

RESTRICTEDE N C L O S U R ETHE SOURCES OF JAPANESE IMPORTSCanadian Amendment

- "3. In procurement of commodities in world surplus or in procurement of any commodity whose export to Japan is of substantial commercial importance to a member of the Far Eastern Commission, while primary consideration should be given to the objectives outlined in paragraph 1 above, consideration should also be given to such other relevant factors as the interests of all members of the Far Eastern Commission and the pre-war patterns of trade. Taking into account the foregoing principles the Inter-Allied Trade Board may recommend individual treatment for different types of imports."

FEC-060/4RESTRICTEDFEC-060/431 January 1947FAR EASTERN COMMISSIONTHE SOURCES OF JAPANESE IMPORTS

(References: FEC-060; FEC-060/1; SC-031/1;
C2-017/4, /7, /11)

Note by the Secretary General

1. The enclosure, a revision of the proposed policy on Sources of Japanese Imports, approved by Committee No. 2: Economic and Financial Affairs at its forty-fourth meeting, 30 January 1947, is forwarded herewith for the consideration of the STEERING COMMITTEE.

2. The Soviet member reserved his position on the inclusion of the words "pre-war patterns of trade" in paragraph 3 and the United States member reserved his position on the substitution of the words "United Nations" for the words "Far Eastern Commission".

3. At its forty-fifth meeting, 31 December 1946, the Steering Committee referred FEC-060/2 back to Committee No. 2 for further consideration in the light of a proposed Canadian amendment (FEC-060/3).

4. In accordance with paragraph 3 of FEC-067/3, Committee No. 2 recommends that the enclosure be released for the press after being received by the Supreme Commander for the Allied Powers.

NELSON T. JOHNSON
Secretary General

FEC-060/4

RESTRICTEDE N C L O S U R ETHE SOURCES OF JAPANESE IMPORTS

1. The primary objective in selecting the sources of imports into Japan should be to minimize the cost and difficulty of procurement. Factors to be taken into account are price, terms of purchase other than price, and assurance of meeting scheduled requirements.

2. In determining the sources of imports into Japan of commodities in world short supply due consideration should be given to the needs of countries other than Japan in addition to the factors mentioned in paragraph 1.

3. In procurement of commodities in world surplus or in procurement of any commodity whose export to Japan is of substantial commercial importance to a member of the United Nations, while primary consideration should be given to the objectives outlined in paragraph 1 above, consideration should also be given to such other relevant factors as the interests of all members of the United Nations, including any new trade situations or demands arising in post-war circumstances and the pre-war patterns of trade. Taking into account the foregoing principles the Inter-Allied Trade Board may recommend individual treatment for different types of imports.

4. This statement of proposed policy will in no way be permitted to jeopardize the fulfillment of United States responsibilities for the prevention of such widespread disease or civil unrest as would endanger the occupying forces or interfere with military operations.

FEC-060/10RESTRICTEDFEC-060/103 March 1947FAR EASTERN COMMISSIONTHE SOURCES OF JAPANESE IMPORTS

(References: FEC-060; FEC-060/1; FEC-060/4; /6,
/8; SC-031/1; C2-017/4, /7, /11)

Note by the Secretary General

1. The enclosure, a revision of the proposed policy on Sources of Japanese Imports (FEC-060/6), prepared by the ad hoc subcommittee appointed by the Steering Committee at its fiftieth meeting, 4 February 1947, is circulated herewith for the consideration of the STEERING COMMITTEE.

2. The members of the subcommittee approved the enclosure in a personal capacity and have referred it to their Governments.

3. At its fifty-second meeting, 18 February 1947, the Steering Committee referred FEC-060/8 and all relevant documents back to the subcommittee for reconsideration.

4. In accordance with paragraph 3 of FEC-067/3, Committee No. 2 recommends that the enclosure be released for the press after being received by the Supreme Commander for the Allied Powers.

NELSON T. JOHNSON
Secretary General

FEC-060/10

RESTRICTEDE N C L O S U R ETHE SOURCES OF JAPANESE IMPORTS

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2. In determining the sources of imports into Japan of Commodities in world short supply due consideration should be given to the needs of countries other than Japan in addition to the factors mentioned in paragraph 1.

3. In procurement of commodities in world surplus or in procurement of any commodity whose export to Japan is of substantial commercial importance to a member of the United Nations while primary consideration should be given to the objectives outlined in paragraph 1 above, consideration should also be given to such other relevant factors as the interests of all members of the United Nations, including any new trade situations or demands arising in post-war circumstances and the pre-war patterns of trade; so long as the pre-war patterns of trade reflect current economic interests of the countries concerned. Taking into account the foregoing principles the Inter-Allied Trade Board may recommend individual treatment for different types of imports.

4. This statement of proposed policy will in no way be permitted to jeopardize the fulfillment of United States responsibilities for the prevention of such widespread disease or civil unrest as would endanger the occupying forces or interfere with military operations.

FEC-060/9RESTRICTEDFEC-060/918 February 1947FAR EASTERN COMMISSIONTHE SOURCES OF JAPANESE IMPORTS
(References: FEC-060/6, /7, /8)Note by the Secretary General

The Steering Committee at its fifty-second meeting, 18 February 1947, referred FEC-060/8, The Sources of Japanese Imports and all relevant papers, back to the ad hoc Subcommittee composed of the United Kingdom, United States, Soviet and Indian members for reconsideration in the light of the discussion by the Steering Committee.

NELSON T. JOHNSON
Secretary General

FEC-060/9

RESTRICTEDENCLOSURETHE SOURCES OF JAPANESE IMPORTS

The subcommittee has reconsidered paragraph 3 of FEC-060/6 in the light of the objections of the United Kingdom member.

The United Kingdom member proposed, on a personal basis, the following alternative:

"Commodities which are in world surplus and which are required for import into Japan shall be purchased from the countries which offer supplies of them. In determining from which countries supplies shall be obtained, the extent to which countries sold the commodities in question to Japan before the war shall be taken into account.

"These considerations should not override those stated in paragraph 1.

"Taking into account the foregoing principles, the Inter-Allied Trade Board may recommend individual treatment for different types of imports."

The Soviet member expressed general disagreement with the proposal and, although he agreed to refer it to his Government, he did not hold out much hope of its acceptance.

FEC-060/8RESTRICTEDFEC-060/813 February 1947FAR EASTERN COMMISSIONTHE SOURCES OF JAPANESE IMPORTS
(Reference: FEC-060/6, /7)Note by the Secretary General

1. The enclosure, a report by the ad hoc subcommittee appointed by the Steering Committee at its fiftieth meeting, 4 February 1947, on paragraph 3 of FEC-060/6, The Sources of Japanese Imports, is circulated herewith for the consideration of the STEERING COMMITTEE.

2. At its fifty-first meeting, 11 February 1947, the Steering Committee referred FEC-060/6 back to the ad hoc subcommittee for further consideration (FEC-060/7).

3. The members of the subcommittee have referred the enclosure to their Governments and reserve their positions.

NELSON T. JOHNSON
Secretary General

FEC-060/8

FEC-060/7RESTRICTEDFEC-060/712 February 1947FAR EASTERN COMMISSIONTHE SOURCES OF JAPANESE IMPORTS

(References: FEC-060; FEC-060/1; FEC-060/4;
SC-031/1; C2-017/4, /7, /11)

Note by the Secretary General

The Steering Committee at its fifty-first meeting, 11 February 1947, referred FEC-060/6, Sources of Japanese Imports, back to the ad hoc subcommittee appointed by the Steering Committee at its fiftieth meeting, 4 February 1947, for further consideration.

NELSON T. JOHNSON
Secretary General

FEC-060/7

RESTRICTEDE N C L O S U R ETHE SOURCES OF JAPANESE IMPORTS

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2. In determining the sources of imports into Japan of commodities in world short supply due consideration should be given to the needs of countries other than Japan in addition to the factors mentioned in paragraph 1.

3. In procurement of commodities in world surplus or in procurement of any commodity whose export to Japan is of substantial commercial importance to a member of the United Nations, while primary consideration should be given to the objectives outlined in paragraph 1 above, consideration should also be given to such other relevant factors as the interests of all members of the United Nations, including any new trade situations or demands arising in post-war circumstances and the pre-war patterns of trade; provided that the pre-war patterns of trade for the commodities concerned do not conflict with the interests of members of the United Nations arising out of the new trade situations or the demands occurring in post-war circumstances. Taking into account the foregoing principles the Inter-Allied Trade Board may recommend individual treatment for different types of imports.

4. This statement of proposed policy will in no way be permitted to jeopardize the fulfillment of United States responsibilities for the prevention of such widespread disease or civil unrest as would endanger the occupying forces or interfere with military operations.

FEC-060/6RESTRICTEDFEC-060/65 February 1947FAR EASTERN COMMISSIONTHE SOURCES OF JAPANESE IMPORTS

(References: FEC-060; FEC-060/1; FEC-060/4;
SC-031/1; C2-017/4, /7, /11)

Note by the Secretary General.

1. The enclosure, a revision of the proposed policy on Sources of Japanese Imports (FEC-060/4), prepared by the ad hoc subcommittee appointed by the Steering Committee at its fiftieth meeting, 4 February 1947, is circulated herewith for the consideration of the STEERING COMMITTEE.

2. The members of the subcommittee have referred the enclosure to their Governments and reserve their positions.

3. In accordance with paragraph 3 of FEC-067/3, Committee No. 2 recommends that the enclosure be released for the press after being received by the Supreme Commander for the Allied Powers.

NELSON T. JOHNSON
Secretary General

FEC-060/6

FEC-060/5RESTRICTEDFEC-060/54 February 1947FAR EASTERN COMMISSIONTHE SOURCES OF JAPANESE IMPORTS
(Reference: FEC-060/4)Note by the Secretary General

The Steering Committee at its fiftieth meeting, 4 February 1947, unanimously referred FEC-060/4, The Sources of Japanese Imports, to an ad hoc subcommittee composed of the United Kingdom, United States, Soviet, Canadian and Australian members for reconsideration of the Soviet reservation.

NELSON T. JOHNSON
Secretary General

FEC-060/5

FEC-060/11RESTRICTEDFEC-060/118 April 1947FAR EASTERN COMMISSIONTHE SOURCES OF JAPANESE IMPORTS

(References: FEC-060 series; SC-031 series; C2-017 series)

Note by the Secretary General

1. The enclosure, a proposed policy relative to the Sources of Japanese Imports, was approved by the Steering Committee at its fifty-ninth meeting, 8 April 1947, and is forwarded herewith for the consideration of the Far Eastern Commission.

2. The Soviet member reserved his position on the enclosure, in the absence of the inclusion of the phrase, "and are ^{Advised} not in conflict with the interests of other countries, members of the Far Eastern Commission", at the end of the penultimate sentence of paragraph 3.

3. In accordance with paragraph 3 of FEC-067/3, the Steering Committee recommended that the enclosure be released for the press after being received by the Supreme Commander for the Allied Powers.

NELSON T. JOHNSON
Secretary General

FEC-060/11

RESTRICTEDE N C L O S U R ETHE SOURCES OF JAPANESE IMPORTS

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2. In determining the sources of imports into Japan of commodities in world short supply due consideration should be given to the needs of countries other than Japan in addition to the factors mentioned in paragraph 1.

3. In procurement of commodities in world surplus or in procurement of any commodity whose export to Japan is of substantial commercial importance to a member of the United Nations while primary consideration should be given to the objectives outlined in paragraph 1 above, consideration should also be given to such other relevant factors as the interests of all members of the United Nations, including any new trade situations or demands arising in post-war circumstances and the pre-war patterns of trade, so long as the pre-war patterns of trade reflect current economic interests of the countries concerned. Taking into account the foregoing principles the Inter-Allied Trade Board may recommend individual treatment for different types of imports.

4. This statement of ~~proposed~~ policy will in no way be permitted to jeopardize the fulfillment of United States responsibilities for the prevention of such widespread disease or civil unrest as would endanger the occupying forces or interfere with military operations.

CLASSIFICATION CHANGED
 TO *Unclassified*
 BY AUTHORITY OF *see SEC-060/12*
 DATE *4/29/97*
 FAR EASTERN COMMISSION

~~RESTRICTED~~

FEC-060/12

9 May 1947

THE SOURCES OF JAPANESE IMPORTS
 (Reference: FEC-060/12)

Note by the Secretary General

1. Enclosure "A", a policy decision relative to the sources of Japanese imports, was unanimously approved by the Far Eastern Commission at its fifty-seventh meeting, 8 May 1947.
2. The letter of transmittal of the Secretary General, forwarding this decision on behalf of the Far Eastern Commission to the Secretary of State of the United States Government in accordance with the Terms of Reference, is circulated herewith as Enclosure "E".

NELSON T. JOHNSON
 Secretary General

RESTRICTEDENCLOSURE "A"THE SOURCES OF JAPANESE IMPORTS

1. The primary objective in selecting the sources of imports into Japan should be to minimize the cost and difficulty of procurement. Factors to be taken into account are price, terms of purchase other than price, and assurance of meeting scheduled requirements.

2. In determining the sources of imports into Japan of commodities in world short supply due consideration should be given to the needs of countries other than Japan in addition to the factors mentioned in paragraph 1.

3. In procurement of commodities in world surplus or in procurement of any commodity whose export to Japan is of substantial commercial importance to a member of the United Nations while primary consideration should be given to the objectives outlined in paragraph 1 above, consideration should also be given to such other relevant factors as the interests of all members of the United Nations, including any new trade situations or demands arising in post-war circumstances and pre-war patterns of trade, so long as the pre-war patterns of trade reflect current economic interests of the countries concerned. Taking into account the foregoing principles the Inter-Allied Trade Board may recommend individual treatment for different types of imports.

4. This statement of policy will in no way be permitted to jeopardize the fulfillment of United States responsibilities for the prevention of such widespread disease or civil unrest as would endanger the occupying forces or interfere with military operations.

RESTRICTEDENCLOSURE "B"LETTER OF TRANSMITTAL

8 May 1947

The Honorable George C. Marshall
Secretary of State
Washington, D. C.

My dear Mr. Secretary:

The Terms of Reference of the Far Eastern Commission provide that one of the functions of the Commission should be to "formulate the policies, principles and standards in conformity with which the fulfillment by Japan of its obligations under the Terms of Surrender may be accomplished."

It is further provided that when such decisions are made by the Far Eastern Commission, "The United States Government shall prepare directives in accordance with the policy decisions of the Commission and shall transmit them to the Supreme Commander through the appropriate United States Government agency."

At the fifty-seventh meeting of the Far Eastern Commission held at 2516 Massachusetts Avenue, Northwest, Washington, D. C., on 8 May 1947, the enclosed policy decision relative to Sources of Japanese Imports was unanimously approved.

As Secretary General of the Far Eastern Commission, I have been instructed to forward this decision to you on behalf of the Commission, in order that the appropriate directives may be prepared and transmitted to the Supreme Commander in accordance with the Terms of Reference.

In adopting the enclosed policy decision the Commission agreed that it should be released to the press after being received by the Supreme Commander. In accordance with our normal procedure I would appreciate it if you could make arrangements to notify me when the enclosed policy decision has been received in Tokyo.

Sincerely yours,

Nelson T. Johnson
Secretary General

Enclosure "B"

CLASSIFICATION CHANGED		RESTRICTED
FEC-060/13	TO <u>Unclassified</u>	FEC-060/13
BY AUTHORITY:	<u>FEC-060/14</u>	<u>23 May 1947</u>
DATE	<u>24/24/57</u>	
FAR EASTERN COMMISSION		

THE SOURCES OF JAPANESE IMPORTS
(Reference: FEC-060/12)

Note by the Secretary General

1. The enclosure, a United States directive to the Supreme Commander for the Allied Powers forwarding the statement of policy of the Far Eastern Commission on the sources of Japanese Imports, is circulated herewith for the information of the Far Eastern Commission.

2. This directive was forwarded to the Supreme Commander on 15 May 1947.

3. A certified copy of the United States directive to the Supreme Commander for the Allied Powers has been filed with the Commission in accordance with Section III, paragraph 4, of the Terms of Reference.

NELSON T. JOHNSON
Secretary General

FEC-060/13

RESTRICTEDENCLOSURETHE SOURCES OF JAPANESE IMPORTSSerial No. 77

15 May 1947

The following directive, serial number 77, prepared by the State Department to implement the policy adopted by the Far Eastern Commission on May 8, 1947, under the provisions of paragraph II, A, 1, of its terms of reference has been received from the State, War and Navy Departments for transmission to you for your guidance in accordance with paragraphs III, 1, of those terms of reference:

"1. The primary objective in selecting the sources of imports into Japan should be to minimize the cost and difficulty of procurement. Factors to be taken into account are price, terms of purchase other than price, and assurances of meeting scheduled requirements.

"2. In determining the sources of imports into Japan of commodities in world short supply due consideration should be given to the needs of countries other than Japan in addition to the factors mentioned in paragraph 1.

"3. In procurement of commodities in world surplus or in procurement of any commodity whose export to Japan is of substantial commercial importance to a member of the United Nations while primary consideration should be given to the objectives outlined in paragraph 1 above, consideration should also be given to such other relevant factors as the interests of all members of the United Nations, including any new trade situations or demands arising in postwar circumstances and the prewar patterns of trade, so long as the prewar patterns of trade reflect current economic interests of the countries concerned. Taking into account the foregoing principles the Inter-Allied Trade Board may recommend individual treatment for different types of imports.

"4. This statement of policy will in no way be permitted to jeopardize the fulfillment of United States responsibilities for the prevention of such widespread disease or civil unrest as would endanger the occupying forces or interfere with military operations."

FEC-060/14FEC-060/1424 April 1951FAR EASTERN COMMISSIONTHE SOURCES OF JAPANESE IMPORTS

Directive Serial No. 77

(Reference: FEC-060/13)Note by the Secretary General

1. In order to facilitate handling of records FEC-060/13 (23 May 1947), a U. S. directive to SCAP regarding sources of Japanese imports, is from this date graded to UNCLASSIFIED.
2. FEC-060/12, the Far Eastern Commission policy decision upon which this directive was based, was declassified and released to the press 20 May 1947.
3. All holders of FEC-060/13 are requested to make the appropriate change in their copies of this document.

NELSON T. JOHNSON
Secretary General

FEC-060/14

CONFIDENTIALCOPY NO. 132FEC-06120 May 1946FAR EASTERN COMMISSIONTHE FUTURE ORGANIZATION OF THE JAPANESE ECONOMYNote by the Secretary General

1. The enclosure, a United Kingdom paper on the future organization of the Japanese economy, submitted by the United Kingdom Representative, is circulated herewith for the information of the Far Eastern Commission, and is referred to COMMITTEE NO. 2: ECONOMIC AND FINANCIAL AFFAIRS, for consideration.
2. It will be noted that the enclosure proposes the immediate appointment of representatives of the states, members of the Far Eastern Commission, to the Holding Companies Liquidation Commission in Japan, which Commission is presently charged by the Japanese Government with the dissolution of the Zaibatsu.
3. The attention of all concerned is invited to the classification of this document which prohibits the dissemination of the information contained therein to unauthorized persons or to the press.

NELSON T. JOHNSON
Secretary General

CONFIDENTIALTHE FUTURE ORGANISATION OF THE J. PANESE ECONOMYSummary of Conclusions

1. It is recommended that representatives of the states represented on the Far Eastern Commission should be appointed at once to the Holding Companies Liquidation Commission.

2. The functions of these representatives should be -
- a to exercise general supervision over the policy followed in that sector of the economy now under the control of the Commission during the period in which long-term plans are being worked out;
 - b to make plans for the future organization of the various groups of industries formerly controlled by the Zaibatsu in conformity with the principles set out at 3 below.

3. The principles which it is recommended should govern the policy of these representatives are:

- a. Heavy industries which are organized in large technical units, are already under centralized control by the Zaibatsu or by the Zaibatsu and the State together, and contribute largely to war potential. (Iron and Steel production, shipbuilding, chemicals, certain branches of engineering, non-ferrous metals, mining.)
 - (1) The former Zaibatsu properties in these industries should be transferred to State undertakings, and, in the interest of security subjected to Allied supervision, the cost of which should be borne by the Japanese;
 - (2) in these industries the fringe of concerns not under Zaibatsu control should be transferred to the new undertakings, or not, according to the circumstances in each industry;

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(3) because of the difficulty of securing a large number of properly qualified persons for for the work of Allied supervision, some highly centralised control over the whole of this sector of the economy should be retained.

b. Other heavy industries which were virtually monopolised by the Zaibatsu (or by the State) and are also organised in large technical units, but which have no direct use in war, (paper-making, flour-milling, sheet-glass manufacture, railways).

(1) These should be transferred to State control;

(2) Allied supervision would not be required for these industries.

c. Industrial and Commercial Concerns in which Zaibatsu Control extended over a lesser part of the trade.

(1) The object should be to encourage the distribution of economic control more widely. Special attention should be given to the extension of the co-operative movement, which had already made considerable headway in certain directions before the war, to fields where this is appropriate. Such institutions as manufacturers' guilds and export guilds could also be fostered so as to preserve the independence of small manufacturers and traders.

(2) In other industries an effort should be made to restore free competitive enterprise except where industries were of such a kind as to be suitably transferred to local or municipal authorities, and so subjected to a measure of public democratic control.

d. The banking system.

Legislation should be considered for conferring on the Central Bank greater powers over the policy of the banking system as a whole, and, if such powers are conferred, it would be desirable

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to introduce a United Nations representative (or representatives) on to the Board of the Central Bank.

4. Trade Unions should be encouraged in all industries in accordance with the proposals of the United Kingdom paper on the subject. (FEC-045).

THE FUTURE ORGANISATION OF THE JAPANESE ECONOMY.

1. At present four of the leading Zaibatsu are in process of dissolution in accordance with a plan discussed below. The remainder of the Zaibatsu (some fourteen others, including the Nissan group) have not so far been brought within the scope of this plan, but it is to be presumed that their turn will come very soon. It is convenient, at the outset, to consider the nature of the plan, since the S.C.A.P. has already directed the Japanese Government to carry it out, and it is therefore a starting-point from which further discussion can proceed.

2. On the 6th November, 1945, S.C.A.P. addressed a memorandum to the Japanese Government giving general authorisation to a plan of voluntary dissolution, submitted by that Government, of the four leading Zaibatsu, the houses of Mitsui, Yasuda, Sumitomo and Mitsubishi. The Japanese plan included -

- a the transference to a Holding Company Liquidation Commission of all securities and property owned by the Zaibatsu central holding companies; the holding companies then to be dissolved;
- b the abandonment by the holding companies of all control formerly exercised by them over industrial and commercial enterprises;
- c the resignation of the directors and auditors of the holding companies and the withdrawal of all members of the Zaibatsu families from the enterprises formerly owned or controlled by them;

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- d the exercise by the Holding Company Liquidation Commission, pending the liquidation of the properties transferred to it, of the voting rights incident thereto;
- e the compensation of the holding companies (or their shareholders if they have been dissolved), upon the final liquidation of their securities, by non-negotiable, non-transferable Japanese Government bonds, to a value not in excess of the net proceeds of liquidation; small shareholders in the holding companies might, however, receive negotiable bonds;
- f the sale of the securities or other property transferred to the Holding Company Liquidation Commission; preference is to be given to employees of the companies, and the amount to be purchased by any single purchaser is to be limited, so as to ensure "maximum democratization of ownership"; neither the holding companies nor any member of the Mitsui, Yasuda, Sumitomo or Iwasaki families is to be allowed to make purchases;
- g the appointment of members of the Holding Company Liquidation Commission to be subject to the approval of the Supreme Commander for the Allied Powers, who may also appoint his own nominees at any time.

3. Although the ultimate objective of this policy is the wider distribution of control and ownership of the means of production and trade, the immediate effect of the action so far taken will be to concentrate in a single Commission, established by the Japanese Government, the control over a considerable proportion of Japanese industry and trade. The more difficult part of the task still lies ahead. The liquidation of the immense mass of securities which the Commission now holds will undoubtedly take a very long time, especially as the Japanese public is unaccustomed to invest its savings in industrial concerns. No information is available about

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the price at which the securities will be offered for sale; but presumably they will be offered at a price governed by the estimated earning power of the properties they represent, as otherwise the Japanese Government would be conferring a bounty on a particular section of the community. Even if a liquidation on the scale envisaged were satisfactorily accomplished, experience in other countries has shown that the wide distribution of shareholding of large concerns is no guarantee that quasi-monopoly control may not be secured by a small group possessing a relatively small block of shares. On the other hand, if the occupation of Japan ended before the liquidation were completed (which seems highly probable, given the magnitude of the undertaking, it is likely that a single great concern would be left under the control of the Japanese Government, or else that the Old Zaibatsu would appear under a new guise. This would be the very negation of the original policy. In brief, this policy of dissolution, if not reinforced by a positive policy of determining where the control formerly exercised by the Zaibatsu is to lie, would certainly fail to yield the results for which it was designed.

4. This point deserves further consideration. The intention behind the policy of dissolving the Zaibatsu is first to destroy an economic instrument which the Japanese Government has found useful in carrying out its aggressive policies, and, secondly, to provide for a system of control less capable of abuse by non-democratic factions. Neither of these aims would be achieved if the immense properties of the Zaibatsu were left under the control of the Japanese Government, unless the Japanese Government of the day were democratic and peace-loving, or, failing that, a continuing international supervision could be enforced. It must indeed be emphasised that economic democracy cannot be attained without a real measure of political democracy. There can be no confidence at present that such a Government will exist. The danger must therefore be faced that to endow future Japanese Government with

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the ownership and control of industry would assist any renewed tendency to totalitarianism which might appear and might be the means of consolidating Japanese power for aggression. For instance, should a military group again achieve political power, they would by so doing obtain direct control over a great part of industry and would be able to mould it to suit their own purposes. From this point of view the concentration of economic control in the State would be a decidedly worse situation than that of former times when the Zaibatsu represented independent centres of power and when they might, on occasions, influence the policy of the Government in a direction contrary to that favoured by the military. These considerations suggest that it would be inadvisable simply to substitute State control for that formerly exercised by the Zaibatsu. It would be preferable to confine State control to those large-scale industries where no obvious alternative method is feasible, and in other parts of the economy to provide safeguards against the concentration of control by the encouragement of various institutions and forms of organisation which may help to diffuse widely economic initiative and power.

5. For the reasons indicated in the preceding paragraph the temporary concentration of all the former Zaibatsu properties in the Holding Company Liquidation Commission, which is under government control, is potentially dangerous. The Commission is likely to hold these properties for some time since immediate liquidation is impossible, and it is, therefore, necessary that it should be subjected immediately to some form of international control or supervision. It is recommended that this should be by the appointment to it of Allied representatives. Such representatives would be well placed to observe the activities of the concerns involved and to call attention to any development in industry and commerce that would seem to menace security. Disapproval

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of any development that was taking place in the constituent concerns could be expressed through the Allied representatives, who would be in a position to see that an appropriate remedy was applied.

6. This, however would be merely a first step. The permanent existence of the present Commission, even if it were transformed into a great central holding company and subjected to Allied supervision, can scarcely be contemplated. In the first place the concentration of control of the heterogeneous mass of enterprises in a single concern would probably be a most uneconomical form of administration. In the second place, some extremely awkward financial problems would arise in the case of concerns in which the central Holding Company Commission possessed only a small part of the shareholding. Finally, and most important of all, it cannot be expected that once occupation is over, it would be within the powers of the Allied representatives on the Commission to influence the policies of such a varied mass of undertakings, especially if faced by determined and persistent attempts on the part of the Japanese Government to circumvent them. Thus the Holding Company Liquidation Commission in its present form, even when brought under a measure of international supervision, must be regarded as the first stage in the post-war evolution of the Japanese economy. It is thus necessary to consider what the subsequent pattern of ownership and control might be and to suggest principles which should guide the Allied representatives in the administration of the properties now held by the Holding Company Liquidation Commission. Obviously, it would be futile at this distance from events to work out a detailed plan for the Japanese economy. All that can be attempted is to indicate the broad lines of policy which the Allied representatives should follow in their efforts to guide future development. Their influence can hardly be expected to extend beyond

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the period of occupation but that will be a formative period in which the new economy will be taking shape, and there is reasonable hope that during that time the direction of development may be determined for some years to come.

7. Before these questions are discussed, it is important to state the assumptions that underlie the proposals that are put forward below, and to describe briefly the outstanding features of Japan's economic structure, since any proposals that are made must be appropriate to that structure.

8. The assumptions are these:-

- a that the Allied aim is to replace the existing industrial organisation of Japan, including the old system of the Zaibatsu, by a new system which will enable the control of industry to be more widely dispersed and therefore more democratic, and, it is hoped, less susceptible to influence by aggressive elements should they revive;
- b that the industrial disarmament of Japan and the continuing control of the Japanese economy for which proposals have been submitted separately will be fully carried out, and will not be thwarted by any new industrial organisation or international control which may be imposed;
- c that control over Japan will last for a period long enough to enable any scheme imposed by the Allies to take root, say, at least five years.

9. An outstanding feature of the Japanese economy, of which account must be taken in formulating policy within this context, is the dichotomy that exists between the sector of the economy that has been dominated by the great concerns and that which is made up of numerous small undertakings. The first sector comprises the large-scale industries,

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especially the heavy industries, and many of the organisations engaged in finance and foreign trade. The second consists of small workshops and factories in the textile, small metal and consumption goods industries, small country banks and small businesses in the wholesale and retail trade. The importance of the small technical unit in manufacturing industry is shown by the fact that during the early thirties work-places employing under five persons were responsible for about half the employment in manufacturing industry. It is true of course that many of these small manufacturers were under the financial control of the larger merchants and financial houses, and so could scarcely be regarded as independent undertakings. Nevertheless, it is clear that the policy appropriate for dealing with the large undertakings could not be applied with any hope of success to the small-scale sector of the Japanese economy. No uniform scheme is therefore possible, and the industries appear to fall into three groups:-

a Heavy industries organised for the most part in large technical units which are already under highly centralised control and for which nationalisation would be practicable and Allied supervision essential. These may be listed as follows:-

- (1) iron and steel production (blast furnaces, steel furnaces and rolling mills);
- (2) shipbuilding (yards capable of building ships over 1,000 tons);
- (3) chemical works;
- (4) certain branches of engineering (including machine tools, textile machinery, locomotives and railway rolling stock, marine engineering, prime movers, electrical machinery);
- (5) non-ferrous metal smelting and rolling;
- (6) mining (coal, non-ferrous ores, oil).

b. Other industries which, because they have previously been Zaibatsu or State Monopolies and because large

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technical units are required for operational efficiency, could conveniently be nationalised. These would include:-

- (1) paper-making;
- (2) flour-milling;
- (3) sheet-glass manufacture;
- (4) railways.

c. Industries in which Zaibatsu enterprises, though important, are not responsible for the bulk of the production, and in which there are numerous firms, both large and small. This group comprises a wide range of industries, including textiles and other consumption goods.

10. The industries listed under paragraph 9_a above are all among those which contribute powerfully to a war potential, and for that reason alone it is desirable that they should be left for some years under some form of Allied supervision. Again, these are all industries a large part of the capacity of which is already under the control either of the Zaibatsu, or of the Zaibatsu and the State together. For instance, it is estimated that in 1944 the Japan Iron Manufacturing Company (Nippon Seitetsu), which was a State concern with Zaibatsu participation, controlled about four-fifths of the blast furnace capacity and two-thirds of the steel capacity in Japan Proper, while the Zaibatsu themselves had most of the remainder. The problem of bringing this industry under a unified State Control (especially after it has been reduced in size by the security measures already proposed) will be relatively simple. In shipbuilding, non-ferrous mining and smelting, heavy chemicals and heavy engineering, the Zaibatsu held a high proportion of the industry, and it would be comparatively easy to sweep the rest (so far as they are conducted in large factories) within the control of a State undertaking. In coal mining there is a fringe of small concerns, although the Zaibatsu held the greater part of the industry, and it is

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for consideration whether it is necessary to draw them within the net. On the whole, except in the case of the iron and steel industry and shipbuilding, where the boundaries of the industries can be easily defined, it would seem best to confine nationalisation to the properties hitherto held by the Zaibatsu (or the State), especially as those properties comprise practically all the large undertakings, and to permit the existing fringe of small independent firms to operate as before. The fringe would (in the engineering industry for example) include the numerous small sub-contractors for the large factories; these would continue to manufacture to the orders of the large factories as before, although their employers would have become State undertakings.

11. The industries listed in paragraph 9(b) above have no direct connection with armaments production but have been virtually monopolized by the Zaibatsu. Their control is now presumably centred in the Holding Company Liquidation Commission. For economical production these industries, such as paper-making, flour milling and sheet glass manufacture, must be operated by very large technical units, and it is difficult to see how free competition could be restored in such trades, even if it were thought desirable. It is suggested therefore that these industries also should be retained permanently under state control, as in the case of the industries discussed in paragraph 10. A large part of the railway system is already under Governmental control, and the rail undertakings of the Zaibatsu should be brought within the State system.

12. It is not possible at this distance from events to attempt to frame the precise form of control under which these nationalised industries should operate. That form must be worked out on the spot by those with intimate knowledge of the present condition of the industries. All that can be suggested here is that for the time being the general

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supervision of these undertakings should remain a function of the Holding Company Liquidation Commission reinforced by Allied representatives, and that future plans for the organisation and control of the industries should be prepared by that body. If, after the process has been completed, Allied control over the undertakings listed in 9a is to be effective, it will be necessary to provide for a highly centralised form of supervision over the whole group, for it would probably be impossible to attach to the boards responsible for administering each of these industries a sufficient number of persons with adequate qualifications. Consequently it will probably be necessary to retain a body corresponding to the present Commission with the function of exercising general supervision over the whole of the nationalised sector of the economy, or at any rate over that part of it which consists of the warlike industries. The difficulty of providing for effective Allied supervision of a highly centralised type over a considerable range of undertakings should not be under-estimated, especially as that supervision will certainly be unwelcome to the Japanese themselves.

13. Outside the warlike industries and certain other manufacturing industries which have hitherto been monopolised by the Zaibatsu, the Holding Company Liquidation Commission will have acquired numerous properties in other manufacturing industries (which fall within group c in paragraph 9 above), in banking and finance, and in trade. So far as the various manufacturing industries are concerned, these properties, though important, will not usually represent a very high proportion of total capacity in each trade. For instance, although in the textile industries some of the largest concerns were directly or indirectly under Zaibatsu control, there were many substantial firms which were independent of them and also a great mass of small undertakings which only came into the Zaibatsu not as a result of their dependence

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upon the great financial and trading organisations controlled by those concerns. The same is largely true for trade. The policy suggested for dealing with this group of Zaibatsu properties may be considered from two aspects. In the first place, it is suggested that an attempt should be made to dispose of these properties, either to local or regional authorities or to private concerns. The local authorities, for instance, might well inherit some of the warehousing and public utility interests of the Zaibatsu; while competitive private enterprise might be restored in certain manufacturing industries, such as textiles, in which there are numerous producers. In the second place, it would seem wise to foster various institutions or forms of organisation which have long existed in Japan, and which in the past have done something to sustain the small producer and trader against the financial power of the great concerns. In so far as it proves possible to carry out these measures, there is reasonable hope of distributing responsibility and initiative more widely than before and of erecting a barrier against any future movement towards the concentration of economic power. But there are formidable difficulties to overcome. Entrepreneurial experience has not been widely diffused in Japan, and there is no large middle class with the habit of industrial investment. Thus, it will not be easy to find, outside the circle of the former Zaibatsu Banto (managers) persons capable of inheriting the administrative functions hitherto discharged by the Zaibatsu; while the market for the securities to be disposed of is likely for some time to remain a narrow one. Still, the pressure on savings available for industrial investment will be relieved by the nationalisation of the heavy, highly-capitalised industries.

14. The three forms of organisation which, in different branches of the economy, are worthy of encouragement with this end in view are:-

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- a. the co-operative societies (sangyo Kumiai);
- b. the manufacturers' guilds (Kogyo Kumiai);
- c. the export guilds (Yushutsu Kumiai).

15. The developments of the present position of the co-operative movement in Japan are described in Appendix I. It is shown that, while consumers co-operation has made little headway in that country, co-operative societies have played an important part among rural and fishing communities in providing for the buying of the materials needed by the farmers and in the marketing of their products, in the provision of joint equipment (for example, agricultural machinery, rice-cleaning plant and fishing boats and of credit. In the silk industry during the thirties there was under Government encouragement a marked development of co-operative filatures run by the silk raisers themselves. It is true that the co-operative societies have sometimes fallen under the control of the small landlords, but on the whole it can be said that they have succeeded in some degree in freeing the peasantry from the domination of the large financial and merchant houses. A continuance of the pre-war policy of encouraging co-operative societies and affording them privileges in the matter of loans and tax-exemption is desirable, both as a means of raising the level of life in rural areas and of fostering the independence of the small producers and as a contribution to the growth of democracy. Measures should be taken after proper investigation to reduce bureaucratic control of co-operative societies and their activities, and to foster the growth of a body of co-operative administrators trained in co-operative methods and properly responsible to the co-operative societies themselves. Lines along which reform of existing co-operative law and practice is needed, are suggested at the end of Appendix A. Urban consumers co-operatives may be expected to develop alongside the now emancipated and legalised trade unions, and these might in time produce educated co-operative leaders to strengthen co-operation in the more backward rural areas.

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16. The manufacturers' guilds (Kogyo Kumiai) were called into being by a law passed in 1925 for encouraging co-operation among small manufacturers with the object of improving the quality of their products, providing joint equipment for their members and conducting joint purchases and sales. During the thirties the number of these guilds greatly increased and new functions were given them, including that of providing finance for their members so that they might escape from the control of merchants. By 1937 there were 1,172 guilds with 88,000 members, and it was estimated that the annual production covered by the members of these guilds amounted to nearly a quarter of the industrial production of Japan. The more active of the guilds established joint manufacturing services for their members. Thus in the pottery industry the guilds bought and prepared the clay for their members and sometimes operated kilns for use by the small makers. In the cotton industry the guilds set up joint equipment for warping and sizing yarns for small-scale businesses. Some guilds provided joint facilities for warehousing and packing products. Others equipped themselves with lorries for transporting the raw materials and finished products. It is true that some of the guilds fell ultimately under the control of the larger firms, but others achieved a measure of independence for the small manufacturers. It would seem that these organisations should be encouraged, since they provide means by which the small producer may preserve his independence of large-scale merchant and financial houses.

17. Similar organisations existed among traders engaged in export. The members of the export guilds (Yushutsu Kumiai) consisted for the most part of small merchants who found difficulty in sustaining themselves against the competition of the great trading companies. The export guilds had various functions. They inspected and certified goods destined for

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export; they provided joint storage facilities; they exported on consignment for their members, and they provided advances to them having for this purpose been given the right of borrowing at low rates of interest from the Treasury Deposits Bureau and the Yokohama Specie Bank. The guilds do not appear to have played a very important part in Japanese foreign trade until after 1934, when they were largely transformed into instruments for regulating foreign trade in conformity with the various quota restrictions imposed by many countries on imports from Japan, or for implementing bilateral arrangements between Japan and other countries. In 1936 their membership amounted to over 10,000. It would seem that this form of guild also might be encouraged in order to prevent the great trading concerns from securing an overwhelming dominance over the export trade. The provision of financial help to these guilds should continue.

18. Finally, it is suggested that active encouragement should be given to the development of trade unions. Japanese trade unions in the past have been far from influential institutions, and their development has been handicapped both by the economic conditions of the country and also by the absence of a proper legal status. If, however, a proper legal status is conferred on them, and if their development is encouraged on the lines proposed in FEC 045, then there is a reasonable hope of their playing a much more important part in Japan's economic life than hitherto. If this hope is fulfilled, then Japan will be provided with a valuable school of democracy which may help to modify the character of the political system and the complexion of governmental policy. Further, trade unions would represent a new centre of organised power which might do something to mitigate any future tendency towards the concentration of economic control.

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19. The most awkward problem of all arises in connection with policy towards the financial institutions hitherto controlled by the Zaibatsu. Japan's banking system presents many peculiar features. On the one hand there is a number of semi-official banks capitalised in part by the State and with governors appointed by the Minister of Finance. These consist of the Central Bank (the Bank of Japan), the leading Exchange Bank (the Uokohama Specie Bank), which financed a very large proportion of Japan's foreign trade, the Industrial Bank of Japan, which was concerned with making long-term loans to industry and with finding capital for enterprises of "national importance" in Japan Proper and on the Continent, and the Hypothec Bank, the function of which was the making of a long-term loans for agricultural enterprises. There are a few others such as the Taiwan Bank, the Bank of Chosen and Hokkaido Colonial Bank. (Note:- The taiwan and Chosen Banks have been liquidated by the SCAP) In addition, the Treasury Deposits Bureau of the Ministry of Finance has been a most important institution for mobilising the savings of the poor and the middle classes.

20. A considerable part of Japan's banking system is already therefore under a measure of governmental control. Outside this group, however, there are numerous independent commercial banks. Some of them (including the largest) have been part of the Zaibatsu enterprises, and it was through these banks that the Zaibatsu were able to finance their manufacturing enterprises without resort to the capital market and also to extend their control over small manufacturers and traders. Besides these, there are numerous small country banks, although their number has been considerably reduced in consequence of a consolidation movement which has been going on during the last quarter century.

21. One of the main features that distinguished the Japanese banking system from its European counterparts is

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the weakness of the Central Bank and the lack of any centralised control over credit policy. The great banking concerns belonging to the Zaibatsu have at times pursued a policy completely at variance with the official policy. For instance, after the fall of the yen in 1932, when the Government was intent on pursuing an expansionist financial policy, the banking institutions of the Zaibatsu continued to follow the deflationary policy that had been enforced during the preceding period.

22. It is extremely difficult at the present time to put forward any proposals for the future organisation of the banking system (for no less would be involved in any decision about the Zaibatsu banks), since it is not known how the banking system will emerge from the financial havoc of the present time. The process of nationalising the banks would be an extremely complex undertaking in view of the structure of the Japanese system. An alternative would be to attempt to bring the "outside" banks under the control of the Central Bank so far as their policy is concerned. For this new legislation would be required designed to improve the standard of commercial banking and to prevent banks from undertaking business considered unwise for commercial banks. Such legislation should assign to the Central Bank powers of direction and inspection over other banks whose activities would be required to conform to statutory provisions regarding capital, reserves, investment policy and other matters. The statutory regulation of investment policy could be so framed as to prevent or restrict the direct participation of the banks in industry. Such legislation might also include alteration of the legal status of the Central Bank to provide for some measure of international control, through, for example, the appointment to the Board of the Central Bank of one or more properly qualified representatives of the Allies. On the other hand, the Allies may feel reluctant

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to assume responsibility for so difficult a task as the revision of the entire Japanese banking system. In that case it may be considered reasonably satisfactory if the banks of the Zaibatsu are left to operate as private undertakings, since as a result of the other measures proposed in this paper they will have been separated from the industrial and trading concerns with which they were formerly linked.

23. Whether or not steps are taken to bring the "outside" banks under the control of the Central Bank, and to regulate their activities by measures such as those suggested in the preceding paragraph, it would be desirable to reduce the importance of the larger private banks as investors in industry, since it was in this way that the close links between the Zaibatsu industrial enterprises and their great banking houses were forged. It is possible that new channels might be provided through which the savings of the Japanese people might be invested directly in industry, since in this way the dominance of the great banks formerly controlled by the Zaibatsu might be lessened. For instance, for those industries that are to be restored to private enterprise, the local authorities might be directed to take over from the Holding Companies Liquidation Commission blocks of shares in approved undertakings for resale among small investors. Under suitable governmental safeguards, the development of unit-trusts might be encouraged, or blocks of shares in certain industries might be sold by co-operative societies, which would appoint persons with knowledge and experience to watch their interests. These are, of course, merely tentative suggestions which might be given further consideration on the spot.

24. Too much must not be expected from the forms of control that have been proposed. The most effective work that the Allies can undertake in this sphere will be accomplished during the period of occupation. During that time it may be possible to set the economy on what is con-

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sidered to be the right road, but there can be no guarantee that it will not go astray after that period is over. Nevertheless, the attempt is worth making, chiefly because it is difficult to believe that the reforms that are considered desirable would be brought about in the absence of pressure from outside. Again, it should be emphasised that the difficulty of finding suitable persons to act as Allied representatives in Japan for this purpose will be far greater than in the case of Germany. Consequently, the only form of supervision that these representatives can be expected to exercise will be of the most general character. Any elaborate system of control would inevitably break down. Finally, it must not be overlooked that while State ownership and control of these industries would facilitate international supervision for a time, and might eventually result in economic power being subjected to a healthy democratic control, there is a real danger that the political progress which this pre-supposes may not come about. In such circumstances, an aggressive and irresponsible Government would be all the more formidable by having the heavy industries completely in its grip. The risk, however, has already been incurred through the decision to concentrate the properties of the Zaibatsu in the Holding Companies Liquidation Commission, and, indeed, it would have been present in any circumstances. The proposals put forward in this paper offer, it is believed, reasonable safeguards against these dangers and at the same time may help to stimulate the growth of democratic sentiments and movements through which the ultimate solution must come.

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APPENDIX ACo-operative Societies in Japan.

1. There have long been co-operative societies in Japan, particularly in rural areas. Many started in the nineteenth century, among them a purely Japanese form of co-operative credit society called the Hotoku-sha. Others were imitative of forms of co-operation in other countries. But it was not until 1900 when the Co-operative Societies Act was passed giving them legal recognition and official encouragement that the movement began to grow on a wide scale.

2. The Act defines a co-operative society as a body corporate set up for the promotion of the industrial or economic interests of its members by the following methods:-

- a. By providing the members with funds necessary for the development of their industry and also by facilitating saving.
- b. By selling collectively the products of its members and, if necessary, so treating the products as to increase their marketable value.
- c. By distributing among its members the goods purchased or produced or partly produced by the society necessary for their industry or domestic economy.
- d. By acquiring plant or machinery for the collective use of its members in their industry or domestic economy.

Thus the Act provides for co-operative societies of four different types: a co-operative credit societies, b co-operative selling or marketing societies, c co-operative buying societies and d co-operative utility societies. A single society may combine two or more of these activities.

In order to facilitate the formation of co-operative societies even in sparsely populated villages, the Law allows a society to be formed by at least seven members, subject to

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the authorisation of the governor of a prefecture.

Eligibility to membership is generally confined to economically independent persons. A member loses his membership by death, bankruptcy, loss of civil capacity, expulsion or the loss of qualification prescribed by the constitution. Shares may not exceed 50 yen, and no member may own more than ten shares.

Federations may be formed as bodies corporate by at least seven co-operative societies. A share in a federation may not exceed 500 yen.

The liability of members of co-operative societies may be limited, unlimited, or guaranteed. In societies with guaranteed liability, members are liable for the debts of the society to the extent of a prescribed amount in addition to the extent of their shares. Federations may only have limited or guaranteed liability.

The area within which a co-operative society may carry on its work is fixed by the society itself according to local conditions and the nature of its objects. The area of operation of co-operative credit societies, however, is limited within the boundary of an administrative unit such as a city, town or village, and the area of a federation, except in special cases, corresponds to the territorial limits of a prefecture.

Societies are managed by the general meeting of the members and by a committee of management and auditors consisting of from three to seven members who hold office from one to six years. Important decisions of the general meeting require a three-fourths majority of at least half the members of the society; each member has one vote, regardless of the number of shares he holds.

The Law requires every-co-operative society to pay at least a quarter of the profits of each working year into a reserve fund until the fund has reached a sum prescribed by

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the constitution. Entrance fees, share bonuses, etc., must also be paid into the reserve fund. Dividends not exceeding 6 per cent - or in special cases 10 per cent - may be paid on shares; where dividends are paid in proportion to the amount of business transacted with the society no legal limitation is imposed.

Co-operative societies and federations are under the supervision of the local administrative authority (prefectural governor) and the Minister of Commerce and Industry. Co-operative credit societies are supervised by the Minister of Finance as well as by the above mentioned authorities. The supervisory authorities have at the same time the duty of encouraging and guiding the co-operative societies.

In order to foster co-operation, the societies enjoy the following privileges:-

- (1) Exemption from taxes on business profits, business transactions and on income, as well as from the registration tax as registration is required by the Co-operative Societies Act.
- (2) Government facilities to co-operative societies which undertake contracts.
- (3) Government loans at low interest rates to co-operative societies and their federations through mortgage banks.
- (4) The Mortgage Bank of Japan and other land credit banks are authorised to grant loans to co-operative societies without security.

3. This Act was amended in 1906, 1909, 1917, 1921, 1923, and 1926. It is interesting to note that the form of co-operative society most typical of co-operative enterprise in England, namely, the consumers' co-operative of the Rochdale type, was never given specific legal recognition in Japan. Numbers of these societies existed but had to be registered, if they were registered at all, as co-operative buying societies. Many continued to exist until the war as

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purely private associations not registered under the Act, among them a number of workmen's co-operatives in industrial towns started by trade unions and sharing the ups and downs of the trade union movement in Japan. Urban consumers' co-operatives were in fact an important element in the struggle for labour organisation. Their business was larger than the official statistics show owing to the fact that numbers of them were unregistered. That they never won official encouragement or protection was due in part to their political affiliation with trade unions, in part to the opposition of capitalist private enterprise and in part to the fact that Government encouragement of the co-operative movement was directed to the rural areas and was never intended to meet urban needs, which were largely ignored by all the legislation.

4. Credit societies are most numerous of those registered under the Act, while societies for the purchase of equipment and fertiliser and those for sales and marketing hold second and third places respectively. These societies are almost entirely rural and their success is due to the fact that they meet the urgent needs of the farmers and rural community. Most of them are mixed in character and in addition to share capital their funds are often made up of deposits by members' families and non-members. It is estimated that in the years before the war about one-quarter of the total population of Japan and rather over half of the farming families were served by co-operative societies. In 1929, 73 per cent of all members of co-operative societies were farmers.

Credit Societies

5. The extent to which the credit societies met the needs of farmers is shown by the fact that loans granted by co-operative societies amounted in 1938 to over 1,000 million yen and about 70 per cent of these loans were granted without

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any other security than the personal integrity of the borrower. The maximum amount of the loans that may be granted to one member is decided upon by the ordinary general meeting of the society year by year. The same body also elects a Committee of several persons to inquire into the financial position of every member and to decide as to the amount of the loan to be granted him, which of course must not exceed the limit fixed by the general meeting. The interest in most cases is fixed at from 9 to 10 per cent., which is lower by 1 or 2 per cent. than the ordinary market rates. Behind the credit societies is the Central Bank of Co-operative Societies founded in 1923.

Marketing Societies.

6. Co-operative marketing ranks next in volume to co-operative credit. Among the commodities marketed by the co-operatives for their members are wheat, barley, soya beans, vegetables, rice, cocoons, raw silk, tea, fuel, fish, sugar beet and products of rural domestic industry. In 1934 the co-operative marketing societies handled 27 per cent. of the total output of rice, 35 per cent. of wheat and about 12 per cent. of cocoons.

Agricultural Storage.

7. In 1917 the Agricultural Storage Act was passed to facilitate the preservation in special granaries or warehouses of cereals and cocoons. Storage may not be conducted for profit and may be managed by bodies corporate such as co-operative societies. The responsible body in addition to preserving the produce deposited may also carry on the processes of improving, grading and preparing it for sale and may act as intermediary in sales transactions and make loans on the guarantee of the deposit certificate. This opened a new field for co-operative enterprise and by 1930 92 per cent. of the warehouses established under the Act were

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run by co-operative societies. During the 1930's, the years which saw a severe slump in the demand for silk, co-operative enterprise in all phases of the silk industry was much encouraged by Government as part of a drive for the rationalisation of the industry.

Co-operative Utility Societies.

8. This form of co-operation has been much less developed in Japan than in other countries but some societies have been formed to acquire agricultural land and machinery, electric plant, fishing boats, etc., for the use of their members. About 800 societies in 1929 owned rice-cleaning establishments, and the number of silk mills co-operatively owned increased under the encouragement given by Government already referred to. Under this type of co-operative society must also be included the medical co-operative societies. These date from 1921 when health conditions resulting from the depression following the first world war made some provision of medical care imperative. Co-operative societies for this purpose were usually formed in areas where there were no regular doctors. A group of families would form a society and engage the services of a single doctor or nurse. This movement at first aroused the antagonism of the medical profession but later this antagonism disappeared and the passage of the Japanese Health Insurance Act in 1937 making medical care available to millions of Japanese farm families was credited largely to the efforts of co-operative leaders.

Co-operatives in wartime.

9. As early as 1938 when the General Mobilisation Law was passed it was reported that the Government was planning to rely largely on the co-operative societies in the mobilisation of the country's resources. Fishermen's associations became co-operatives and an order of the Ministry of Agriculture and Forestry of 12th July, 1938, provided

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for the organisation within approximately six weeks of co-operatives in the towns and villages in which such societies did not already exist. Grants in aid were extended. In April 1940 an amendment to the Agricultural Association Labour Law made it obligatory for every farmer to become a member of a co-operative society or guild. Throughout the war the co-operative societies seem to have shouldered the main burden of organising and caring for the rural population. The farm workers were for the most part (and especially near industrial centres) old men, women and children, and the mortality among them due to overwork and poor conditions was high. The co-operative societies organised squads of labourers to assist farm, forestry and fisher families, distributed supplies of fertilisers and agricultural machinery, promoted medical co-operatives and health activities and undertook co-operative cooking among farm families, thereby economising labour and money and improving the quality of the diet. All of these activities were encouraged by the central Government and prefectural governors and many of them were sponsored and helped financially by the authorities. For the first time it became possible, under the Agricultural Land Adjustment Law, for co-operatives to own and operate farm lands though it is not clear that there was any significant development in this direction.

10. Having regard to the legislation and degree of Government aid and official interference, the co-operative movement in Japan cannot be said to be an entirely spontaneous, voluntary or natural growth. Moreover, it is diluted with pseudo-co-operatives of profit business and employer-dominated societies, who by a nominal conformity to the legal definitions of a co-operative society availed themselves of the tax exemption and other privileges extended to such societies. Co-operative stores organised by firms employing large

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numbers of workmen were typical of these pseudo-co-operatives. Nevertheless the provision of a legal ceiling to the number and value of shares which might be held by one member and the rule that one member had only one vote in the members' meeting whatever the number of his shares, ensured a degree of democracy in the management of the affairs of a large number of societies, especially those in rural areas, where the members were not all the employees of one firm. Though even in these more genuine societies, the powers of supervision given to the local authorities restricted independence of action, and prefectural governors, mayors or their nominees were often officials of the societies or otherwise held a dominating position by virtue of their office. The degree of this official interference and control undoubtedly increased greatly during the war years.

11. The intrusion of "pseudo-co-operatives" is due in part to the somewhat vague and confused definition of what constitutes a co-operative society which has been perpetrated by the enactment of 1900. As a result there has been no real co-operative standard established by law or custom. Certain co-operative unions, notably the Central Union of Co-operative Societies, formed in 1905 and legally recognised in 1910, have done much excellent educational and propaganda work. In 1923 this union organised the Co-operative Wholesale Society and in 1926 opened the Co-operative College. Though official fetters have no doubt largely nullified in recent years the efforts of these organisations towards promoting a liberal and democratic theory of co-operation, there is no reason why, if the fetters were removed, they should not in the future form a valuable focus for "democratising" activities.

12. As already stated, in 1929 about 73 per cent. of the members of co-operative societies were farmers and there is no reason to believe that this proportion has decreased.

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Further analysis suggests that these farmers were mostly small landlords or medium sized peasant proprietors. The smaller proprietors and tenant farmers were for the most part too poor to afford the entrance fee to the societies (usually the purchase of one share of about 50 yen value). Thus even in rural areas where co-operation was most genuine and most needed, the societies were in fact controlled by landlords and cannot be regarded as a genuine working class movement, though the rural proletariat indirectly benefited by their existence in so far as they tended to prevent the profits of agriculture and rural industry being drained away into the towns. Reform should, however, be a fairly simple matter as the lowering of the entrance fee and the insistence on a larger membership for individual societies would at least go a long way towards diluting the landlord element.

13. A table showing the number, membership and operations of Japanese co-operative societies of all types in the years 1900-1938 is attached at Appendix IA. Of the 15,328 societies registered under the Act in 1938, 13,538 were credit societies, 13,642 conducted marketing activities, 13,784 conducted purchasing activities and 12,794 owned or operated "utilities", including medical services. There were 230 co-operative society unions.

Encouragement of the co-operative movement.

14. The above brief survey of the development of co-operation in Japan indicates the considerable extent to which it permeates the Japanese social economy, especially in the rural areas. The movement is sufficiently well established to be regarded by the Japanese people as a normal method of organisation for certain forms of economic activity, and fifty years' experience of co-operative methods, even though controlled and directed to a large extent by the Japanese

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executive, must at least have served to make the theory of co-operation familiar to a large number of the Japanese working class. Since, therefore, a co-operative movement already exists and in view of the great importance of the co-operative society as a "school of democracy", measures of reform should be considered designed to free the existing co-operative movement from undesirable interference and control by local and central Government officials, and to eliminate pseudo-co-operatives. Specific measures of reform must be worked out on the spot by experts with experience in the various types of co-operative enterprise most suitable to the Japanese economy. The following are tentative suggestions arising from the foregoing study covering the main points on which reform seems to be called for:-

a. - Amendment of the Co-operative Societies Law-

- (1) This law should be amended so that its definition of what constitutes a co-operative society rules out (a) societies formed by employers of labour for providing retail stores or other amenities available only to their own employees; (b) societies formed by persons engaged in the same trade as private traders in order to benefit by privileges conferred upon co-operative societies but whose businesses are still run as private profit-making concerns.
- (2) The entrance fee or minimum contribution in order to qualify for membership of a co-operative society should be reduced.
- (3) The minimum number of members qualifying a society for registration under the Act should be raised from the present seven. A different minimum should probably be fixed for different types of society.

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(4) The Law should be amended so as to specifically recognise consumers' co-operative societies and to afford them the same privileges as other types of societies. Given the emancipation and development of the trade unions, this should be sufficient to ensure the development of consumers' co-operatives in urban areas.

b. The number of co-operative societies unions should be reduced. Regional unions should be encouraged, but these should all be federated in one national union, e.g., the existing Central Union of Co-operative Societies. In fact, this kind of national organisation already exists in embryo, and policy should be directed to the elimination by amalgamation with the Central Union of Co-operative Societies of the large number of smaller unions at present existing.

c. There is already in Japan a Co-operative Wholesale Society. The main business of this society is purchasing in bulk at wholesale prices and distributing without profit to co-operative selling societies. The C.W.S. does undertake certain processing activities, though it does not appear that it owns any significant number of factories or other producing units. It is, however, possible that, given support in the form of cheap or free loans and provision of technical experts, this society could be encouraged to develop along the lines of the English and Scottish Co-operative Wholesale Societies, and could absorb at least a proportion of the consumer goods manufacturing and distributing industries, previously owned or controlled by the Zaibatsu. Such development would lend additional support to the growth of consumers' co-operatives in urban areas.

d. There may be further scope for the development of producer co-operatives of the type which have been

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successful in China. These would be most suitable in rural areas where the co-operative production of daily needs of simple manufacture by farming families might assist to raise the standard of life in the countryside and check the drift of both money and men into the towns. It is suggested that the possibilities might be investigated by experts who have had experience in the Chinese Industrial Co-operative movement

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Appendix IA.

Table showing number, membership and operations of Japanese Co-operative Societies, all types, 1900-1938.

Year	Societies	Membership	Paid in Share Capital Yen	Amount of Business in Yen		
				Purchasing	Productive	Marketing
1900	23	*	*	*	*	*
1910	7,308	784,264	19,348,734	*	*	*
1915	11,509	1,392,589	*	27,121,109	*	38,925,376
1920	13,442	2,290,235	354,605,957	*	*	*
1930	14,082	4,743,091	228,226,949	155,174,000	5,826,000	192,474,000
1931	14,163	4,813,140	234,572,589	127,271,000	5,728,000	181,140,000
1932	14,352	4,978,248	329,725,266	105,881,000	5,392,000	202,839,000
1933	14,651	5,238,253	243,968,997	129,111,000	5,731,000	261,399,000
1934	14,815	5,505,897	*	155,992,000	6,817,000	*
1937	15,316	6,265,904	348,300,000	*	*	*
1938	15,328	6,842,228	365,000,000	426,400,000	*	749,600,000

* Not available

Appendix IA.

Membership and operations of Japanese Companies, all types, 1900-1938.

Year	Amount of Business in Yen			Loans Granted
	Purchasing	Productive	Marketing	
1900	*	*	*	*
1904	*	*	*	*
1907	27,121,109	*	38,925,376	108,237,870
1909	*	*	*	*
1914	155,174,000	5,826,000	192,474,000	984,476,000
1919	127,271,000	5,728,000	181,140,000	1,005,675,000
1926	105,881,000	5,392,000	202,839,000	1,017,633,000
1927	129,111,000	5,731,000	261,399,000	1,017,521,000
1930	155,992,000	6,817,000	*	*
1931	*	*	*	1,095,800,000
1932	426,400,000	*	749,600,000	1,085,400,000

Not available

FEC 062

20 May 1946

FAR EASTERN COMMISSION

INFORMATION ON CIVIL LIBERTIES IN JAPAN

(Reference: SC 012/2)

Note by the Secretary General

The enclosure, a request for information regarding the extent of civil liberties in Japan, unanimously approved by the STEERING COMMITTEE at its thirteenth meeting, 14 May 1946, is forwarded herewith for the consideration of the Far Eastern Commission.

NELSON T. JOHNSON
Secretary General

FEC 062

ENCLOSUREINFORMATION ON CIVIL LIBERTIES IN JAPAN

The Far Eastern Commission has considered the report presented by the U. S. member of Committee No. 4 regarding the Supreme Commander's orders and directives facilitating the implementation of civil liberties in Japan (C4-001). Having no official data on the extent to which these orders and directives have been put into practice and considering that the extent to which these orders and directives have been carried out by the Japanese Government and people is a valuable index of possibility of adequate democratic development, the Commission requests the Chairman to consult with the U. S. Government with a view to obtaining information as to the extent to which these orders and directives have been implemented, and, in particular, to supply the following information:

a. Subject: Memorandum of SCAP of September 10, 1945, to the Japanese Government in relation to civil liberties in Japan Para. 2 of the Memorandum, reading: "The Supreme Commander for the Allied Powers has decreed that there shall be an absolute minimum of restrictions upon freedom of speech".

Information desired: (1) Detailed elucidation on the meaning of "absolute minimum of restrictions". (2) How has this directive been fulfilled by the Japanese Government?

b. Subject: AG 000.76 (27 September 45) CI Memorandum for: Imperial Japanese Government. Subject: Further steps toward Freedom of Press and Speech. Para. 7 and 8 of the Memorandum.

Information desired: (1) What steps have been taken by the Japanese Government to fulfill the above directive? (2) How is the directive requiring the Japanese Government to furnish reports, twice a month, on measures taken in implementation of the above directive and of the directives of 10 and 24 September, 1945 being fulfilled?

c. Subject: Memorandum for: Imperial Japanese Government of 4 October 1945. Subject: Removal of Restrictions on Political, Civil and Religious Liberties. Para 1c of the Memorandum.

Information desired: Was the directive on release of all persons mentioned in the above paragraph fulfilled by 10 October 1945? If not, what is the present status of these persons?

CONFIDENTIALCOPY NO. 125FEC-062/14 June 1946FAR EASTERN COMMISSIONREPLY OF CHAIRMAN TO REQUEST FOR INFORMATION
ON CIVIL LIBERTIES IN JAPAN

(Reference, FEC-062)

1. The enclosure, a statement submitted by the Chairman in answer to the request contained in FEC-062, for information on the implementation of certain SCAP directives on civil liberties, is circulated herewith for the information of the Far Eastern Commission and is referred to COMMITTEE NO. 4: STRENGTHENING OF DEMOCRATIC TENDENCIES.

2. The attention of all concerned is invited to the classification of this document which prohibits the dissemination of the information contained therein to unauthorized persons or to the press.

NELSON T. JOHNSON
Secretary General

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E N C L O S U R EREPLY OF CHAIRMAN TO REQUEST FOR INFORMATION
ON CIVIL LIBERTIES IN JAPAN

With reference to the questions raised in paragraphs a and b of the Commission's request for information concerning the fulfillment by the Japanese Government of various SCAP directives ordering freedom of press and speech (FEC-062), a review of reports submitted by the Japanese Government in compliance with paragraph 8 of the directive of 27 September 1945 (SCAPIN - 66) reveals the following information.

In compliance with SCAP directives of 10 September 1945 (SCAPIN 16), 24 September 1945 (SCAPIN 51), and 27 September 1945 (SCAPIN 66), the Japanese Government has withdrawn from control of and interference with news agencies, newspapers, books, motion pictures, state entertainment and radio. Laws providing for control have been repealed or, as in the case of the lese majeste clause in the penal code, are inoperative, and enforcement machinery, including government-inspired control associations, has been abolished.

The Japanese Government no longer exercises any censorship in any form of newspapers or any other information media, with exception of its own official publications and school texts, the latter of which are published only after SCAP approval.

No punitive action by the Japanese Government has been reported against any publisher in connection with editorial policy since the issuance of the SCAP directive of 27 September 1945 (SCAPIN-66). Under investigation is an allegation that police questioning of employees of the Tokyo Newspaper Yomiuri on suspicion of having violated currency regulations was aimed at influencing the newspaper to be less critical of the government, but so far the truth of the allegations has not been established.

All publishers are familiar with their rights and know they may appeal to SCAP if the government interferes. Except as limited by SCAP censorship, there is full freedom of expression, though it is

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be inhibited by fear of eventual retaliation when the occupation forces have gone and by such pressure as individuals or groups are able to exert.

Through paper rationing, for which it was made responsible by SCAP, the government theoretically might be able to discriminate in favor of certain publishers willing to uphold government policies, but all paper allocations are reviewed by SCAP and have shown no evidence of government interference with recommendations of an allocation committee dominated by private citizens.

Technically, the Japan Broadcasting Corporation continues to be tied to the Government pending possible reorganization, but again there is no evidence of government utilization of this legal connection to influence broadcasts.

With reference to the questions raised in paragraph c of FEC-062 relative to the release of political prisoners, according to latest information submitted by the Ministry of Justice to SCAP Headquarters, the number of political offenders released from detention stations and prisons, as directed by the SCAP directive of 4 October 1945 (SCAPIN-93) totalled 439, broke down as follows:

- on 5 October 1;
- on 6 October 45;
- on 7 October 72;
- on 8 October 153;
- on 9 October 113;
- on 10 October 55.

As of 6 May 1946 there were 25 persons in prison who were originally classified as political prisoners but who are now incarcerated as a result of convictions for concurrent crimes other than those of a political nature. These 25 persons are no longer classified as political prisoners; however investigations are being made by SCAP to insure that the conviction on these other charges is not mere subterfuge. It should be noted that in December 1945, the Japanese Government, at SCAP insistence, granted suffrage rights to released political prisoners who would otherwise, under the terms of the election laws, have remained without such rights for at least 5 years.