States Government has often taken months to determine these policies, is obviously inconsistent with the basic requirements of international cooperation. ✓

4. The Far Eastern Commission, despite delays, has passed some 45 policy decisions. The British acting representative on the FEC has commented that the Far Eastern Commission has accomplished more than any other international commission of which he has any knowledge. A number of these policy decisions have been approved within a relatively short period of time. Most of them have been based upon papers submitted by the United States and, in general, have been in accordance with them. The approval by eleven states of these U.S. policies is an asset for the United States of much importance in the Far East and helps to establish more firmly the principle of international cooperation. ✓

5. An international commission normally needs considerable time before it reaches a final policy decision on an important subject. After a paper is introduced the members must consult their respective Governments; the resulting views of the Governments have to be discussed by the representatives of other states; probably renewed requests for instructions are made; and finally a commission decision is reached. ✓

Even the United States Government has often taken several months for the preparation of initial policy proposals for submission to the FEC. After U.S. members had requested working committees to postpone consideration of various subjects pending the presentation of U.S. policy proposals then under preparation, the U.S. Government has needed the following number of months to complete the papers: Policy for the Revision of the Japanese Educational System, nearly five months; Zaibatsu Dissolution, six months; Interchange of Persons between Japan and other Countries, ten months. U.S. policy papers are overdue as follows: Agrarian Reform, seven months; Occupation Costs, nine months; Restitution of Looted Cultural Objects, nine months; and Japanese Patents, nine months. |

6. Such delays as have occurred within the FEC have been due to a number of causes, one of the most important of which has been the length of time needed by the U.S. Government to determine or to reformulate its own position. A few instances may be cited as typical. ||

(1) Delivery of Reparation Goods in Japan. This paper was held in the Steering Committee for eight weeks, from



- 3 -

August 13 to October 1, 1946, waiting for a U.S. amendment. It was stated that the delay was caused by the necessity of referring the subject first to General MacArthur, then to the Joint Civil Affairs Committee of the Joint Chiefs of Staff, then to the Joint Chiefs themselves, and finally to SWNCC.

(2) Interim Reparations Removals: Synthetic Oil and Synthetic Rubber Industries. This paper was held in the Steering Committee for three weeks, from July 30 to August 20, 1946, waiting for the approval of the Joint Chiefs.

(3) Short Period Controls over the Japanese Economy to Relieve World Shortages. This paper was delayed between five and six months, from August 13, 1946 to February 6, 1947, while the U.S. Government was reformulating its position on the question of setting a specific figure for Japanese textile consumption.

(4) Reduction of Japanese Industrial War Potential. This paper was held in the Steering Committee for four weeks, from April 8 to May 6, 1947, pending receipt of a U.S. amendment.

(5) Final Reparations Levels (Reparations Removals of Industrial facilities and merchant shipping from Japan.) The U.S. Government needed eight months to prepare a U.S. paper on this subject. On August 13, 1946, Committee No. 2 tabled a pending paper at the request of the U.S. member in order to await a U.S. proposal on final reparations levels. This U.S. proposal was not presented until April 9, 1947. 8-1147

(6) Interim Import-Export Policies for Japan. Of the nine months required for the approval of this paper, six were due to the lack of a U.S. position on the disposition of stocks of gold.

7. Long delays have occasionally taken place in Japan in executing directives which have been sent to SCAP as matters of urgency. The only important U.S. Interim Directive under the Commission's Terms of Reference, on Advance Transfers of Japanese Reparations, was issued on April 4, 1947. It provided for immediate delivery of advance reparations to the states named in the directive. After four months no article has been delivered as reparations. The FEC policy decision on Assured Production Capacity Levels for Japan was passed on February 20, 1947. Although its adoption by the FEC was pressed as a matter of urgent importance, it has not yet been put into effect. ✓

8. These instances of delay are cited in no spirit of criticism of my own Government. I am calling them to your attention to show that if the U.S., with its stores of information, its personnel in all important positions, and its earnest desire for speed in completing the occupation of Japan, needs, sometimes, months for the formulation, revision and execution of its policies in regard to Japan, the Far Eastern Commission, composed of eleven states, obviously needs much time too. ✓



- 4 -

9. In conclusion, I recognize that a situation may arise in which it may be advisable for the U.S. Government to issue an interim directive to SCAP as a matter of genuine urgency and as a last resort after protracted discussion in the Far Eastern Commission has made it apparent that no prospect exists of an agreement on a policy decision. However, I cannot agree with the recommendation of the War Member of SWNCC that the U.S. Government should issue interim directives as a normal procedure in economic matters and that it should give the Far Eastern Commission a specified and limited number of days in which to approve U.S. policy proposals under the threat of the issuance of a U.S. directive if the dead line is passed. The recommendation, if carried out, would antagonize the other states on the Far Eastern Commission; it would violate the spirit and probably the letter of the Terms of Reference of the Commission, to which the U.S. is a party; and above all it would be inconsistent with a basic policy of the United States and my own instructions: to support the principle of International Cooperation.

Sincerely yours,

*Frank McCoy*

Frank R. McCoy  
U.S. Representative  
Far Eastern Commission



AUG 15 1947

Dear General McCoy:

Thank you for your letter of August 11 regarding the War Department paper on Unilateral Action on Japanese Economic Problems (SWNCC 380). I am very glad to have your comments on this paper and I am in full agreement with you that the War Department proposal is neither necessary nor consistent with the implementation, in the Far Eastern Commission, of the principle of international cooperation.

As you will see from the enclosed copy of my memorandum of August 7 to the Secretary of SWNCC, the State Department has refused concurrence in the War Department paper. There is proposed instead a SWNCC procedure which would permit consideration of the time factor without setting deadlines for the issuance of interim directives.

Sincerely yours,

J. H. Hilldring  
Assistant Secretary

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Enclosure:

Copy of memorandum.

Major General Frank R. McCoy,  
U. S. Representative,  
Far Eastern Commission,  
2516 Massachusetts Avenue, NW.,  
Washington, D. C.

GE  
AUG 15 1947

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GENERAL OFFICES  
FIRST SECURITY BANK BUILDING  
OGDEN, UTAH

SAN FRANCISCO OFFICE  
ONE MONTGOMERY STREET  
TEL GARFIELD 6743

SALT LAKE CITY OFFICE  
57 EAST 4TH SOUTH STREET  
TEL. 3-7676

1474

**THE UTAH CONSTRUCTION COMPANY**  
ENGINEERS AND CONTRACTORS  
SAN FRANCISCO 4, CALIFORNIA

August 15, 1947

DIVISION OF JAPANESE AND KOREAN  
ECONOMIC AFFAIRS  
DEPARTMENT OF STATE

*Reply Drafted 8/25 -*  
*DE/R file*

Mr. Edwin M. Martin  
Far Eastern Section  
State Department  
Washington, D. C.

894.50/8-1547

Dear Mr. Martin:

In a conversation with Mr. John P. Hurndall in Los Angeles earlier this week interest was indicated in the construction work that might be handled by American concerns to be carried on in Japan. Mr. Hurndall suggested that I write to you and ask you if you had some information about the possibilities of construction work out there.

Our Company has performed a considerable amount of varied types of construction and since we are now engaged upon a contract of some magnitude in the Philippines the possibility exists that work in Japan might be interesting. If it is not inconsistent with whatever general policy has been promulgated I would appreciate having such general information as may be available concerning the anticipated rehabilitation projects in Japan.

Sincerely yours,

*F. M. Keller*  
F. M. Keller

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In reply refer to  
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SEP 2 1947

My dear Mr. Keller:

Mr. Martin has referred to me your letter of August 15, on the subject of the possibility of employment of your firm in connection with rehabilitation or construction projects in Japan.

As you know the War Department is directly responsible for the administration of occupied areas and your question is really one for that Department. However, I believe I can say that there are not and almost certainly will not be nearly as great opportunities for American engineers and contractors in Japan as in the Philippines and elsewhere in the Far East. <sup>Foreign</sup> aid to Japan has been confined almost entirely to meeting basic food and raw material requirements and it seems most unlikely that the U.S. would finance a rehabilitation program in Japan that would involve the services of American engineering and contracting firms.

*United States*

Sincerely yours,

*msj*  
*and*  
*gjm*

*RHW*  
Roswell H. Whitman  
Associate Chief  
Division of Occupied Areas  
Economic Affairs

Mr. F. M. Keller,  
The Utah Construction Company,  
San Francisco 4, California.

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UNITED STATES POLITICAL ADVISER FOR JAPAN

*Handwritten initials: DC/L, FE*

DIVISION OF NORTH PACIFIC ASIAN AFFAIRS  
Tokyo, August 20, 1947.  
SEP 8 1947  
DEPARTMENT OF STATE

RESTRICTED

No. 1233

*Handwritten initials: DCR*

SUBJECT: Report entitled "Economic Conditions in Japan".

The Counselor of Mission has the honor to enclose five copies of a report entitled "Economic Conditions in Japan" dated August 1, 1947, prepared by the Economic and Scientific Section of this Headquarters. The report contains this Headquarters' analysis of Japan's present economic condition as well as comment on the possible results of economic measures taken by the Japanese Government. With regard to those measures reference is made to this Mission's despatch No. 1180 of July 21, 1947 transmitting certain economic policy statements of the Japanese Government.

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ACTION OF COPIES TO:

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Enclosure

Five copies of Economic and Scientific Section report, "Economic Conditions in Japan", August 1, 1947.

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ECONOMIC CONDITIONS

IN JAPAN

August 1, 1947

RESEARCH AND STATISTICS DIVISION  
ECONOMIC AND SCIENTIFIC SECTION

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I N D E X

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Prices and Wages.....	16
Finance.....	26

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## ECONOMIC CONDITIONS

## IN JAPAN

August 1, 1947

SUMMARY

It is becoming increasingly clear that the Japanese economy cannot attain a degree of recovery which even at a minimum level will place the nation on a self-supporting basis unless (a) foreign exchange to finance the essential imports is secured, both through credits from foreign sources and through substantially increased exports, and (b) adequate imports of essential raw materials are obtained. It is also clear that such a degree of recovery is not an immediate prospect; and for this reason, the Japanese Government is confronted with the dire necessity of taking steps to obtain maximum economies and optimum utilization from the national viewpoint of available resources.

Among the more significant current features of the economy are the following:

- I. The level of industrial production is approximately 40 per cent of the 1930-34 average. Although there has been an increase above the level of one year ago, the rate of increase has been slow, and the prospects for substantial improvement within the next 12 months are beset with difficulties. Many of the conditions which have retarded industrial recovery are assuming a chronic character.
- II. Imports of raw materials have not approached the amounts necessary to invigorate Japanese industry. Imports of all commodities other than food and fertilizer materials in the first 6 months of 1947 were at a rate approximately 5 per cent of average 1930-34 imports of such commodities. Food and fertilizer imports are at a relatively higher level. Although sufficient food has been imported to prevent starvation or violence, a large segment of the population is poorly nourished, and total supplies of food are so low that inflation has been retarded only to a limited extent.
- III. Inflation continues unchecked. The Tokyo effective price level for all foods, for example, in July 1947 was

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approximately 100 per cent higher than a year ago. Advances in official prices and in wage rates were even greater. Government expenditures and deficits continue to increase, the cash deficit for the fiscal year ending March 31, 1947, amounting to ¥65 billion.

- IV. Real wages, in spite of substantial increases in nominal wages, are still seriously low, and maldistribution of scarce essential goods remains pronounced. Although in May 1947 money wages had advanced almost 26 times above the levels of the early years of the 1930 decade, effective prices were from 60 to 90 times as high as in the same period. Although the distribution of grains (rice, wheat, barley, flour, and corn), which are the most important foods in terms of calories, is reasonably equitable, maldistribution of all other foods continues to be acute.
- V. The industrial cost structure is not only seriously distorted from any reasonable or normal pattern but the cost level continues to advance primarily under the impact of rising wage rates and procurement of materials in the black market. The consequent impact upon the level of official prices is obvious.
- VI. The situation however is not completely discouraging. Increasing understanding of the specific nature of the basic problems will inevitably lead to a degree of successful solution. The importance of the fact that grains and cereals are distributed by means of relatively effective governmental controls in a fairly equitable fashion must not be underestimated. Should these controls weaken, the consequences might well be violent. The worst period of food shortage during the year has passed; with increased arrivals of food imports and the harvest of summer wheat and barley, the next 3 months promise some improvement in the food supply. Preliminary estimates of a normal rice crop in November are encouraging. The present Government is approaching the economic situation in an intelligent and farsighted fashion even though the vigor of its approach and its political strength are still in doubt. Recently inaugurated measures, such as the financing of coal mine rehabilitation, will doubtless have salutary effects in the coming months. The Government is undertaking a stabilization program which includes a revised wage-price policy, improved distribution controls, and a drive to exterminate large-scale blackmarketing.

RESEARCH AND STATISTICS DIVISION  
ECONOMIC AND SCIENTIFIC SECTION

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## INDUSTRIAL PRODUCTION

Causes of Low Industrial Production

The low level of industrial production, currently running at 41 per cent of the 1930-34 level and at only 20 per cent of the wartime peak, is primarily the result of the following conditions:

- (a) Shortages of materials which must be imported, such as textile fibers, salt, and high-grade coal and iron ore.
- (b) Low rate of coal production.
- (c) Low priority of coal allocation to industrial consumers generally.
- (d) Inefficient use of fuel and other critical materials.
- (e) Diversion of critical materials into black market and into consumption by Occupation Forces.
- (f) General dislocations as the result of inflation.

To a lesser extent generally the low rate of production in certain industries can also be attributed to uncertainties of ownership and of the nature of the economic organization which will emerge after recovery. By permitting continued operation of plants which are surplus to the needs of the Japanese economy, delays in specific settlement of the reparations issue have resulted in excess utilization of plant capacity relative to the availability of materials and fuel.

Level of Production

Although the level of industrial production was higher in May and June 1947 than at any previous time since the surrender, and was 30 per cent higher than it was one year earlier, it was only 41 per cent of the 1930-34 average. In June 1946 the level was 31.6 per cent of the base period.



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By major industrial groups the comparison is as follows:

(1930-34 = 100)

	<u>June 1946</u>	<u>June 1947</u>
Industrial Production	31.6	41.0
Mining	62.2	79.6
Coal	61.7	81.2
Manufacturing	26.9	35.1
Textiles	9.7	20.1
Metals	23.3	37.2
Machinery	41.0	42.7
Chemicals	43.0	47.1
Food, Beverages and Tobacco	60.7	41.4

The 9.4 points increase in the total index from June 1946 to June 1947 is accounted for largely by the following commodities:

	<u>Index (1930-34 = 100)</u>		<u>Points Contributed to Gain in Total Index</u>
	<u>June 1946</u>	<u>June 1947</u>	
Cotton yarn	2.9	30.4	2.45
Coal	61.7	81.2	1.98
Machinery, general	20.0	33.0	1.61
Cotton woven goods	3.4	23.3	1.51
Raw silk	11.4	15.3	.80
Crude steel	23.7	36.0	.58
Pig iron	16.9	32.3	.24
Paper	32.5	43.8	.19
Ammonium sulphate	123.3	194.1	.14

At the same time, the principal decreases were as follows:

	<u>Index (1930-34 = 100)</u>		<u>Points Decrease Re- flected in Total Index</u>
	<u>June 1946</u>	<u>June 1947</u>	
Motor trucks	2399.7	1068.0	1.33
Salt	71.5	18.3	.74
Miso	78.6	43.8	.31
Rubber	43.7	26.9	.31
Iron ore	276.5	141.1	.14

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The gains in cotton yarn and cotton woven goods resulted from imports of raw cotton which began in June 1946. The gain in machinery production was brought about largely by the extensive program to increase production of coal mining equipment, fertilizer manufacturing equipment, and the rehabilitation of textile spindleage. Coal production was stimulated by the special efforts put forth to revive this industry, including an increase in the number of coal miners by one-fourth during the 12 months, priorities given to the production of coal mine machinery, the construction of miners' housing, and increased distribution of food and other commodities to miners. Iron and steel gains were made possible chiefly by the use of imported petroleum for fuel in some mills and by the higher coal allocation given the industry. The gain in ammonium sulphate was likewise the result of larger coal allocations. Improvement in the paper situation came about through improvement in transportation facilities and through increased availability of coal and pulp. Raw silk production increased as a result of the utilization of stocks of cocoons and of rehabilitation of silk reeling establishments. However, small additional gains in raw silk are in prospect for many months, because the cocoon supply will become the limiting factor.

The decrease in motor truck manufacture reflects the depletion of stockpiles of parts and components. Deemphasis on salt production by means of lower coal priority has been a corollary of increased imports of salt. Shortages of soybeans caused the low level of output of miso. Declining stocks of crude rubber and unavailability of adequate amounts of scrap rubber are reflected in the decreasing output of rubber products. Curtailment in production of iron ore has resulted from limited demands by the iron industry for the low-grade indigenous ore.

#### Shortages of Imported Raw Materials

The lack of imported raw materials along with the shortage of domestic coal constitute the major limiting factors on Japanese industrial production and affects all of the more important industries.

Production of cotton yarn in recent months reached approximately one-fourth of the 1930-34 rate. Supplies of raw cotton are the principal limiting factor. However, capacity (operable spindles) would become a limiting factor if the production level reached 35 to 45 per cent of the 1930-34 rate. Owing to the limited supplies of raw cotton, the prospects for the coming months are pessimistic for an increase in production and more probably some decrease will occur.

Production of wool yarn in June 1947 reached 34 per cent of the 1930-34 monthly average but was far below capacity levels. Limited supplies of wool account for the low level of production, and the outlook for replenishing supplies for future months is uncertain.



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Production of rayon, including filament and staple, in June 1947 reached 42.9 per cent of the 1930-34 monthly average but was only 7 per cent of the peak production (1938 monthly average). Limiting factors are caustic soda, wood pulp, and coal. Recent improvements in imports of salt for caustic soda production should permit some improvement in the output of rayon provided sufficient coal can be allocated and sufficient wood pulp can be made available.

The relatively low level of production of iron and steel is in part a result of the shortage of high-quality coal and high-grade iron ore, most of which can be secured only by imports. Shortages of high-quality coal also limit output of carbide, calcium cyanamide, and coke.

Other raw materials in extremely short supply and which must be principally secured from imports include crude rubber, gums and resins, petroleum, hides and skins, oils and fats, and many other items. To some extent an adequate and balanced level of production will require additional imports of lumber, wood pulp, and various metals.

#### Coal Production

The low rate of coal production--in June only 81 per cent of the 1930-34 monthly average and only 44 per cent of the 1940-41 monthly average--is the result of a complex of factors including:

- (a) debilitated condition of the mines following upon inadequate upkeep and exploitation during the war,
- (b) shortages of materials and equipment,
- (c) financing problems,
- (d) indifferent management, and
- (e) inexperienced miners and labor unrest.

Mechanical equipment of the mines, which during the war fell into a bad state of repair, is still generally in need of extensive repairs or replacement. In recent months there has been improved progress in the refitting of equipment, but shortages of materials continue to threaten the program. During 1946 there was a serious shortage of miners' hand tools, such as shovels, picks and carpenters' saws. This latter situation however is improving rapidly. Efforts to supply materials and funds for rehabilitation are currently being intensified, and the prospects for improvement are better.



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Shortages of funds for operating purposes have inevitably developed as a result of inflation. When the official prices were revised in November 1946, the wage rate agreement for underground miners was ¥50 per day. The price adjustments made in July 1947, delayed because of the change in government, were based upon a wage rate agreement of ¥130 per day for underground miners. Although the Government has been committed to the compensation of out-of-pocket losses to each mine, the rapid rate of cost increases has compounded the problems involved in the flow of funds for working capital. What would have been under stable cost conditions a relatively small and easily manageable sum of out-of-pocket losses instead became a sum of considerable magnitude.

Laxity in the matter of mine rehabilitation has arisen out of indifference and uncertainty on the part of the owners. Many of the mines may become sub-marginal when the industry is again in a normal state; consequently, private investment of large sums is highly risky. Inasmuch as many of the mines (especially the larger ones) are Zaibatsu owned, and subject to sale, the present ownership and management have had insufficient incentive to make large investments. Output in the 35 largest mines is only approximately 55 per cent of their 1935 level as compared with 73 per cent of the same period for the industry as a whole. For these reasons, and inasmuch as maximum coal supplies are vitally needed now for recovery of the entire economy, there is developing increasing sentiment for nationalization. In recent weeks steps have been taken to make available adequate funds for rehabilitation of the mines.

Labor conditions have altered considerably from the prewar period. Ten- or twelve-hour shifts were operated before and during the war, as compared with eight-hour shifts currently. The decrease in working hours has resulted in an even greater percentage decrease in working time at the coal face. Currently there are holidays each Sunday in contrast with three "off" days per month formerly. The rate of absenteeism of approximately 10 per cent is relatively high. The repatriation of Koreans and Chinese, who constituted a large part of the labor force in the pits, has resulted in a scarcity of skilled miners.

Recruitment of new workmen has proceeded very well. As of June 1947 there were 400,000 miners of which 53 per cent were underground miners. In the period 1935-38 the average number of miners was approximately 215,000, of which 64 per cent were underground workers. Output per worker per month averaged about 17 tons, however, as compared with about 5.5 currently.

Although coal miners have been given preferential treatment in food rations, there have been delays frequently in their food distribution. Housing facilities at the mines are quite inadequate, adding to difficulties in effective recruitment. Although increased progress has been achieved in recent months to provide housing for miners, very much more remains to be done. Working conditions in the pits,



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especially in the large Kyushu field, are difficult and hazardous. These elements contribute to the unrest which prevails among the miners and to the low output per minor.

#### Allocation of Coal

Non-industrial consumers have received a higher than normal percentage of the coal supply, whereas industrial consumers have received a smaller than normal percentage. To illustrate, as compared with the year 1933, coal deliveries in the fiscal year ending March 31, 1947, by principal classes of consumers were:

Total	61 %
Mine use	73
Transportation	105
Electric power, gas and coke	65
Other non-industrial users	72
Industrial users	39

Total coal deliveries to industrial consumers in the fiscal year ending March 31, 1947, amounted to 6.4 million tons. Total deliveries to all consumers ~~were~~ almost 23 million tons. In part the relatively small deliveries to industrial consumers results from the absence of imports of high-grade coal normally consumed by the iron and steel and chemical industries.

By commodities the chief industrial users of coal were:

Total	6.40 million tons
Iron and steel	1.45
Mining and smelting	.17
Metal using industries	.41
Cement	.38
Lime and dolomite	.23
Glass	.17
Other ceramics	.25
Ammonium sulphate	1.13
Calcium cyanamide and superphosphate	.10
Soda industries	.17
Dyestuff	.10
Rubber products	.10
Other chemicals	.30
Paper and pulp	.33
Textiles	.41
Salt	.32
Food processing	.38

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The two big industrial users of coal were iron and steel and ammonium sulphate fertilizer, consuming 23 per cent and 18 per cent respectively of all coal used by industrial consumers.

#### Utilization of Fuel

Inefficient utilization of coal relative to normal is most serious in transportation and in iron and steel. Not only is the low quality of the coal creating an increased demand on the part of the railroads, but the near cessation of coastwise shipping has thrown the bulk of freight hauling upon the railroads which require more coal per unit of haul than does transportation by water. Whereas in the 1930-34 period the railroads consumed 306,000 tons per month and bunker coal for ships averaged 372,000 tons (including ocean-going as well as coastwise shipping), in 1946 the railroads averaged 585,000 tons and bunker coal 58,000 tons per month. Total coal for transportation approximated the base period amount, but because of the decline in coastwise as well as ocean-going shipping, total traffic was substantially less. In addition, the quality of coal used by the railroads has deteriorated by approximately 15 per cent as compared with prewar figures.

As a consequence of the war damage to Japanese shipping, freight hauled by the railroads has increased above the base period. Freight conveyed by the Government railroads (which haul approximately 80 per cent of railway freight) in April 1947 was approximately 9.3 million tons per month as compared with a monthly average in the 1930-34 period of 6.1 million tons.

Passenger traffic in terms of passengers carried is also greatly in excess of the base period when passenger kilometers averaged 1.67 billion per month. In April 1947 passenger kilometers was 8.36 billion. Through Government efforts to restrict such traffic, the first quarter of 1947 showed a monthly average of 4.3 million train kilometers of passenger traffic as compared with 6.4 million in the first quarter of 1946.

The output of iron and steel is substantially below normal per unit of coal used as a result of the following factors:

- (a) Low quality of iron ore and of coal.
- (b) Low proportion of scrap charged into blast furnaces.
- (c) Low level of operation and consequent inefficient use of fuel.



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In contrast to the above:

- (a) Normally the industry used a mixture of low-grade indigenous iron ore and high-grade imported ore. The same practice was followed with respect to coal. Currently the industry must rely almost exclusively upon low-grade indigenous materials.
- (b) Although an increased proportion of scrap charged into the blast furnaces would improve the quantity and the quality of the pig iron, scrap in suitable sizes and amounts has not been made available.
- (c) Normally, integrated plants operate continuously and at high levels in order to utilize fully blast furnace and coke oven gas for fuel economy. Currently, because of the shortage and low quality of coal and of the unavailability of suitable sizes and amounts of scrap, blast furnaces are unable to operate at a level sufficiently high to achieve normal fuel economies. For similar reasons many open hearth furnaces are unable to operate continuously, and very few are operating on blast furnace or coke oven gas. Most operating open hearth furnaces are running directly on coal or heavy oil.

Pig iron production per unit of coal consumed as a result of these inefficiencies is less than 40 per cent of normal. In spite of the relatively large consumption of coal by the industry, most of the steel is actually being produced in electric furnaces as shown by the following table:

<u>Operation</u>	<u>1930-34 Annual Average</u>	<u>Fiscal Year Ending March 1947</u>
Open hearth and converters	2,648,600 tons	208,434 tons
Electric furnaces (total)	73,800	439,723
Alloy steel	73,800	84,696
Carbon steel	-0-	355,027

In the soda ash industry two plants have been in operation, both at low and inefficient rates of production. If the coal consumed by both had been concentrated into one of the plants, output of soda ash would have been about 100 per cent greater.

Generation of electric energy by public utilities in 1946 was 160 per cent of the 1930-34 annual average, and generation in hydro plants alone was 157 per cent of total average generation in 1930-34.



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Since the war there has been an enormous increase in residential consumption, a consequence in part of the shortage of charcoal. However, residential consumption has been less than one-third of total consumption. In the first five months of 1947, thermal power plants produced an average of 107 million KWH per month to supplement the monthly average of 2428 million KWH generated by hydro plants. Thermal generated energy was only 4 per cent of total electric energy. Coal deliveries to the thermal power plants in the same period are reported to have been 720,000 tons (by contrast coal deliveries to the iron and steel industry, the largest industrial consumer of coal, in this period were 790,000 tons).

Consumption of electric energy by the primary metals, machinery and tools, and chemical industries in particular has been disproportionate to the output of products in an extreme degree. Consumption of electric energy during 1946 as compared with the 1930-34 annual average by major classes of consumers is shown in the following table:

(Per capita consumption in KWH)

	Average 1930-34	1946
Total	218.3	308.0
Residential	42.4	82.2
Industrial	143.5	196.4
Mining	20.1	29.7
Primary metals	15.3	30.0
Machinery and tools	7.8	24.8
Chemicals	54.9	79.5
Ceramics	8.7	4.4
Textiles	26.7	14.8
Other industrial	10.0	13.2
Other	32.4	29.4

#### Diversion of Critical Materials

The diversion of critical materials through the black market into relatively non-essential products is most pronounced among construction materials. It is most strikingly noted in the great number of structures which have sprung up or have been rehabilitated for use as stores, theaters, and restaurants while the housing crisis in the cities remains acute and while the coal mines have difficulty in securing vital lumber supplies. The large variety of metal-using consumer goods which are appearing in the shops in increasing amounts indicates a substantial loss of metal to more essential uses. The quality of these goods is generally inferior, and prices are exorbitant.

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Critical materials in significant quantity are also passing from the Japanese economy into use or consumption by the Occupation Forces. Although no food is consumed by the Occupation Forces, it is estimated that approximately 14 per cent of the total coal supply in the fiscal year ending March 31, 1947, went either directly or indirectly into Occupation Forces' consumption. This quantity is almost half as much as that received by all industrial users in Japan during the year. Occupation Forces' consumption of coal is divided into approximately the following categories:

Directly for heating, cooking, etc.	25.0 %
For railroad transportation of goods for Occupation Forces	32.5
To produce iron and steel products	7.5
To produce cement and ceramic products	14.0
To produce chemical products	8.0
To produce all other products consumed by Occupation Forces	13.0
	—
Total coal consumed by Occupation Forces, directly and indirectly	100.0 %

During the fiscal year ending March 31, 1947, the Occupation Forces used approximately 53 per cent of total cement production, 15 per cent of timber, 26 per cent of plate glass, 11 per cent of steel products, 46 per cent of electrical machinery production, and varying percentages of total production of many other items.

#### Outlook

The level of industrial production should remain for the next six months somewhat above the level of the past winter. The lower coal demands for space heating purposes during the warmer months has made more coal available to industrial users. Most of this increment is going to the iron and steel and chemical fertilizer industries.

If the coal supply can be increased, the level of industrial production will receive corresponding further benefits. The coal production goal for the current fiscal year is 30 million tons (this is 2.5 million tons per month; production in May and June averaged 2.1 million tons). Industrial production is closely correlated with the availability of coal. For this reason if

- (a) the 30-million-ton goal is reached,
- (b) the entire increment of 7 million tons above the past fiscal year is allocated to industrial users,



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thereby approximately doubling industrial consumption,  
and

(c) other serious bottlenecks do not arise,

it may be possible for the level of industrial activity to reach about 70 per cent of the 1930-34 average. These conditions, however, are subject to the following reservations:

- (a) the 30-million-ton coal goal is optimistic,
- (b) the increment of 7 million tons very probably will be allocated only in part to industrial users.

Even if the domestic coal situation improves, the prospects for the importation of adequate amounts of raw materials is not bright, and the lack of these imports would prevent the achievement of such a large increase in industrial production. Such imports are dependent upon foreign credits of one kind or another and on procurement arrangements.



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## FOREIGN TRADE

Imports

Imports of industrial raw materials have been obtained in extraordinarily small quantities. So long as the industrial raw materials are not imported in quantity, the economy will continue at a depressed level. In such basic materials as raw cotton, wool, high-grade coal, high-grade iron ore, rubber, and industrial salt, Japanese industry must rely primarily upon imports, and in the absence of adequate amounts of these materials there can be little industrial revival in Japan.

The low level of imports of industrial raw materials results from (a) shortage of foreign exchange credits, (b) low availability of materials in foreign markets, and (c) various trade restrictions in foreign markets. The credits which have been advanced by the War Department have been used principally to buy food and fertilizer materials. As a consequence of defeat, Japan lost all her foreign assets. Exports of goods since the end of the war have been insufficient to accumulate adequate funds. Postwar shortages of many basic materials in all countries have not yet been overcome. Political instability in the Far East has postponed recovery of the economies of the principal Asiatic countries, and sources which normally supplied Japan with many raw materials do not yet have adequate amounts of such materials available for sale and shipment. Even if credits were made available, there would remain a substantial problem concerning the availability of many raw materials.

Because of the scarcity of foreign exchange and the low availability in foreign markets of many basic materials, 1947 import goals were set at levels well below those of a normal period. In comparable price levels, the 1947 import programs are 35 per cent of the annual average imports in the 1930-34 period. Commodities other than food and fertilizer constitute about half of the current programs whereas in the 1930-34 period they constituted almost three-fourths of total imports. In other words, the program for commodities other than food and fertilizer is less than one-fourth of the 1930-34 annual average for these commodities.

Notwithstanding the relatively low goals of the 1947 import program for commodities other than food and fertilizer, actual imports during the first half of 1947 were at a rate which if continued would result in the achievement of only 20 per cent of the program. These materials are therefore being imported at a rate less than 5 per cent (in terms of comparable price levels) of the 1930-34 rate. Industrial

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recovery and the achievement through an expansion of exports of a self-supporting economy is impossible under such conditions.

On the other hand, progress to date toward the fulfillment of the food and fertilizer import goals has been very much better, and it is likely that the goals will be substantially achieved during the remainder of the year.

Among industrial raw materials, the principal imports in 1947 have been petroleum, salt, and rubber. The major materials for which imports have fallen far below the goals were textile fibers, ores and metals, coal, wood pulp, and a host of miscellaneous but critical materials.

### Exports

Exports are at a very low level because of the low level of production, especially of items designed for export sale. Raw silk exports are an exception in that the low level is principally explained by weak demand in foreign markets.

As the raw cotton imported in 1946 was processed, exports of cotton fabrics advanced to levels approximating one-fourth of the 1930-34 average. Continued export of cotton products at such levels is contingent upon the quantity of raw cotton which can be imported in future months. Other major export items have been metals, tea, coal, chemicals, rayon textiles, wool textiles, rolling stock, and electrical apparatus. However, the quantities have been small. Wool textile exports have been made possible through the consumption of stockpiles. This is also largely true of exports of metals. In recent months exports of raw silk have declined sharply in the face of the continuing weak market in the United States.

In the first four months of 1947, the total estimated value of exports approximated 40 million dollars which, in comparable price levels, is about 7 per cent of the 1930-34 average rate. Textiles constituted approximately two-thirds of the value of all exports. In the same four-month period, imports amounted to approximately 100 million dollars, leaving a deficit in foreign trade of about 60 million dollars.

Although private foreign trade will be reopened in August on a limited basis, it is unwarranted to expect consequent substantial stimulus in exports in the face of continuing low levels of production.



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## PRICES AND WAGES

New Stabilization Program

The wage and price stabilization program of the recently inaugurated Katayama Cabinet is based upon an all-out attempt to reduce maldistribution and effective prices of cost-of-living items through substantial improvement in distribution controls. If this objective can be realized, the stabilization of wage rates and official prices will become increasingly feasible. Meanwhile official prices are being adjusted upward generally in order to correspond with current cost conditions. Costs are being computed upon the basis of average wage rates of ¥1800 per month, or the prevailing industry rate, whichever is higher. Official prices of farm and marine products are being revised in accordance with the new parity levels resulting from increases in other official prices.

As compared with the levels prevailing in the early years of the 1930 decade, it is estimated that various price and wage indexes have shown the following approximate increases:

	<u>July 1946</u>	<u>May 1947</u>
Effective food prices (Tokyo)	50 times	90 times
Official food prices (Tokyo)	14	40
Manufacturing wage rates (all Japan)	19 10	26
Effective wholesale prices	-	60
Official wholesale prices	17	28
Farm parity	19	37

The ¥1800 per month wage rate will approximate 30 times the base level. Official wholesale prices, after the price revisions currently in process, it is estimated will approximate 60 or 65 times the base level. The farm parity index will exceed 50 times the base level and may increase as much as the official wholesale index.

Because of the runaway conditions which developed immediately prior to the formation of the Katayama Cabinet, and because the summer months are the most critical period of food supply, stabilization at the ¥1800 monthly wage level is highly speculative. During the four-week period ending June 1, 1947, the staple food ration delivery in the larger urban areas declined drastically, and

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the effective price index consequently increased sharply. In Tokyo the ration of staple foods fell to approximately 43 per cent of the amount delivered during May, and the effective price index for all foods increased by 37 per cent. The effective price index for staple foods doubled during this interval.

However, the favorable element in an otherwise bleak picture is the spirit with which the new Government is tackling this most serious problem confronting the nation. In addition to the revisions in official prices, the Government stabilization program is concentrating upon increased distribution through official channels and the extermination of black marketing. Primary attention is being devoted to the most essential commodities and to large-scale black market operations. The link system is undergoing revision so as to coordinate the supplies of incentive goods with the supplies of foods the farmers and fishermen will have for sale. Several government distribution companies have been organized to administer complete distribution of a limited number of key commodities. In an attempt to gain popular support for the measures necessary to achieve control of inflation and more equitable distribution the Government is instituting a publicity campaign and has already issued a comprehensive statement of the economic conditions confronting the nation.

#### Consumer Expenditures

In the fortnight ending June 29, 1947, consumer expenditures for the average family in Tokyo reached ¥2505. This level of expenditure is almost three times as high as the expenditure level in Tokyo in the summer of 1946. Expenditures in the six largest cities have been roughly equal to those in Tokyo, but in the other cities expenditures have approximated 75 per cent of the Tokyo level.

The data on family expenditures represent arithmetic averages of a sample cross section of families which includes high, medium, and low income groups. Influenced by the very high expenditures of the upper 15 per cent of the families, the average figure is substantially in excess of expenditures of the lower one-third of the families. For example, a special study showed that the 34 per cent of the families at the bottom of the scale made only 13 per cent of total expenditures, while the top 15 per cent of the families spent 38 per cent of the total.

Food expenditures account for 65 to 70 per cent of total expenditures in Tokyo. In the 22-week period ending June 1, 1947, the



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average family spent most of its money in the black market (as shown by the following table) to obtain limited quantities to supplement the ration.

<u>Food and Source</u>	<u>Average Expenditures Per Week</u>	<u>Average Quantity Obtained</u>
Staples	¥ 178	100 %
Ration	35	68
Black Market	143	32
Non-Staples	¥ 396	100 %
Ration	40*	20*
Black Market	356*	80*

\* Estimated

The consumer expenditure survey points to the conclusion that maldistribution of staple foods is much less pronounced than of non-staples, that low-income groups probably receive a reasonably fair share of the staple foods available to the urban population, but that the bulk of the available non-staple foods is purchased by the high-income groups.

Since the summer of 1946, the leading increases in family expenditures in Tokyo have been in all non-staple foods except vegetables, in clothing, and in other commodities. The non-staple foods for which expenditures have increased most are relatively low-calorie items such as pickled food, condiments, cake, candy, fruit, etc. From the standpoint of nourishment, expenditures for fish have increased most among important items.

A small sample study<sup>1/</sup> of government employees in Tokyo showed that they obtained an average of 1,814 calories per person per day during March 1946. On the average this group obtained 1,171 calories in the official ration, 548 calories in the black market, and from other sources such as gifts, home gardens, and office supplement, 95 calories. (Total calories include losses in preparation.)

<sup>1/</sup> This study covers a relatively favorable period and somewhat above average total purchases.



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(Calories per person per day)

Food:	<u>Total</u>	<u>Official Market</u>	<u>Black Market</u>	<u>Other</u>
Grains	1,056	905	127	24
Potatoes	284	22	245	17
Soy beans	108	104	0	4
Vegetables	39	11	26	2
Fish	26	5	19	2
Edible oils	118	59	59	0
Other	183	65	72	46

A further breakdown of the above figures on grains shows the following:

	<u>Total</u>	<u>Official Market</u>	<u>Black Market</u>	<u>Other</u>
Rice	567	471	88	8
Wheat	81	66	14	1
Flour and bread	394	276	7	11

The following conclusions are apparent:

- (a) Black market in potatoes (primarily sweet potatoes) has been most extreme.
- (b) Black market in rice and wheat accounted for approximately one-sixth of total quantity obtained of these foods.
- (c) The virtual absence of black market activity in flour, bread, and soybeans in this period is explained by the fact that these foods were principally imported during this period and therefore subject to complete control.
- (d) Two-thirds of the vegetables and almost three-fourths of fish were obtained from the black market.
- (e) Half of edible oils were obtained on the black market.

#### Food Prices

From the viewpoint of the urban consumer the prices of food overshadow in importance all other prices. The



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effective<sup>1/</sup> price index of food in Tokyo, which was 100 in the first two weeks of July 1946, had risen to 202 for the four-week period ending June 29, 1947. As a result of the relatively better distribution controls over staple as compared with non-staple foods, the effective prices of staple foods in Tokyo have shown a much smaller increase. In the June 29, 1947 period the staple food index was 183 and the non-staple food index was 217.

The effective price index is influenced by many variables, the chief of which are the quantities of food purchased both in the black market and in the official market and the prices in each market. To a lesser extent the index is influenced by the items which are most significant in total purchases during a given period.

Until the middle of November 1946 the staple food index declined from the July 1946 base level. For the following 20 weeks there was a steady rise in the index from 46 to 95; during this period, the staple ration<sup>2/</sup> averaged 1024 calories per person per day. During the four weeks ending May 4, 1947, the staple ration increased to an average of 1315 per person per day; and the effective price level for staples fell to 76. During the four weeks ending June 1, 1947, however, the average staple ration fell to 571 calories; and the price index skyrocketed to 151. Although the staple ration increased somewhat to 741 calories per person per day during the four weeks ending June 29, the staple food effective price index reached 183. The small size of the staple food ration impels the consumer to purchase in the black market. Reductions in the staple food ration (by means of delayed deliveries) enormously increase demand in the black market, and black market prices--not only of staples but also of non-staples--are driven upward. The recent large advances in the effective price levels for food have resulted principally from the decrease in delivery of the staple food ration, the consequent larger percentage of total food purchased in the black market, and the increase in black market prices.

Over a longer period which eliminates short-term fluctuations in the proportions and quantities of the staple ration, the principal factor in the increase in the effective price index has been the increase in black market prices. For example, the high point last summer in the average black market price of rice in Tokyo was ¥ 54 per kilogram in the fortnight ending August 11. The average black

- <sup>1/</sup> The effective price does not constitute the price paid in an actual transaction but is the weighted average of all prices paid both in the black market and in the official market.
- <sup>2/</sup> Staple foods include grains, potatoes and their milled products. The ration is the quantity obtained by consumers at official prices.



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market price in the fortnight ending June 29, 1947, was ¥ 90. Increases in official prices have also contributed to the rise in the effective price index but to a relatively minor extent.

In the 20-week period subsequent to September 1946, delayed delivery of the staple ration in Tokyo resulted in an actual ration of approximately 85 per cent of the standard. In the four-week period ending May 4, 1947, during the election campaign, delivery of staple rations was stepped up to approximately 106 per cent of the standard. This resulted in diminishing stocks available for Tokyo in the following weeks to such low levels that inflationary pressures have become increasingly serious. The sharpest advance in the effective price level, it should be noted, occurred in the period following the election and prior to the establishment of the new (Katayama) Cabinet.

#### Food Supply

Food supplies have been somewhat tighter in the large cities than in the other urban areas. In the 7-month period, November 1946 to May 1947 inclusive, the average Tokyo consumer purchased 1040 calories per day of staple food in the official market and an additional 504 calories in the black market, a total of 1544 calories of staple food.

374 For the remaining 5-month period before the rice harvest, consumers in the large cities particularly will be unable to purchase as much staple food as in the preceding 7 months. There will be somewhat less food available in the black market. For example, staple foods purchased in the black market in the 8-week period ending June 1, 1947, had declined to 374 calories per person per day as compared with 554 calories in the preceding 22 weeks. This trend is all the more significant when it is recalled that there was simultaneously a decline in the quantity obtained in the official market.

The summer wheat and barley crop, although slightly below normal, is estimated to be about 30 per cent greater than the poor crop of last summer. Collections for the official market to date have been running well in excess of collections last summer. Nevertheless, in the larger cities, delayed deliveries of the staple ration probably will result in an average ration decrease of approximately 15 per cent as compared with the ration level of the 7-month period ending June 1, 1947. If imports of food fail to arrive on schedule or in the presently expected amounts, the decline in staple foods for consumers in the large cities will be even greater.

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Wages

Although wages have been multiplying in the postwar period, they have failed to keep pace with rising prices. The great discrepancy between wage and effective prices developed in the waning months of the war and in the early postwar months. In May 1947 the average regular monthly wages for male laborers in manufacturing industries was approximately 26 times the 1930-34 monthly average and was three times the May 1946 figure.

In the postwar inflationary period real income of wage and salary earners has suffered a more serious decline than has the real income of any other large group. Coupled with the substantial degree of maldistribution through black markets in food and other scarce essential goods, the impact upon wage and salary earners is so severe that it is doubtful indeed that any government could take successful steps to impose wage ceilings.

However, unless wages can be stabilized, it will not be possible to stabilize official prices. Herein lies the dilemma. It is becoming more and more clear that for many months to come shortages of food and other essential goods will compel the Central Government to continue rationing. If through more adequate distribution controls the effective prices can be made to approximate official prices and there results a reasonably fair and equitable distribution of the limited supplies, wage and salary earners may be persuaded to support a wage stabilization program. Even under such conditions of equitable distribution however, living standards will inevitably remain for some time substantially below any level the people had experienced prior to the latter months of the war and subsequently. The situation will require a high degree of statesmanship.

In the following table are shown for various industry groups the average monthly regular wages of male laborers during May 1947 and the increases above the monthly averages for the 1930-34 period:

<u>Industry Group</u>	<u>Average Monthly Regular Wage May 1947</u>	<u>Increase Over 1930-34 Monthly Average</u>
All Manufacturing	¥ 1487	26 times
Metals	1805	26
Machinery	1457	23
Chemicals	1400	26
Ceramics	1577	32
Textiles	1038	28
Wood Products	1189	32
Food	1402	28
Miscellaneous	1027	19
Coal Mining (underground workers)	1615	42
Metal Mining (underground workers)	1384	34

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In addition, special bonuses and payments in kind amounted to an additional ¥ 123 in manufacturing industries on the average and ¥ 631 in coal mining. Special bonus payments are commonly paid on an irregular basis. For the 6 months ending May 1947 regular wages were 86½ per cent of total wages in manufacturing industries on the average and 78½ per cent for underground coal miners. Irregular bonus payments have long been granted in Japan, and the present practices are not unusual.

In view of the substantial size of the special payments to underground coal miners, it is probable that their wages have been increased relative to other wages even more than indicated by the figure of 26 times for regular wages above the 1930-34 averages, as compared with 26 times for all manufacturing industries.

From various sample studies which are available, it is evident that income from wages is in general insufficient to meet family living expenditures. Withdrawals from savings, sale and barter of possessions, gifts, and home gardens in many instances supplement wage income. In one such study in Tokyo for May 1947, for example, wage income constituted an average of 80 per cent of total cash income, sale of possessions 15 per cent, and withdrawals from bank savings 5 per cent. In addition there was an indeterminate amount of real income from gifts and home gardens. In spite of the supplemental income, wage and salary earners as a group are unable to purchase a fair share of the goods, especially non-staple foods, available in black markets.

#### Industrial Costs

As compared with conditions prevailing in the pre-war period, industrial commodity costs in general are most importantly affected by:

- (a) Wage rates have increased approximately 30 times.
- (b) The labor force is more or less the same size.
- (c) Most plants are operating at low levels relative to capacity or to normal, and
- (d) The rate of production averages about 30 per cent of the 1934-36 period.

As a result of the foregoing conditions, money costs have advanced enormously. Among industries, however, changes have been unequal; and the effect of changes has been unequal so that costs have advanced in some industries many times more than in others. The cost structure, that is the ratio of costs among commodities, has become distorted to an extreme degree.



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The cost of mining coal has advanced to the extent that the recently revised official prices paid to producers average approximately 128 times those prevailing in the 1934-36 period. Coal mining costs have advanced substantially more than the general average for all commodities as a result of greater than average increases in monthly wage rates, substantially larger labor force than in the pre-war period, and substantial decline in working hours per miner. Iron and steel costs have also advanced disproportionately, principally as a result of the low rate of output per plant and the low rate of output per unit of materials consumed. The recently revised official prices paid to producers are 144 times for pig iron and 104 times for steel bars higher than the averages prevailing in the 1934-36 period.

On the other hand, railroad freight rates have been advanced 16 times, commercial fertilizer prices about 75 times, caustic soda 68 times, lumber 82 times, coke 59 times, and passenger automobiles about 57 times. It is estimated that the average increase in official prices of industrial products will be of the magnitude of 60 or 65 times the level of 1934-36. In order to minimize the advance, substantial subsidies have been provided for several basic products, including coal for industrial uses, iron and steel.

Inasmuch as shortages of materials and goods are acute, inflation is well underway, money is cheap, price controls are of limited effectiveness, and the markets are dominated by sellers, there is relatively little competition among producers. Relative costs are ineffective in their normal role of eliminating the inefficient and promoting efficiency. There is among producers a combination of competition for materials and a sharing of the limited supplies. Even in those industries where it would be a clear benefit to the economy as a whole by way of increased total production to close many plants temporarily and to concentrate the limited materials into a few (such as the iron and steel and soda ash industries) there is little sentiment for such steps. Plants which would ordinarily close down in the face of extreme shortages of materials consequently continue to operate and to cling to their workmen. It is not in the Japanese tradition to discharge workers. Furthermore, inasmuch as separation allowances run into substantial sums, the immediate costs to the producer would be of relatively large magnitude.

Labor productivity as measured by output per worker per month is in general very low as compared with the wartime and pre-war periods, principally as a result of the material shortages which limit production levels. In many industries, such as cement, the decline in output per plant could not be accompanied by corresponding reductions in the number of workers without further curtailment of output. In many industries, such as coal mining, shorter work days, more holidays and higher rates of absenteeism than formerly prevailed explain the existence of a larger work force than would otherwise be required to maintain current rates of production.

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Farm Parity

The policy of the Government with respect to official prices paid to farmers is to establish such prices insofar as possible in relation to the average level of official prices paid by farmers for their purchases. One of the more significant effects of the advances in the level of industrial prices obviously is the impact upon the farm parity index and consequently upon the official prices of food. The farm parity index in May 1947 was 27 times and in July 36 times the 1934-36 average. Further sharp advances in the farm parity index in the immediate future will be inevitable as a result of the current increases in official prices of industrial products.



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## FINANCE

Government Finances

In times like the present when there are shortages of goods and materials of great magnitude, the basic responsibility devolves upon the central Government to minimize maldistribution of essential goods and to maximize the utilization of materials in the most economic manner. Inevitably Government participation in the financial transactions of the economy expands to unusual proportions; and if revenues fail to keep pace with expenditures, resort to borrowing is necessary in order to permit continuing discharge of the Government's basic responsibilities. To the degree that the various allocation, distribution, and price controls fail to achieve perfection, and to the degree that tax collections fall short of optimum, the financial problems of the Government are magnified.

The principal monetary source of inflation has been the Government deficit, the mounting size of which is a matter of grave concern. The Government expenditures in the fiscal year ending March 1947 were ¥ 119 billion. The deficit was approximately ¥ 47 billion. In addition, ¥ 18 billion of income was in the form of real property as a result of the capital levy so that the cash deficit was ¥ 65 billion. The principal unusual expenditures of the Government in the fiscal year ending March 1947 were for occupation costs ¥ 38 billion, for subsidies to producers in order to minimize consumer prices ¥ 12 billion, and for net operating deficits in Government enterprises (including the railroads) ¥ 7 billion.

For the current fiscal year it is now estimated on the basis of the new wage and price levels and the new subsidy program that expenditures will advance substantially more than revenues and that the deficit will exceed ¥ 125 billion. The higher expenditure figures for the current year result almost entirely from wage and price inflation, and further inflation may well make the current estimates obsolete at a later date. The principal unusual expenditures as in the past fiscal year are for occupation costs, price subsidies, and Government enterprise deficit financing.

Because real wages are so low relative to effective prices and the living costs of the majority of the non-food-producing part of the population are severe, the Government not only is heavily subsidizing certain key commodities but is also striving to minimize the tax burden upon low-income groups. To this end, the following revisions in income tax deductions have occurred:



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## (a) Through December 31, 1946:

¥200 per month as personal deduction and ¥6 per month as tax credit per dependent.

## (b) From January through March 1947:

¥500 per month as a personal deduction and ¥20 per month as tax credit per dependent.

## (c) From April 1947 to date:

Earned income deduction of 20 per cent of gross earned income. ¥400 per month personal deduction; ¥20 per month tax credit per dependent.

The principal source of revenue however is the income tax. Although recent improvements in the tax system, such as the institution of the "pay-as-you-go" principle, are resulting in increased yields, the major problem is still the one of effective assessment and collection from the medium and high-income groups composed mainly of food producers, merchants, and blackmarketeers whose records are lacking or obscure. More effective collection from these groups would substantially reduce the Government deficit and would reduce the pressures upon the price levels.



STANDARD FORM NO. 64

1505

Office Memorandum • UNITED STATES GOVERNMENT

TO : Le

DATE: August 28, 1947

FROM : OE - Mr. Whitman

SUBJECT: Interpretation of paragraph 16c, FEC-032/26.

DEPARTMENT OF STATE  
LE/E  
SEP 8 1947  
ECONOMIC AFFAIRS  
OFFICE OF THE LEGAL ADVISER

1. Discussions currently in progress between State and War Department officials and representatives of certain U.S. banks regarding the obtaining of bank loans to finance Japanese imports, have given rise to the following questions respecting the proper interpretation and implementation of paragraph 16c, FEC-032/26 by this Government and the Supreme Commander.

a. Does the requirement in first sentence of subject paragraph that stocks "should be disposed of as reparations", when read in conjunction with remainder of paragraph, permit the pledge of these assets as collateral for loans as well as use for direct purchase of foreign exchange for imports to Japan? If so, can such pledge be given while the assets are in Japan and without intention to ship the assets from Japan unless required to fulfill the pledge or to safeguard the assets?

b. Does the last sentence of the paragraph permit the removal of the stocks from Japan at this time for assay and/or safekeeping abroad without transfer of title or liquidation: (1) without pledging the assets prior to shipment; (2) after pledging the assets?

c. If the stocks are left in Japan because (1) the answer to b. is negative, (2) for other reasons, can the Supreme commander or his duly appointed representative make a commitment to ship the stocks from Japan in case of emergency such as imminent expectation of political or military events that might endanger their safekeeping or of a decline in world prices that would necessitate their liquidation to redeem SCAP commitments, and may SCAP make a further commitment to pledge such assets or the liquidated value thereof to specific creditors prior to shipment? If so, must each FEC country be given opportunity to purchase the assets with acceptable currencies?

2. I would appreciate the views of Le on the above questions, particularly regarding any legal issues involved. It is recognized that certain political questions also enter into the proper course to be followed respecting the utilization of these stocks. The bank representatives have indicated that a substantial interest premium will be required for loans secured by gold or the equivalent which is held in Japan even though a commitment for the removal of the gold under conditions indicated in 1c above were obtained.

3. Mr. McDiarmid of this Division is available for further information regarding the issues and problems involved.

*Received by  
Mr. McDiarmid*

OE:OJMcDiarmid:mrr 8/28/47

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## DEPARTMENT OF STATE

## Memorandum of Conversation

DATE:  
September 16, 1947SUBJECT: 1. Use of Japanese-owned gold and silver as revolving fund; and  
2. Progress of C2-242 in Committee no. 2 - FEC

PARTICIPANTS: Mr. Everson - British Embassy; Mr. Christelow - UK Treasury Delegation, Mr. McDiarmid OE, for part of discussion; and Mr. Whitman

COPIES TO: Mr. Martin - OE  
General McCoy - FEC  
Mr. Allison - NA  
Mr. Doherty - PN  
Mr. Magill - ED  
Mr. Moreland - A-S  
General Snow - Le✓

1. Use of Japanese-owned gold and silver as revolving fund. Mr. Everson called at my request to discuss the use of Japanese-owned gold and silver as a revolving fund. I asked whether he felt the provisions of Circular no. 9 (recently issued by SCAP establishing the fund) were within the terms of the FEC policy decision in FEC-032/26. Mr. Everson replied that while the circular might have emphasized maintaining the value of the fund somewhat more, he felt in general it met the requirements of the FEC policy. I then asked whether, in view of SCAP's responsibility to preserve the value of the fund, SCAP had the authority to pledge these assets to lenders and liquidate them if necessary to meet the pledge. Mr. Everson stated it seemed clear that the purpose of establishing the fund was to finance trade and that trade could not be conducted without risk. Therefore, as long as SCAP was acting in good faith, he thought the fund might be pledged and reduced if necessary to meet losses. I stated this agreed with the U. S. interpretation and we were glad to learn of his concurrence.

I then stated that some banks felt they would be prepared to make loans more readily if the assets were

located



- 2 -

located outside Japan. Mr. Everson suggested that if it was only a matter of differences in rate of interest, it might be better not to move the gold since it would cause a political outcry from the Soviets and since, in any case, fund assets would shortly accumulate outside of Japan which would make the borrowing possibilities simpler. In addition, movement of the gold would affect Japanese confidence.

Mr. Christelow stated he was reasonably sure that credits could be obtained on the basis of the assets in the fund and thought we should try to implement the program as outlined in SCAP's Circular no. 9.

2. Progress of C2-242 in Committee no. 2. Mr. Everson stated he had discussed the problem of failure of many members of Committee no. 2 to vote on amendments with some of the Dominions and thought some of the representatives were interpreting their instructions too narrowly. He agreed that I should also speak to various members of the committee about expediting progress on committee action on the paper. With regard to the most recent U. S. amendments, Mr. Everson thought he might be able to support some of the U. S. proposals but he was doubtful that his government would agree to increase the petroleum refining figure to more than four and one-half million barrels.

OB:RHSWhitman:emh  
9-17-47



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**DEPARTMENT OF STATE**  
**THE LEGAL ADVISER**

September 16, 1947

TO: C. E. Snow

FROM: William R. Vallance

SUBJECT: **Meeting** in room 4223-A at request of Mr. Hilliard (A-H)  
September 16, 1947 *Re: para 16 (c) of 032/26*

The group was advised by the Chairman that it was considered essential to decide upon a State Department policy with respect to the removal of gold, silver, etc. which was ear-marked for reparation purposes from Japan as security for credits to be used in providing cotton for textile operations in Japan and similar activities. It was stated that the Export-Import Bank would take care of one-quarter of the necessary credits and that private banks headed by the Chase National Bank would provide the other three-quarters of the funds needed. However, they would not enter into this arrangement if gold, silver, etc. above-mentioned remained in Japan unless (1) a legal opinion sent to the Export-Import Bank and to the private banks was given that the funds advanced would be a first charge upon the gold, silver, etc. and (2) that the gold, silver, etc. would be held by a third party which could dispose of the gold, silver, etc. without difficulty or obstruction in case there is a default in the repayment of the credits. The rate charged for the credits advanced on these bases would be  $3\frac{1}{2}$  percent.

The alternative proposal was that the gold, silver, etc. should be removed to the United States and placed in the Federal Reserve Bank at San Francisco or in a Canadian bank at Vancouver where it could be disposed of for the credits without difficulty in the case of default. A question for determination by the political division concerned was whether the transfer of the gold, silver, etc. from Japan would arouse severe criticism and would be used by the Soviets to discredit the United States. This problem will be considered carefully by the Geographical Division and a decision will be reached thereon at a meeting later this week. The rate of interest charged by the banks would be 2 percent in case the funds are brought to the United States or Canada. I pointed out that a number of governments have their gold reserves in the United States in the Federal Reserve Bank and that this Department issues certificates from time to time as to persons entitled to operate these accounts.

It would

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It would seem that it would be no reflection on Japan's ability to pay to have the gold and silver, etc. deposited here, especially as this would give the banks a greater feeling of security and at the same time a better rate of interest would be obtained.

A compromise proposal which seemed to be received more favorably was that at the present time only so much of the assets should be brought to the United States and pledged as was necessary to finance the purchases of cotton which is badly needed to continue operation of the textile mills. There could be no criticism of such a transfer which is to carry on an activity that is vital to Japanese economy.

It was agreed that a statement along these lines would be prepared by one of the officers present and would be submitted at a subsequent meeting this week.

W.R.V.

Le/P:WRVallance:lml

*Legal adviser*



FEC-032/25

RESTRICTED  
23 July 1947INTERIM IMPORT-EXPORT POLICIES FOR JAPAN

.....

16. g. Stocks of gold, silver, other precious metals, precious stones and jewels of clearly established Japanese ownership ultimately should be disposed of as reparations. In the meantime, values of such Japanese assets should be preserved, but such assets themselves may be used as a means of acquiring foreign exchange to aid in financing production programs designed to contribute to the revival of productivity in a Japanese peace economy. In case of export of the above-mentioned assets equal opportunity to acquire these assets in return for acceptable currency should be granted to all member countries of the Far Eastern Commission.



C O P Y

In reply refer to  
OE

My dear Mr. Cleveland:

Reference is made to the SCAP circular entitled, "Establishment of Occupied Japan Export-Import Revolving Fund" which was prepared by you, Mr. Evans, and SCAP officials during the recent visit of the Cotton Textile Financing Mission to Japan. I understand this circular has been approved by the Chief of Staff in Tokyo and has probably now been published.

I am in general agreement with the basic premises upon which this plan was drafted and consider that a highly commendable job was done by yourself and your associates. I should like to suggest, however, certain relatively small changes in wording in the circular, which I believe will serve to clarify its intent without changing the principles involved or interfering with the accomplishment of the objectives of the program. These changes have already been discussed in general with you by myself and other State Department representatives and, I understand, some of the points were raised in a recent meeting with the cotton shippers and representatives of the Export-Import Bank.

My suggestions are as follows:

(a) Paragraph 5d. I believe it should be explicitly stated in the circular that the 15% withdrawal provision for the purchase of general Japanese imports as defined in this subparagraph may be a recurrent rather than a one-time operation. In other words, if advances made from the value of assets specified in paragraphs 4a, 4c and 4f are replaced out of the net cash income of the fund, in that event second and successive withdrawals up to 15% of the initial assets of the fund may be made. I believe this could be made clear by deleting the period at the end of the subparagraph, inserting a semi-colon and adding, "except that in the event the fund is reimbursed for such advances out of net cash income from its operations, second and successive advances may be made for the purposes specified in this subparagraph, providing the amount of such advances outstanding at any

time

Mr. Paul Cleveland,  
Economic Section, Civil Affairs Division,  
War Department,  
Washington 25, D. C.



- 2 -

time and for which the fund has not been so reimbursed shall not exceed 15% of the assets specified in 4a, 4c, and 4f".

(b) Paragraph 6b. I believe that paragraph 6b is not entirely clear as to the interpretation of the words "or obligation incurred". You will recall this was discussed at the recent meeting with the cotton shippers. I believe the intent would be clarified by a substitution of the following wording for this paragraph:

"No disbursements will be made from the assets of the fund, except to meet previously incurred obligations, unless after any such disbursement there remains in the fund a cash reserve consisting of gold or its equivalent, dollars and freely convertible currency, equal to 30 per cent (30%) of the initial value of the assets specified in paragraphs 4a, 4c, and 4f above, or of outstanding liabilities, whichever is greater. The fund will not be obligated while the cash reserve is less than the amount specified above unless assets thereby obtained are used to restore the cash reserve to that amount."

(c) Paragraph 7. My major comment is in respect to paragraph 7 and particularly subparagraph 7b. As I understand the paragraph in its present wording, any withdrawals from the fund under this paragraph are precluded until the net worth of the fund has been build up out of profits to 50% of the liabilities, such liabilities to include the initial value of the assets of the fund. I believe the purposes of this paragraph were to increase the security afforded lenders and to safeguard the initial value of the "gold pot". I suggest that the provisions of this paragraph are overly restrictive, however, and in addition somewhat difficult of understanding because of the unusual connotation of the words "liabilities" and "net worth" as used therein. I suggest, therefore, that the period after "liabilities" in the eighth line be deleted and there be added, "or the initial value of the assets listed in paragraph 4a, 4c, and 4f above, whichever is greater". Subparagraph 7b should then be deleted.

With these changes I believe the circular to be a clear and workable document. I suggest, however, that we consider as soon as possible how best to affect these alterations, as I understand the circular will be incorporated in loan agreements made by the controller of the fund and would then become a fixed and immutable document. Agreement on this matter should also be reached before the proposed meeting with Mr. Saltzman and officials of the War Department on the overall credit arrangements for Japan.

Sincerely yours,

Roswell H. Whitman  
Associate Chief  
Division of Occupied Areas  
Economic Affairs

OE:OJMcDiarmid:mrr

8/29/47

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SCAP CIRCULAR NO. \_\_\_\_\_

ESTABLISHMENT OF OCCUPIED JAPAN  
EXPORT-IMPORT REVOLVING FUND

1. There is hereby created an Occupied Japan Export-Import Revolving Fund (hereinafter referred to as "The Fund"). The Fund is established to provide a credit base and a means for financing, primarily on a self-liquidating basis, Japanese imports and exports of commodities and services which are required for the achievement of the objectives and policies of the occupation and for the mutual benefit of the United Nations and Japan.
2. The Fund shall be managed and operated by a Controller and an Assistant Controller designated by the Supreme Commander for the Allied Powers.
3. The Controller and the Assistant Controller shall be responsible and accountable to the Supreme Commander for the Allied Powers for the safe custody of the Fund, and shall have authority to make all collections of moneys due the Fund, to make disbursements from the Fund, to make any commitments, allotments, allocations or incur obligations involving the Fund, and shall manage and control the Fund in accordance with authorized policies established to achieve the aims of the occupation and shall have such other and appropriate authority to do or engage in all acts necessary, appropriate or convenient to the successful operation of the Fund.
4. The Fund shall have available as assets the following:
  - a. Gold and its equivalent in the approximate value of one hundred thirty-seven million (\$137,000,000) dollars, made available to the Supreme Commander for the Allied Powers for the purposes stated herein.
  - b. The export proceeds of all products, including textiles, manufactured from materials the import of which was financed by the Fund, or by credits based thereon.
  - c. The export proceeds (in excess of the amount necessary to liquidate CCC<sub>1</sub> and CCC<sub>2</sub> accounts) derived from the sale of textiles manufactured from cotton imported under CCC<sub>1</sub> and CCC<sub>2</sub> contracts.
  - d. Any moneys otherwise accruing from any operation of the Fund.
  - e. That proportion of the total export proceeds as the respective value of the material purchased through the use of the Fund bears to the total value of all materials used, when any material, the import of which into Japan is financed through the use of the Fund, is mixed with any other material not acquired through the use of the Fund.
  - f. Other assets as may be designated by the Supreme Commander for the Allied Powers.

5. The Fund



- 2 -

5. The Fund shall be used as a credit base or for the payment of the following only:

a. Fidelity and surety bond premiums of the Controller, Assistant Controller and such other employees as may be deemed necessary.

b. Materials imported for the purpose of directly deriving goods for export therefrom of at least an anticipated value in excess of the cost of such materials.

c. Raw materials, processing materials or operating supplies needed for the production of such exports.

d. Services and general imports of machinery or machine parts, supplies, or other materials deemed necessary by the Supreme Commander for the Allied Powers for the general Japanese economy; provided that any funds advanced for these purposes shall not exceed fifteen per cent (15%) of the value of the assets of the Fund specified in Paragraphs 4a, 4c, and 4f, above.

e. Fees, service or other charges arising out of any transaction specified in Paragraphs 5b, 5c, and 5d, above.

6. The Fund shall be subject to the following special restrictions:

a. No special lien, or preference, shall be given any supplier of commodities for which the Fund is obligated or expended.

b. The Fund shall not be expended or obligated unless after such expenditure is made or obligation is incurred, a cash reserve consisting of gold and its equivalent, dollars, and freely convertible currency is equal to 30 per cent (30%) of the initial value of the assets specified in Paragraphs 4a, 4c, and 4f, above, or of the outstanding liabilities, whichever is greater.

c. Except upon final liquidation, or except as provided in Paragraph 5d, above, no expenditure will be made or no obligation will be incurred which by payment thereof will impair the initial value of the assets of the Fund, except that the Fund may be utilized as a revolving fund or obligated as a credit base on terms which will reasonably assure repayment to the Fund within one (1) year of amounts no less than those amounts so expended or obligations so incurred. The period of one (1) year shall be computed to commence with the date of arrival in Japan of any commodities acquired through the use of the Fund.

7. Subject to the terms and provisions of Paragraphs 5 and 6, above, at such times as the net worth of the Fund exceeds fifty per cent (50%) of the total liabilities as reflected by the last current statement of the status of the Fund then, and in that event, and in that event only, the Supreme Commander for the Allied Powers may, at his discretion, withdraw

from



- 3 -

from the Fund any amount so long as such withdrawals do not reduce the net worth of the Fund to less than fifty (50%) per cent of the total liabilities. For the purposes of this Paragraph 7:

a. In addition to assets described in Paragraph 4, above, assets shall include, but shall not be limited to, all of the following resulting from the operation of the Fund.

- (1) Receivables arising from firm forward export sales,
- (2) The value of raw materials at cost or market (whichever is lower).
- (3) Goods in process at the value of the raw materials, and,
- (4) Finished goods at their export market value or forward sales value.

b. Liabilities shall include, but shall not be limited to, the initial value of Paragraphs 4a, 4c and 4f, above, plus all accounts payable and commitments made.

8. The Controller shall render a monthly statement of the status of the Fund to the Supreme Commander for the Allied Powers within thirty (30) days after the last business day of the month for which such statement is rendered. Copies of such statement will be made available to such parties as the Supreme Commander for the Allied Powers may direct, or as may be entitled thereto pursuant to the terms of any contract approved by him.

9. In the event of a transfer of authority prior to a peace treaty or upon the proclamation of a peace treaty to which the United States Government and the Japanese Government are signatories, the Controller upon the occurrence of either of the stipulated contingencies shall liquidate, as soon as may be practicable, all proper claims (including commitments) against the assets of the Fund. The balance of the Fund shall be retained for appropriate ultimate disposition in accordance with controlling directives.

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## DEPARTMENT OF STATE

## Memorandum of Conversation

DATE: September 11, 1947

SUBJECT: Use of Gold Fund and SCAP Circular No. 9

PARTICIPANTS: Mr. Cleveland - CAD  
 Lt. Col. Baldwin - "  
 Gen. Snow - Le ✓  
 Mr. Whitman - OE  
 Mr. McDiarmid - OE  
 Mr. Evans - IR

COPIES TO:

1. First subject of discussion was the interpretation of paragraph 16 c, FEC-032/26, authorizing the use of Japanese-owned convertible assets for trade purposes. Mr. Cleveland stated the problems raised by the Export-Import bank in connection with the proposed support by the bank of the NACC cotton credit for Japan. The principal question raised by Mr. Gauss? of the directorate of the Bank, is whether the FEC policy permits the use of the assets to meet losses that might arise in connection with loans secured by the assets. It was the sense of the meeting that the authority to use the assets for imports to Japan, implies the authority to pledge and to meet any losses resulting therefrom. Le (Gen. Snow) has provided an opinion stating in general that the assets may be pledged, but referring to the obligation to preserve the value of the assets for reparations use. It was considered by participants at the meeting that the portion of the FEC policy requiring the preservation of the assets is adequately met by the terms of the SCAP circular under which the assets will be used.

The following are considered to be safeguards against the possibility of the assets not being available for meeting obligations of SCAP, should the need arise for such use:

a. SCAP is the sole executive authority for FEC policy in Japan, and he has been advised that War, Navy and State consider that SWNCC 353/2, which authorizes the use of these assets as collateral, should guide SCAP in the implementation of the FEC policy.

b. SCAP's interpretation of the FEC policy cannot be changed, except by a new policy statement by FEC over which the U.S. has the power of veto.

It was



- 2 -

It was agreed that Mr. Cleveland would arrange a meeting on Friday, September 12, with Mr. Haffry of the Export-Import Bank and State representatives to discuss a proposed exchange of letters between the Bank and State to resolve the Bank's doubts on the subject.

2. The other item of business at the meeting was the changes in SCAP Circular No. 9 proposed in a letter from Mr. Whitman to Mr. Cleveland. Mr. Whitman and Mr. McDiarmid thought it advisable to make any contemplated changes in the circular before it is incorporated into agreements for financial credits. Mr. Cleveland stated that he did not wish to change the circular at this time, but agreed it may be changed later in certain particulars, and such changes should be made before too many contracts are made. Particularly, Mr. Cleveland did not wish to change it in advance of the NACC deal. Reasons for not making changes at this time are:

a. War Department is not yet ready to take an official position on any general changes in the circular and other changes should not be made pending possible general changes.

b. Changes made now would have a disturbing effect on negotiations for the NACC credit.

c. Interpretative rulings of the controller can be used to meet two of the three points raised in the Whitman letter.

d. A change in the circular would be hard to get through SCAP at this time.

Mr. Whitman said he would consider these points in further discussion of the matter with A-S.

3. It was agreed that SCAP Circular No. 9 be made available to FEC countries if they have not already received copies.

OE:OJMcDiarmid:mw



HARVARD UNIVERSITY  
GRADUATE SCHOOL OF PUBLIC ADMINISTRATION

*1641*  
*[Handwritten signature]*

INTERNATIONAL ECONOMIC RELATIONS SEMINAR

LITTAUER CENTER  
CAMBRIDGE 38, MASSACHUSETTS

September 26, 1947

*see 894.50/9-15-47*

Mr. Edward Martin  
U. S. Department of State  
Washington, D.C.

Dear Mr. Martin:

You were kind enough to send me a copy of the Japanese paper on economic conditions as published by one of the Japanese newspapers. At that time you thought you might be able to send me two copies of the white paper upon which this was based. Is the white paper still available?

Do you know whether I need permission to quote part of the statement as given in the Tokyo paper? I would like to use extracts from it in a book on world economic conditions.

Sincerely yours,

*Seymour E. Harris*  
Seymour E. Harris  
Professor of Economics

H:B

*file*  
*Drafted reply*  
*OG - 10/2/47*  
*H. D. Owen*

JOB - TRIP UNIT	
Anal.	<i>epm</i>
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Col.	<i>[Handwritten initials]</i>
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894.50/9-2647

CS/A

*894.50/9-2647*



1647

OCT 6 1947

In reply refer to  
OE

894.50/9-2647

My dear Professor Harris;

I am sending you two copies of the Japanese Economic White Paper under separate cover. You do not need permission to quote part of the statement as given in a Tokyo newspaper.

If I can be of any further help to you please let me know.

Sincerely yours,

Edwin M. Martin  
Acting Chief  
Division of Occupied Areas  
Economic Affairs

DCE - IEP Unit	
Encl.	<i>lpm</i>
Rev.	<i>mf</i>
Dist.	<i>mm</i>
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CS/A

Mr. Seymour E. Harris,  
Professor of Economics,  
Harvard University,  
Cambridge 38, Massachusetts.

A true copy of  
the signed original.

3 1947 P.M.

OE:HDOwen:emh 10-2-47

894.50/9-2647



STANDARD FORM NO. 64

*Office Memorandum* • UNITED STATES GOVERNMENT

TO : Mr. E. M. Martin

RWE/evc

DATE: 30 September 1947

FROM : R. W. Barnett *RWB*

SUBJECT: Canberra document

Attached is a copy of a document circulated at Canberra for study and comment by the British Commonwealth Conference. It came to me from Powles through Borton. While not discussed at length at the Conference, this memorandum does suggest the general line of thinking on post-treaty economic policy.

Enclosure

*894.50/9-3047*



BRITISH COMMONWEALTH CONFERENCE  
CANBERRA, 1947

SUPPLEMENTARY NOTES ON ECONOMIC AND  
FINANCIAL PROBLEMS

A. POST-TREATY SECURITY CONTROLS

There should be restriction of Japan's heavy industry but in order that Japan may have a viable economy it is desirable to place reliance on highly selective controls aimed at a few key industries, leaving Japan freedom in the rest of the industrial field. The objectives of security might be achieved by -

- (a) Prohibition of production of a few goods of strategic importance such as light metals, synthetic oil, and synthetic rubber;
- (b) Limitation of production and productive capacity in iron and steel, industrial explosives, oil refining and storage, and shipbuilding, to defined levels;
- (c) Supplementation of this short list of prohibitions and restrictions by appropriate import controls.

B. INTERNAL MEASURES AIMING AT SOCIAL AND ECONOMIC  
DEMOCRATISATION

9-3047

Effective democratisation must be based on sound economic conditions and on changes in the distribution of economic power. If it is not, the constitutional changes forced on Japan will lose their significance and the old governing classes will reassert their authority even though in indirect and concealed ways. Suggestions designed to destroy the concentration of economic power in relatively few private hands are included in Section 7 of Dr. Evatt's "Notes on the Provisional Agenda", under the following headings:-

1. Trade Unions and Employers' Associations
2. Land Reform
3. Dissolution of Zaibatsu
4. Economic Equality
5. Maintenance of Domestic Employment
6. Fiscal Policy

C. ADHERENCE TO INTERNATIONAL CONVENTIONS AND  
AGREEMENTS

In order to prevent unjustifiable exploitation of labour, especially child labour, dumping, abuse of patents and trademarks, and discrimination against foreign firms and interests, Japan should be compelled to comply with the obligations of all international bodies operating in the