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ECONOMIC MISSION

TO THE

RYUKYUS

GENERAL HEADQUARTERS
SUPREME COMMANDER FOR THE ALLIED POWERS
ECONOMIC AND SCIENTIFIC SECTION

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SUMMARY RECOMMENDATIONS

This report proposes:

1. A minimum wage of ¥2,000 per month. This would result in an average wage of about ¥2,100 at present work hours (40 per week). It is hoped that the scale will provide an incentive for longer work hours resulting in an average monthly wage of ¥2,400 (at 48 hours per week).
2. A military conversion rate of 120-1 to be used for all commercial trade and for military internal purposes. This would result in a dollar wage of \$20.00 per month, or \$240 per year, at 48 hours per week.
3. A conversion ratio averaging from 50-1 to 60-1 for the purpose of pricing GARIOA aid goods. This should stabilize the cost of living at the present level. Assuming a stable \$240 per annum wage, such GARIOA goods would be increased in price as future volume declines.
4. That the special supply stores be abolished and that preferential pricing of meals for workers in compounds be abandoned.
5. That domestics and club workers who have meals furnished also have deducted a sum equivalent to recommended deductions for compound workers.
6. That workers on public works be paid a scale roughly 10 per cent under the military scale. In outlying areas, however, such work employment should be at the prevailing rate of the area.
7. That OCA provide wages comparable to the "military", the financing of this made possible by increased income tax receipts from "military" workers.
8. That the reclassification of workers now under consideration be expedited.
9. That the money supply of the Ryukyus be properly distributed as between the several geographic areas by proper budgeting and allocations of the RMG budget with full consideration of the wages paid to "military" employees.
10. That an R. F. C. not be established, but that the present banking system provide "counterpart" loans to private industry. The report discusses how such loans are to be made without tying up funds unnecessarily and without creating inflationary pressures.
11. That an adequate supply of Japanese consumer goods be provided as soon as possible even if it means utilizing GARIOA funds and excluding other GARIOA items.
12. That the principle of reducing GARIOA by dollar earning be modified by programming all requirements and by providing a reserve of

dollars (and yen) against the time when reconstruction in the south half of Okinawa can be undertaken in earnest.

13. That every impediment to inter-island trade and trade with Japan be eliminated.
14. That every effort be made to improve present manpower utilization, so as to keep the expansion of the required labor force to a minimum.
15. That budgeting and planning, both U.S. and RMG, be coordinated.
16. That a budget mission from Tokyo be called in as soon as possible to revise the RMG budget and to time it so as to coincide with the U.S. budget year as an aid to budget and planning coordination.

MISSION REPORT

Mission

This SCAP mission to Okinawa is "for the purpose of making recommendations to the Commanding General, Ryukyus Command, on the internal exchange rate, wage levels, prices of imported foods and financial procedures to be established in the Ryukyus Islands".

Statement of the problem

Widespread distortions as between wages, prices, the exchange rate, and other factors now are evident throughout the Ryukyuan economy threatening the existing program in the Ryukyus. The expanded construction program cannot help but aggravate the already serious economic problems. The success of the construction effort is dependent upon achieving stable wage and price levels and establishing a satisfactory rate of exchange between the Ryukyuan yen and the dollar with cross rates to the Japanese yen and the Philippine peso. It is essential that stability be achieved so that contractors can bid with some degree of certainty as to their costs.

Assumptions

1. That the Ryukyuan yen must continue to be utilized.
2. That the peak labor force will approximate 55,000 Ryukyuan workers including additional new service workers for the expanding American community.
3. That the present cost of living will be maintained or reduced.
4. That the fiscal policies for the Ryukyus must be planned on the basis of the volume of dollar expenditures in the Ryukyus with due consideration of the expansion of trade.
5. That the maximum dollar expenditures in the Ryukyus (\$10.3 million) for construction will be made in U.S. fiscal year 1951.
6. That the U.S. will provide adequate funds for the welfare of the people and the rehabilitation of the economy.
7. That the size of the "military" construction program precludes the immediate and full reconstruction of the south half of Okinawa and that reserves in yen and dollars must be set aside against the day when the "military" construction program has ended and the domestic reconstruction can be undertaken in the south half of Okinawa.

General Findings

In general it has been very difficult to obtain the data necessary for a fully adequate review of the several problems. It is necessary, therefore, to base the analysis upon estimated or incomplete data. To be sure, estimates have been checked at several sources in an effort to obtain a basis for evaluation of the existing situation and for making recommendation. The

paucity of data, the uncertainty of many conditions, and the limitations of time have precluded long-range recommendation with regard to the problems. It is the unanimous opinion of the group that the success or failure of the program of recommendations is contingent upon the proper timing and coordination of the several segments. The most important single element, however, is the speed with which an adequate supply of a variety of consumer goods suited to the Ryukyuan needs and tastes can be made available. The economic are such that the present economic distortions will be further aggravated unless action is prompt, direct, and sound.

Recognition should be given to many of the RMG personnel who see their individual problems clearly, and to many who also understand the overall problems. Much of the present situation arises from faulty coordination of effort and lack of delegated authority to take action.

Exchange Rate

At the present time an internal exchange rate of ¥50 to the dollar is in effect. Yen are purchased with dollars and utilized to pay for labor and supplies furnished to the "military" establishment by the Ryukyuan economy.

Imports have been priced, in theory, at ¥50 to the dollar: in practice there has been considerable variation. Typical rates follow: medical supplies (¥10 rate), fertilizer (¥25 rate), food for compounds (¥33 rate), POL (¥40 rate), industrial equipment (¥40 rate), food through mura stores (¥95 rate), etc. A small quantity of imports from commercial accounts sold on the free market average about ¥250 to the dollar, with individual commodities going as high as ¥500. The incentive goods for special trade stores range from ¥40 to ¥60 in their rates.

Exports (exclusive of phosphate rock) average around ¥200 to the dollar with wide ranges between individual items. There exists a black market for Military Payment Certificates at about ¥140 to the dollar. M.P.C.'s circulate freely, though illegally, among the Ryukyuans.

The present rate is unrealistic for the purpose of employing Ryukyuan labor. It is also unrealistic for commercial imports and exports and military conversion. For purposes of exchange with the Japanese yen 1-to-1, it is most inequitable. For all these purposes the present rate does not reflect the true value of the currency in terms of goods.

For American Aid imports to the Ryukyus the problem is not one of the value of goods landed in Okinawa at a rate used for other purposes. These goods, purchased primarily from high cost producing areas and carried to Okinawa with high cost shipping, are for the welfare of the people and the rehabilitation of the economy. The maximum limitation on this exchange rate should be the quantity of yen required to operate the military government in lieu of a central Ryukyuan government and to provide a "counterpart" fund and other reserves to aid the reconstruction and rehabilitation of the Ryukyuan economy through public works, grants-in-aid and/or loans. Because imports under GARIOA have such a high per capita dollar value as related to the per capita dollar value of domestic production, they cannot be translated to yen at the exchange rate or ratio used for other purposes. An attempt to provide

the public with required purchasing power at such an exchange ratio would create drastic inflationary pressures. Further, it is essential that the cost of living be maintained or lowered to insure the success of the military construction program. (An analysis of the yen ratio as applied to GARIOA imports and the budget appears later in this report.)

It is recommended that the internal exchange ratio should be altered to some point within the range of ¥120 to ¥140 to the dollar with a distinct preference for the lower ratio. Cross ratios to the Japanese yen and Philippine peso should be in terms of dollars. Export considerations do not warrant the highest ratio in the range. The lowest ratio in the range is preferred so as to favor low prices on incentive goods purchased from Japan with Ryukyuan dollar earnings. Finally, the lower the ratio the less the inflationary pressures therefrom.

While a large quantity of data were utilized to determine the range of the ratio, the most significant element is the price of domestic rice in yen as related to the Japanese yen rice price. This relationship indicates that the Ryukyuan yen is worth roughly three times as much as the Japanese yen.

Wage Levels

At present there are approximately 40,000 Ryukyuan workers employed by the military, its agencies, contractors, and authorized individuals. Of these, from 26,000 to 27,000 are Category I workers who are paid from yen "purchased" with appropriated funds. The remaining 13,000 are Category II workers who render those services which are considered of a personal nature and are paid from funds collected from individuals or agencies utilizing these services.

Present average cash wage levels for Category I and II Okinawan workers range from ¥650 to ¥700 per month. This represents \$13.00 to \$14.00 per month at the 50 to 1 exchange rate. In addition to cash wages there are hidden wage payments in terms of authorized (and unauthorized) payments in kind. Goods purchased at special trade stores at preferential low prices are generally resold in the free market and give the workers an estimated average profit of ¥200 per month. Workers living in compounds have deducted from their pay ¥4 per day for three meals provided from food purchased by using units at prices which are unduly low. Transportation corps employees and their families are provided with living quarters at Naha if they work 160 hours per month.

Many Category II workers in homes, clubs, etc. are furnished with food, clothing, and incidentals. Workers in some locations obtain salvage, dunnage, etc. by virtue of their employment. Finally, there is stealing of supplies from warehouses, stores, docks, and other facilities.

Most significant in the low average money earnings is the high concentration of workers employed at a ¥3.0 to ¥3.55 (6¢ to 7¢) per hour. A second significant factor is the low average hours per month (140 to 160) for a large proportion of Category I workers. This absenteeism is due to higher hourly wages for part time work in private industry, or on public works, and to temporarily more profitable work on farms.

It should be pointed out that wages in cash and kind (in dollars) currently approach \$17.50 per month. The average monthly wage is \$13.00 to

\$14.00. The profit from "incentive" goods is equivalent to \$4.00. For compound workers the cost of compound food is \$2.40 per month, and its value is somewhat higher. These dollar rates are at the present 50 to 1 exchange rate.

Wage rates for workers in private enterprise range from three to four times those paid by the military, its agencies, and contractors. Hours of work, however, in private enterprise are reported to be substantially above the hours presently worked by employees of the "military". Hourly and daily wage rates on public works are reported to be two to three times the "military" rate. For selected skills in short supply (carpenters, plasterers, etc.) the rate on public works and in private construction ranges to above four times the "military" rate.

Data on the cost of living have been most difficult to obtain. Further, ranges presented by various sources are extremely wide for so important an element of data. The range is from ¥2,000 per month to well over ¥4,000 per month for a family of five. Our best estimate is that a minimum cost of living is approximately ¥2,500 per month for a family of this size. This computation assumes roughly that 25 per cent of total calories are obtained from the free market. The Labor Section of Military Government has made an estimate of food for a family of five at official prices. This estimate of ¥1,030 per month, with all purchases at official ration prices, if doubled for non-food items, provides a ¥2,060 figure. (Internationally) accepted rate of 45 per cent for food; Japan about 65 per cent for food.)

It is recognized that the range as between these two estimates is still wide. However, if the practices followed are similar to those in Japan, it is probable that there are from 1.3 to 1.4 workers per family which presupposes a larger income for a family than is obtained solely through the earnings of the head of the family. The second worker, however, is usually a child or the wife working at a very low wage. It must be assumed further that many of the lowest wage groups are single persons. In many other instances year-round small farms supplement family income in terms of goods.

It is recommended, therefore, that a minimum wage of approximately ¥2,000 per month be established for Category I workers working 48 hours per week. This can be accomplished by setting a new rate of ¥10 per hour for the lowest grade Category I worker now classified in R-2 at a rate of ¥2.50 per hour. This approximates the estimated cost of living for a family of five (on the low side) and is in line with the common labor rate in private industry. It is assumed that, with the increased scale, workers will have sufficient incentive to work at least 48 hours per week instead of the present average 40 hours. This should also deter the need for seeking supplementary employment elsewhere.

It is recommended further that in general a straight "across the board" increase be given to the other classifications in Category I equivalent to the increase from the present to the new R-2 rate. This should be modified by a slight widening of the differentials between the unskilled, semi-skilled, skilled, and professional groups, with a view towards reducing the "compression" of the "across the board" increase above. It is suggested that the following differentials be applied:

AMOUNT OF INCREASE FROM PRESENT TO RECOMMENDED RATES:

Unskilled R Grades	7.50	yen	per	hour
Semi-skilled R Grades	7.70	"	"	"
Skilled R Grades	7.90	"	"	"
Professional R Grades	8.10	"	"	"

It is estimated that the net result of this recommendation would be roughly a three-fold increase (including reclassifications of jobs now out of line) or an average of approximately ¥2,100 at present work hours (40 hours per week).

If longer hours are worked, as is anticipated, it will result in average earning of about ¥2,400 per month. ¥2,400 per month represents a dollar purchasing power of \$20.00 at the exchange rate of 120 to 1.

It is also recommended that the job reclassifications under consideration be expedited so as to be effective simultaneously with other actions, and that at the same time consideration be given to reducing the time required for "step" rate advances. It now takes a worker three and one-third years to advance in five steps from the minimum to the maximum of an exceedingly narrow rate range.

Problems may be anticipated in increasing the wages of monthly paid workers in Category II. The present scale for these workers' wages was calculated in general on the basis of a 40-hour work week. No limitation on hours was specified, other than the overall limitation of 250 hours of work per month. To simplify the immediate problem, and as a matter of equity with workers in Category I whose recommended wage rates have been calculated on the assumption of a 48-hour basic work week, it is recommended that the increase to monthly paid workers in Category II be calculated by multiplying 173 hours per month (40 hours per week) times the hourly yen increase granted in the comparable Category I classification. It is recommended, however, that these classifications be reviewed with a view to establishing a basic work week wherever possible. For those classifications where a basic work week is established at 48 hours, adjustments should be made in the wage scale for the additional hours over 40. In general a basic work week can be established for the vast majority of classifications. The exception is primarily domestic servants.

For workers in Category II, presently paid on an hourly rate basis, it is recommended that increases be given equivalent to increases in the comparable grades of Category I workers. It is assumed that job classification standards now under consideration for Category I workers will be applied also to workers in Category II. It is further recommended that when meals are provided either to monthly or hourly paid workers in Category II, deductions be permitted not to exceed the amount authorized for deductions for meals for workers in compounds. (To be discussed later.)

Present money wages on Okinawan public works projects are far above wages paid by the military, its agencies, and contractors. It is essential that hourly, daily, and monthly wages on the public works program be below the

"prevailing" wage. Because of the preponderance of "military" workers on Okinawa, the prevailing wage is the "military" scale. Care must be exercised to see that malpractices such as "automatic overtime", "credit for time not worked", and superior "classifications" are not resorted to on the public works program in order to circumvent the intent of the regulation growing out of this recommendation. Public works wages outside of Okinawa should be at wages prevailing in the areas of the projects for reasons discussed elsewhere.

Okinawa Civil Administration employees should be paid wages and salaries comparable to the "military" scale in an effort to improve their quality (reference to financing the increases involved will be made later). OCA is not following the American and "military" pattern of paying the worker in accordance with the type of work performed. It is continuing the Japanese practice using sex, age, education, and experience as criteria for determining the salary to be paid each employee. Whether OCA provides comparable wages by adopting the "military" scale and method or adopts the Japanese method to accomplish this end is not considered within the purview of this mission.

In view of the recommended increases in money wages and other compelling factors, it is proposed that the preferential treatment in price and availability of consumer goods now afforded Category I and II workers be discontinued. (Reference to factors other than wages and distribution problems are made elsewhere.) It is recommended also that wage deductions for meals for workers housed in compounds be equivalent to the cost of food without preferential treatment. It should also be pointed out that elsewhere in the world where the "military" has arranged for such feeding, it has been considered a proper charge against the military rather than against relief funds.

This mission recognizes that its recommendation with regard to wages provide only a minimum improvement in the present low standard of living for Okinawans employed by the "military". Any reduction in the recommended wage level would place the United States in the position of exploiting the labor of a liberated area. In making these recommendations, the mission was also influenced by many other economic considerations, principally the danger of inflation involved in a too drastic increase in wage levels. It is hoped that when consumer goods in large supply are available and other forms of economic stabilization have been achieved, that it will be possible to grant further wage increases and to make provision for premium pay for overtime on the basis of internationally accepted standards.

Prices of Imported Foods and Financing Procedures

The mission directive contained the statement "for the purpose of making recommendations on prices of imported foods". Inter-relationships with other factors required that a review be made of pricing practices for all GARIOA goods.

The financial problem is one of establishing a relationship between the several elements of the whole. GARIOA goods are imported without cost to the Ryukyuan government. Small quantities of non-GARIOA consumer goods are purchased with dollar earnings. The sum of these goods are sold to the Ryukyuan people, who have two sources of yen income - work for the "military" and work for the government, including government public works. Wages paid by the military and the government (with some adjustment for non-wage

government expenditures) provide the yen needed by the people to purchase the goods available.

If one assumes that consumer goods (non-GARIOA) purchased with dollar earnings of the Ryukyus should move at the exchange ratio and thus balance the gross wages paid by the military at the exchange rate, then the problem centers on balancing government expenditures with revenues derived from GARIOA goods distributed. (To be sure they cannot exactly "balance" because of shipping and handling charges.) A high exchange ratio for GARIOA goods distributed would require a high level and wide distribution of purchasing power and could generate far more yen than the government could possibly spend for goods and services. Such a proposition would carry a tremendous inflationary potential. Such GARIOA goods distributed must therefore be at a conversion ratio which will produce only the quantity of yen desired. The question then becomes one of determining the size of the RMG budget. This budget should not provide the means to compete or interfere with the "military" construction program. A way must be found, then, to determine what the RMG budget should be.

The value of GARIOA goods entering the economy must then be directly related to the average wage paid by the "military". At ¥2400 per month the average "military" worker will receive a wage equivalent to \$20.00 per month at 120-1. An initial assumption made in this study was that prices would be maintained or lowered. This would call for retaining the present average conversion ratio for GARIOA commodities. This average appears to be somewhere between 40 and 60. It should be remembered that most of the goods is, in fact, "purchased" by the government, and the ratio for such goods has little meaning because of the counterbalances. The distributable portion is the significant part. An important corollary must be pointed out. Assuming a fixed dollar wage, an increase in GARIOA aid distributed to the people would require lowering of the prices of GARIOA aid goods while a decrease in the volume of aid would require increases in the prices of GARIOA aid goods.

It is felt that the revenue to be derived from the present price scale on present distributed GARIOA imports will be sufficient to support a government budget estimated to be in the range from 665 to 850 million yen for this year. This excludes the value of GARIOA imports "consumed" by the government. The relationship of these figures to the U.S. "military expenditure program is of significance. The latter (\$10.3 million) at 120 to 1 will be ¥1,236 million in U.S. fiscal year 1951. For U.S. fiscal year 1950, the revised "military" expenditure of \$4.4 million will be ¥528 million. A comparison should be noted. The original DMG budget for the year ending 31 March 1951 was ¥1,242 billion, as contrasted with the original U.S. "military" program for U.S. fiscal year 1950 of (\$3.2 million) ¥160 million at 50 to 1.

The problem can be approached in another manner. Assuming a population of 900,000, distributable GARIOA aid and construction expenditures in 1950 and 1951 represent \$35 per capita per year. If the 55,000 military workers alone were to produce the dollars enable the islands to match American aid expenditures in dollars (or yen at any exchange ratio) it would require an annual wage of \$540 per worker.

The proposed wage scale should provide an average monthly wage of \$240 per year with an increase in the monthly work hours. The relationship between the \$540 and \$240 annual wage indicates that the import conversion ratio for

GARIOA should be 44 per cent of the exchange ratio whatever that ratio might be. This computation would require a ratio of 53-1 if the 120-1 exchange ratio is accepted. Some cushion in the ratio would have to be provided for shrinkage, loss, etc., and for some provision for the accumulation of yen in the hands of the public.

It should be noted that holding the conversion ratio on GARIOA at 50-1 to 60-1, while advancing the wage scale and shifting the military conversion rate to 120-1, would be equivalent to providing a wage with a \$540 per annum purchasing power at a \$240 per annum wage rate. When the sources of supply again become normal, roughly the same amount of goods should be available from nearby sources ratio approaching the latter figure, as normal supply sources are established. Furthermore, it should be noted that a conversion ratio of 60-1 does not alter the total cost for all programs in U.S. dollars. If the 60-1 ratio were not used, wage expenditures would have to be increased to compensate for the total cost of the GARIOA aid involved. Increased prices at present volume would create the circumstances for a wage-price spiral.

It should be pointed out that the budget problem has been most complex. Differences between the U. S. and RMG budget years only complicate an already very difficult problem. It would be well to develop a new budget now which would run to 30 June 1950, in order to coordinate budgeting and programming.

It is recognized, of course, that the ¥1,242 million RMG 1950 budget, in fact, has been drastically altered. The pay-as-you-go principle introduced an important safety element into the budget. It introduced the proper relationship between government income and expenditures but inadvertently neglected the problem of the magnitude of both as related to other factors.

In the discussion of wages the recommendation has been made to apply a wage scale comparable to the "military" pay scale to Okinawa Civil Administration employees. The increased income tax receipts from increased wages of "military" personnel would be sufficient to raise the wage level of OCA employees to the military rate (discussion in "Taxation", pages 55 - 58).

It appears that the RMG yen budget for the RMG Fiscal Year ending 31 March 1950 was set up without a translation of that budget to dollars at the then 50-1 exchange rate so as to facilitate comparison with the U. S. construction program as then envisioned. (This supposition has been confirmed.)

No discussion of financial problems can be complete without considering the distribution of the money supply. The money supply should be directed and controlled so as to facilitate overall economic recovery, to provide the outlying areas with purchasing power with which to purchase the GARIOA supplies, and to consolidate the geographic area involved into a single economic entity. Virtually all of the "military" expenditures Outlying areas, however, need funds with which to purchase their equitable share of the GARIOA imports, whatever their share may be. The only device available (in addition to the limited trade) is the RMG budget with its grants-in-aid, public works, etc.

If the requirements of the several geographic areas are programmed and distributed properly, the RMG budget can schedule expenditures in each area

accordingly. (The trade problems will be discussed later in this report). It should be pointed out that the allocation of funds for expenditure can be developed so as to include grants-in-aid, public works, and "counterpart" rehabilitation loans to industry.

"Counterpart" as used here for the Ryukyus is intended to be only that counterpart of American aid that is loaned on a long-term basis for the rehabilitation of Ryukyuan private enterprise. Deposits are made for loans only after the loan is approved, and only to the extent that the borrower is prepared to spend such borrowings. The purpose is to provide private organization with rehabilitation funds and to distribute purchasing power.

In Japan the counterpart fund has a different purpose. There it draws off excess currency in circulation and is then used to reduce the national debt; only a part of the total is re-introduced into the economy through loans to private (and public) enterprise. None of the Japanese counterpart fund is used to finance normal government functions. (A limited amount has, however, been assigned to the railway and communications deficits.)

Large advance payments out of the central treasury should be avoided. Relatively short-term needs should determine the amount of currency made available to outlying areas. The Bank of the Ryukyus (a quasi-public institution) can be utilized as the lending institution for long-term "counterpart" loans for the rehabilitation of private enterprises. Ear-marked government deposits can be made available for loans to qualified borrowers at low interest rates for sound projects. Small loans should be at the discretion of the bank within a framework of public policy, and only large projects and supplemental loans need require RMG attention. In actual practice, loans could be approved before the ear-marked government deposits need be made. In Japan a separate Reconstruction Finance Bank (operated to a large degree for political considerations) was not successful, and a similar institution is not considered advisable for the Ryukyus.

The amount of currency now in circulation is below that needed for the actions to be taken under the recommendations of this report with respect to wages, prices, etc. Because no velocity data are available, and because there is no way to measure other aspects of the problem, it is impossible to compute how much currency will be required. Certainly, the ¥266 million currently "blocked" in the Bank of the Ryukyus could be released gradually and the effects studied with care.

Trade and the Supply of Goods

Other than maintaining present or lower prices on GARIOA imports distributed to the people, an adequate supply of foreign (Japanese) goods of types desired by the Ryukyuans is the most important element in combating inflation so as to assure the success of the U. S. construction program. It is believed to be so essential that it is felt that substantial GARIOA expenditures should be made for this purpose, even if it means eliminating something else from the GARIOA program. Failure to provide consumer goods for wide distribution will result in drastic inflation as the U. S. construction program reaches its peak in 1951.

The drain of yen from outlying areas is believed to be caused in part by the special treatment of "military" workers and the resale of their

incentive goods. The initial problem here is the concept lying behind the special trade stores. The ability to sell incentive goods at a profit to an extent that yen are drained from outlying areas is indicative of the demand for incentive goods in those areas. It is believed that incentive goods (Commercial account and GARIOA procured) should be distributed in volume to the population at large at reasonable prices, as represented by the 120-1 exchange rate.

It is believed that the principle of reducing U. S. appropriations by the amount of Ryukyuan dollar earnings should be modified, because U. S. appropriations have never been programmed so as to include either adequate reserves or reasonable consumer goods required by the Ryukyuan economy. While it is sound with respect to Japan, it is unsound with respect to the Ryukyus. The immediate need for Japanese produced consumer goods is so great in the Ryukyus that all current Ryukyuan dollar earnings plus necessary GARIOA funds should be made available at the earliest possible date to start the program. Heretofore in this report, an attempt has been made to balance wages, prices, budgets, etc. in terms of yen. Balancing dollar earnings with an inflow of consumer goods is just as essential. These dollar earnings are real earnings of the Ryukyuan economy, and should accrue to the Ryukyus who are desperately short of consumer goods. Later a provision should be made for the creation of reserves in both dollars and yen to cushion the impact of the end of U.S. aid and construction.

Finally, it should be pointed out that trade between the several islands must be facilitated so as to even out the supply of indigenous goods over the area. Every impediment to such trade should be abolished, and every encouragement should be given to the development of a Ryukyuan fleet under private ownership with competitive shipping companies. Loans should be extended for the construction of such a fleet in the Ryukyus, and dollar earnings should be utilized if required for purchases from the outside. In view of the limitation (probably of long duration) on port facilities at Naha, it should be possible to promote the substitute use of other ports. Trade between the islands and Japan should also be facilitated to the greatest extent possible. With respect to trade with Japan the simplest possible procedures should be instituted so that traders, rather than government officials, do the trading.

RECAPITULATION

There is much in the Ryukyuan economy which is best characterized by the word "artificial". The support of its currency, however, lies in the long range prospect of continued dollar earnings resulting from the presence of the U. S. military on the island. There follows herewith a presentation showing the inflationary and deflationary elements in the recommendations made.

Inflationary

1. Direct expansion of labor force requirements.
2. Reduction in production by removal of workers from usual jobs.
3. Change in exchange rate from 50-1 to 120-1.

Deflationary

1. Increased supply of consumer goods
2. Reduction in exchange rate for imported consumers' goods moving into the free market.
3. Holding public works wage line to 90 percent of "military" wage.

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| 4. Increase in wage level. | 4. Rise in prices for "compound" food and the elimination of trade goods stores. |
| 5. Pressures for more hours of work. | 5. Probable increase of currency retained or saved by the people. |
| 6. Increase in budgets for outlying areas. | 6. Budget control through reserve deposit of part of the receipts of total aid. |
| 7. Extension of rehabilitation loans. | 7. Adjustment of public works expenditure to compensate for rehabilitation loans. |
| 8. Expansion of currency issue. | 8. Reduction in exchange rate for exports selling above 120 to \$1. |

It should be pointed out that much of the inflationary pressure resulting from an expanded construction program can be offset by improvements in the utilization of the present manpower so as to keep the expansion of the labor force to a minimum. Manpower management also plays a role in the public works programs. Proper phasing of some of that employment to coincide with those periods in which indigenous food production is at a minimum should help. Care must be taken so that hours of work and wages paid on such temporary work assignments cannot be considered superior to the usual occupation.

It is difficult to judge the net effect of all of the above as tempered by current trends. It is hoped that the net effect is to establish an equilibrium. It was pointed out initially that there is a tremendous need for consumer goods at this time. The supply of such goods in the special trade stores at the end of November was reported to have been sufficient to satisfy the needs for less than two payroll periods. Immediate action should be taken to satisfy the present need and provide a continuous flow of consumer goods. A minimum of \$2.0 million worth of goods should be procured immediately from whatever funds are available, and the machinery set in motion for a flow of goods at least equivalent to the dollar earnings. When this has been accomplished the changes in the wage scale and exchange rate as recommended may be made. This does not necessarily preclude negotiation on construction contracts, since the recommended wage scale may be developed immediately and converted to dollar values at the proposed exchange rate for use in cost estimates.

There is considerable evidence of a lack of broad vision and coordination in the overall planning to date. All programs and budgets should be brought together into a coordinated plan, within which the maximum of economic freedom and opportunity should be permitted the Ryukyuan people.

When the essential consumer demands for consumer goods have been met, it would be wise to set aside a small proportion of present dollar earning as a fund to provide backing for the yen. Such backing should be at least equal to and perhaps greater than the exchange rate equivalent of "counterpart" loans and reserve yen deposits.

As part or all of these "counterpart" loans are repaid over a period of time, there would be dollar funds with which to purchase materials, supplies, and equipment from outside the Ryukyus. The overall effect would be to extend in time the force of their present dollar earnings so that funds would be available after the construction program has been completed.

It is essential that the RMG budget be reviewed and that the RMG budget year be changed so as to coincide with the U.S. budget year as an aid to budget and planning coordination.

WAGES AND RELATED PROBLEMS

This appendix to the main text deals primarily with the problem of wage levels. However, as an outgrowth of the wage investigations, it is evident that other aspects of the labor problem need consideration with a view to correcting existing conditions. These aspects are discussed in a separate memorandum.

The problem of determining wage levels for Ryukyuan workers employed by the United States Government, its agencies, contractors, and authorized individuals has been brought to the fore by the contemplated expanded construction program. For convenience, all Ryukyuan workers employed by the foregoing will be referred to as employed by the "military". At the present time, some 40,000 Ryukyuan workers are so employed. It is expected that at the peak of the construction program, some 55,000 Ryukyuan workers, including the additional personnel needed to provide services for American personnel, will be employed.

It was reported to the Mission that at the present level of wages, workers are unwilling to work for the "military", absenteeism and turnover are great, and it is difficult "to get an honest day's work out of the men". It was urged that the problem of wage levels be settled as soon as possible, together with the other economic problems, to enable contractors to establish their prospective labor costs in bidding for contracts, and also to assure them of an adequate and stable labor force.

Ryukyuan Labor Force

There are no accurate statistics available with regard to the number of persons in the labor force in the four main Ryukyuan Islands. No census has been taken since the end of the war. It is estimated, however, that the total population of the four main islands is 900,000. On 31 August 1949, the population of Okinawa (the largest of the islands) was reported to be 565,000, and the population of the two southern islands, 120,000. The figure for the northern island was pending adjustment, but was probably about 225,000.

The only data available with respect to the labor force are monthly reports submitted by the Ryukyuan provisional governments. These reports are poorly prepared; the terms used are ambiguous; the breakdown into categories is insufficient to give a clear picture of the composition of the labor force; and there is considerable lack of uniformity between the reports of the various provisional governments. The reports from the northern and southern Ryukyuan Islands are particularly inadequate.

On the basis of these reports, the Labor Section of the Military Government has prepared the following table for September, 1949 after adjusting the figures "to give a more accurate picture of trends in labor in the Ryukyuan Islands".

TABLE 1. LABOR SUMMARY, SEPTEMBER 1949

	Employment Status 1/			Unemployment Status 1/	
	Total Employed	Employed by Military Agencies	Percent Employed 2/	Total Unemployed 3/	Percent Unemployed
Okinawa	210,550	38,529	37%	101,465	18%
Northern Ry.....	120,972	88	53	3,661	2
Southern Ry.:					
Yaeyama	23,794	322		58	
Miyako	<u>41,180</u>	<u>118</u>		<u>1,224</u>	
Total	<u>64,974</u>	<u>440</u>	23	<u>1,282</u>	1
Total Ryukyu Islands.	<u>396,496</u>	<u>39,057</u>	43%	<u>106,408</u>	12%

1/ Number employed and unemployed includes those persons 16 years of age and (By American method of age calculation, 15 years of age and over)

2/ Percent employed and unemployed had to be computed on the basis of pertinent total population figure, i.e. 37% of the total population of Okinawa is employed, and 18% unemployed.

3/ Includes the deformed, housewives, the aged, etc. for which correct breakdowns have not yet been obtained. Information from the Northern and Southern Ryukyus is incomplete.

The "total number employed" includes farmers, entrepreneurs, workers in private industry, employees of the provisional governments, and those employed by the "military". The figure of 39,057 employed by military agencies is considered an underestimate, particularly with regard to Category 11 workers (see explanation below). According to the labor officer, the number of workers for the "military" more closely approximates 40,000. The unemployment data are virtually useless since they do not give the breakdown between those persons in the labor force who are able and willing to work, and those not in the labor force such as housewives, aged, handicapped, etc. For Okinawa, it was possible to secure more detailed data from the Okinawa Civil Administration, although the desired information with regard to the unemployed who are able and willing to work is not available. It should be noted that the total population reported (522,487) is lower than the figure reported from other sources (555,667).

TABLE 2. OKINAWA LABOR POPULATION REPORT - 30 SEPTEMBER 1949

	Total	Male	Female
<u>Population 1/</u>			
Total.....	<u>522,487</u>	<u>242,245</u>	<u>280,242</u>
Under.....	210,469	105,718	104,751
16 - 59 years	274,108	121,271	152,837
60 and over	337,910	15,256	3,354
<u>Employed Persons 16 Years of Age and Over 1/</u>			
Total.....	<u>210,550</u>	<u>115,020</u>	<u>95,530</u>
16 - 59 years	200,373	108,971	91,402
60 and over.....	10,177	6,049	4,128
<u>Unemployed Persons 16 Years of Age and Over 1/</u>			
Total.....	<u>101,468</u>	<u>21,507</u>	<u>79,961</u>
16 - 59 years.....	73,735	12,300	61,435
60 and over.....	27,733	9,207	18,526

1/ All ages are by Okinawan method of calculation. By American method, the ages are approximately 1 year younger.

Analysis of the above tables shows that approximately one-fifth of the employed population 15 years of age and over (American age) on Okinawa is working for the "military". In addition, 9,636 Okinawans are employed by the Okinawa Civil Administration and approximately 3,000 are employed on public works. The breakdown by industry or type of worker for the remainder of the employed group is not available. It may be assumed, however, that the large majority are agricultural workers and entrepreneurs, with only a small proportion working in private industry.

Although the population figure of the labor report is low in comparison with data obtained from other sources, and the "employed group" may include many who are working only part-time, nevertheless it may be concluded that is a definite shortage of male labor on Okinawa for the expanding construction program. Table 2 shows only 12,300 males between the ages of 15 and 59, including handicapped, not at work. It may be assumed that of the females between 15 years of age, many are housewives and not in the labor force (able to work and actively seeking work).

Wage Levels of Ryukyuan Employed by the "Military"

Trend in Wage Levels: Several wage increases have been granted workers employed by the "military". It was not possible, prior to leaving Okinawa, to obtain a copy of the first "military" wage scale, probably established in 1946.

What appears to be the first formal scale of wage rates by occupation was established 15 April 1947. This scale was revised upward in March 1948, when increases ranging from approximately 15 to 60%, depending upon the occupation, were granted. Effective 1 February 1949, pending establishment of a new rate scale, the wages of all Ryukyuan employees were again increased by 100%. The new scale which became effective on 1 April 1949, and is still in operation, incorporated the 100% increase granted in February and made additional adjustments, which brought the total 1949 increase somewhat higher than 100%. Thus, during the period April 1947 to the present, wage rates increased approximately from 150 to 250%, the percentage varying with occupations. Table 1 of the attached Appendix shows the increases in selected occupations during this period.

It should be noted, however, that in addition to the wage scale, changes were made in bonus payments, night-shift differentials, and deductions for meals furnished to workers housed in compounds. For example, in April 1947, from 29 sen to 38 sen per meal was deducted, depending upon the calories provided which ranged from 2,150 to 2,800 calories per day. In July 1947, the amount was raised to 33 sen per meal. Coincident with the March 1948 increase, deduction of 2 yen per day for meals was authorized on the basis of 2,500 calories per day. When the 100% increase was authorized on 1 February 1949, the amount to be deducted for meals was raised to 4 yen per day.

Present Wage Rates: Because of the requirement that dollars be deposited for all yen wage payments, workers employed by the "military" were classified into two categories on 1 April 1949, when the present wage scale was put into effect. Category I workers include those whose wages are paid from yen purchased from appropriated funds. Category II workers include those who render services of a personal nature and who are paid from yen purchased with dollars paid by agencies or individuals. Of the 40,000 workers employed by the "military", about 27,000 are in Category II workers, although comparable wage levels have been maintained for the two categories.

Category I Workers: For Category I workers, hourly rates have been set for grades ranging from R-2 (¥2.50 per hour) to R-35 (¥19 per hour). No basic work week has been established but workers are permitted to work up to a limit of 250 hours per month for which straight time is paid. Jobs have

been "slotted" within each of the grades according to skill. The present differential between each grade is ¥ .50 per hour. In addition, a rate range spread of ¥1 has been established within each grade. It now takes a worker, regardless of grade, 3-1/3 years (infive-step intervals) to reach the maximum rate of his grade.

TABLE 3. RATE SCHEDULE FOR CATEGORY I WORKERS

	Step 1	Step 2	Step 3	Step 4	Step 5	Step 6
R-2.....	¥2.50	¥2.70	¥2.90	¥3.10	¥3.30	¥3.50
R-3.....	3.00	3.20	3.40	3.60	3.80	4.00
R-4.....	3.50	3.70	3.90	4.10	4.30	4.50
R-5.....	4.00	4.20	4.40	4.60	4.80	5.00
R-15.....	9.00	9.20	9.40	9.60	9.80	10.00
R-35.....	19.00	19.20	19.40	19.60	19.80	20.00

In terms of dollars, at the present exchange rate of 50 Ryukyuan yen to \$1, the rate schedule is as follows:

TABLE 4. EQUIVALENT DOLLAR RATES FOR CATEGORY I WORKERS

	Hourly yen rate	Dollar equivalent at 50 - 1					
		per Hour	8-hour day	40-hour week	per Month (173 hrs.)	48-hour week	per Month (208 hrs.)
R-2...	¥2.50	\$.05	\$.40	\$2.00	\$3.65	\$2.40	\$10.40
R-3...	3.00	.06	.48	2.40	10.38	2.88	12.48
R-4...	3.50	.07	.56	2.80	12.11	3.36	14.56
R-5...	4.00	.08	.64	3.20	13.84	3.84	16.64
R-15..	9.00	.18	1.44	7.20	31.14	8.64	37.44
R-35..	19.00	.38	3.04	15.20	65.74	18.24	79.04

although rates have been established for all grades, only a small number of persons are employed in grades beyond R-15, and no jobs have been "slotted" into grades R-24 through R-29 and R-31 to R-34. According to the using units, the majority of workers presently employed by the "military" are in grades R-3 and R-4.

The Labor Section of Military Government is now reexamining the job grading system on the basis of recommendations submitted by the various using units. It was not possible in the short period of time to appraise the present or proposed "slotting" of jobs, but it was clear, even from cursory inspection, that reclassification is badly needed. For example, although common labor is classified as R-3, such skilled hobs as carpenters, bricklayers, cable splicers, electricians, etc. are classified as grades R-3 or R-4. This lack of

discrimination between non-skilled, semi-skilled, and skilled jobs has made it difficult to retain skilled workers.

Category II Workers: No grades have been established for Category II workers. These workers have been grouped into monthly and hourly rated employees and minimum and maximum rates have been established for some 185 individual job titles. There are no requirements for increases within the rate range. In general, the rates for monthly salaried employees in Category II were obtained by multiplying the hourly rate of the comparable classification in Category I by 173 hours per month, or on the basis of a 40-hour work-week, with some adjustments for certain classifications. There is no provision, however, for payment of hours worked in excess of 40 per week and workers may be required to work up to the maximum limit of 250 hours per month without additional compensation.

The following schedules show the yen rates for selected occupations of monthly salaried and hourly rated employees in Category II, and the equivalent rates in dollars. Examples of the rates for the lowest and highest rated occupations are given.

TABLE 5. WAGE SCALES FOR CATEGORY II WORKERS

Occupation	Yen Rate Ranges		Equivalent Dollar Rates	
	Minimum	Maximum	Minimum	Maximum
Monthly Salaried Employees				
Domestic Servants.....	¥ 440	¥ 520	\$ 8.80	\$10.40
Bus Boy and Bus Girl....	440	580	8.80	11.60
Clerk-Typist	440	630	8.80	12.60
Clerk	440	690	8.80	13.80
Accountant	690	860	13.80	17.20
Architect	1,040	1,380	20.80	27.60
Interpreter Specialist .	1,380	1,610	27.60	32.20
Doctor.....	1,150	1,850	23.00	37.00
Hourly Rated Employees				
Grass Cutter.....	2.60	3.20	.052	.064
Laundry Worker (General)	2.70	3.60	.054	.072
Bricklayer.....	3.00	3.80	.06	.076
Cable Splicer	3.60	4.20	.072	.084
Auto Mechanic	3.60	4.30	.072	.086
precision Instrument Repairer	3.80	4.40	.076	.088

Average Cash Wages: While the present wage rates were readily available, the problem of obtaining accurate data on average wages presented considerable difficulty since there is no central source for all payroll data. Further, although the labor Section of Military Government has attempted to obtain reports showing the number of workers in each of the job classifications, the using units have in general either failed to submit reports or have submitted incomplete ones. The need for accurate information on average wages is particularly essential since it has an even more direct bearing than wage rates on the problems of the yen rate, purchasing power, price levels, and financial procedure.

To obtain a true picture of average wages, the information obtained from a variety of sources was checked against each other. All data indicate that the average wage for workers presently employed by the "military" is about ¥650 to ¥700 per month. For example, the average monthly wage of all workers (1,417) employed by the American contractors, Atkinson & Jones, was ¥637 for the payroll period ending 31 October 49, or from \$13.00 to \$14.00 at the present exchange rate. The Payroll Officer at Maha Port, where approximately 2,000 workers are employed, reported an average wage of ¥650 per month. He also estimated the following distribution of workers by grade:

R-3.....70%

R-4.....10%

R-5 & 6.....15%

R-6 to 15..... 5%

This distribution, according to the Labor Section of Military Government, holds true in general for other using units. By applying this distribution to the grade rates for Category I workers, with adjustments for the small number of persons in grade R-16 to R-35, the estimated average of ¥650 per month is again confirmed.

For Category II workers, no separate average could be obtained since the payroll data are even more loosely handled. On the assumption, however, that a large number of Category II workers are in the classifications of maids, domestic servants, clerks, office boys and girls, at a range of from ¥440 to ¥580 per month, it may be assumed that roughly the same average applies to both Category I and Category II workers.

Payments in Kind: Incentives in the form of various types of payments in kind have been granted to workers employed by the "military" to compensate for the admittedly low wage scale. On 1 February 1949, provision was made for workers in Category I and Category II to purchase goods "other than staple foods through special trade stores in maximum monthly amounts related to the pay received at prices substantially less than the existing free market prices". According to information obtained from worker to interviews and from many other sources, it is general practice for workers to sell the incentive goods in order to obtain cash to meet their living expenses. It is not possible to evaluate the savings accruing to workers through purchases at special trade stores. However, the "profit" on the sale of such goods in the free market is reported to be approximately ¥200 per

month, or the equivalent of \$4.00 per month.

Other incentives are offered workers in the form of housing and food. at Naha Port, some 1,200 families are given free housing by the "military" but they are required to work at least 160 hours per month to retain their homes. Approximately 11,500 workers are presently housed in compounds. There is no charge for housing but a fee of ¥4 per day is deducted for three meals. This food (2,500 calories a day) is preferentially priced and it is estimated that if the full cost were charged, the deduction would be approximately ¥10 per day. The saving to those workers, therefore, is approximately ¥180 per month, or \$3.60. In the Naha Port compound, a small additional fee of ¥2 per day is charged for administrative cost.

Workers in some locations obtain salvage, dunnage, etc. by virtue of their employment. Many workers in Category II are given food, clothing, and other incentive goods for which no deductions are made.

The above items are authorized incentives. It is common knowledge that there is much stealing of supplies from warehouses, stores, docks, and other facilities and that access to these supplies is an "incentive" to work for the "military".

Wage Levels of Employees of the Okinawa Civil Administration

The wage scale established for employees of the Okinawa Civil Administration is higher than that established for employees of the "military" in order to compensate for the fact that OCA employees are not permitted to purchase goods at the special trade stores. According to the OCA September payroll, the average wage of 9,636 employees (9,359 permanent and 277 temporary) was ¥1,026 per month, or \$20.52. The breakdown is as follows:

TABLE 6. SEPTEMBER PAYROLL OF OCA

	Number of Employees	Monthly Average	Monthly Average Dollar Equivalent
Total.....	9,636	¥1,026	\$20.40
Workers Paid Monthly	7,289	1,100	22.00
Daily Workers	2,070	726	14.52
Temporary Workers.....	277	820	16.40

Rates ranging from ¥1,640 to ¥4,500 per month have been established for positions corresponding to sub-section chief and higher. (The Governor of Okinawa receives ¥4,500 per month.) For lower graded positions, rates have been established ranging from ¥45- to ¥1,590 per month. For the jobs below sub-section chief, OCA is not following the American or "military" pattern in Okinawa of paying the "rate for the job". Rather, it is following the Japanese pattern of grading the individual on his personal characteristics, - that is, age, education, sex, and experience.

WAGES of Workers in Private Enterprise and on Public Works

As already indicated, there are no reliable statistics showing the number or distribution of workers among the various industries. It would appear, however, that the principal industries are agriculture, construction, brick and tile-making, saw-milling, furniture-making, etc., with construction increasing in importance. Two Okinawan contractors are now working under a lump sum contract for the "military" and it is expected that further contracts will be awarded Okinawan contractors.

All persons interviewed, including representatives of the OCA Labor Section, District Engineers, Naha Port Labor Section, Military Government Labor Section, and private contractors reported that wages for workers in private industry are from three to four times higher than the wages paid by the "military". For the more skilled workers in short supply, such as carpenters, plasterers, stone masons, etc., the rates were five and more times higher. The most frequent common labor rates cited ranged from ¥70 to ¥80 per day, in comparison with the ¥24 for common labor paid by the "military" for eight hours of work. Carpenters, who are in great demand, receive from ¥150 to ¥200 per day plus one or more meals and bonuses, whereas the "military" rate is again only ¥24 for eight hours of work.

The number of hours worked in private industry, particularly in construction, are generally higher than those worked by Category I workers. Examples of a 10-hour day and a 7-day week cited. It was not possible to obtain complete information with regard to overtime premium payments. However, one contractor who was interviewed stated that he pays a premium of 10% for hours worked over 10 per day.

The Labor Section of OCA has recently required that monthly data on prevailing wages in private industry be submitted by the village (Mura) mayors. These data are still in the process of tabulation, but it was possible to secure wage rates for various occupations in selected areas. (See Table 2 of the Appendix.) Although the comparisons are not entirely reliable, since they are based solely on job titles and hours of work may differ, they confirm the fact that rates paid to workers employed by the "military" are considerably below those paid in private industry.

This situation is not new. For example, the increase granted on 1 February 1949 was designed to bring "military" wages closer in line with prevailing wages. At that time, it was recognized that even with the 100% increase a gap still existed, and the special trade stores were started as a method of partially bridging this gap.

The OCA budget contains a large sum (¥745,000,000) for public works which is allocated in lump sum amounts to the mayors of the various villages. Although rates vary between villages, they are, in general, from two to three times higher than the rates paid by the "military". This fact accounts in large part for the high absenteeism of workers employed by the "military". Many workers take "days off" to work on road construction and other public works in order to obtain the higher rates.

It was not possible in the short period of time to interview the head of the public works Department of OCA. However, the October report of wages paid on public works in Naha Mura, shown in Table 3 of the appendix, gives

some indication of these prevailing rates. Insofar as common labor rates are concerned, those for the Naza Mura seem to be on the low side. According to other sources, the common labor rate for males on public works is from ¥70 to ¥80 per day, and for women from ¥40 to ¥50 per day.

Comparison Between Wages in Okinawa and Japan

In Japan, October average cash wages for workers in manufacturing industries (commonly used as an index of wage trends) was ¥8,450 or \$23.50 on the basis of 360 Japanese yen to \$1.00. Even assuming that the present rate of 50 Ryukyuan yen to \$1.00 is a "good" conversion rate, average cash wages in Japan are approximately \$10.00 per month more, or 75% higher than average cash wages of Okinawans employed by the "military". If a more realistic conversion rate is used for Ryukyuan yen, the difference is even greater. It should be noted, however, that whereas many workers in Okinawa and Japan receive additional payments in kind, it is likely that the value of such payments is somewhat higher for Okinawan than for Japanese workers.

Other factors, such as observation of living standards in Japan and Okinawa, analysis of the gap between wages and cost of living or family expenditure in both countries, and availability of consumers' goods tend to the conclusion that Japanese workers are in a considerably better position than Okinawans working for the "military".

Relation of Wages to Cost of Living

Reliable data on the cost of living in Okinawa were extremely difficult to obtain. Part of the difficulty lay in the confusion in terminology as between the cost of living based on a "market basket concept" -- that is, the amount required to purchase a standard amount of commodities -- and the actual family expenditure.

The average family in Okinawa is believed to consist of five persons. Data on cost of living obtained from a variety of sources showed a range from ¥2,000 to ¥4,391 per month for a family of this size. The lowest amount, ¥2,000 per month, was computed by the Labor Section of Military Government on the assumption that all rationed food could be obtained at official prices. The highest amount, ¥4,391, was based on data prepared by the American contractor, Atkinson & Jones. The OCA Labor Section cited a figure of ¥3,683. (See Table IV of the appendix for cost of living budgets.) Members of the mission concerned with the price problem arrived at a figure of approximately ¥2,500.

Throughout the investigation, the question was asked how workers have been able to manage on the present average of ¥650 to ¥700 per month in view of the estimated cost of living. The replies of the workers interviewed indicated three basic methods, namely, the sale of incentive goods, part-time employment on public roads or in private enterprise at wages higher than those paid by the "military", and employment of women and children of the household. Persons other than workers gave not only the same methods as those enumerated by workers, but also cited the other "payments in kind" discussed earlier in this report.

The poverty of Okinawan workers is apparent everywhere. Housing is inadequate and squalid. Except for those workers employed in dependent housing areas or clubs where clothing is provided by the employer, most Okinawans own only the few clothes they wear. This clothing is army surplus which has been distributed free or at a fraction of the cost. Consumers' goods except those available at the special trade stores, are scarce and those available in the free market are beyond the means of the average worker.

Recommendations

Wage Levels for Ryukyuan Workers Employed by the "Military" In determining the recommendations to be made with regard to wage levels for Ryukyuan workers employed by the "military", two basic criteria were taken into consideration. First, that the wage level should provide at least a minimum standard of living, thereby safeguarding the health and welfare of Ryukyuan workers. Second, that military rates should generally be in line with prevailing rates in private industry in order to provide an adequate and stable labor force for the expanding construction program. Consideration was also given to the economic impact of the recommended wage levels in terms of the proposed exchange rate, cost of living, financial procedures, and other economic problems discussed in other reports.

It is recommended that a minimum wage of approximately ¥2,000 per month be established. This amount not only approximates the estimated cost of living for a family of five (on the low side) but is also in line with the common labor rate in private industry. This minimum should eliminate the need for workers to seek supplementary employment.

It is recognized that a wide gap exists between this ¥2,000 figure and the best estimate on cost of living (¥2,500 per month) arrived at by the mission. However, if the practices followed in the Ryukyus are similar to those in Japan, it is probable that there are from 1.3 to 1.4 workers per family, which presupposes a larger income for a family than is obtained solely through the earnings of a head of the family. The second worker, however, is usually a child, or wife of the head of the family working at a low wage. It must be assumed, further, that many workers in the lowest wage groups are single persons, or persons with fewer than four dependents. Moreover, in many instances, year-round small farms supplement family income in terms of food.

One other important factor was considered in determining the minimum wage. The Labor Section's figure on cost of living was based on an estimate of ¥1,030 for food at official prices. This food figure, when doubled to provide for non-official food items, provides a ¥2,060 figure. The internationally accepted proportion for food is 45%; in Japan, over 60% of family expenditure is for food.

Because of the complicated nature of the wage structure, the recommendations with regard to wage increases for Category I and Category II workers are discussed separately.

Category I Workers: To accomplish the establishment of a minimum wage of approximately ¥2,000 a month, it is recommended that a new rate of ¥10 per hour be established for the lowest grade Category I worker, now classified in R-2 at a rate of ¥2.50 per hour. It is assumed that with the increased scale, workers will have sufficient incentive to work at least 48 hours per

scale, workers will have sufficient incentive to work at least 48 hours per week, or 208 hours per month, instead of the present average of from 140 to 160 hours per month.

It is recommended further that in general a straight "across the board" increase be given to the other classifications in Category I, equivalent to the increase from the present to the new R-2 rate. This should be modified by a slight widening of the differentials between the unskilled, semi-skilled, skilled, and professional grounds with a view towards reducing the "compression" of the "across the board" increase. Some "compression" of the wage scale is inevitable in view of the necessity for the relatively large increase involved in the establishment of the minimum rate. It is suggested that the following differentials be applied:

Amount of Increase from Present to Recommended Rates

Unskilled "R" grades..... ¥7.50 per hour

Semi-skilled "R" grades ... 7.70 per hour

Skilled "R" grades 7.90 per hour

Professional "R" grades... 8.10 per hour

Although the mission recognized the need for remedying the many defects in the present wage structure and job classification system, it was not possible, in the time allotted, to give this problem the study required. It is recommended, however, that the job regrading under consideration be expedited so as to be effective simultaneously with an increase in the wage rates. A subsequent review should also be undertaken of the wage structure with a view to possible reduction of the number of grades and the time required for step-grade advances. If the proposed rate scale is adopted, the present spread of ¥1 from the minimum to the maximum rate for each grade becomes exceedingly narrow, particularly in the higher grades.

Establishment of a rational wage structure is a highly technical job. since no member of the present staff of Military Government has the required technical skill, it is recommended that a specialist be secured for this purpose.

Category II Workers: The wage scale for monthly salaried workers in Category II presents a problem because the wages of these workers have been calculated on the basis of a 40-hour work week (173 hours per month), even though they may be required to work up to a total of 250 hours per month without additional compensation. This procedure has resulted in inequities between worker in Category I and Category II since Category I workers are paid for all hours worked.

To simplify the immediate problem and as matter of equity with workers in Category I, it is recommended that the increase for monthly salaried Category II workers be calculated by multiplying 173 hours per month (40 hours per week) times the hourly yen increase granted in the comparable Category I classification. It is recommended, however, that these classifications be reviewed with a view to establishing a basic work week

more closely related to the actual hours worked, wherever possible, For those classifications where a basic work week of more than 40 hours is established, adjustment should be made in the wage scale for the additional hours over 40. In general, a basic work week can be set for the vast majority of classifications. The exception is primarily domestic servants.

Unless the above adjustments are made, inequities will continue, For example, a clerk in Category I, now rated as R-2, will earn ¥10 per hour under the recommended wage scale. If he works 40 hours per week, he will receive ¥1,730 per month (173 hours). If he works 48 hours per week, he will receive ¥2,080 per month for 208 hours. Under the recommended wage scale for salaried workers in Category II, a clerk performing work comparable to the work of a clerk in Category I will receive ¥1,740 per month on the basis of a 40-hour week, or the same wage as his counterpart in Category I. However, under the existing regulations, if the Category II clerk works 48 hours a week, he still receives only ¥1,740 per month for 208 hours, or ¥340 less than the Category I clerk. If it is found necessary for varying basic work weeks to be established by the using units, more than one wage scale can be established for salaried workers in Category II, depending upon the basic hours of work scheduled.

For workers in Category II, presently paid on an hourly basis, it is recommended that increases be given equivalent to increases in the comparable grades of Category I workers. It is assumed that job classification standards now under consideration for Category I workers will be applied also to workers in Category II.

It is estimated that the net results or the recommendation on wage increases for all workers employed by the "military" will be roughly a 200% raise (including reclassification of jobs now out of line), or an average of approximately ¥2,100 per month at present work hours. If longer hours are worked, as is anticipated, the increase will result in average earnings of about ¥2,400 per month. This figure, at the recommended exchange rate of 120 Ryukyuan yen to the dollar (see report on the exchange rate), represents purchasing power of \$20 per month or \$250 per year.

In view of the recommended increases in moneywages and other compelling factors, it is proposed that the preferential treatment in prices and availability of consumer goods now afforded Category I and Category II workers be discontinued (reference to factors other than wages are made in other reports). It is recommended also that wage deductions for meals for workers housed in compounds be equivalent to the cost of food without preferential pricing. Further, that when meals are provided either to monthly or hourly paid workers in Category II, that deductions be permitted not to exceed such deductions for workers in compounds (after preferential) treatment has been removed.)

The regulations now in effect provide that "all employees working any shift will receive 10% night differential". According to information obtained from the Naha Port Payroll Officer, this provision is not being observed because of administrative difficulties. The same situation may be found in other using units. It is recommended that the 10% night shift differential be enforced.

Wage Levels for Public Works. Present money wages on Okinawa public works projects are far above wages paid by the "military". Because of the preponderance of "military" workers in Okinawa, the "military" scale is the prevailing wage. It is essential that hourly, daily, and monthly wages on the public works program be below the prevailing wage, in order that work for the "military" be the more desirable employment. It is recommended, therefore, that the public works scale be 10% below the "military" scale. Care must be exercised to see that malpractices such as "automatic" overtime and superior "classifications" are not resorted to on the public works program in order to circumvent the intent of the regulation growing out of this recommendation. Public work wages outside of Okinawa should be at wages prevailing in the areas of the projects for economic reasons discussed in other reports.

Wage Levels for Employees of the Okinawa Civil Administration. Okinawa Civil Administration employees should be paid wages and salaries comparable to the "military" scale in an effort to improve their quality (reference to financing the increase involved is made in other reports). OCA is not following the American and "military" pattern of paying the worker in accordance with the type of work performed. It is continuing the Japanese practice using six, age education, and experience as criteria for determining the salary to be paid each employee. Whether OCA provides comparable wage by adopting the "military" scale and method, or adopts the Japanese method to accomplish this end is not considered within the purview of this mission.

Conclusion

The mission recognizes that its recommendations with regard to wages provide only a minimum improvement in the present low standard of living for Okinawans employed by the "military". Any reduction in the recommended wage level would place the United States in the position of exploiting the labor of a liberated area. In making these recommendations, the mission was also influenced by many other economic considerations, principally the danger of inflation involved in a too drastic increase in wage levels. It is hoped that, when consumer goods, in large supply are available and other forms of economic stabilization have been achieved, it will be possible to grant further wage increases and to make provision for premium pay for overtime hours worked, on the basis of internationally accepted standards.

APPENDIX

TABLE 1. TREND IN WAGE RATES FOR SELECTED OCCUPATIONS
OF RYUKYUANS EMPLOYED BY THE "MILITARY"

April 1947 to Present (December 1949)

Occupation	April, 1947		March 1948		April 1949 1/	
	Range	Average	Range	Average	Range 2/	
Hourly Rated Employed						
Bricklayer	¥1.10 - 1.35	¥1.22	¥1.30 - 1.65	¥1.475	¥3.50 - 4.50	
Carpenter	1.00 - 1.40	1.20	1.50 - 1.80	1.60	3.00 - 4.00	
Construction Worker.	.70 - .90	-	1.15 - 1.50	1.325	3.00 - 4.00	
Electrician	1.00 - 1.30	1.30	1.50 - 1.80	1.65	3.50 - 4.50	
Heavy Laborer .....	.80 - 1.10	.95	1.25 - 1.50	1.375	3.00 - 4.00	
Lathe Operator .....	.90 - 1.20	1.08	1.30 - 1.60	1.45	3.00 - 4.00	
Plasterer .....	.90 - 1.25	1.07	.30 - .60	.45	3.00 - 4.00	
Stevedore	1.10 - 1.40	1.25	1.50 - 1.75	1.625	3.00 - 4.00	
Truck Drivers	1.10 - 1.35	1.23	1.25 - 1.55	1.40	3.00 - 4.00	
Monthly Salaried Employees						
Accountant	¥240 - ¥360	¥300	¥300 - ¥375	¥337.50	¥690 - ¥860	
Architect	400 - 600	500	450 - 600	525	1,040 - 1,380	
Bookkeeper	140 - 220	180	250 - 325	287.50	580 - 750	
Bus Boys and Girls..	140 - 160	150	190 - 250	220	440 - 580	
Cashiers	140 - 300	220	300 - 375	337.50	690 - 860	
Clerk-Typist	140 - 200	170	190 - 275	232.50	440 - 630	
Domestic Servants ...	140 - 160	150	190 - 225	207.50	440 - 520	
Office Boys and Girls	140 - 180	160	190 - 250	220	440 - 580	
Nurses	160 - 240	200	300 - 375	337.50	690 - 860	
Telephone Operators.	160 - 220	210	250 - 300	275	440 - 630	
Timekeeper	240 - 300	270	225 - 300	262.50	520 - 690	

1/ On 1 Feb 49, a 100% increase over the rates established in March 48 was granted. This increase was incorporated in the new rate scale established 1 April 49.

2/ Five step-rates were established from the minimum to the maximum of the range for Category I workers. It takes a worker 3-1/2 years to move from the minimum to the maximum. No criteria have been established for increases within the range.

APPENDIX

TABLE 2. COMPARISON OF PREVAILING WAGE IN SELECTED OCCUPATION
BY VILLAGE - JULY TO OCTOBER, 1949

Rates per Day 1/

Occupation	Village Rates										"Military"
	Mizato		Gueko		Naha	Tokuguchi		Nago		Base Rates	
	Min	Max	Min	Max	Max only	Min	Max	Min	Max		
											2/
Baker.....	-	-	-	-	-	100	150	-	-	32	
Bamboo Worker	-	-	40	50	-	70	100	-	-	-	
Barber	-	-	60	150	-	50	100	¥15 (per head)		28	
Blacksmith.....	150	200	70	90	-	100	150	-	-	-	
" (Horseshoe) ..	-	-	-	-	-	60	100	-	-	-	
Butcher	-	-	-	-	-	50	80	-	-	32	
Cake Maker	-	-	-	-	-	70	100	-	120	-	
Carpenter	150	180	120	200	200	100	150	120	150	24	
Construction Laborer	-	-	80	120	70	75	100	-	-	24	
Dressmaker with and without machine..	-	-	90	150	-	50	80	-	-	-	
Electric Worker....	-	-	-	-	2,000 (per mo.)	70	120	-	-	28	
Farmer M	-	-	60	90	100	60	80	-	80	20	
" F	-	-	40	50	70	40	60	-	50	20	
Forging	-	-	50	90	70	70	100	-	-	-	
Furniture Maker....	180	200	-	-	150	80	100	-	-	24	
General Laborer ...	80	100	50	70	70	70	80	-	80	24	
Geta Worker	-	-	50	70	-	80	100	-	100	-	
Hat Maker.....	-	-	-	-	-	80	100	-	-	-	
Horse Cart Driver .	-	-	140	170	500	200	400	350	500	-	
Iron Works Worker..	-	-	-	-	-	100	200	-	-	-	
Lacquer Worker	-	-	50	80	-	-	-	-	-	-	
Mason Cement	-	-	-	-	150	150	300	100	150	-	
Mason Stone	150	180	-	-	100	250	300	-	-	24	

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APPENDIX

TABLE 2. COMPARISON OF PREVAILING WAGES IN SELECTED OCCUPATION
BY VILLAGE - JULY TO OCTOBER, 1949 (Continued)

Rates per Day 1/

Occupation	Village Rates									"Military"
	Mizato		Gueko		Nahaly	Tokuguchi		Nago		Base
	Min	Max	Min	Max	Max only	Min	Max	Min	Max	Rates
										2/
Mat Maker	-	-	-	-	-	50	80	-	-	-
Miso Maker	-	-	-	-	-	50	80	-	-	-
Pottery Maker.....	-	-	-	-	-	50	80	-	-	-
Printing.....	-	-	-	-	1,000	50	80	-	-	-
					(per mo.)					
Rice Mill Worker.....	-	-	-	-	-	60	80	1,500		-
								(per mo.)		
Sake Worker.....	-	-	-	-	-	60	80	2,000		-
								(per mo.)		
Saw Mill Worker	100	150	-	-	150	100	150	-	100	20
Shoemaker	-	-	50	100	100	80	100	-	-	-
Tile Layer	-	-	-	-	150	150	200	100	150	24
Zinc Sheet Maker.....	-	-	-	-	-	75	100	-	-	-

1/ Daily hours are estimated to range from 8 to 10 hours per day. In addition, one or more meals are furnished to workers in a number of occupations.

2/ Calculation based on 8 hours of work.

SOURCE: Report of Mayor of Nago Village; Public Works Department of Okinawa Civil Administration.

APPENDIX

TABLE 3. COMPARISON BETWEEN WAGE RATES ON PUBLIC WORKS IN
NAGO VILLAGE 1/ AND "MILITARY" RATES, OCTOBER 1949.

Rates Per Day

Occupation	Public Works	"Military"
Skilled Carpenter	¥130 - 150	¥24
Semi-skilled Carpenter.....	100	24
Stone Mason	130 - 150	24
Stone Crusher (hand).....	120 - 130	20 or 24
Cement and Brick Mason.....	100 - 150	24
Tile Layer.....	130	24
Roofing Worker	80 - 100	24
Common Labor	50 - 60	20 or 24

1/ Report from Mayor of Nago - Public Works Department of Okinawa Civil Administration.

TABLE 4. COST OF LIVING OF A FAMILY OF 5 PERSONS

A - Estimate prepared by Labor Section of Military Government:

Food (Rations Purchased at Mura Store) <u>1/</u>	
Military Worker	¥265.42
Wife	169.82
Child (under 2).....	94.52
Child (6 to 10).....	148.59
Child (11 to 20).....	180.52
Total Purchased from Mura Store	<u>¥658.87</u> (80% of Authorized Calories)
20% for Additional Food	<u>171.77</u> <u>2/</u>
Total Cost of Authorized Rations.....	¥1,030.64
Firewood	450.00
Taxes	338.00
Clothes, Medical Expenses, School Expenses, etc.....	<u>181.36</u>
Total.....	<u><u>¥2,000.00</u></u>

1/ Averages computed for February, March, April and May 1949.

2/ The balance of 20% of food must be purchased on the open market at higher prices, but assuming the Mura stores furnished the entire amount the cost would be 20% added to the total purchases from the Mura stores.

B- Estimate prepared by Labor Section of Okinawa Civil Administration 1/:

Food	¥2,388
Firewood.....	370
Sanitary Expenses	150
Public Taxes	200
Housing.....	250
Clothing	50
School Expenses	40
Social Expenses	40
Side Dishes, Tobacco, Sake, etc.	<u>195</u>
Total.....	<u><u>¥3,683</u></u>

1/ Average cost for an Okinawan family consisting of head of household and 4 dependents.

C - Estimate prepared by Atkinson & Jones Construction Co. at Futenma 1/:

Item	Total Units Consumed (per month)	Unit Price	Total Cost (per month)
Potatoes.....	50 kin	¥ 3.00	¥ 150.00
Rice.....	82 kin (109 lbs)	8.33	683.00
Fish.....	3 kin (4 lbs)	30.00	90.00
Flour.....	3 sho	130.00	390.00
Food Oil.....	1 sho	300.00	300.00
Firewood.....	30 bundles	11.00	<u>330.00</u>
Total Food and Firewood.....			¥1,943.00
Living Quarters			200.00
Income Tax			140.00
Miscellaneous Tax			-
School Expenses, Tuition and Books (3 children).....			125.00
Village Donation.....			30.00
Miscellaneous Expenses.....			1,175.00
Toilet Articles			370.00
Clothing and Shoes.....			358.00
Lamp Oil.....			<u>50.00</u>
Total			<u>¥4,391.00</u>

1/ Average cost for an Okinawa family consisting of head of the household, age 54, earning ¥900 per month, his wife, and 3 children, aged 14, 12 and 9.

YEN DOLLAR EXCHANGE IN THE RYUKYUS

It has been established elsewhere that heavy economic pressures exist in the Ryukyus as a result of the present 50 to 1 ¥/\$ conversion ratio. This supplement to the mission's overall report is intended to collate the facts with respect to the various areas where money, goods, or services are being priced in both yen and dollars. Recommendations as to the specific level at which the rate should be set appear in the main text.

A ¥50 per \$1 military conversion rate was established for Japan, Korea, and the Ryukyus by the Far East Command in March 1947. There have been subsequent changes of this rate in both Japan and Korea, but the Ryukyuan rate has not been disturbed.

In Japan in March 1947, the ¥50/\$1 rate undoubtedly overvalued the yen (i.e., a dollar would purchase more yen than the military rate recognized); in Korea the rate probably overvalued the yen even more than in Japan; in the Ryukyus the new rate seems to have been less out of line.

In Japan, this ¥50 to \$1.00 rate, as well as the 270 rate later adopted, was accepted as being purely a military conversion rate. Its application covered only the purchase of yen by occupationaires and their clubs; it was not applied to FX concessionaire income; it was never at any time applied to Japanese imports or exports.

In the Ryukyus, the 50 to 1 rate started out with the same limitation upon its application as in Japan (i.e. use for military conversion only); gradually, however, the rate began to be applied to dollar purchases of Ryukyuan labor services and presumably even regulated the pricing of imports and exports.

It is easy to understand why the military conversion rate was extended to broader application in the Ryukyus. In a country where the non self-suppliers rely upon imports for 80% of their food and where the other imported commodities are not produced indigenously, some kind of overall policy must exist for establishing prices for such imported goods. Such an overall policy has not existed in the Ryukyus; in lieu of it, the 50 to 1 military rate offered the only tangible semblance to a price policy.

At the time of the mission's arrival in November 1949, the situation was as follows with respect to the various areas where there could be a pricing of goods or services in both yen and dollars:

- (1) There existed a sizeable black market for MPC's which was paying around ¥140 for each \$1 military certificate.
- (2) Purchases of yen by Americans was done at ¥50 per \$1.
- (3) Payment of natives employed by the military either as workers or as servants was done at ¥50/\$1.
- (4) FX concessions operated at ¥50/\$1.
- (5) Imports (commonly believed to be priced at ¥50/\$1) were actually being priced at widely varying rates.

- (6) Exports, like imports, were also being priced at a wide range of rates.

The rates existing in the first four segments listed above were easily ascertained; rates in segments (5) and (6) above required considerable investigation before they could be determined.

Imports

Table 1 summarizes the ¥/\$ ratios on the major groups of Ryukyuan imports. It will be noted that the table does not provide a single over-all ratio for imports, however. The reason for this is that an average ¥/\$ ratio calculated for all imports would be meaningless for many specific purposes. In the Ryukyus there is a large volume of imported goods being distributed at extremely nominal fees, as, for example, food served in military compounds, food to welfare cases, hospitals, etc., medical supplies, fertilizer, etc. Should such commodities be included -- or excluded -- from a calculation of the average ¥/\$ ratio for imports? Inclusion or exclusion depends upon the purpose for which the resulting average ratio is used.

If the ratio is to be used to estimate the approximate yen proceeds of a given volume of dollar imports, then obviously the average ratio for all imports is required. However, such an estimate (because its calculation had been based strictly on price data) would have to be modified by the amount of imports for which payment would probably never be received. (Discussions seemed to indicate that sizeable sums were not being paid, but there are no figures to support this.) It is estimated that the average ratio for all GARIOA and EROA imports as of November 1949 was somewhere between 40 and 60 yen per dollar. (This estimate, of course, excludes all releases of Army surplus and also dollar commercial account imports.)

If the ratio is to be used to measure the dollar cost of imports to the average worker, only food sold through the Mura stores at official prices should be considered for that is the only GARIOA or EROA import which the average worker is receiving. (The Mura stores are government-operated and sell imported food at prices established by RMG.) The ratio for such food is about ¥95 to the dollar.

TABLE 1. ¥/\$ RATIOS ON RYUKYUAN IMPORTS
as of November 1949

	¥/\$ ratio
<u>GARIOA and EROA:</u>	
Food:	
(1) Sold through Mura stores.....	95 (Table 2) <u>1/</u>
(2) Served in military compounds	33 (Table 2) <u>1/</u>
(3) Distributed to welfare cases	38 <u>2/</u>
(4) Distributed to hospitals, etc.....	10
Fertilizer	25 (-+ or -) <u>3/</u>
Seed	?

(Continued on next page)

TABLE 1. ¥/\$ RATIOS ON RYUKYUAN IMPORTS
As of November 1949 (Continued)

	¥/\$ ratio
<u>GARIOA and EROA:</u>	
Petroleum and products	40 $\frac{4}{4}$
Industrial equipment	40 $\frac{4}{4}$
Medical supplies	10
<u>Dollar commercial account:</u>	
Incentive goods stores	40 - 60
Free trade stores	250 (+ -) $\frac{5}{5}$
1/ Vickery's recommendation for imports of 80% rice, 10% soybeans, and 10% wheat was used for weighting purposes.	
2/ Represents 40% of ratio on food sold through Mura stores. For welfare cases M.G. pays 60% and the provisional government pays 40%.	
3/ Presumably the price of fertilizer has been increased to ¥50/\$1; it appears, however, that billing has not taken place at this increased price. The ¥/\$ ratio appears to be around ¥25/\$1.	
4/ Method of pricing uses FOB \$ price (not necessarily current) converted at ¥50/\$1 to establish yen price after unloading and delivery to Ryukyuan warehouses. Ratio of ¥40/\$1 was calculated by (1) reducing yen charge by 10% to measure cost at Maha port and (2) increasing dollar cost by 20% to measure c.i.f. charges and reducing by 10% to measure recent \$ price declines.	
5/ About 5% of imports through the \$ commercial account have been sold in the free trade stores.	

If the ratio is to be used to measure ¥/\$ pricing of imported commodities distributed commercially or semi-commercially, then the ratio should probably be a composite of food through the Muras, fertilizer, petroleum, and industrial equipment. There is some question as to whether fertilizer should be included in this group due to the recent abstention from billing. Including fertilizer, the average ratio for this group is probably between ¥60 and ¥70 to a dollar. (It should be noted, however, that this makes no allowances for non-collection.)

Food Measuring the yen and dollar prices on specific import commodities was extremely difficult because of wide variations in pricing, loose accounting, and dispersion of responsibility. Lack of current c.i.f. dollar prices frequently made it necessary to estimate c.i.f. costs and dollar price decreases. Difficulty was also experienced in securing adequate specifications. The results presented in this report are believed to be reasonably accurate, however.

Current ¥/\$ ratios on food sold through the Mura stores are shown below:

	<u>¥/\$ Ratio</u>
Rice	88
Wheat flour	80
Soy beans	157
Sugar, raw	144
Coconut oil.....	55
Soy bean oil.....	66
Salt	83

The supporting yen and dollar prices as well as similar information on food served in the military compounds is given in Table II.

Yen pricing of imported foods in the Ryukyus has been done in a most arbitrary fashion. Prices of imported foods sold through normal distribution channels remained unchanged until February 1, 1949; at that time the price of rice was increased from ¥1.75 per pound to ¥11.19. On March 1, it was reduced to ¥6.25 and in October to ¥6.20. Based on approximate dollar prices of \$0.0827 per pound in January and \$0.0636 in November and assuming the same 10% distribution charge, the yen dollar ratios on rice were as follows:

	<u>¥/\$ Ratio for Rice</u>
1949 Jan	19
Feb	122
Mar	62
Oct	88

Pricing of other imported foods has followed the same erratic pattern.

Substantial quantities of imported food have different pricing than food which is sold through the Mura stores:

- (1) Food served through military compounds. This is priced at about ¥30 per \$1 and goes to about 12,000 workers (Discontinuance of this preferential treatment is one of the recommendations of this mission.) Price and ratio details by commodities appear in Table 2.
- (2) Food for welfare cases. Adequate information on such food requirements was unobtainable. It was apparent that the number of such cases varied greatly from month-to-month and that the load was extremely high after the recent typhoon. Estimates of the number of persons receiving welfare food ran as high as 35,000 to 40,000 in July and possibly August. The statement was made by RMG personnel that for such food RMG paid 60% and the Provisional Government paid 40% but the accounting procedures for handling this were not clear.

- (3) Food distributed to hospitals, etc. An RMG memorandum stated that this food was to be priced at ¥10 per \$1. No attempt was made to check how this pricing was actually being done nor the volume of food moving through such channels.

TABLE 2. ¥/\$ RATIOS ON RYUKYUAN FOOD IMPORTS
As of November 1949

	Unit	¥ Retail Price	10% of ¥ Retail Price 1/	c.i.f. Dollar Price	¥/\$ Ratio
Food sold through Mura stores					
Rice	lb.	¥ 6.20	¥ 5.58	\$ 0.0636	88
Flour.....	lb.	5.00	4.50	0.0565	80
Soy beans	lb.	8.00	7.20	0.0458	157
Sugar, raw.....	lb.	8.00	7.20	0.0499	144
Coconut oil, crude bulk	gal.	50.00	45.00	0.8249	55
Soy bean oil.....	gal.	50.00	45.00	0.6824	66
Salt.....	lb.	2.00	1.80	0.0216	83
Food served in military compounds					
Rice	lb.	2.00	1.80	0.0636	28
Flour.....	lb.	1.60	1.44	0.0565	25
Soy beans.....	lb.	3.50	3.15	0.0458	69
Coconut oil.....	gal.	10.00	9.00	0.8249	12
Salt	lb.	1.00	.90	0.0216	42

1/ OCA is allowed 10% of the retail price to cover costs of unloading and distribution.

Fertilizer Yen pricing of fertilizer in the Ryukyus is confused at present. In October 1949, an RMG memorandum required that fertilizer be priced at ¥50/\$1. Although in actual practise this would have meant a ratop pf pm;u abpit ¥40 to the dollar, it would nevertheless have involved a significant price increase wherever enforced. Many MG personnel believe that such a price would be higher than the farmer could possibly pay -- and there is evidence to substantiate such claims. Because of this situation, fertilizer has recently been distributed to farmers without proper billing and there is a toss-up as to what the present price may be.

There should be a reconsideration of the entire fertilizer pricing problem, giving due consideration to the quantity that is being distributed and the amount of currency which the average farmer can acquire for such purchase.

Exports

The ¥50 per \$1 rate has had even less to do with the pricing of exports. Ryukyuan made goods sold through PX concessions have apparently been the only "export" area where the military rate has been applied; elsewhere commodities have been purchased by the Board of Trade at whatever yen price the Board

considered reasonable.

Shown below are the ¥/\$ ratios on exports sold through October 1949, as reported by the Board of Trade.

	¥/\$ Ratio
Sea shells.....	96 - 115
Phosphate rock.....	n.a.
Paper cord hat	125
Lily bulbs.....	180
Sycus leaves	185
Adamba hat	225
Black lip pearl oyster	288 - 277
Kaijinso	300

The Ryukyuan Board of Trade has prepared a statement of commodities which it says can be exported during calendar 1950. The ¥/\$ ratios on these commodities have been calculated and are summarized below:

Commodities with ¥/\$ Ratios of:	Total Dollar Value	Principal Commodities
120 and under	\$ 446,000	Hats, shells, phosphate rock
120 - 200.....	164,000	Lily pulbs, dried sotetsu leaves
240 - 300	561,000	Dried bonito, kaijinso
500 and over	68,000	Black sugar, marini fibre
Total	\$ 1,239,000	

Details by individual commodities may be found in Table 3.

It seems quite apparent from studying the above data that if anticipated 1950 exports are actually contracted for and shipped, much of it will have been done at yen pricing completely out of line with world situations. It is interesting to note that all of the important new export commodities which the Board proposes are commodities with extremely high yen prices relative to dollars. Dried bonito has a ¥/\$ ratio of 250; dried cattle fish a ratio of 300; black sugar a ratio of 500; "getto" fibre a ratio of 567; "marni" fibre a ratio of 1,167.

TABLE 3. EXPORTS ANTICIPATED FOR CALENDAR YEAR 1950
As of November 1949

	¥/\$ Ratio	Dollar Value
<u>Commodities with ¥/\$ ratios of 120 and under</u>		
Murasaki omoto	56	\$ 8,000
Hinoki hat	93	5,000
Panama hats	101	88,000
Sea shells.....	105	157,000
Slipper	111	104,000
Rock phosphate	n.a.	84,000
Total		\$ 446,000

(Continued on next page)

TABLE 3. EXPORTS ANTICIPATED FOR CALENDAR YEAR 1950
As of November 1949 (Continued)

	¥/\$ Ratio	Dollar Value
<u>Commodities with ¥/\$ ratios of 120 - 200</u>		
Dried sea slug	167	\$ 1,000
Lily bulb	182	83,000
Dried sotetsu leaves	186	58,000
Cattle fish bone	200	1,000
Tsunomata	200	16,000
Adanba hat 7 "bu"	200	5,000
Total		\$ 164,000
<u>Commodities with ¥/\$ ratios of 240 - 300</u>		
Black lip pearl oyster	247	\$ 1,000
Dried bonito	250	380,000
Kaijinso	300	176,000
Dried cattle fish	300	4,000
Total		\$ 561,000
<u>Commodities with ¥/\$ ratios of 500 and over</u>		
"Kurotsugu" fibre for scrub brushes and rope	500	\$ 3,000
Black sugar	500	40,000
"Getto" fibre	567	5,000
Kacttch	800	5,000
"Marni" fibre	1,167	15,000
Total		\$ 68,000

Source of yen and dollar values: Ryukyuan Board of Trade

Experience in Japan has demonstrated how serious the uncontrolled pricing of exports can become. The yen pricing of Ryukyuan exports at the present time is not greatly out of line; however, the Board of Trade's program itself — with over half of scheduled exports priced at ¥250 per \$1 more — is strong evidence that export pricing — unless regulated — will soon get out-of-hand. The Ryukyus can afford much less to build up uneconomically sound export industries than could Japan.

An exchange rate per se is not a requisite for controlling yen pricing of exports. Long before the exchange rate was established in Japan, SCAP placed ceilings on the ¥/\$ ratios at which exports could be sold. At first a ceiling of ¥600/\$1 was imposed; this was later reduced to ¥450/\$1; and still later to ¥425/\$1.

Until such time as an exchange rate is established in the Ryukyus, it is recommended that a ceiling be placed on export prices. A rate of ¥250/\$1 is the maximum that could be considered for such a ceiling; a top of ¥200/\$1 or ¥225/\$1 would seem more appropriate.

Conclusions

Certain conclusions arise from the foregoing:

(1) The present ¥50 to the dollar rate is a military conversion rate which has been applied to both military and quasi military conversion but which has not, in fact, been applied to Ryukyuan trade (i.e. imports and exports). The areas of present heavy economic pressure are these military or quasi military areas where the ¥50 per dollar rate has been applied. To provide relief for these does not necessarily require an exchange rate: a new military conversion rate could at present accomplish the same results and would have the advantage of much greater speed. This would make possible a more leisurely consideration of the exchange rate and the complexities of accounting and control that establishing such a rate will necessarily create.

(2) Any general change in the pricing of imports would have a direct effect upon the cost of living. (Recommendations for wage increases made in the main body of this report are based upon maintaining the present cost of living.) However, this does not preclude consideration of prices of individual commodities. Certainly the price of soybeans looks very high in relation to dollar prices and should be reconsidered. Also the price of fertilizer should be considered both with respect to the quantity that is being imported and with respect to the farmer's available supply of currency.

(3) If an exchange rate is not effected immediately, a ceiling should be placed on the ¥/\$ ratio at which commodities can be exported in order to avoid building up of economically unsound export industries. This ceiling should be gradually lowered and should continue until such time as an exchange rate is established.

(4) There is no justification whatsoever for exchange of Ryukyuan yen for Japanese yen on a one-for-one basis. Authority for discontinuing this lies within FEC and should be corrected immediately.

RYUKYUAN PRICE

Statement of the Problem

The essence, one might say, of the current economic difficulty in the Ryukyus and in Okinawa, in particular, is the dislocation to the economy resulting from the military construction program despite the fact that the economy is earning dollars thereby. Without the military program and without the U.S. aid program the standard of living of the Ryukyuans, especially the Okinawans, would be seriously below present levels. For employees of the military, wages have been relatively fixed. This was not serious while the military sold goods through ration channels at nominal prices, but when given prices more nearly approaching the market value, the wage-price structure of the natives employed by the military became inequitable. Finally, the war damage to land resources and the current use of arable land for military facilities has necessitated large food imports, which farmers in addition to workers have had to buy to supplement their inadequate production. The necessity to do this has left farmers with little cash to purchase fertilizer and other farm materials and supplies. The income-price structure of the farmer thus, also, became inequitable. The inequity to occupation labor and to farmers must be corrected not only from the point of equity per se but to assure the success of the military program and to increase the indigenous production and normal exchange of foodstuffs. This can be done to a large extent by an increase in occupation wages without an increase in official prices and by selling goods used in farm production at low prices, particularly fertilizer which constitutes a large cash outlay of the farmer.

General Findings

The Ryukyus, consisting of four principal islands and about 140 minor islands has a population of about 200,000. The Northern Ryukyus, with a population of 225,000 are virtually self-supporting and were not greatly damaged by the war. They have cattle and horses and an exportable surplus of black sugar. Their exports may be sufficient to offset their imports this year. Yaeyama in the south with a population of about 45,000 is similarly self-supporting. Miyako (population 80,000) between Yaeyama and Okinawa to the north is not self-supporting and has a low standard of living. Okinawa, the principal island with close to 565,000 people, was severely damaged by the war and more than 20 percent of its prewar cultivated land and its principal port at Naha are still used by the U. S. military establishment. Moreover, the Okinawans have no legal title to their land and this results in an inertia to make permanent improvements to the land. These factors are the principle reasons why Okinawa must receive about one-third of its food requirements from United States funds.

The economy of the Ryukyus derives its livelihood from agriculture, fishing, and now from the U. S. military. Employment for the military amounts to about 40,000 on Okinawa alone with negligible employment in the other Ryukyus. Projected projects may add another 15,000 to this employment resulting in an estimated total employment for military establishments equal to about one-fourth of the labor force.

This labor force includes an unusually large number of workers with relatively fixed incomes because of the large employment by the military. In addition, the civilian government of Okinawa employs about 9,000 people. These salaried workers plus those for the military establishments appear to have suffered most by the shortage of goods. Farmers as a group are perhaps only slightly better off than this group. They have such small farms that they produce little for sale and hence have hardly any funds to purchase clothing, fish, tools, and fertilizer. Moreover, if they do not keep their produce, they often barter it, hence bypassing money as a medium of exchange. The lack of funds in the hands of farmers and in their agricultural cooperatives make the purchase of GARIOA and EROA supplies and equipment extremely difficult. The workers whose wages are not fixed, those who work for private contractors and merchants, appear to be the best off economically but they are also in need of consumer goods. Because of these group differences in economic well-being, the rationing system is based on the economic status of the individual as well as on the degree of self-sufficiency. For example, workers for the Army and welfare cases receive about 23 lbs. of rice per month while restaurant owners receive only 5 lbs. of rice per month.

These rations are distributed through about 190 outlets called mura stores. These stores also distribute surplus military goods, such as shoes, soap, trousers, caps, jackets, etc. Consumers draw lots to determine which items they may purchase and then may transact exchanges afterwards among themselves. Approximately \$16 million in surplus military clothing has been distributed to date and military clothing can be seen on almost all of the natives. Some clothing, it is alleged, has been smuggled to Formosa in return for rice and soft goods of Chinese origin.

Another type of store is the Special Trade Stores numbering about fifty and located in the various military establishments. These stores sell consumer goods to native employees of the "military" at low prices as a non-wage incentive or payment. These stores were opened in the early spring of 1949 after the "military" had lost many employees because wages were so low relative to living costs.

Beginning in September 1948 workers in excess of specified numbers performing personal services for the occupation forces were paid in yen for which dollars were deposited in the Ryukyus Commercial Account at a rate of 50 to the dollar. Other wages were paid without the deposit of dollars. Beginning in April 1949 dollar deposits were required for yen wages paid to all workers for the occupation forces (except for the labor employed by the Army Engineer for which purchase of yen with dollars was not required through 30 June 1949). Native labor employed by the military government for administration and rehabilitation are paid from yen realized from the sale of U. S. relief supplies.

The consumer goods sold through the Special Trade Stores were purchased through a revolving fund obtained from dollar payments for yen wages. Native employees of the military establishments, it was initially intended, would be allowed about the amount of their cash wages per month in such purchases. If they had resold these goods in the free market (at several times the purchase price) they would have realized more from this operation than from their actual money wages. However, actual supplies distributed through these stores during the past six months amounted to about 200 yen per

month per worker, these goods have not been of the preferred types and quantities and the program has not been successful either as an incentive to labor or as a satisfactory wage policy.

Retail Prices

The "military" has attempted to hold its wage scale constant, in order to operate within its dollar budget, by offering incentive goods at low prices, thus establishing a special class of consumers who at the same time became middlemen in order to resell these goods in the free market. Many in this group also receive meals at the military compounds at only nominal cost. The problem is how to eliminate the non-wage special treatment of "military" employees without causing either prohibitive dollar expenditures or inflationary yen expenditures.

The first step towards the solution of this problem involves the level and structure of retail prices. For wage earners the bulk of purchases are at the official prices in the mura stores. These prices at one time were only sufficient to cover the costs of handling and distribution, and at the beginning of this year were about 9 percent of the comparable prices in the free market. In February these prices were increased several-fold in an attempt "to give these goods a market value"; in March these same prices were substantially reduced but nevertheless were much higher than in January. These sharp fluctuations in official prices, however, were a shock to the economy and the wage-price structure.

The February price increases presumably brought the official prices to 50 or 60 percent of prevailing free market prices. The prices established in March are the existing prices except for small downward adjustments that were made in October.

OFFICIAL RETAIL PRICES FOR STAPLES

(Yen Per Pound)

	Oct '49	Mar '49
Rice	6.20	6.25
Flour.	5.00	5.00
Soybeans	8.00	8.75
Sugar, granulated.....	8.00	10.00
Salt	2.00	2.50

At the time the official prices were increased the prices of goods in the free market increased. Recently free market prices have been declining. A precise measure of this downward trend is not available. An index of free market prices does exist but it is a crude simple average of a changing composite of goods. In fact this index indicates erroneously that free market prices are currently about 25 percent in excess of its base prices is a serious handicap in economic analysis.

FREE MARKET RETAIL PRICES IN THE NAHA MARKET
(Yen Per Unit of Measure)

Item	Unit	1949					1948
		16 Nov	20 Sep	19 Jul	17 May	29 Mar	30 Jun
Rice, indigenous ..	sho	61	65	80	96	135	120
Soybeans	sho	72	69	69	110	-	140
Flour.....	kin	40	30	42	50	80	24
Sweet potatoes	10 kin	18	20	27	35	35	40
Fresh fish, 1st grade	kin	50	40	30	50	65	50
Dried bonito	kin	140	145-	100	125	240	165
Sugar, black.....	kin	25	28	30	31	35	45
Trousers, cotton (HET).....	pr.	120	110	140	75	75	-
Soap, laundry.....	bar	25	20	23	25	26	38

The above table indicates that only dried bonito and the HET cotton twill army trousers increased in price since 17 May. These two items are those with the greatest weight in the index on the basis of their prices but their weight is relatively inimportant on the basis of the quantities purchased. Moreover, the purchases of these items in the free market are often diverted from domestic consumption to illegal exports. For all the rest of the items the movement since 17 May has been downward, contrary to the increase reflected by the "index" referred to above. These other items range in the following order of importance in the free market; sweet potatoes (50 percent decline), fresh fish (constant prices), indigenous rice (30 percent decline), soybeans (40 percent decline). Between September and November, prices were relatively stable.

Cost of Living The estimates of cost of living are subject to considerable variation from one family to the next because of the difficulty in selecting typical individual families and in keeping adequate records of purchases by the families selected. Due to the wide variation in existing estimates of the cost of living it would be necessary to study a large number of families. Since no such study has been made (even of a small sample of families), it is necessary to use an indirect procedure to estimate how much it costs a typical family to live.

The first step in this estimate is to obtain directly or to derive from food balance-sheet data the average caloric consumption per capita. Fortunately, the former data are available on the basis of a large survey conducted by the Public Health and Welfare Section of SCAP. The results of this survey show that the ration is very important for the urban consumer (less than one-fifth of all consumers) and that, contrary to results in Japan, the average caloric consumption of the rural population is somewhat lower than for the urban population.

CALORIC CONSUMPTION IN AUGUST 1949

(Per Capita Per Day)

	All Okinawa	Urban	Rural
Ration.....	421	1,115	304
Free market	148	422	102
Home production.....	1,194	250	1,354
Gift.....	21	35	19
Total.....	1,785	1,821	1,779

The second step is to decide what prices are to be used to "value" the calories consumed. It is necessary to use a composite price based on based on official prices for all food consumption except for the portion purchased in the free market, and for this portion to use a composite price based on free prices. Because there are no data on origin of consumption for individual food items and because in Japan prices of other cereals have been set relative to the rice price, it was decided to use the cost of rice in terms of calories as the estimated composite price.

CALCULATION OF COST PER CAPITA OF URBAN FOOD CONSUMPTION (Based on August '49 Consumption and November Rice Prices)

Consumption from ration, home grown, and gifts:

Calories	1,400.
Pounds (1400/1588).....	.88
Official price of rice in yen per lb.....	¥ 6.2
Cost per day (6.2 X .88).....	¥ 5.46

Consumption from free market:

Calories.....	421.8
Pounds (421.8/1588) .....	.26
Average free price in yen per lb. (52/3.14).....	¥ 16.56
Cost per day (26 X 16.56).....	¥ 4.31
Cost per person (per day	¥ 9.76
(per month	¥ 292.85
Cost per family of five (per day	¥ 48.81
(per month	¥1,464.24

The above calculation shows that the total monthly yen cost of polished rice equivalents for feeding a family of five who purchase all their food is about ¥1,464 per month. This estimate may have an upward bias in that it assumes no home grown food and no gifts. In general it may be said that the average family spends about ¥280 to ¥300 per month per member for food.

The final step is to allow a margin for firewood and other non-food items. Available data indicate a monthly cost of about ¥330 per month for firewood, far more than in Japan. This is largely the result of the virtual absence of Okinawan-owned motor transportation and sparseness of forests. The price of a bundle of firewood is said to be almost three times as high in Naha as at points about twenty miles north. The rehabilitation of road transport, therefore, should reduce this cost somewhat.

Since the expansion of Ryukyuan trade is to be principally with Japan, a cost of living comparison with Japan is not unreasonable. In Japan the proportion of average urban expenditures for purchases other than food and fuel is about 37 percent. Some deductions have to be made from this figure because the stage of Japanese recovery is far beyond Okinawa recovery and many goods available to Japanese are not now available to Okinawans. The exclusion of these items would yield a figure of roughly 30 percent for Okinawan expenditures other than for food and firewood. This includes about 15 percent in taxes, and excludes rent payments, which are nonexistent in Okinawa. Average family expenditures on the basis of these data are estimated at approximately ¥2,500 per month for a five-person family.

Implications on Wages and the Exchange Rate. The use of this figure for purposes of establishing minimum wage rates involves several conceptual problems and certain arbitrary adjustments. For example, depending on what non-food expenditures are allowed or disallowed the above estimate may range from ¥2,000 to ¥3,000 per month. In addition, the figure above used for the average urban consumption includes not only the wage group, which is considered worst off, but the private group, which is considered the best off, the farmers being in the middle. The minimum wage may also allow for the tendency for low income families to supplement the income of the family head by subsidiary employment of the wife and children and by home gardening. Finally, should a minimum wage be set at the present time with a margin to absorb some future price increase and to allow for some wage increases for competing labor groups without having to make another wage adjustment?

At this time such a margin is not advisable because of the large wage increase for occupation force labor necessitated by the current cost of living and because of a proposal to limit wages of non-occupation force labor working for the civilian government and on public works. Moreover, the extent of competitive wage increases is also limited somewhat by the supply of labor which can be drawn from agriculture where the labor is underutilized. Finally, a margin above the minimum may aggravate the inflationary pressure resulting from the proposed devaluation of the Ryukyuan yen.

The argument for setting the minimum wage on the basis of the absolute minimum cost of living does not imply that wages not be increased as labor productivity increases, as it surely will, because labor productivity is said to be notoriously low at the present time. A prevalent contention among construction experts on Okinawa is that if the military instead of employing

native labor on an hourly basis should pay contractors, particularly the fifteen Okinawa firms now in existence, on a fixed cost basis, then the increases in labor productivity and general cost reductions to the military would permit its appropriations to cover considerably higher wages. Such increases in wages are not inflationary since they provide the Okinawa economy with dollars for increased imports, assuming no simultaneous decrease in GARIOA aid.

If the lower end of the cost-of-living calculation (¥2,000 per month) shown above is decided upon as a so-called minimum wage compared with the corresponding present wage of about ¥700 per month, the yen wages would have to be increased by slightly less than 200 percent. If dollar wages are not increased at all, this will require a depreciation of the rate from 50 yen per U. S. dollar to ¥150 per U. S. dollar, a 200 percent increase in the ratio. However, there are good reasons for minimizing this depreciation even if it means that initially the dollar wage costs of the Army have to be increased some.

The economy of Okinawa derives most of its foreign exchange from "invisible" exports of labor, and will gradually provide other services and rentals to the military forces. Since the demand for these exports on the part of the military is determined by considerations other than their prices, the economy may actually lose dollar revenue by too great a depreciation, because the cheaper the yen the fewer dollars are required for a given yen expenditure.

Even in the case of "visible" exports there appears no need for more than a conservative depreciation of the rate of exchange. Commodity exports earn a small proportion of the foreign exchange, partly because some of it is exported illegally for reasons other than the exchange rate. A large portion of commodity exports, principally sea shells for buttons and black sugar, are for Japan, with whom the Ryukyus will soon have a relatively large import surplus financed from dollar earnings. It would not appear wise at present to depreciate the rate to the extent that would be necessary to "push" commodity exports to Japan if a simultaneous effect may be to lose dollar earnings, which currently are the principal source of purchasing power for Japanese goods.

The Ryukyus, particularly Okinawa, moreover do not have at present a selling problem but a production and rehabilitation problem. The immediate need is for imports rather than for exports.

Because of the present and potential complementing of the Ryukyuan and Japanese economies, it is not unreasonable to compare the prices in these two countries. The key commodity in both countries around which the structure of prices for consumer goods tends to be officially set is rice. The official price of rice in Japan as of 1 January 1950 is 445 Japanese yen per 10 kilograms or 22 pounds. The official price in Okinawa is 6.2 Ryukyuan yen per pound or 136 Ryukyuan yen per 22 pounds. The price of rice, therefore, in Ryukyuan currency is slightly less than one-third of the price in Japanese currency. However, the prevailing wage in Japan is slightly more than three times the prevailing wage in Okinawa. Hence, the average worker in private employment in Japan has about the same purchasing power in terms of rice as such worker in Okinawa. Since depreciation of the exchange rate to 120

Ryukyuan yen to the dollar is to bring wages paid by the "military" and government into line with wages paid by private employers, the above calculation does in fact indicate that the Ryukyuan yen is worth about three Japanese yen or the exchange rate should be about 120 Ryukyuan yen to the dollar.

RYUKYUAN BUDGET, CURRENCY, AND BANKING

Budget

The present budget and accounting records of the Ryukyuan Military Government are inadequate for effective fiscal management. It was impossible to obtain from the budget and accounts information necessary for a fiscal analysis of the problems covered by this report and the effects of the recommended changes in wages, prices, and exchange rate. The yen budget as presently compiled contains detailed estimates as to the type of goods and personnel to be procured but gives little information as to the nature or purpose of the expenditures. Neither does it present summary data on the expenditures, revenues, and monetary issue.

All of the factors involved in the present situation such as imports, prices, wage levels, exchange rate, and reconstruction financing come to a focus in the budget. The budget therefore can be an effective management tool, if executed properly, in bringing together these related factors for the determination of policy, the establishment of programs, and the coordination of activities. This has not been, but should be accomplished.

It is essential that the public finance function be more effectively discharged both in the execution of those finance management operations that will be necessary to control the economic effects of the changes recommended in this report and in developing a sound coordinated fiscal program for the coming fiscal year.

It was reported that the present budget and budget procedures represent a substantial improvement over that followed in the past. The difficulties in preparing a sound budget program due to the lack of firm import and well developed MG programs was apparent, but there is presently no budget which represents the expected revenue and expenditure program of the Military Government. The budget, as originally prepared, included estimated revenues and expenditures for the year totalling ¥1,242 million; however, revenues and expenditures through August 31, the latest date for which reliable reports were available, totalled ¥318 million and ¥203 million respectively, equal on an annual basis to ¥763 million and ¥487 million.

Expenditures have been held within actual revenues and this has been effective. Further action has been initiated to compile a restatement of the budget for the current fiscal year. This should be accomplished as early as possible.

Since the MG budget is directly related to the GARIOA budget consideration should be given to the revision of the Ryukyuan budget year to correspond with the U.S. fiscal year.

The budget and the accounts should also include estimates and reports of GARIOA supplies issued to each military government activity such that the full extent of each activity may be shown. Enterprises such as Water Transportation or the Dairos Phosphate project should be included in the budget in reports form showing the revenues and expenditures, both of yen and imported goods, so that the net effect of such operations on the government fiscal operation is clear.

Category III expenditures, termed War Damage Expenses, are to some extent grants-in-aid or equalization grants and should be the subject of further study. Since the Ryukyus are comprised of four main land masses the equalization expenditure in each area must be balanced against the collections for food and the trade balance of the area; otherwise, with limited inter-island trade, there would be a contraction of currency in some areas.

No detail examination of the budgets of the four provisional governments was made as it was reported that these governments were not operating at a deficit and were therefore not directly related to the immediate problem on wages and prices.

Most of the expenditures for war damage rehabilitation of the Okinawa Civil Administration are disbursed by the Okinawa Military Government Team. Although it was reported that a partial transfer of this function in the past was unsuccessful, it is recommended that a more concerted effort be made to effect transfer at an early date of all functions to the provisional governments.

Pricing of Imports

Under the Economic Cooperation Act of 1948 and pursuant to the provisions of the agreements entered into between the United States and certain European countries participating in the European Recovery Program, each participant receiving assistance assumed an obligation to deposit in a special account amounts of its local currency commensurate with the amount of the basic dollar aid. These local currency counterpart funds are divided into two portions: not less than 5% is allocated to the uses of the United States and the remaining 95% is utilized within the country for monetary and financial stabilization, the stimulation of productive activity, and the exploration and development of new sources of wealth.

Similarly in Japan, a Counterpart Fund has been established to which deposits are made in yen equivalent to the dollar value of the American Aid computed at the established exchange rate. The fund is employed for fiscal management and economic rehabilitation.

Establishment of a full counterpart fund for the Ryukyus is not appropriate. The revenue of the Military Government from the sale of GARIOA and EROA imports represents a partial counterpart fund, partial in that it is not the full value in yen of all imports. Imports sold to the public are not priced in yen at the dollar landed cost times the conversion rate and such pricing, as discussed later, is not recommended. There is a second class of imports consumed by the MG in the operation of the government and in the public works rehabilitation program. Such imports, which might be called non-distributed imports, consist of material, supplies, and equipment for the rehabilitation of the islands and are issued to the appropriate MG activity without charge. It would be impossible to collect through taxes and deposit in a counterpart fund the yen value of such imports because there are not the tax resources to accomplish this. Okinawa was completely devastated and the scheduled rehabilitation program could not be supported by an economy which had taken decades to develop that which was destroyed in the war. Further it would be impossible to employ a fund equal to the value of such imports in a country having such limited resources and industry. Payment by each activity of MG for such imports would be an internal government transaction, a mere book-keeping device.

Imports which are procured with dollars obtained from the sale of yen to the military establishment (i.e. imports through the Dollar Commercial Account) should be sold at the established conversion rate or slightly above to cover administrative expenses so that no loss accrues to the government on such foreign trade transactions.

Proceeds from the sale of aid imports (GARIOA and EROA) consisting primarily of food and fertilizer, provide the revenues of the Military Government and should be employed for the general welfare in the operation of governmental functions and in the rehabilitation of the economy. The size of the national budget that can be employed effectively for the general welfare without interfering with the military program or without withdrawing labor from necessary agricultural production is limited. The optimum size of the budget therefore conditions the total amount of revenue that should be obtained from the sale of aid imports.

There are other considerations, however, in the establishment of import prices. Presently food is being priced at ¥95 to the dollar, fertilizer at ¥25 per dollar, and other goods generally at less than ¥50 per dollar. The effect of any change in these prices must be considered. Also the relation of the prices to the problem of establishing the military on a full pay-as-you-go basis, as discussed later, must be considered.

Continuation of present prices on imports would produce sufficient revenue to support a reasonable national budget. The high cost food being imported should continue to be priced at the average ¥95 rate but as cheaper food is obtained from other areas the price to the consumer should remain the same such that as dollar prices decline the average ¥/\$ rate on food approaches the conversion rate.

Pay-As-You-Go

U.S. Government activities in the Ryukyus, both the military and the Military Government, are not on a full pay-as-you-go basis. The U.S. is using approximately 21,000 acres of land, the port of Naha, and other facilities for which no rental is being paid. Were such payments made as should be done in a liberated area, the need for GARIOA supplies would be substantially reduced as greater dollar earnings would accrue to the Ryukyus Commercial Account to be used in the purchase of imports. GARIOA supplies, or the proceeds from sale of GARIOA supplies, should not be considered entirely as a gift to the Ryukyus but as including payment for value received by the U.S.

The general recommendations in this report provide for the payment of native labor at an average of ¥2,100 per month or \$17.50. As the country is not self-sufficient in food, the dollar salary payment should be sufficient to cover the living costs of the laborer purchased in the world markets. Based on rough data available it is estimated that an average monthly dollar wage payment of \$20 would be required.

If an adequate dollar wage were paid and payment made for land and other facilities the need for a GARIOA appropriation as such could be subsequently reduced or eliminated.

The recommendations made in this report recognize the inflexibility of the present military and GARIOA appropriations and of other factors which preclude the immediate establishment of full pay-as-you-go operations. Plans including the development of necessary budget estimates, however, should be made at the earliest practical date for the inclusion of all pay-as-you-go requirements in the regular military budget. The object should be to develop a sound economic plan on the basis of a continued military installation on the islands.

War Damage Expenditures

Expenditures are being made, particularly under the public works program, which are not for the immediate benefit of the Ryukyuans. Only a few particular projects were noted, as no detailed review was made of all expenditures, but it is apparent that funds in this category are being misapplied. For example buildings have been constructed that are to be used by the Military Government, roads are being constructed that are not essential for the Ryukyuan economy but are for the benefit of the U.S. agencies, and repairs have been made on Military Government buildings from this appropriation.

The proceeds derived from the sale of GARIOA goods should be used for the benefit of the Ryukyus and programmed on the basis of greatest benefit. Expenditures for the immediate benefit of the U.S. Government agencies but for the eventual benefit of the Ryukyus, as for example the construction of buildings, should only be undertaken on the provision that dollar payment for the use of the facility will be made until such time as the facility is turned over to the Ryukyus.

Currency

New type "B" military yen, the present legal tender in the Ryukyus, was introduced in July 1948. A total of ¥964,417,600 was transferred to the Ryukyus by the Funding Officer, GHQ, FEC, of which ¥725,841,600 was issued and the balance of ¥238,576,000 was placed in a blocked account. The total issue and the money in circulation has remained relatively stable since that date.

The introduction of dollars as the currency for the Ryukyus has not been considered, because it is not essential to the settlement of the immediate problems of wage and price distortions, which would be the same regardless of the currency used.

The recommended change in the conversion rate and in the wage level of the "military" employees will require an expansion of the currency in circulation. The additional amount of yen required to meet the increased wage will be less than ¥50 million per month. This increased payment will eventually revert to the Military Government through the sale of imported goods. The total additional money required cannot be estimated with any reasonable degree of accuracy and will be most influenced by the availability of additional imports, particularly consumer goods. If such goods are made available as recommended, total issue requirements will not be great. Presently Military Government is holding in a blocked account ¥286 million, which should be more than ample to meet the needs.

It is essential, however, that the release of the funds in the restricted account be limited to that required as a result of the change in the conversion rate. Such funds must not be used to finance any increased MG activities.

Normal revenues from the sale of imports over that required to finance the Military Government budget should be applied first to the sale of yen for dollars and only the balance necessary withdrawn from the blocked account. When normal revenues have increased sufficiently through the sale of increased imports to meet both the normal government expenditures and the requirements for the sale of yen to meet the "military" pay, the remaining balance in the present blocked account should be frozen.

Banking

The Bank of the Ryukyus is a quasi-government institution with authorized capital stock of twenty million, 51% of which is held by the government. The bank, under the supervision of MG, serves as the depository for government funds and carries on normal banking functions. Deposits as of September totaled ¥246 million and loans outstanding numbered 3,829 totaling ¥162 million. The bank is not in a position to extend other than limited short term credit. Apparently the bank is ably managed and could serve as the agency for making long term rehabilitation loans.

The establishment of a Ryukyus Credit Corporation for the purpose of extending long term loans to private enterprise is now under consideration by Military Government headquarters. There is an immediate need for financing in the construction of the fishing fleet and a potential need for industrial reestablishment and home construction. Fishing fleet requirements are estimated to total ¥60 million and total requirements have been estimated as one half billion.

The establishment of such a corporation is not recommended, as the Bank of the Ryukyus can be utilized for this purpose. Further the volume of loans to be made in the immediate future does not warrant the establishment of a separate institution.

The Military Government has accumulated from current receipts a fund of ¥60 million for the purpose of financing the fishing fleet. In view of the urgency of restoring the fishing fleet, such funds as are now required could be made immediately available through the bank. Funds in excess of immediate requirements or of the ¥60 million, however, should not be made available through the issuance of additional currency. A study should be made to determine the loan requirements for rehabilitation and the revenues of MG budgeted accordingly.

TAXATION

Ryukyuan Military Government

Until the functions to be entrusted to the proposed Ryukyuan Government are known, detailed financing cannot be discussed intelligently. The skeleton organization now operated by Military Government deals with press, radio, higher and adult education, war damage, etc. It is financed under Categories II and III of the Military Government "Ryukyuan Yen Budget". These Categories, plus Category I, are financed more than 90 percent by a temporary expedient, the sale of GARIOA and JROA imports to local (mura) stores for resale as rations or otherwise. Expenditures in Categories II and III are estimated at ¥1,135.2 million for fiscal 1949-50, of which ¥926.8 million is on war damage account. On the receipts side, payment for GARIOA imports is lagging.

Even if the budget is met this year, the longer run prospect is not encouraging. Abstracting from war damage account, expenditures total some ¥208.4 million, nearly 90 percent of the total now being expended by the four existing Provisional Governments combined. A corresponding addition to the total Ryukyuan tax burden in the near future appears out of the question. Either the scope of proposed Ryukyuan Government activities should be narrowed drastically, or U.S. assistance, either as aid or as payment for services rendered, must be contemplated over a long period.

Certain of the taxes imposed by the four Provisional Governments will probably be transferred eventually to the Ryukyuan Government in whole or in part. In preparation for such a transfer, steps should be taken in fiscal 1950-51 to place at least the personal income, corporate income, and succession taxes of the Provisional Governments on a uniform basis as regards rates, exemptions, etc. At the same time, attention should be paid to the tax reform currently under way in Japan.

Provisional Governments

Budgets of the four Provisional Governments are at present incorporated as Category IV into the Military Government's Ryukyuan yen budget. Provisional taxes seem adequate for budget balance; the fiscal policies are not inflationary as a whole. In Okinawa, it appears from a preliminary study that the increased payroll required to raise OCA wages to the "Military" scale (as recommended in this report) can be met by increased income tax receipts from the "military". (See Appendix.)

Revenue estimates for 1949-50, which seem fairly firm in indicating budget balance, are given below:

Provisional Government	Tax Receipts	Total Receipts
	(¥1,000,000)	
Okinawa Civilian Administration.....	124.0	149.9
Northern Ryukyus	30.0	54.5
Miyako.....	7.3	14.2
Yaeyama	8.1	13.0
Total	169.4	232.5

The Provisional Government tax systems are, however, open to criticism as unduly regressive. In Okinawa, a disproportionate burden is placed on the wage and salary earner, whose income tax is collected at source. This defect has been stressed by left-wing agitators in 1948-49. In the other three Provisional Governments, there has been less stress on withheld income taxes, but more reliance on fees and production excises on sugar and sake. Fees are highly regressive, while excises on production of exports operate much like payroll taxes in holding down wage rates and employment opportunities.

The principle corrective for this tax regressivity is a self-assessed income tax which is on the books but on which collections have lagged, at least in Okinawa. As remedies for this situation, the mission suggests concentration on current rather than back tax collection, a raising of exemptions and a lowering of bracket rates along the lines suggested by Dr. Carl S. Shoup in July 1949, and partial forgiveness of the uncollected back taxes of 1947-48 and 1948-49, say 50% in each case. (Forgiveness of 1947-48 back taxes would require cancellation by the Military Government of a corresponding percentage of a debt contracted by the O.C.A. to the Back of the Ryukyus to replace these non-collected taxes. The 1948-49 O.C.A. budget was balanced despite failure to collect self-assessed "enterprise" income tax, so that partial forgiveness is less of a problem here.) If any taxes are forgiven, of course, refunds should be made to taxpayers who have already paid part or all of the taxes abated.

Further tax enforcement problems at the O.C.A. level pertain to transportation facilities and to withholding systems. Tax collection personnel is fairly adequate at central offices, but is handicapped by lack of even bicycles to permit field work. Furthermore, since American policy forbids forthright pay deduction for Okinawa taxes from incomes of native employees of the Military or of American firms, a substitute system is being worked out.

In view of the inadequacy of the self-assessed personal income tax in Okinawa, tax progression may be furthered by excises on items of luxury consumption. A tax on residential building (above the subsistence level) has been suggested for fiscal 1950-51, which would also serve to discourage activities competing for labor with the military construction program.

Muras

Taxation at the local (mura) level is in an undeveloped and unsatisfactory condition. The mission was unable to find any consolidated budget for the muras as a group, even on Okinawa, and was informed that mura accounting is still rudimentary in many rural areas. The current belief in Military Government headquarters is that many muras have expended credit too liberally in storekeeping operations, and will end fiscal 1949-50 in debt to the Ryukyuan Government. Their main revenue sources have been the sale of GARIOA-EROA supplies at mura stores and surtaxes on provisional Government taxes (in the nature of fees for their collection). Independent revenue sources are greatly to be desired. The transfer in 1949 of Okinawa land and house taxes from O.C.A. to the muras was a step in the right direction. Both the rates and the bases of their taxes should increase when the present confused situation regarding land titles is clarified. A combination poll and income tax, like Japan's "inhabitants' tax" may be a second promising independent

revenue source for the Ryukyuan muras.

The muras cannot borrow from the Back of the Ryukyus without Provisional Government guarantes of their obligations. This approval has not been forthcoming freely, for obvious reasons, and other sources for loans are unavailable. Under these circumstances the poorer muras have frequently resorted to extra-legal levies, called "contributions", to supplement tax collection. Inhabitants have considered these "contributions" a lien on their resources prior to Provisional Government taxes. Tax collections have been hampered thereby. These "contributions" should not be permitted unless levied after payment of all taxes due.

A mura with unusually low income and/or unusually heavy expenses, however, cannot support independently, without some aid from a higher echelon, the same level of government services as can a wealthier one. In 1947, the O.C.A. transferred cash from richer to poorer muras arbitrarily. Military Government permitted this on a one-time basis, but has opposed any repetition. Some less arbitrary system of grants-in-aid or equalization grant should be worked out in the Ryukyus, as is being done in Japan. After a Ryukyuan Government has been formed, the same principle may prove applicable to fiscal relations between the present four Provisional Governments.

ESTIMATED EFFECT ON THE O.C.A. BUDGET OF INCREASED "MILITARY" WAGES

Factors Considered:

- (1) Increased income tax collections from "military" employees.
- (2) Need for increased pay to OCA employees.

Factors Omitted:

- (1) Increased tax receipts other than personal income.
- (2) Increased income tax receipts from pay increases to OCA employees.
- (3) Increased OCA costs other than payrolls.
- (4) Increased income tax receipts from additional pay given laborers attracted to "military" projects from their present employment.

Computation:

Assume 40,000 workers, each with 4 dependents, employed on military projects at an average monthly money wage of ¥700, on which ¥15 is paid in income tax under present law.

Then if monthly wage is raised to:

	Alternative I	Alternative II
New average wage	¥ 2,200	¥ 2,500
New average tax withheld.....	¥ 367	¥ 472
Increased average tax withheld....	¥ 352	¥ 457
Increased total tax withheld.....	¥14,080,000	¥18,280,000

Out of these increases the following increases could be granted to the present 9,600 OCA employees, whose average monthly wage is ¥1,000:

(Continued on next page)

	<u>Alternative I</u>	<u>Alternative II</u>
New average military wage	¥ 2,200	¥ 2,500
Increased income tax receipts	¥14,080,000	¥18,280,000
Increased income tax receipts per OCA employee	¥ 1,466	¥ 1,920
Maximum average income per OCA employee, after increase	¥ 2,466	¥ 2,920
Maximum percent increase per OCA employee, after increase .	146.6	192.0

Conclusion:

In each case, therefore OCA would have sufficient funds from increased personal income tax receipts alone to match the new "military" pay scale and would have surplus funds for other purposes. The larger the "military" pay raise, within the limits under consideration, the more favorable the effect on the OCA budget.

RYUKYUAN TRADE

Consumers' Goods Procurement

As noted earlier in this report, it is essential for the economic rehabilitation of the Ryukyus that imports of desirable consumers' goods be increased as soon as possible. This takes precedence in time over consideration of raising the exchange ratio and wage level. The present level of imports of consumers' goods is approximately \$200,000 per month. Essentially, all of these are distributed through Trade Goods Stores as incentive goods for laborers for the "military". A small percentage of these goods, are sold on the free market at free market prices. As recommended elsewhere, the principle of incentive goods for labor employed by the "military" should be abandoned.

In order to attain a reasonable supply of consumers' goods, it is recommended that the present level of import be increased to \$1.0 million per month for the next several months. For purposes of immediate procurement and to accelerate the supply of goods actually moving into the normal distribution channels, it is considered desirable that initial procurement provide for purchase of \$2.0 million of consumers' goods.

There follows a list of consumers' goods intended for reference purposes only as a pattern for this procurement. Dollar values are arbitrary and may be increased or decreased depending upon continuing review of Ryukyuan demand. It is recommended that the inclusion of any commodity and the amount of exchange to be made available for the purchase of that commodity, be left entirely to the judgment of the Ryukyuan Board of Trade.

Consumer's Goods

Textiles (Cotton, rayon, and wool)	\$750,000
Canvas and Leather Shoes	150,000
Pots and Pans	200,000
Household Supplies	100,000
Bicycles (Parts - tires and tubes).....	300,000
Recreational Equipment (Harmonicas, games, athletic goods)	100,000
Cosmetics and toilet preparations.....	100,000
Notions and other incentive goods	130,000
Publications	20,000
Tea - Processed Foods - Flavorings	150,000
Miscellaneous Consumers' Goods	50,000
Total	<u>\$2,000,000</u>

For the actual procurement of these goods, it is considered desirable that Ryukyuan traders selected by the Ryukyus Board of Trade be sent to Japan to negotiate the purchases. In addition, it is recommended that greater freedom of action be granted to the present Ryukyus Board of Trade with respect to both trade programming and procedures. The existing system of procurement is believed to be subject to errors in judgment because so little of the authority rests with the Ryukyuan.

Private Import Procedure

It is recommended that as soon as possible private import procedure consistent with Ryukyuan customs and practices be developed to make possible purchase of Japanese goods by established Ryukyuan importers. Such a procedure would be predicated upon the development of an import program which would include the full requirements of all the islands. These needs could be established by a planning agency of the Central Government. A Board of Trade under the Central Government should license imports on an exchange available basis for the items on the import program. After the import license has been approved, the Ryukyuan importer could enter Japan to buy or might negotiate by commercial cable for purchase of Japanese commodities. Military Government's responsibility should be limited to policy matters and should in no way enter into the operations. Specifically, the authority should be limited to deciding the foreign exchange which could be made available for broad groups of commodities. When this is accomplished, the Ryukyus Trade Group in Tokyo should be limited in its function so that it becomes a clearing house for the private transactions of Ryukyuan traders. Its responsibility should not include advice on actual procurement unless specifically requested by the traders themselves. Apparently, the assumption in the past has been that Ryukyuan in government and commerce are incapable of managing their affairs. On the contrary, the key personnel of the OCA and Ryukyuan Board of Trade appear quite capable; however, they do not appear to have been given a real opportunity to shift for themselves.

It is necessary, in order to complement any private trade procedure, that arrangements be made to restore adequate port facilities. If such cannot now be provided at Naha, Okinawa, to permit the Ryukyuan to operate without undue interference, other ports should be promoted for the use of the Ryukyuan. In addition, warehousing, transportation, and other necessary requirements should be restored to enable them to function independently. Furthermore, commercial communications between Okinawa and Japan should be restored at earliest practicable date. Under such a procedure distribution of imports would be channeled through private retail outlets. Private Ryukyuan traders must of necessity be provided with exchange allocations on the basis of their needs and the areas for which they are buying.

GARIOA and EROA

The present system of programming for GARIOA and EROA is not well developed. The import program is developed and based upon individual requirements of the separate divisions of the provisional governments and consolidated by Military Government. After this consolidation, the program is sent to Tokyo for review where revisions are invariably made prior to its being sent to Washington for approval. After Washington's approval, it is returned to Tokyo and actual procurement is begun. With the exception of bulk items such as food, fertilizer, and oil, intelligent buying

of bulk items such as food, fertilizer and F.O.L., intelligent buying against the approved program is impossible. It appears that technical items included on this program often times do not represent an actual need. It appears further that in many instances Military Government does not know what has been procured until advice of arrival is received. Furthermore, precise specifications of the items on this over-all program are in many cases incomplete causing delays in procurement until an exchange of messages clarifies particular points.

We find also that GARIOA and EROA funds are not practically related to the Ryukyuan dollar commercial account. Commercial account funds for FY 50 are considered to be \$3,200,000, and it is proposed that these funds, as they accrue, be deducted from the over-all program of \$33,728,645, in what amounts to a reimbursement of appropriated funds. As mentioned in the main text, in view of the strict conditions placed upon the obligation of appropriated funds, Ryukyus dollar commercial account funds should be kept separate from GARIOA and EROA funds, and should be used primarily to support purchases of consumers' goods in Japan.

Proposed FY 50 Import Program

The proposed Ryukyuan import program for FY 50, under GARIOA, EROA, and the dollar commercial account follows:

	(\$1,000,000)
Food	9.7
Agriculture, fishing, fertilizer	3.6
Petroleum and products	3.0
Medical supplies and equipment .....	.5
Other supplies and equipment	1.6
Transportation of civilian supplies	2.5
Industrial materials	1.2
Industrial machinery, repair and replacement parts ..	.5
Misc. supplies, service equipment, and electric power	9.7
Motor vehicles and parts	1.3
Transportation of Rehabilitating Goods .....	.2
	<hr/> 33.7

It is recommended that wherever possible Japan be considered as the source for these goods. It is an established fact that expenditures of appropriated funds is difficult and procedure of their obligation is unwieldy. It is reiterated, however, that a practical solution to many of the problems of procurement would be to turn over to the Ryukyuan authorities as much as possible the actual development of requirements and procurement

approved for their own needs under appropriated funds.

Foreign Exchange

Every effort should be made to earn foreign exchange for the Ryukyuans and the following recommendations are made:

- (1) Encouragement of Americans to buy Okinawan-produced merchandise with legally procured yen.
- (2) Stricter controls on operations of private concessions on the island and wherever possible, permit their operation under Okinawa management.
- (3) Review the island commodities with respect to export possibilities. Japan is prepared to consider offers of most Ryukyuan export commodities which it imported pre-war.
- (4) Careful consideration should be given to the proper utilization of materials in the civilian economy. For example, we have found that Okinawans are using salvaged Army truck tires for fuel in pottery and salt factories. Scrap rubber tires of this type are selling on the market for approximately \$22.00 a ton. On the other hand, the coal of the type required for these industries can be purchased from Japan at an approximate landed price of \$8.00 a ton. The scrap rubber as fuel is obviously not very effective. Reviewing the past import program, we find that there has been no provision for the import of coal for industrial purposes. The import program now under consideration should provide for about 5,000 tons. The requirement is so small that it is strongly recommended that the burning of tires be stopped and fuel requirements in terms of a more efficient fuel suited to the purpose be procured. Japan may be able to purchase these tires for scrap rubber. This point will be checked.

Ryukyus and Occupied Japan Financial Arrangement for Trade

A trade and financial arrangement for the Ryukyus has been approved covering the flow of goods to and from Japan. The primary purpose of this trade arrangement is to permit consideration of Ryukyus exports which would ordinarily not fall under the relatively strict "essentiality" definition required of Japanese imports. Recommendations contained herein are compatible with the trade arrangement, and it is believed they will materially assist the effective performance of trade between Japan and the Ryukyus.