

DECLASSIFIED

E.O. 11652, Sec 3(E) and 5(D) or (E) NND#

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Box 701

STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

TO : Mr. E. M. Martin, Mr. R.H. Whitman

DATE: 8 January 1948

FROM : R.W. Barnett

SUBJECT: Conversation with Mr. Butterworth, FE

1. On January 6, I discussed with Mr. Butterworth the problem of establishing a State Department position on our proposed SANACC 384/2. This paper had been on his desk for a considerable period of time.

Mr. Butterworth had not been fully conscious of the urgency for taking action and assured me that he would study it at once.

2. In the course of general discussion of several related issues, Mr. Butterworth made the following comments:

a. The present impasse in War Department-State Department negotiations regarding Japanese recovery was due to a considerable extent, he thought, to our respective infatuation with words and phrases such as "shift of emphasis", etc. He did not appear to believe that a serious matter of substance divided the two Departments.

b. Japan's economic recovery is going to be the result, he maintained, of the normal operation of merchant greed rather than the result of inter-governmental planning. FEC decisions, being inter-governmental, must not be mistaken for starting recovery or even necessarily regarded as a prerequisite for recovery.

c. In the light of the uncertain prospects for a Japanese peace treaty, caution must be shown by the U.S. representation in the FEC not to advocate proposals which are likely to be embarrassingly restrictive upon our freedom in future. Postponement of the Japanese peace conference could mean that the U.S. Government would desire to accomplish its ends in Japan by wide exercise of various kinds of administrative discretion. He intimated that we may need to ride rough-shod over the other FEC countries on certain matters. I attempted to explain how the present terms of reference of the FEC, powers of SCAP, etc., etc., which are generally accepted as the framework for the occupation of Japan, already give the U.S. Government and the U.S.-appointed commander in Japan such wide discretion that riding "rough-shod" is not likely at any time to be at all necessary; therein lay the U.S. strength in prolongation of the occupation. I said that our ends in Japan could very well be accomplished without exciting open, explicit or in any case effective opposition by other Far Eastern countries. We did not go into the implications of this suggestion.

d. Mr. Butterworth seemed to think that special caution should be exercised in not getting the FEC to act too quickly on level of industry, since premature decisions on these subjects in Europe have entailed endless complications. I told Mr. Butterworth that I saw no such complications in

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Japan. On the contrary, I believed that prompt action on our proposals, due to their sensible character, would benefit Japan and Far Eastern countries.

e. In response to my incidental reminder that the FEC had approved already a policy directive to General MacArthur giving him full authority to designate for permanent retention in Japan industrial capacity (Assured Retention program) as a means towards reviving industrial productivity and removing uncertainties in the Japanese mind over the possibility of reparations removal of certain plants, Mr. Butterworth believed that it might be in order for the U.S. Government to instruct General MacArthur to begin to take action immediately within the authority he had had under that policy.

3. Mr. Butterworth informed me that the Dutch have made an approach to him for extension of a U.S. \$40 million credit which they would use for imports of textiles into the N.E.I. The Dutch have suggested that these textiles could be procured in Japan and paid for in dollars. I presume that Thorp's office is informed of this approach.

Mr. Butterworth further indicated that he believed Pakistan would soon be asserting a strong interest in procuring textiles from Japan in order to shake off their dependence upon Bombay.

4. From the above, it is clear to see that FE is beginning to take a far stronger interest in economic matters than was the case during the John Carter Vincent regime.

DRAFT

CONCLUSIONS

4. It is concluded that:

a) Implementation should be accelerated of paragraph _____ of FEC 014/10 which provides inter alia that Japan shall be permitted to maintain such industries as will sustain her economy, shall be permitted access to raw materials, shall be permitted eventual participation in world ^{trade} relations, and will be expected, and if necessary directed, to maintain, develop and enforce programs designed to make such provision for the needs of the Japanese population as may be deemed reasonable in accordance with principles formulated by the FEC.

b) To this end the US Government should initiate planning and implementing action, both in Washington and in Tokyo, to promote the achievement by Japan of a self-supporting economic status at the earliest possible time.

c) Steps should also be taken to prevent burdens from being imposed on Japan or other conditions developing which would prejudice the achievement and maintenance of that self-supporting status.

d) When action under (b) above has been sufficiently advanced, appropriate steps should be taken, both within and outside the framework of the FEC, to obtain the necessary cooperation ^{of} [from] other interested nations.

DC/R

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STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

TO : FE - Mr. W. W. Butterworth
 FROM : OFD - Norman T. Ness *nm*
 SUBJECT: SANACC 381/2



DATE: November 26, 1947

89450/

1. Procedure. Attached is a copy of SANACC 381/2, embodying a number of changes in the Conclusions of SANACC 381/1. After clearance or amendment of these changes by FE and NA, it is desired to forward this paper to the Department of the Army for approval of such of these changes as were not suggested by Mr. Draper. It is then intended that the paper be given tentative SANACC approval, and be sent to SCAP for comment and concurrence. No action would be taken by SCAP or the U. S. Government to implement the paper's Conclusions until SCAP's comments had been received and studied. After final SANACC approval of the paper, as it might be amended on the basis of SCAP's comments, implementation of its Conclusions would be begun by the U. S. Government through the successive steps proposed in paragraphs 5, 6 and 7 of those Conclusions.

2. Conclusions.

(a) The majority of the changes in the Conclusions arise out of suggestions made, and questions raised, by General McCoy and by members of FE with respect to the relationship of this paper to the rights and interests of the FEC and its member governments. It is hoped that these changes make it perfectly clear that this paper proposes actions which lie within the present authority of SCAP and the U. S. Government, but which are not being undertaken by that Government, possibly for lack of full, clear, and positive policy statement with respect thereto.

(b) The paper also includes changes suggested by Mr. Draper: in the first sentence of paragraph 4, in the last sentence of sub-paragraph 7c, and in paragraph 13.*

(c) The change in the footnote on page 1 arises out of the consideration of this paper by the Inter-Departmental Advisory Committee on Occupied Areas; the change at the end of paragraph 9 arises out of further OE consideration of the question of Japanese import procurement.

3. Discussion.

* A further change was suggested by Mr. Draper in paragraph 13, and found unacceptable by A-S and Le on legal grounds. It would have consisted of a second sentence, to be added to that paragraph, providing that "Such portions of existing directives which are based solely on U. S. policy decisions as contravene the provisions of this paper should be rescinded."

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3. Discussion. It will be seen that the Discussion has been considered revised, and that it now consists of:

(a) The Discussion itself, which parallels the Conclusions, discussing the justifying the policies proposed therein;

(b) Annex One, which attempts to estimate the probable cost to the United States of these policies. It should be pointed out that this Annex does not represent an attempt to frame an Economic Recovery Plan, such as SCAP is to have the Japanese Government prepare after the Conclusions of this paper receive final SANACC approval. That Economic Recovery Plan will be a detailed specification of the policies and measures through which the Japanese economy is to achieve its objectives. Annex One merely describes the nature of these objectives and the practicability of their achievement, so that the order of magnitude of U. S. expenditures required for Japanese self-support can be determined.

4. Relation of Discussion of Conclusions. It will be noted from the Recommendations, that SANACC is, in accordance with its usual procedure, to approve the Conclusions, and not the Discussion. All the recommended policies to be followed by SCAP and the U. S. Government as a result of this paper are specified in the Conclusions. The Discussion is a comment on the Conclusions, designed to assist the reader in understanding them, rather than a recommendation for actions additional to those suggested in the Conclusions. It is nonetheless true that the Discussion (Annex One) must be taken into account in considering the Conclusions, since it attempts to estimate the cost of carrying out these Conclusions. It should be pointed out that SCAP, on request from the War Department, recently prepared a similar estimate, which, although comparable in its over-all totals to the estimate in Annex One, differs on a few specific points from those estimates. Conferences between State official and SCAP representatives here have not succeeded in resolving all these differences. The estimates in Annex One must therefore be considered as tentative until they have been reviewed in Tokyo. It would be desirable for War and State officials to take part in that review; Treasury and Commerce have also indicated a desire to do so. At the time that SANACC 381 is sent to SCAP for comment, therefore, it is proposed to ask SCAP whether he feels that it would be desirable for a War-State-Commerce-Treasury working group to visit Tokyo to assist in the consideration of 381. This procedure would have the further advantage of expediting the procurement of SCAP's comments on 381, and of helping to secure Treasury and Commerce support for the program proposed in 381.

STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

DATE: January 9,
1948.

TO : Mr. Butterworth
 FROM : Mr. Penfield
 SUBJECT: SANACC 381/2

You will note from the attached memorandum by Mr. Fearey that if we are willing to consider SANACC 381/2 on the basis of the specific changes you suggested an agreed paper would be proposed quickly.

Fearey's suggested conclusions for a shortened paper go further than I intended. So, I am attaching a draft along the lines I was thinking. My suggested paper would of course preclude the practically simultaneous consideration of a paper along the lines proposed by OE, but would have the advantage of accomplishing one of the objectives of the OE paper expeditiously, while leaving for further consideration one of the other objectives the wisdom of which I still doubt, namely, to needle SCAP into doing something he is already authorized and expected to do.

Claxton and OE feel that there is considerable urgency attached to this paper. So, if it is agreeable to you, I am perfectly willing to drop my idea and settle for the changes you suggested in the OE draft. What are your wishes?

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 FE:JKPenfield:hst

*Jan 30
 Mr. Fearey*

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STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

TO : FE - Mr. Penfield

DATE: January 8, 1948

FROM : NA - Mr. Fearey *RR*

SUBJECT: SANACC 381/2, "Self-Support of the Japanese Economy"

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In accordance with the understanding at the close of the meeting on this paper in Mr. Butterworth's office on Monday, I went through a copy of the paper that evening making the changes called for by Mr. Butterworth's specific comments (which I put on paper after the meeting as in Tab A), and also drafted a new set of "Conclusions" to accord with your and Mr. Hamilton's preference for a much shorter paper (Tab B). I showed this latter paper to Mr. Hamilton during a discussion of SANACC 384/1 the next day and understood him to say that it seemed all right in general except that paragraph e still committed the U.S. to too much.

In accordance with your suggestion to Mr. Whitman, he and I met yesterday and I explained to him Mr. Butterworth's, Mr. Hamilton's and your views on the paper as expressed at the meeting on Monday, and showed him the various papers. He found no difficulty in accepting most of Mr. Butterworth's proposed changes, but could not accept the reasoning behind the idea of a very short set of Conclusions, believing that the assumptions behind this approach were unrealistic.

If FE were to insist only on the specific changes suggested by Mr. Butterworth I think that a meeting of the minds between FE and OE could be quickly achieved. It is clear from your and Mr. Hamilton's comments (Tab C), however, that your criticisms go much further than this, and I gathered from what Mr. Butterworth said that he agreed in large part with your position. My talk with Mr. Whitman confirmed my belief that there are fundamental differences of view between FE and OE on this paper, and that these differences can be resolved only by direct conversations between Mr. Butterworth, Mr. Hamilton and yourself and Mr. Martin and Mr. Whitman. The basic differences seem to be on the following points:

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1. Need for a Comprehensive, Long-Range Recovery Plan Involving Advance U.S. Aid Commitments

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OE believes that if Japan is to achieve self-support at the earliest possible date and with minimum further expenditure of U.S. resources, a comprehensive, long-range recovery plan including carefully estimated production, trade and consumption goals for each year of the plan, and dependent on

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reasonably firm U.S. commitments for prescribed amounts of aid in each successive year, will be necessary. It is stated that Japan would be unwilling and unable to embark on an effective recovery program without these advance aid commitments.

FE's view appears to be that a comprehensive, long-range plan may have value, but the important thing is the removal of restrictions on Japanese business initiative. It is held that if this is accomplished Japanese businessmen will succeed in restoring Japan's productive ability, more through individual trade deals and private financial arrangements with the businessmen of other countries than by means of a broad recovery program dependent on foreign government aid. It is stated that any U.S. aid for Japanese recovery should be on a short-term basis, and that advance commitments of specified amounts of aid would encourage Japan not to assume responsibility.

2. U.S. Role in the Preparation of a Recovery Plan

OE believes that although the Japanese Government should be required to prepare the plan, it is unrealistic to suppose that the Japanese, long cut off from foreign contacts and with a record of continual failure and incompetence in economic planning during the occupation, could prepare an effective recovery program in a reasonable period of time without SCAP assistance and supervision.

FE believes that if an over-all, long-range plan is necessary, the United States Government and SCAP should restrict themselves to requesting the Japanese to prepare such a plan, and should thereafter leave the task to the Japanese. Since this is all that is necessary at this stage on the part of the United States, a very short SANACC paper would be adequate.

3. U.S. Supervision of Execution of the Plan

OE believes that it is unrealistic to suppose that execution of an American assisted Japanese recovery plan will not require at least as much supervision by the U.S. as the U.S. sponsored recovery plans in Greece, France, Italy, etc.

FE believes that such supervision should be kept at a bare minimum, and in the post-treaty period should be avoided entirely if possible. It is stated that the Japanese will operate most effectively on their own responsibility, and that Japan's post-treaty status as an independent nation should be respected.

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One issue on which differences appear to have been more apparent than real is with regard to Japan's responsibility for the preparation and execution of the plan. OE fully agrees that this responsibility should be Japan's, though with necessary minimum SCAP assistance and supervision, and points to the portions of the paper which specifically provide to this effect. The impression in FE that SCAP and the U. S. Government would in effect prepare the plan and present it to the Japanese may have arisen from the detailed studies attached to SANACC 381/2. OE proposes to detach these studies and send them to SCAP as DRF studies to assist appraisal of a plan prepared by the Japanese.

My personal view is that the FE approach is politically and psychologically better calculated to get the Japanese to exert their best efforts for recovery, but that it does not take account of the realities of Japan's economic plight, which can only be overcome in a reasonable period of years through the provision to Japan of vastly greater supplies than Japan will be able to pay for through exports of Japanese goods and services for many years to come. Over half of these materials which she must obtain on credit are food and capital materials which will not be reflected in increased exports for a long period of time, and then only indirectly, and which Japan therefore cannot hope to obtain through private loans or any other means open to Japanese businessmen no matter how free of restrictions and no matter how enterprising. There seems to be no way of getting around the fact that Japan's achievement of self-support will be prolonged for a decade or more without large-scale American aid, and that the Japanese Government and Japanese businessmen will quite justifiably maintain that it would be so risky as to be wholly impractical for Japan to undertake a concerted recovery program on a short term aid, project-by-project basis. Japan can only allocate resources for the reconstruction of productive capacity in, say, 1949 if it is reasonably sure, because of aid promised during 1950, that it will not need those resources to produce food and other consumers' goods to keep her people alive in 1950. Without this assurance of aid, Japan will not be willing or able to undertake the reconstruction and development projects which can only produce recovery, and we will still be providing the Japanese with disease and unrest relief five or even ten years hence.

One final thought. SANACC 381/2 has been overtaken by events in the fact that the Army's occupied areas budget requests for Japan, which they plan to submit to Congress in January, includes 180 million dollars for rehabilitation,

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in addition to the disease and unrest requests (see Tab D). I do not feel that this removes the need for a recovery plan such as that called for in SANACC 381/2, however, because the effective use of this 180 million and any later rehabilitation appropriations will depend on the development of a reasonably well-defined recovery plan.

My recommendation, as stated above, would be for thoroughgoing discussion of the differences on SANACC 381/2 with OE. The differences seem too wide to be settled in any other way.

NA:RAF earey:cb

Draft "Conclusions" of a Shortened Paper

4. It is concluded that the United States Government should request the Supreme Commander formally to advise the Japanese Government:

a. That the United States Government considers that the progress made by Japan under the occupation in restoring production and regaining a self-supporting status has been unsatisfactory; that the American people and Congress are evidencing an increasing reluctance to appropriate funds for the support of Japan; and that the United States will not continue indefinitely to grant the aid now being extended to Japan.

b. That the Japanese Government, utilizing the best economic brains of the nation, is to prepare within the shortest possible time an economic recovery plan designed to render Japan self-supporting at the earliest practicable date.

c. That this plan should (A) specify measures for the effective mobilization of Japan's entire resources to achieve the purposes of the plan; (B) set the import, production, export and consumption goals to be attained by Japan each year prior to the date projected in the plan for the achievement of self-support; and (C) estimate the minimum volume of foreign loans and commercial credits required at successive stages to enable Japan to meet these goals.

d. That the plan upon completion is to be submitted to the Supreme Commander for forwarding with his recommendations to the United States Government.

e. That the United States Government if it approves the plan, including the foreign credit requirements stated therein, will (A) publicly announce its approval thereof; (B) take all steps in the FEC and directly with the Governments represented in the FEC which may tend to dispose those Governments to trade with Japan and otherwise afford their support to Japan's effort to achieve self-support; (C) encourage the provision of as large a proportion as possible of the requisite foreign credits under the plan by private individuals and financial institutions, foreign governments, international lending agencies, and appropriate foreign lending agencies of the United States Government; (D) to the extent that necessary initial foreign credits cannot be met from these sources, request the Congress

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on the basis of a considered appraisal of the plan as a whole to appropriate the residual amount; and (E) will take such further steps as may be appropriate to facilitate the carrying out of the recovery plan.

f. That upon the approval of the plan by the United States Government, the Japanese Government shall begin vigorously to implement it; and that continuing United States assistance in the execution of the plan following the initial appropriations will be in answer to specific requests by Japan for loans or credits based on proven need and granted or refused by the United States in the light of past Japanese performance under the plan.

"Facts Bearing" - On same order as present "App. A" but shorter.

"Discussion" - to contain any necessary amplification of the above conclusions. Would make reference to a Dept. study (Annex I of 381/2) made in Dept. indicating practicability of a recovery program, estimating probable amount of U.S. aid needed, and useful as a basis of judgment of Japanese plan when submitted.

NA:RAFearey:cb

Mr. Butterworth's Specific Comments

Bottom of page 63 (para 5) -- The language goes much too far in respecting the FEC. If we don't have a peace treaty we are going to have to be very rough with the FEC. As to the Plan's success depending on the FEC countries' cooperation, these countries are not a political and social unit and they will have varied reactions. Greed and other such unpredictable factors will enter in. The Javanese want 40 million dollars worth of Japanese textiles for which they are willing to offer oil, etc. It is this type of individual arrangement which must be relied upon rather than a grandiose Marshall Plan for Japan or for the Far East.

As for the FE countries recognizing that the Plan is in their own economic interests, the Soviets, for example, won't feel this for a second. The approach must be through special projects and not through a general plan for the Far East as a whole.

Paragraph 6. Haven't the Japanese got a recovery plan already? (Reference articles in newspapers this morning.)

Paragraph 7(a), second sentence "Upon approving the Economic Recovery Plan the US Government..." Does this refer to US Government approval or FEC approval? We cannot wait for FEC approval.

Paragraph 7(c) last three lines (supervision) This is too broad, goes too far in an independent country.

Paragraph 12. Everyone knows Japan will not be able to repay occupation costs and American appropriations for Japanese recovery, so why anticipate or require such payments here? At the least occupation costs repayment should be distinguished from recovery appropriations repayments.

Paragraph 13. Delete last sentence. Why shouldn't existing SANACC or FEC policy decisions regarding reparation removals be abrogated if necessary?

Paragraph 15. Recommendation (c) We will certainly not get the active and effective cooperation of all the FEC nations. Should be altered to read "as many as possible of the FEC nations".

APPENDIX B

Paragraph 4(a). A program for rendering Japan self-supporting will certainly antagonize the Soviets, who will be well able to judge their real interest in the matter.

Paragraph 8. Last sentence. Revise to read "be paralleled by the recovery of as many other countries of the Far East as possible".

Paragraph 16.

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Paragraph 16. Delete third sentence regarding the opposition of "many groups influential in the Japanese government and the Japanese business community to the economic controls necessary to maximize exports". We should not prescribe methods of implementation of the domestic economic controls, but should leave this up to the Japanese.

Paragraph 23, footnote. How does this footnote jibe with previous provision re export repayment; i.e. is this consistent with earlier statement that Japan should be required to repay U.S. advances.

Paragraph 27, second sentence. We definitely do not want foreign capital and labor taking advantage of Japan's destitute condition to establish themselves in Japan.

Paragraph 31. The extent of economic controls should be geared in with other controls.

Paragraph 32. It would be offensive to send to SCAP a discussion of his prestige in the eyes of the Japanese. Should be deleted. The more SCAP stays out and watches the development of the program by the Japanese, the better.

Comment by Penfield -- Page 1 of Discussions. There are other factors beside the three mentioned in a, b, c, responsible for Japan's present inability to become self-supporting, for example the do nothing attitude of the Japanese mentioned on page 16 and the Government's poor economic policies mentioned on page 26.

Written Comment by Mr. Hamilton

I am not in sympathy with this approach.

In this paper, we are really doing Japan's planning for it.

Our approach should be to get the Japanese to assume planning and functioning responsibility.

A brief statement to Japan that U.S. will not continue to grant indefinitely the financial aid now being extended, that Japan's best brains should formulate a definite economic plan, that it should be submitted to SCAP, that upon approval Japanese Government should vigorously implement it, something along that line is all that is needed or advisable.

The idea of planning to give Japan grants in aid over a period of years is objectionable; it encourages Japan not to assume responsibility; it will arouse opposition of other countries; Congress will not like it; it will injure prospects of Congressional approval of Marshall Plan for Europe. We may end up by having to help Japan financially over a period of years, but we should not commit ourselves to it, we should make Japan petition and demonstrate clearly the need for every bit of financial aid given, we should endeavor to put financial aid on a short-term and to some extent a project basis.

FE

January 7, 1947

OE - Mr. Whitman

Army Department Rehabilitation Request for Japan,
1 April 1948- 30 June 1949

Army and SCAP estimate that raw material and other Category B requirements for a Japanese economic recovery program during the 15 month period beginning April 1, 1948, will amount in total to 452 million dollars. This is in addition to the GARIOA program for disease and unrest imports amounting to about 497 million for this period (FY 1949 GARIOA is 406 million). Of the 452 million for rehabilitation, Army estimates that 272 million will be obtained from bank credits based on the Japanese Export-Import Revolving Fund, proceeds of exports, and barter transactions. It is planned that imports of raw materials to be manufactured into export goods, will be financed primarily by the occupied Japan Export-Import Revolving Fund, but that in addition, raw materials will be required to fill the pipeline and to provide for goods retained in Japan for domestic consumption.

The 180 million rehabilitation request is distinguished from the GARIOA appropriation, primarily on the basis of types of materials and services which may be purchased. E.g. about 350 million out of the total of 452 million of expenditures on the rehabilitation program will be for basic commodities, such as textile fibers, rubber, woodpulp, etc., which, while they may in part be retained in Japan for domestic consumption, cannot be purchased with GARIOA funds. Transportation costs, the purchase of certain end products from Army surpluses in Japan, and the procurement of a limited amount of machinery, etc., for Japanese industry, makes up the remainder of this program in addition to basic raw materials.

According to the statement which the Army proposes to make to the Bureau of the Budget and Congress, in support of the rehabilitation request, the 180 million for this 15 months' period will enable Japan to accumulate sufficient working capital in her export accounts to obviate the need for future appropriations of this sort, and to stimulate exports to the extent required to enable Japan to achieve self-support by the end of 1952. In addition, other appropriations ostensibly earmarked for relief expenditures, will be progressively reduced by about 100 million per year during 1950, 1951 and 1952. The latter assumption, however, is based not only upon an expansion of Japanese exports, but upon an increase in short-term borrowings at the rate of roughly the amount by which relief expenditures are to be reduced. While OE agrees in principle with the rehabilitation request of 180 million, we are not convinced of the accuracy of the Army's estimates of subsequent years, nor of the validity of the assumptions upon which they are based, and consultation with the Army is in progress on the justification to be presented to the Bureau of the Budget and Congress.

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DEPARTMENT OF STATE
ASSISTANT SECRETARY

January 9, 1948

To: Mr. Saltzman *GS*
From: Mr. Wisner *W*
Re: Points and background for proposed conversation with Senator Knowland re request for declassification of FEC 230.

The following is a brief statement of our principal reasons for considering undesirable the declassification of FEC 230 and its official publication:

a. A request by the United States Government for declassification of a document before the Far Eastern Commission will establish a dangerous precedent. This precedent can be pointed to by any one of the other member nations of the Far Eastern Commission as to any document which it might for special reasons of its own desire to make public, but more important, it may well rise to plague the United States in other international conferences. The fact that the document has leaked out does not change this situation, since any nation which might see fit for propaganda reasons or otherwise to have made public a confidential international document, can with complete ease engineer a leak and then point to this as justification for requesting official release of a document to the disadvantage of the United States.

b. It would serve only to confuse the press and the public to make an official release of FEC 230 in its old and unrevised form. The Departments of State and of the Army have agreed upon substantial modifications and revisions of the original policy paper which will shortly be submitted in its revised form to the FEC in substitution for the original paper. To focus the attention of the public upon the document in its original form by an official release of it at this time would create the misapprehension that this document represents the present policy position of the Government, which it does not.

c. The official release of the document now will have the effect of rendering it difficult to make the changes which are considered to be advisable. This is true for the reason that

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lengthy explanations would be necessary in order to satisfy public inquiry and also because in this case there are points of view within the United States which would be strongly opposed to any modification of the original program. Those who hold these points of view are extremely articulate.

BACKGROUND

If Senator Knowland inquires as to the precise status of his request for declassification, you should tell him that it was promptly transmitted to the American representative on the Far Eastern Commission, along with Senator Knowland's request for a copy of FEC 230. If he requires further information, it would be appropriate for you to say that General McCoy has informally approached the representatives of a number of the other member nations with a view to ascertaining what their reaction would be to an official request of the United States Government for declassification of FEC 230. The reaction has been various, and General McCoy has interpreted such favorable responses as he has received to the desire of certain members of the Commission to accommodate what they believe to be his personal wishes in the matter.

[Actually General McCoy has proceeded in this matter because he has interpreted the transmittal to him by the State Department of Senator Knowland's request as an instruction to him, whereas in fact he has grave doubts as to the wisdom of a United States request for the declassification of the document. At the conclusion of General McCoy's staff meeting of Thursday, January 8, General McCoy indicated that he desired to obtain the personal views of General Marshall before proceeding further. I informed him following the meeting that you expected to have a conversation with Senator Knowland, and that we would advise him of the outcome of your conversation, since a favorable result would appear to render unnecessary General McCoy's proposed conversation with General Marshall.]

STANDARD FORM NO. 64

CONFIDENTIAL*Office Memorandum* • UNITED STATES GOVERNMENT

TO : A-S - Mr. Wisner

DATE:
February 12, 1948

FROM : A-T - Willard L. Thorp

SUBJECT: U. S. Policy on Public Ownership in Occupied Areas.

1. On January 17, 1948 Assistant Secretary of the Army Gray wrote to Mr. Saltzman that "a definitive policy statement on the subject of socialization of industries in all occupied areas should be prepared at the earliest possible moment for the guidance of all occupational commanders."

2. I do not believe that a SANACC paper or papers dealing with possible ownership in Germany or Japan is necessary, nor do I think that any new policy statements on the subject should be prepared.

3. If it is decided to go ahead with policy statements, two papers have been prepared and are ready to be forwarded for necessary clearances.

4. As to Germany, you will note that SGA D-33/7 was conceived as a draft SWNCC policy statement. Through General Hildring, this paper was brought to the attention of the Secretaries of State, War and Navy at the time that the revision of JCS 1067 was being prepared. It was then decided that the clause which became para. 21c of the Directive of July 11, 1947 was adequate as a policy statement regarding Germany, and that the very detailed provisions of the draft SWNCC paper were not necessary. I see no reason why this view should be changed. The inevitable discussions between this Department and the Department of the Army which would be induced by the forwarding of a draft policy statement to Mr. Gray, would have the effect of re-opening and perhaps modifying 21c. Such a discussion would be a long drawn out affair. In all likelihood it would not be concluded much before the takeover date. This would result in a suspension of any action which might be planned to be taken by the Germans in conformity with 21c. I am not sure that such a suspension would be regarded as desirable.

5. As to Japan, I am informed that the political situation in that country is such that any extension of public ownership is unlikely within the next few years.

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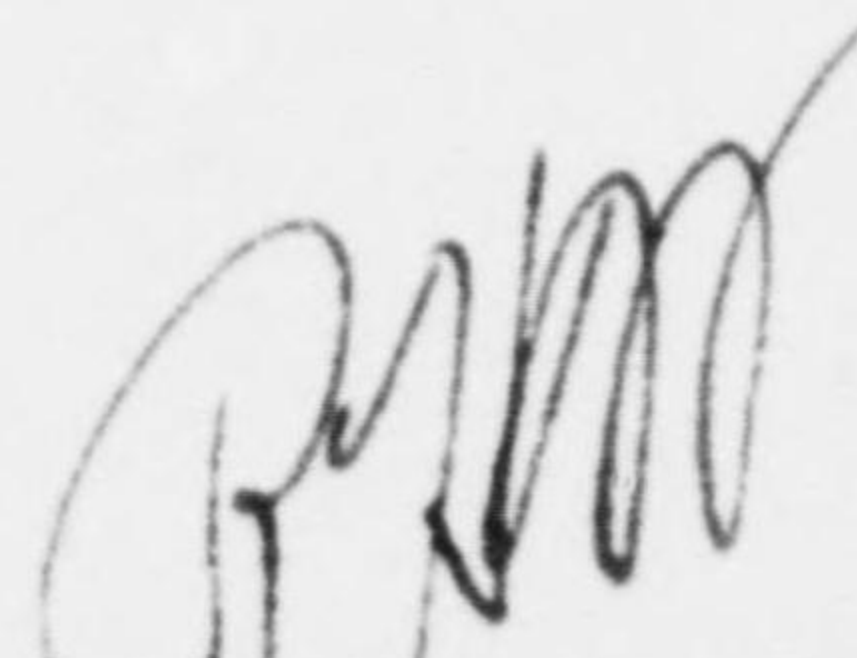
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years. There is no demand within the Far Eastern Commission for a policy paper. On the other hand, such a paper would arouse embarrassing ideological controversy within both the U. S. Government and the Far Eastern Commission.

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6. Mr. Gray's letter of January 17, implies that the brief reference to possible public ownership in the case of Zaibatsu enterprises which are non-competitive by nature should be deleted from any revision of FEC-230, so that the subject could be covered in a separate paper. Regardless of whether a separate paper dealing with public ownership is to be submitted to SANACC, it is not believed that the above-mentioned language relating to public ownership should be omitted from the revised FEC-230. Without such language, the reader might understand this deconcentration paper as either authorizing or forbidding public ownership of ex-Zaibatsu enterprises altogether. It is not desired to forbid public ownership of such enterprise altogether for obvious reasons. Nor is it desired to permit public ownership of all types of ex-Zaibatsu enterprises, since the deconcentration program is intended to extend the area of private competitive enterprises in Japan. The language relating to public ownership in the revised FEC-230 is thus designed to meet a specific need for policy guidance arising in connection with deconcentration, and is believed both appropriate and necessary for this purpose. It would not be appropriate in a paper dealing generally with public ownership.

7. I strongly recommend that Mr. Gray be informed that in the considered opinion of the Department an over-all policy statement on public ownership in the occupied areas is neither necessary nor desirable.


OE:MKarasik:RHWhitman:emh

- 2 -

6. Mr. Gray's letter of January 17, implies that the brief reference to possible public ownership in the case of Zaibatsu enterprises which are non-competitive by nature should be deleted from any revision of FEC-230, so that the subject could be covered in a separate paper. Regardless of whether a separate paper dealing with public ownership is to be submitted to SANACC, it is not believed that the above-mentioned language relating to public ownership should be omitted from the revised FEC-230. Without such language, the reader might understand this deconcentration paper as either authorizing or forbidding public ownership of ex-Zaibatsu enterprises altogether. It is not desired to forbid public ownership of such enterprise altogether for obvious reasons. Nor is it desired to permit public ownership of all types of exZaibatsu enterprises, since the deconcentration program is intended to extend the area of private competitive enterprises in Japan. The language relating to public ownership in the revised FEC-230 is thus designed to meet a specific need for policy guidance arising in connection with deconcentration, and is believed both appropriate and necessary for this purpose. It would not be appropriate in a paper dealing generally with public ownership.

7. I strongly recommend that Mr. Gray be informed that in the considered opinion of the Department an overall policy statement on public ownership in the occupied areas is neither necessary nor desirable.

OPM
OE:MKarasik:ddec

TEL

January 30, 1948

Dear Gordon:

I have discussed with a number of my associates in the Department of State your letter of January 17th with respect to the need for an over-all policy statement on public ownership in the occupied areas.

I agree that the question of whether such a statement is needed, and if so, what form it should take, is an important one deserving immediate attention. We are therefore proceeding to draft a statement of our views which I hope to forward to you shortly. Pending completion of this study I should like to suggest deferring decision as to whether the problem could best be considered by SANACC or in some other way.

Sincerely yours,

Charles E. Saltzman
Assistant Secretary

The Honorable Gordon Gray,
Assistant Secretary of the Army,
Department of the Army.

OE:EMMartin:bfo - 1/28/48
A-S:PClaxton:WARudlin:br 1/30/48

Martin/r *Bullenth/r* *Beam/r*

DOB - ITP Unit

AP

[Signature]

894.50/1-1748

CS/A

SECRET FILE

cc. of letter to Gray + Memo to Claxton
filed 334 SA 7 a a e 302/2

4438

[Handwritten notes]

894.50/1-1748

January 30, 1948

OE - Mr. Ed Martin

A-S - Mr. P. P. Claxton

U. S. Policy on Public Ownership in
Occupied Areas.

I am attaching a copy of Mr. Gray's letter to Mr. Saltzman on this matter, together with a copy of our interim reply which I cleared with you by telephone.

I understand from our telephone conversation that OE is already undertaking a study as to whether additional or revised statements of policy on this subject are needed in any or all of the occupied areas, and if so what form they should take.

Mr. Saltzman is anxious to give this matter urgent consideration. I have asked Mr. Bond and Mr. Beam to consider drafts prepared by OE as soon as they are available.

Atts.

cc— CE - Mr. Beam
NA - Mr. Bond
A-S - Mr. Rudlin

FW 894.50/1-1748

CS/A

FW 894.50/1-1748

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443

as
by
Cus

① Mr. [unclear]
② Mr. [unclear]
③ Mr. [unclear]
To recommend
5 Jan 48

SECRET

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
WASHINGTON, D. C.

DEPARTMENT OF STATE
RECEIVED
MAR 15 1948
DIVISION OF
OPERATIONS AND RECORDS

17 January 1948

ASSISTANT SECRETARY
MR. SALTZMAN
DEPARTMENT OF STATE
JAN 17 1948
Reply drafted
File

X2
740.00119 Control
(Japan)
740.00119 Control
(Germany)

Honorable Charles E. Saltzman
Assistant Secretary of State for Occupied Areas
Washington, D. C.

Dear Charlie:

AP
894.50/5-247 S.F.

In further studying the proposed new SWNCC 302/2 paper, I have been struck by the possible implications of paragraph 8b. It seems to me that this may raise the whole question of United States policy with regard to socialization of industries or services.

XR
894.60

In this connection, I understand that Mr. Petersen wrote to General Hilldring on this subject. Other than the partial coverage of socialization in paragraph 21c of the new German directive, I do not believe we have ever had a complete reply to the questions raised by Mr. Petersen. A copy of the exchange of letters between Mr. Petersen and General Hilldring is attached.

XR
862.60

In view of the developments of the past year, it is believed that a definitive policy statement on the subject of socialization of industries in all occupied areas should be prepared at the earliest possible moment for the guidance of all occupational commanders.

Do you agree with me that this matter of socialization should have top level consideration? Pending such consideration and decision, it occurs to me we should be very careful about the language in the draft substitute for SWNCC 302/2.

Should this question of socialization go into SANACC or some other body for consideration?

Sincerely,

Gordon Gray

Gordon Gray
Assistant Secretary of the Army

Incls.

Assistant Secretary of the Army

SECRET

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894.50/1-1748

CS AFFILED

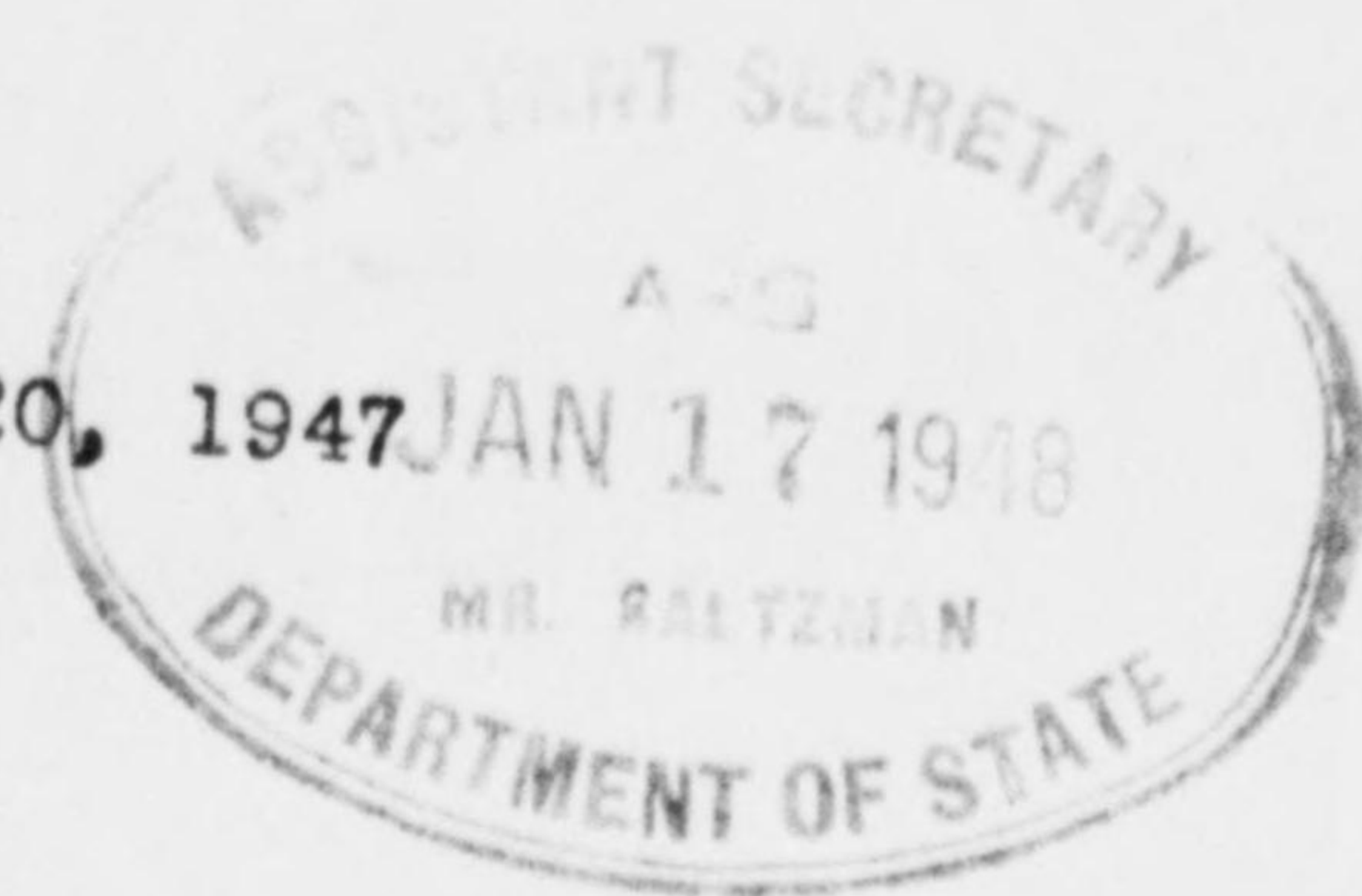
MAR 29 1948

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894.50/1-1748

SECRETC
O
P
Y

January 20, 1947



Dear Mr. Petersen:

I refer to your letter of January 16 concerning a draft message to OMGUS on the subject of the socialization of Berlin's major industrial enterprises.

The Department of State has given considerable thought to this matter of public ownership in occupied areas, and our policy guidance has been prepared with the broader aspects of the subject in mind. However, in view of your letter and because the subject is one of basic importance, I am asking that the subject be studied afresh. Upon the completion of this study I shall be glad to supply the War Department with our conclusions for the guidance of the occupation authorities.

The draft cable to OMGUS may be held in abeyance pending our review.

Sincerely yours,

s/ J. H. Hilldring

J. H. Hilldring
Assistant

The Honorable

Howard C. Petersen

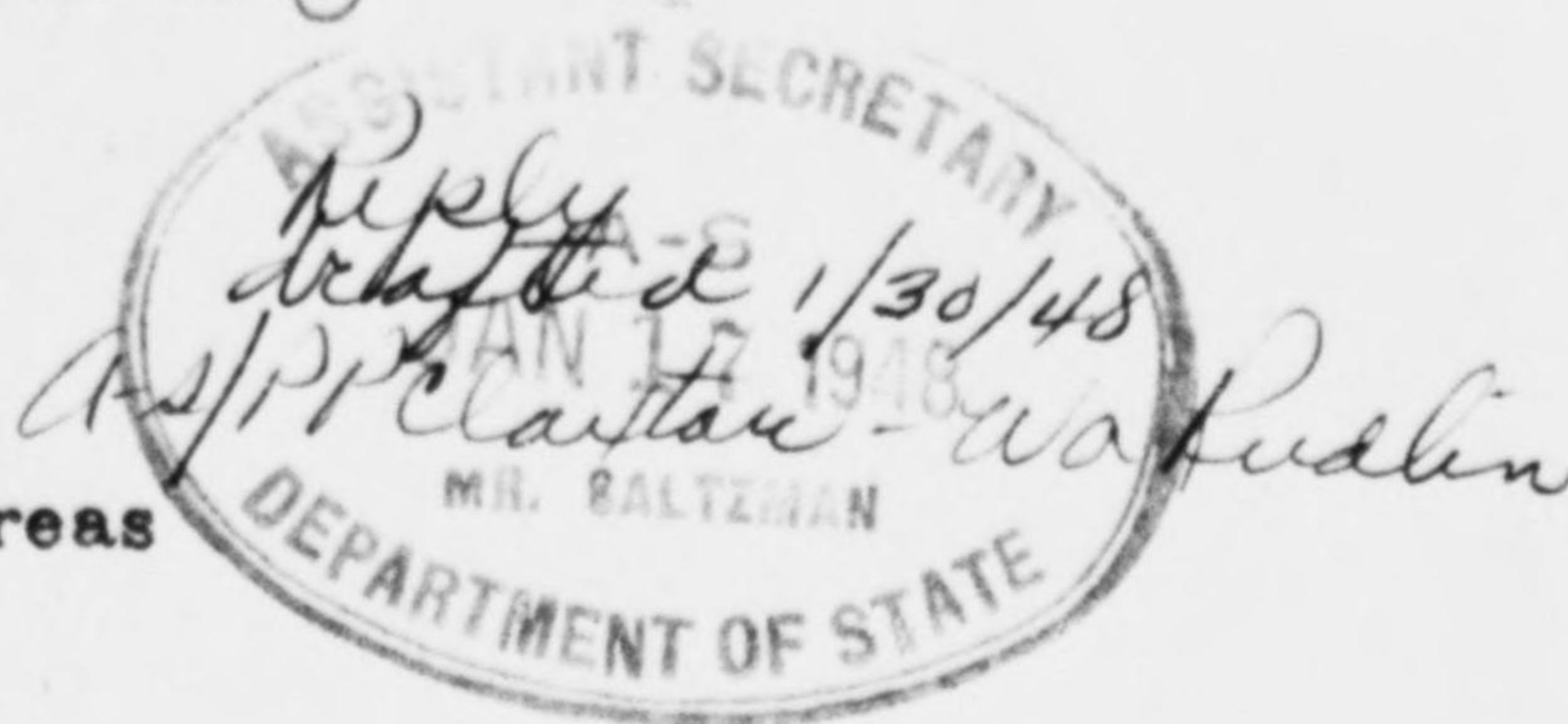
Assistant Secretary of War

SECRET

4438

SECRETC
O
P
Y16 Jan 1947[?]

Honorable J. H. Hildring
Assistant Secretary of State for Occupied Areas
Department of State
Washington, D. C.



Dear General Hildring:

I should like to raise a matter of policy about the attached radio which the Department of State has proposed for transmission to OMGUS on the subject of the socialization of Berlin's major industrial enterprises.

This cable raises only one instance of a general problem of socialization. The so-called Colm-Dodge-Goldsmith proposal for currency reform and the provision for public ownership of industries which is contained in the constitution of Greater Hesse are other instances in which the same policy problem has arisen. I question the wisdom of continuing to deal with parts of such an important matter prior to the establishment or announcement of an overall policy of the United States with respect to the socialization of utilities, industry, land and other enterprises and property in Germany.

It seems to me to be essential that the policy of the United States toward the matter be stated broadly and promptly in order that American personnel responsible for Military Government may have this guidance in dealing with the innumerable cases which are bound to arise.

Such policy consideration must, it seems to me, take into account the background of practice and experience in the United States. In this country political and economic ideology has encouraged private ownership. Public ownership has been extended generally only to public utilities, and the usual practice in such cases has been to employ a referendum prior to the acquisition of the properties by the city or state. Removal of incentive, lowered efficiency, and the rights of the individual have been considerations persuading the American people that public ownership of industries which are normally competitive is not to be desired.

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I suggest that the Department of State prepare a policy statement to guide the Military Governor of Germany in the treatment of socialization proposals and that the following points be considered in the formulation of the policy:

Is the United States indifferent to the matter of private or public ownership of utilities and industry in Germany?

Where the Germans themselves favor public ownership shall it be permitted by OMGUS? If so, shall specific evidence of the public will be required, for example, by referendum?

If a referendum is to be used, should some minimum period for public deliberation or debate be required on a proposal for public ownership before a submission to a vote?

What provisions should be required for non-discriminatory treatment and fair compensation for the owners from whom property may be taken over by referendum or otherwise?

What degree of centralization of public ownership shall be permitted?

To what extent shall decentralization, decartelization and other controls apply in the case of socialized industry?

Pending some determination of U.S. policy on the broader policies involved, you might wish to postpone the dispatch of the attached radio. Your views on this would be appreciated.

Sincerely yours,

HOWARD C. PETERSEN
Assistant Secretary of War

• Inclosure
Draft of cable to OMGUS

SECRET

SECRET

*Please return
to "O" Records,
Room 4202
New State
B&R*

MAR 12 1948

Dear Gordon:

This is in further reply to your letter to Mr. Saltzman of January 17 regarding the need for an over-all policy statement on public ownership in the occupied areas. As Mr. Saltzman indicated in his letter of January 30, we think that the question whether such a statement is necessary is an important one and we have therefore given it careful consideration.

It seems to us that a single statement embracing all areas would be difficult to prepare and of doubtful usefulness when issued. The question of public ownership presents itself in different forms and with varying degrees of importance in different areas. Consequently, a single over-all statement would either have to be so broad as to have little concrete meaning or it would have to go into so much detail, in order to allow for differences between the areas, as to make it unworkable as policy guidance for the theatre commanders.

With regard to the exchange of correspondence between Mr. Peterson and General Hildring, I am informed that the State Department early last summer prepared a draft policy statement for introduction into SSMOC in response to the several points raised by Mr. Peterson. This paper was completed at about the time that the revision of JCS 1007 was in its final stages. No further action was taken on the paper for the reason that at a meeting of the Secretaries of the State, War, and Navy Departments, it was decided that paragraph 31c of the Revised Directive of July 11, 1947 provided an adequate policy statement on the subject with regard to Germany. After careful review of developments since that date, the State Department is of the opinion that paragraph 31c remains an adequate statement of the U.S. position and that nothing further is necessary at this time.

As you

The Honorable
Gordon Gray,
Assistant Secretary of the Army,
Department of the Army.

*as
[Signature]*

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As you know, it has been decided to defer action on certain policy papers dealing with Japan, including FEC 230 (SWNCC 302/2), until Mr. Kennan's return. Until his report is available, I think it would be well to postpone discussion of the question raised by paragraph 8b of the draft revision of SWNCC 302/2 and also to defer consideration of U. S. policy with regard to the broader aspects of public ownership in Japan.

Sincerely yours,

Frank G. Wisner
Deputy to the Assistant Secretary
for Occupied Areas

A true copy of the original document is being furnished to the recipient.

O:WARudlin:lk

3/8/48

OE
(checked with
Mrs. Kennan
and returned
with.)

IR
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NA
JW

↓
P/S

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(checked with
Mrs. Oppenheimer)
with.

~~SECRET~~
MAR 12 1948 P.M.

SECRET

DEPARTMENT OF STATE
MAR 10 1948
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JCS 1067 (Revised)
Paragraph 21c

MAR 12 1948

c. While it is your duty to give the German people an opportunity to learn of the principles and advantages of free enterprise, you will refrain from interfering in the question of public ownership of enterprises in Germany, except to ensure that any choice for or against public ownership is made freely through the normal processes of democratic government. No measure of public ownership shall apply to foreign-owned property unless arrangements which are satisfactory to your Government have been made for the compensation of foreign owners. Pending ultimate decision as to the form and powers of the central German Government, you will permit no public ownership measure which would reserve that ownership to such central government.

(Draft revision of SWNCC 302/2)
Paragraph 8b

(b) Divested holdings in excessive concentrations of economic power which are not to be dissolved for technological reasons, and in other enterprises such as public utilities which do not ^eland themselves to competitive operation, may be subjected to purchase by national and local governments of Japan. When the National Government or a local government purchases divested equity holdings in a given concern, it should also purchase the remaining equity holdings in that concern.

ASSISTANT SECRETARY
A-S
MAR 10 1948
MR. SALTZMAN
DEPARTMENT OF STATE

DIVISION OF OCCUPIED AREAS
ECONOMIC AFFAIRS
FEB 20 1947
DEPARTMENT OF STATE

UNITED STATES POLITICAL ADVISER
FOR JAPAN
DIVISION OF
NORTHEAST ASIAN AFFAIRS

DIVISION OF FINANCIAL AFFAIRS

No. 41

JAN 28 1948

Tokyo, January 19, 1948.
DEPARTMENT OF STATE

MAR 2 1948

SECRET

For Use of the Department Only.

DIVISION OF INVESTMENT AND ECONOMIC DEVELOPMENT
LST
FEB 26 1948
DEPARTMENT OF STATE

SUBJECT: Observations of Members of the Economic Stabilization Board.

INTERNATIONAL RESOURCES DIVISION

MAR 15 1948

The Honorable
The Secretary of State,
Washington.

No action
no distribution by
rec/y - not present
2/5/48

894.50/1-15

Sir:

I have the honor to report several observations made by Mr. Hiroo WADA, State Minister and Secretary-General of the Economic Stabilization Board, and by Mr. Shigeto TSURU, Deputy Secretary-General of the Board, at a luncheon at the Imperial Hotel, Tokyo, January 8, 1948. The lunch was attended by Mr. John M. ALLISON, Chief of the Division of Northeast Asian Affairs of the Department and Mr. W. Henry LAWRENCE, Jr., Second Secretary of this Mission.

Having just left a meeting with the Prime Minister and other members of the Cabinet at which the budget for 1949 was discussed, Messrs. Wada and Tsuru expressed concern at the financial difficulties of the Japanese Government. Mr. Tsuru made a major point of emphasizing that financial advisers, particularly on monetary matters and international finance, are urgently needed by General Headquarters. He stressed that he was not criticizing present economic advisers, but feels that if this Headquarters continues to be deeply involved in the details of Japanese Government finance it is highly desirable that additional expert personnel be obtained. He mentioned, as an example of the involvement of the Occupation in details, that the Japanese Government has to obtain approval each month as to the date on which wages are to be paid to Japanese government workers.

The tendency of this Headquarters to become more and more involved in the details of operation of the Japanese Government has previously been described by Mr. Tsuru (this Mission's despatch No. 1486 of December 30, 1947). Mr. Tsuru suggested that such details might be

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DIVISION OF COMMERCIAL POLICY
FEB 12 1948
DEPARTMENT OF STATE

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FILED

s No. 41
January 19, 1948.

-2-

left to the Japanese in as much as they will necessarily become Japanese responsibility when the Occupation ends. As Tsuru has often said on previous occasions, the Japanese economy must emerge from its present "hot-house" state, whereupon the Japanese Government can assume the duties for which a government is customarily responsible.

Mr. Tsuru mentioned disagreement within the coalition cabinet as to financial policy. He stated, for example, that the Democratic Party and the Peoples Cooperative Party oppose the discontinuance of payment of interest on war bonds, a step advocated by the Social Democratic Party. Tsuru pointed out that there are strong arguments for ending such payments by reason of Japan's defeat. However, he added that payment of this interest was not now so great a burden as it had been formerly in view of the mounting inflation.

Most of the credit for the excellent record in coal production during December was ascribed to the presence in Hokkaido of SCAP representatives. (In this connection, reference is made to this Mission's despatch No. 1484 of December 29, 1947 transmitting a memorandum of conversation with officials of the Japanese Government.) Despite the fact that coal produced in December cannot be used immediately because of the time involved before it can flow into industrial channels, Mr. Wada was of the opinion that the very fact that a large amount of coal was produced is psychologically beneficial because the importance of coal in the Japanese economy has been so often publicly emphasized. He stressed that even though coal has been mined, it is difficult to place it at consumption points in view of inadequate transportation facilities. Tsuru stated that the attainment of a high level of coal production during the winter months is of special importance, because thermally generated electricity must be substituted for hydro-electric power at this time of year.

Mr. Tsuru stated that consumer goods, such as clothing, soap, and toilet paper are still in exceedingly short supply. Although the Japanese have the ability to produce these goods, the quantity in which goods of this nature reach consumers depends upon two major factors: the amount of raw materials available, and the proportion of goods manufactured from these materials which must be exported.

In discussing the bill for decentralization of industry recently passed by the Diet, Mr. Tsuru said that a bill had been originally written by the Japanese but had been shelved by General Headquarters in favor of a bill written by the Anti-Trust and Cartels Division of the Economic and Scientific Section. However, before the bill was passed by the Diet it was modified and, as finally passed, more nearly resembled the original bill written by the Japanese.

Respectfully yours,

W. J. Sebald

W. J. Sebald
Acting Political Adviser

S 850
WHLawrence, Jr.:hp

SECRET

3.
[Admission by the S.D. Political
Adviser Committee but
not by the
S.D. Party.]

Ministry of Industry and
Commerce, Hiroshima, made
the same point in a
report to the
Lawrence.

x
894.60

file

January 20, 1948

Dear General McCoy:

Please permit me to acknowledge receipt of your letter of yesterday in which you set forth certain considerations regarding the request made to the State Department by Senator Knowland that the FEC be requested to declassify its paper which is designated FEC 230.

As requested in your letter, I have brought its contents to the attention of Senator Knowland and I am sending him a copy of it.

Yours sincerely,

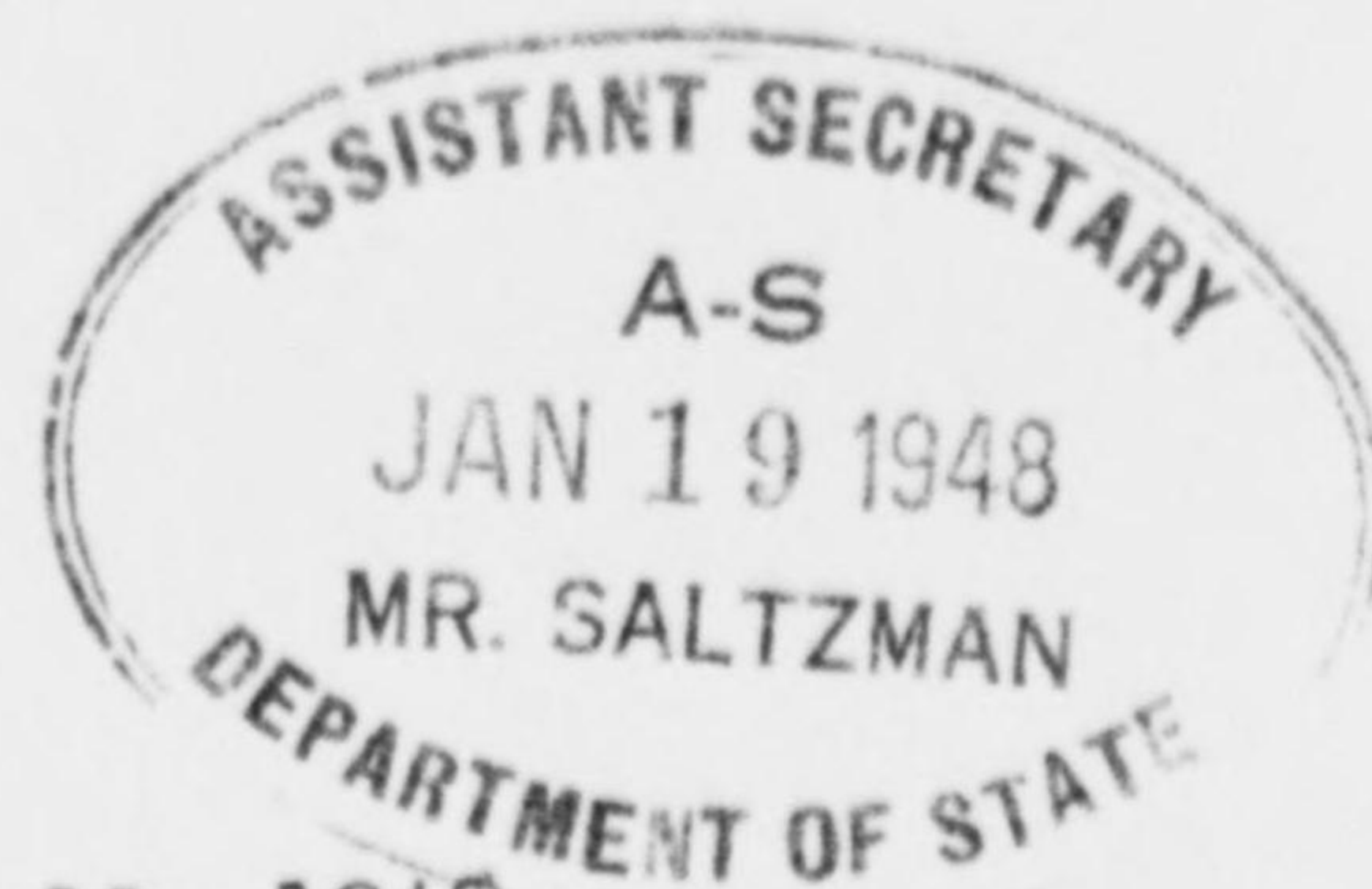
CHARLES E. SALTZMAN

General Frank R. McCoy,
Chairman, Far Eastern Commission,
Japanese Embassy,
2516 Massachusetts Ave., NW
Washington, D. C.

8761-1/ES 768

File filed 201 McCoy, Frank R. 4463

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



January 19, 1948

Dear General Saltzman:

With regard to the request for the declassification of FEC 230 which you have referred to me, and to the conversations which we have had concerning this matter, I wish to advise you that I have had informal discussions with a number of my associates and colleagues on the Far Eastern Commission, as the result of which I should like to submit for your consideration the thoughts set forth below:

I understand that the grounds on which such a request would be based are (a) since the document has fallen into the hands of the press through a "leak" and has been published in whole or in part, its classified character has been so compromised that the classification should be removed; and (b) a member of the United States Congress has requested that the document be declassified in order that its contents may be made fully known to the American public.

An official request by the United States Government for the declassification at this time of FEC 230 would in my opinion establish a most unfortunate precedent. This precedent could be pointed to by any one of the other member nations of the Far Eastern Commission as to any document which it might for special reasons of its own desire to make public, but more important, it may well rise to plague the United States in other international bodies and conferences. The fact that the document has leaked out does not alter this situation, since any nation which might see fit for propaganda reasons or otherwise to have made public a confidential international document could with complete ease engineer a "leak" and then point to this as justification for requesting official release of the document. By the same token a request for the publication of a document could readily be solicited from a member of the Parliament or other representative body of the interested nation.

It is my understanding that there is a governmental precedent dating back to the time of President Washington, as the result of which

the

The Honorable Charles E. Saltzman
Assistant Secretary of State
Department of State
Washington, D. C.

894-50/1-1948

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the Congress has recognized and respected the necessity for permitting to remain confidential documents which are contemporaneously involved in international negotiations.

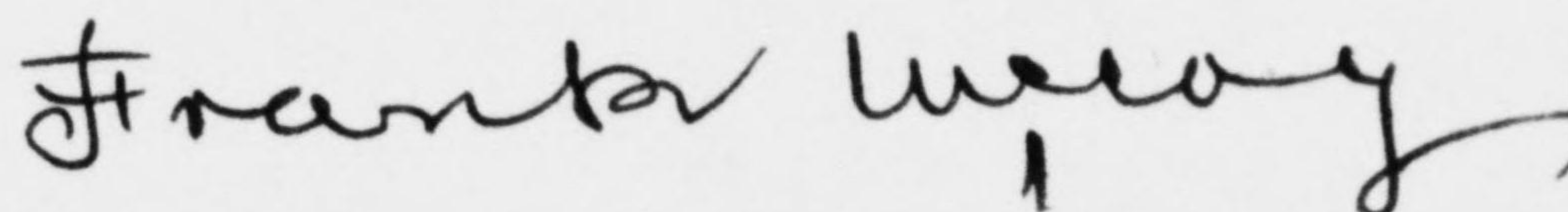
Moreover, consideration should be given to the fact that it would be confusing to the press and the public to make an official release of FEC 230 in its original and unrevised form. I understand that the Departments of State and of the Army have agreed that certain substantial modifications and revisions of the original policy paper are necessary. To focus the attention of the public upon the document in its original form by an official release of it at this time would create the misapprehension that this document represents the present form of this Government's policy on the subject, which it does not.

The official release of the document now would have the effect of rendering it much more difficult to negotiate in the FEC the changes which are considered to be advisable. This is true for the reason that other governments which may be opposed to modifications now considered advisable by the United States Government would have a better position to resist such modifications, once the old paper has been officially published. In addition, lengthy explanations of reasons for the modifications would be necessary in order to satisfy public inquiry, particularly those points of view within the United States which would be opposed to modification. Those who hold these points of view are extremely articulate.

Finally, if the original FEC 230 were to be officially released, public knowledge of the fact that the paper in its present form is in effect obsolete would undoubtedly give rise to a request for the publication of any new paper which may be submitted to the Far Eastern Commission on this subject, and this would prejudice the consideration of the revised document and the negotiations concerning it within the Commission.

For all the foregoing reasons, I consider that it would be contrary to good policy for me to make an official request to the representatives of the other member nations of the FEC for the declassification of FEC 230. I should appreciate your bringing these considerations to the attention of Senator Knowland.

Very sincerely yours,



Chairman, Far Eastern Commission

The Honorable Charles E. Saltzman
Assistant Secretary of State
Department of State
Washington, D. C.

STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

TO : A-S/ Mr. Rudlin

DATE: January 20, 1948

FROM : A-S/ Mr. Claxton

SUBJECT: Back-up Material for Mr. Saltzman

Japan Recovery

Here are the papers on the redraft of 384. The paper marked "X" in the upper right-hand corner is based on a draft cleared by Mr. Martin, Niles Bond (NA) and Butterworth; also, Barnett and myself, and with a very brief perusal by Mr. Saltzman. The changes indicated in it were requested by Col. DuPruy. I agreed to consider them. The paper with these revisions has been circulated to Mr. Martin and Mr. Butterworth, and has been read to General McCoy by Barnett. It has now been approved by Martin, Barnett, McCoy and myself with one change. Barnett and McCoy do not like the use of the word "revival" in the first change. I have informed duPruy in very strong terms that State does not like this word and suggested that he use some other word or phrase, such as "the early development" or the early progress, or something that does not imply a return to status just before the war. He said he appreciated our reasons and would try to clear this.

Mr. Butterworth has not yet commented. I sent a copy to Bond for Bond's comments and Butterworth's.

Schedule: DuPruy is endeavoring to get this paper cleared through the Army up through Gray and Draper by 4:30 today, when it is expected that General Draper will return from the Hill. The FEC meets tomorrow at 9:30 instead of Thursday. It is very important that this paper be presented at that time since the Army goes to Taber's Committee on Thursday. I believe that if General Draper and Gray will clear the paper with our changes it may be possible to finish it today. In that case the other two members of SANACC should be sent a copy of the agreed paper for their information which I think is adequate consideration if the Army withdraws its 384 and this is handled separately. Mr. Saltzman is concerned that the other members of SANACC at least know about the paper, perhaps even pass on it. However, all this must be concluded today if possible.

If we are unable to clear this paper today then we should clear with the Army the very brief statement which was prepared for McCoy to make, simply to indicate as a diplomatic courtesy that our Congress is going to consider the question of funds for economic support in Japan. This paper is in the folder Miss Ruffin will give you. The Army does not know about it except that I mentioned on the telephone to DuPruy. If we cannot agree on SANACC 384 today we should give them this paper as a substitute.

My telephone number is OLiver 8224 in case you need to call me.

894,501-2048
1-2048

STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

TO : A-S/ Mr. Saltzman

FROM : A-S/ Mr. Claxton

DATE: January 15, 1948

SUBJECT: Clearance with Mr. Draper of Memorandum for General McCoy to Read Before FEC Regarding Intention to Request Congress for Funds for Japanese Rehabilitation.

Clear with Draper

There is attached a draft letter to General McCoy with an enclosed statement which he is requested to make to the FEC at an early meeting (probably Thursday, January 22nd). As was discussed at the SANACC briefing, the purpose of this statement is to inform members of the FEC, as an act of diplomatic courtesy, that the Executive Department plans to request the Congress to appropriate funds which may be used in assisting the Japanese people to attain a self-supporting status.

This paper does not fulfill the purpose sought by the Army Department to SANACC 384 or 384/1, nor all the purpose of the State Department sought by its proposed counter draft to 384. It does, however, serve one of the purposes of the State Department's counter draft in that it informs FEC of the action the U. S. proposes to take.

* It is recommended that the purpose of this statement be explained to General Draper and his agreement be obtained.

The statement has been approved by FE, NA, OE, and General McCoy.

* I think this should take your and Draper's time only if you want to take it up when you talk to Draper about 384/1. If you do not want to discuss it then, I could clear it with Echey for FEC and Rowley for budget purposes. Please let me know.

Att.

not used.

14 January 1948

F:Kee
11
Gen McCoy's
in file

Dear General McCoy:

As you know, the Department of the Army this year is planning to submit to the Congress, in addition to its regular appropriation request for Japan, a supplemental request for funds needed to assist Japan in the attainment of self-support. The Department of State wishes to avoid a situation in which the Far Eastern Commission receives its first knowledge of these requests from the newspapers. Therefore, I am forwarding you the draft of a statement which we consider appropriate to serve as a basis for an informal announcement which you could make to the Far Eastern Commission.

Apart from the fact that we consider it undesirable to cover in greater detail the character of the Department of the Army's request, it will be impossible to do so until further decisions have been reached in the United States Government and, in any case, the requests made will, of course, be modified by the character of the Congressional hearings which follow the initial presentation.

Sincerely yours,

Charles E. Saltzman
Assistant Secretary of State
for Occupied Areas

Enclosure:
Statement

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

Clearance copy

STATEMENT BY THE UNITED STATES MEMBER
TO THE FAR EASTERN COMMISSION

I wish to speak to you informally about a ^{matter which will soon be} ~~situation~~ which is developing ^{with} ~~in the relation of~~ the Executive Branch of my Government ~~to~~ the Congress. ^{raised by} We feel that in contrast to the progress achieved under the occupation in Japan during the past two and a half years in establishing the framework of a democratic society, disappointingly slow progress has been made in establishing the Japanese economy on a self-supporting basis.

We consider that the main responsibility for the attainment of Japanese self-support must rest on the Japanese people themselves and that the Japanese Government should give special emphasis to this aspect of its responsibilities.

As all the Governments represented on the Far Eastern Commission are aware, the United States Government has each year since the occupation began been obliged to appropriate large sums for the provision of relief supplies in Japan. I think that you should know, therefore, that after making a careful survey of the needs of the occupation areas in which it has a responsibility, the United States Department of the Army is planning to include appropriation requests which will be presented to Congress shortly, for a ^{budget for the fiscal year 1948} ~~sum~~ to be used in ^{assisting} ~~taking some steps toward~~ making it possible for the Japanese people themselves to attain a self-supporting status.

Can you initiate this for AS -
Mr. Hamilton - O.K. m.m.H. Blakelee - ^{MMB}
Baton - HB
Marian - ^S

Clearance copy

Drafted by Rev. Barnes O.K.

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON 25, D. C.



DEPARTMENT OF STATE
WASHINGTON



14 January 1948

Dear General McCoy:

As you know, the Department of the Army this year is planning to submit to the Congress, in addition to its regular appropriation request for Japan, a supplemental request for funds needed to assist Japan in the attainment of self-support. The Department of State wishes to avoid a situation in which the Far Eastern Commission receives its first knowledge of these requests from the newspapers. Therefore, I am forwarding you the draft of a statement which we consider appropriate to serve as a basis for an informal announcement which you could make to the Far Eastern Commission.

Apart from the fact that we consider it undesirable to cover in greater detail the character of the Department of the Army's request, it will be impossible to do so until further decisions have been reached in the United States Government and, in any case, the requests made will, of course, be modified by the character of the Congressional hearings which follow the initial presentation.

Sincerely yours,

Charles E. Saltzman
Charles E. Saltzman
Assistant Secretary of State
for Occupied Areas

Enclosure:
Statement

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

STATEMENT BY THE UNITED STATES MEMBER

TO THE FAR EASTERN COMMISSION

I wish to speak to you informally about a matter which will soon be raised by the Executive Branch of my Government with the Congress. We feel that in contrast to the progress achieved under the occupation in Japan during the past two and a half years in establishing the framework of a democratic society, disappointingly slow progress has been made in establishing the Japanese economy on a self-supporting basis.

We consider that the main responsibility for the attainment of Japanese self-support must rest on the Japanese people themselves and that the Japanese Government should give special emphasis to this aspect of its responsibilities.

As all the Governments represented on the Far Eastern Commission are aware, the United States Government has each year since the occupation began been obliged to appropriate large sums for the provision of relief supplies in Japan. I think that you should know, therefore, that after making a careful survey of the needs of the occupation areas in which it has a responsibility, the United States Department of the Army is planning to include appropriation requests which will be presented to Congress shortly, for a further sum for the fiscal year 1949 to be used in assisting the Japanese people themselves to attain a self-supporting status.

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON, D. C.

S E C R E T

DEPARTMENT OF STATE
WASHINGTON



MEMORANDUM FOR THE SECRETARY, SANACC

Subject: The Economic Recovery of Japan -
SANACC 384/1.

I cannot approve SANACC 384/1 for the following reasons.

There is no disagreement between the Department as to the urgent need for making Japan self-supporting or as to the need for SCAP to place more emphasis on recovery. The Department of State, however, does not believe SANACC 384/1 would contribute to the self-support of Japan. Rather its effect would be adverse to such recovery.

Part I of SANACC 384/1, the proposed statement for the Far Eastern Commission, concludes with policy proposals that are objectionable to the Department of State. The proposal that "economic recovery ... must hereafter be stressed" is both unnecessary and so vague as to be without useful meaning. At no time has the Department of State considered that General MacArthur lacked the necessary authority to carry out an effective economic recovery program. General MacArthur has possessed that authority by the terms of Part II A, paragraph 12, of SWNCC 52/7, which is the Basic Initial Post Surrender Directive to SCAP for the occupation and control of Japan. In addition, the proposal would give SCAP no guidance as to the actual steps to be taken to achieve economic recovery.

The Department of State considers the second proposal to grant to SCAP the authority to bring about "an appropriate shift of emphasis" with respect to any

or all



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or all of the policies and directives under which he is now acting even more questionable. "Shift of emphasis" either has no meaning at all, or it means a grant of absolute authority to modify or to re-interpret existing directives. Such a blank check would deprive all Washington agencies, including the Department of State and SANACC, from future control of policy in Japan.

In addition, these proposals would be confusing and highly objectionable to the Far Eastern Commission. The Commission has taken it for granted that the Supreme Commander has the authority and responsibility to see to it that the Japanese take the steps necessary to provide an economy conducive to the democratization of Japan. The Far Eastern Commission countries would see no reason why an additional policy decision to stress recovery was required. The "shift of emphasis" proposal would be considered as a derogation of the Commission's authority in the field of policy making. They would be unlikely to approve such deprivation of power. In a situation where the cooperation of the Far Eastern Commission countries is indispensable for accomplishment of our economic objectives in Japan, to put before the Far Eastern Commission policy proposals that stand no chance whatever of adoption, would simply serve to complicate, if not actually vitiate, any chance of attaining ends vitally important to the United States.

Part II of the Department of the Army's paper is objectionable for many of the same reasons which make Part I unacceptable to the Department of State. In addition, there is the question of the status of such a paper. If it is to have the effect of "guidance" for General MacArthur, it would have to be issued as a directive. Does the Department of the Army intend the issuance of an interim directive? If so, it should be pointed out that the United States has authority to issue emergency interim directives only in areas of policy not covered by Far Eastern Commission decisions. If it is not the intention to issue SANACC 384/1 as a directive it serves no useful purpose since SCAP cannot unilaterally modify existing policy directives. While the paper can serve no useful purpose, as shown above,

it would

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it would be violently opposed by the other Far Eastern Commission countries as unwarranted unilateral action by the United States, representing an attempt to overturn internationally agreed occupation policies for Japan.

Charles E. Saltzman
State Department Member
State-Army-Navy-Air Force
Coordinating Committee

OE:RHWhitman:emh 1-14-48-

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ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON 25, D. C.

SECRET
DEPARTMENT OF STATE
WASHINGTON



MEMORANDUM FOR THE SECRETARY, STATE, ARMY, NAVY, AIR FORCE
COORDINATING COMMITTEE:

It is requested that the enclosures be considered by the
State, Army, Navy, Air Force Coordinating Committee as a matter
of priority.

Charles E. Saltzman
Assistant Secretary of State
for Occupied Areas

Enclosures

1. Stmt by State Member
2. Policy stmt for FEC

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*State Member
384/2*

State Proposed 384/2

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ECONOMIC RECOVERY OF JAPAN

Memorandum by the State Member

1. The Department of State wants to make it known to SCAP, to the U.S. public, to Congress, and to the Far Eastern Commission, that the United States Government wishes to see an acceleration of the processes of economic recovery in Japan. To that end, it is requested that SANACC approve the attached statement, to be designated SANACC 384/2, which has been formulated for the use of the U.S. Member of the Far Eastern Commission. This statement is couched in such terms as to make it suitable for release to the press immediately following its introduction into the Far Eastern Commission.

2. The Department of State regards its proposal as an important policy statement for the following reasons. It states in plain forthright terms the desirability of a "shift in emphasis" from what might be regarded as a passive and negative attitude towards a more positive and constructive attitude, as far as increasing trade and industrial productivity are concerned. It paves the way for future examination, in detail, of specific principles contained in U.S. and FEC occupation policy papers which seem to conflict with Japan's economic recovery. It constitutes an important admission on the part of the United States that Japan's self-support cannot be attained by unilateral U.S. initiative and authority and a frank announcement to Allied countries in the Far East, that international cooperation is a sine qua non for any program of economic reconstruction which can promise Japanese self-support.

3. The enclosure, SANACC 384/2, is not a substitute for the latest Department of the Army proposal, SANACC 384/1, nor a substitute for SANACC 381/2, both of which can be considered by SANACC after its approval of the enclosure. SANACC 384/1 is designed to accomplish a "shift of emphasis" which entails

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in effect, a reversal and repudiation of agreed policy; SANACC 381/2 is designed to set in motion planning of a broad administrative program for Japanese economic recovery. The enclosure, in the view of the Department of State, establishes a proper framework within which the two aforementioned papers can be given consideration.

4. It can not be stressed too emphatically that a high degree of international cooperation is essential for the attainment by Japan of economic self-support. Japan, unlike Germany, does not possess within its own borders raw materials adequate for its needs. Civil war in China renders highly speculative restoration of Japan's pre-war trade relations with North China and Manchuria with their important supplies of coal, iron, soy beans, cereals, and other parts of the Far East is complicated by political instability and civil strife. Unless other Far Eastern countries are prepared to take positive steps to meet Japan's import requirements and to absorb Japanese exports, attainment of a state of economic self-support by Japan becomes wholly impractical. Delay or failure to accomplish self-support would present the U.S. with the alternatives of supporting Japan indefinitely or of abandoning Japan possibly at a time when Japan's own desperation might take it outside of the U.S. sphere.

5. For over nine months the Department of State has been engaged in extensive research and in almost continuous consultation with the Department of the Army regarding SANACC 381.

Part I of SANACC 384/1, being the proposed statement for the Far Eastern Commission, concludes with policy proposals which the Department of State cannot approve for the following reasons. The proposal that "economic recovery....must hereafter be stressed" would be understood by the governments

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represented on the Far Eastern Commission as being both unnecessary and so vague as to be totally without meaning. At no time have the Department of State or any of these governments considered that General MacArthur lacked the necessary authority to carry out an effective economic recovery program. General MacArthur has possessed that authority by the terms of Part II A, paragraph 12, of SWNCC 52/7, which is the Basic Initial Post-Surrender Directive to SCAP for the occupation and control of Japan. Paragraph 11 of that directive sets forth the general policy framework within which a program of economic recovery for Japan could be supported by the other FEC countries. These governments have, therefore, taken it for granted that the Supreme Commander considers it his responsibility to accomplish all that he can towards providing Japan with an economy conducive to Japan's democratization. The Far Eastern Commission countries would, thus, see no reason why a further policy decision on that matter was required.

Further, and even more important, they would consider it a totally unacceptable derogation of their recognized authority to grant to SCAP, as has also been proposed, the authority to bring about "an appropriate shift of emphasis" with respect to any or all of the policies and directives under which he is now acting. "Shift of emphasis" either has no meaning at all, or it means a grant of absolute authority to modify or to re-interpret existing directives which the Commission has hitherto adopted or tacitly approved. The Far Eastern Commission countries would be unlikely to approve proposals which they could not understand, and which they considered, in effect, to deprive them of future authority in the field of policy-making. The Department of State has not in the past put before the Far Eastern Commission policies which did not offer at least some possibility of approval. For these two proposals there is not the slightest possibility of Far Eastern Commission acceptance.

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In a situation where the cooperation of the FEC countries is indispensable for accomplishment of our economic objectives in Japan, to put before the Far Eastern Commission policy proposals which stand no chance whatever of adoption, would simply serve to complicate, if not actually vitiate, any chance of attaining ends vitally important to the United States.

Part II of the Army Department's paper invites some of the same questions which have been made regarding Part I, to which must be added the question of why this statement of policy should not be put before the Far Eastern Commission for approval. If the policy statement is to have the effect of "guidance" for General MacArthur, it will have to be issued as a directive, incurring the disadvantages of unilateral action mentioned before. If it is not issued as a directive, it would serve no useful purpose but would, nevertheless, excite fears in foreign capitals as to its effect on SCAP and upon internationally-agreed occupation policies for Japan, not to mention the questions it would raise by its reference to "present surveillance of Allied Powers and later surveillance of the United Nations."

6. The enclosed statement proposed by the Department of State as SANACC 384/2, for the U.S. Member of the Far Eastern Commission, is designed to remind the Far Eastern Commission that its own policy decisions imply a degree of positive planning and action amongst the Allies, in the economic sphere, which has not in fact taken place. It requests the Far Eastern Commission to take policy action on the three matters upon which hinge most obviously the program of Japan's economic recovery; namely, facilitating movement of traders both into Japan and out of Japan into Allied countries and recognition of the necessity for moving beyond the framework of disease and unrest into the framework of rehabilitation when planning Japan's trade requirements. Approval of these proposals by the Far Eastern Commission

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would constitute, both explicitly and by implication, inter-Allied approval of the kind of economic recovery program for Japan which the U.S. Government envisages.

7. The Department of State is prepared to discuss specific economic problems which have arisen in Japan as a result of SCAP's implementation of his present pattern of directives. The Department of State attaches such great importance to Japan's attainment of economic self-support as a prerequisite for enduring peace and democracy that it would favor having the Far Eastern Commission rescind any demonstrably mistaken policy decisions adopted in the past. However, in the absence of demonstration that existing policies calling for economic reforms in Japan do in fact seriously hamper recovery, the Department of State believes that the economic recovery of Japan can best be brought about through adherence to the broad and progressive policies which the U.S. Government initially formulated, which the Far Eastern Commission has either adopted or approved, which the Supreme Commander has begun to put effectively in force, which the Japanese Government has begun to legislate or embody in executive orders, and which the Japanese people have begun to make the basis for their plans for the future. Nothing could so profoundly disorganize and disrupt Japanese social and economic recovery as vague and sweeping apologies for or seeming retraction of the basic principles upon which the occupation of Japan has been founded.

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Proposed Statement by General McCoy to the Far Eastern Commission
on the Role of Japan's Economic Recovery
in Far Eastern Economic Reconstruction

My Government has instructed me to place before the Far Eastern Commission a resolution and proposals for Far Eastern Commission policy decision on several specific matters.

The U.S. Government has reviewed the accomplishments of the first two years of the occupation of Japan in the light of the Potsdam Declaration and of those ultimate objectives which the Far Eastern Commission has incorporated in its Basic Post-Surrender Policy for Japan. Member countries of the Far Eastern Commission have shown a deep and continuing interest in programs which the Supreme Commander for the Allied Powers has set in motion to accomplish those objectives. There can be little question in your minds, I am sure, that SCAP has taken effective measures to disarm Japan so that Japan's ability to make war on the land, on the sea and in the air, has been destroyed, and that SCAP has taken vigorous steps to eliminate from positions of prominence and responsibility in Japanese society exponents of Japanese militarism and ultra-nationalism. Under the Allied regime of control Japan cannot menace the peace and security of the world.

A peaceful Japanese government, established in accordance with the freely expressed will of the Japanese people, has begun to put in motion through legislation and executive action processes for development in Japan of democratic institutions and ways of life.

In the economic sphere Japan lacks both the strength and stability to meet its needs or to carry out its responsibilities either to its own people or to the peoples of the Far East.

Many causes contribute to Japan's economic instability, its lack of

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industrial productivity and its inadequate commercial operations.

When the Far Eastern Commission can reach decisions on unresolved policy matters in the field of reparations, that action can contribute to reconstruction in Far Eastern countries. It can also lay the basis for healthy recovery of industrial activity within Japan. Nevertheless, pending those decisions, important both to Japan and reparations claimant countries, the Supreme Commander for the Allied Powers, the Japanese Government, the U.S. Government, and each of the other countries members of the Far Eastern Commission, can take certain economic measures which could contribute towards accomplishment of the basic objectives of the occupation. Both Japan and those Far Eastern Countries which continue to suffer from the impact or ravages of Japanese aggression can benefit from positive and immediate exploration of all appropriate means and methods whereby economic recovery in Japan and throughout the Far East can be accelerated.

I must mention here that it is well known that the American people have borne the costs of importing into a Japan, at first prostrate and subsequently unstable and inadequately productive, those foods and materials required to prevent widespread disease and unrest. The load of those costs is one which the American people will not willingly carry indefinitely. For a temporary period continued assistance can be expected, but through greater efforts by the Japanese people and through early restoration of mutually profitable commercial relations between Japan and the rest of the world, Japan should move towards that self-support which can remove this burden on the U.S. taxpayer. Existing Far Eastern Commission policies, the economic interests of all of the Far Eastern Commission countries, and the immediate requirements of Japan combine to emphasize the great need for recognizing the importance

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of taking all appropriate measures which can contribute to self-support in Japan and maximum trade between a peaceful and increasingly democratic Japan and those countries of the Far East and of the world which can benefit from early and broad expansion of commerce.

My Government therefore has instructed me to put before the Far Eastern Commission the following resolutions and the following proposals for Far Eastern Commission as a recommended policy decision:

"Whereas the Supreme Commander for the Allied Powers has disarmed Japan and has taken vigorous and effective steps to suppress or eliminate from Japanese life institutions and persons expressive of the spirit of militarism and aggression;

"Whereas the Supreme Commander for the Allied Powers has encouraged the Japanese people to desire individual liberties, respect fundamental human rights and form democratic and representative organizations;

"Whereas the Far Eastern Commission has declared that Japan should be permitted eventual participation in world trade relations and access to raw materials necessary for a peaceful economy;

"Whereas the Far Eastern Commission has authorized the Supreme Commander for the Allied Powers to designate for assured retention under Japanese ownership industrial capacity capable of practical use to meet current needs;

"Whereas the Far Eastern Commission has determined that the peaceful needs of the Japanese people should be defined as being substantially the standard of living prevailing in Japan during the period of 1930-34;

"Whereas the Far Eastern Commission has declared that reparations shall be in such a form as would not endanger the fulfillment of the program of demilitarization of Japan and which would not prejudice defraying of the costs

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of occupation and the maintenance of a minimum civilian standard of living;

"Whereas the Far Eastern Commission has declared that measures should be continued or taken to stimulate Japan's production of goods required for export and to insure that goods produced are those in demand in countries requiring supplies from Japan;

"Whereas the Far Eastern Commission has directed the Supreme Commander for the Allied Powers to be responsible for ascertaining the types and amounts of goods in Japan available for export and for recommending the types and amounts of goods to be imported and to develop a trade program;

"Whereas the Far Eastern Commission has established an Inter-Allied Trade Board for Japan to recommend to the U.S. Government on the best arrangements for facilitating Japanese exports and imports generally;

"Whereas the Far Eastern Commission has authorized the Supreme Commander for the Allied Powers to establish a revolving fund to aid in financing production designed to contribute to the revival of productivity in a Japanese peace economy;

"Whereas the Far Eastern Commission is conscious that the development of a sound and self-supporting economy is essential to the establishment of a democratic and peaceful government which will carry out its international responsibilities, respect the rights of other states and support the objectives of the United Nations;

"Whereas the Far Eastern Commission is conscious that the fulfillment of Japanese obligations to the Allied Powers requires help to the people of Japan in their own interest as well as that of the world at large in finding means whereby they may develop within the framework of a democratic society an intercourse among themselves and with other countries along economic lines that will enable them to satisfy their reasonable individual and national needs

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and bring them into permanently peaceful relationship with all nations; and

"The Far Eastern Commission, therefore, resolves that the U.S. Government, the Supreme Commander for the Allied Powers, the Far Eastern Commission and its Member states, should each and collectively take such positive measures as are appropriate within their respective jurisdictions as will contribute to prompt and healthy economic reconstruction in Japan and throughout the Far East as a whole, and to this end approves the following proposals as matters of policy:

"I. The Supreme Commander for the Allied Powers should take steps, as soon as practical, to remove restrictions upon the entry in Japan of Allied personnel for business purposes;

"II. The Supreme Commander for the Allied Powers should permit the movement from Japan of Japanese business men to any Allied country; Providing arrangements for such movement are supervised by the Supreme Commander for the Allied Powers in accordance with such standards on types of business men and restrictions on numbers of business men as may be laid down by such particular Allied countries as may permit Japanese business men to enter.

"III. The Supreme Commander for the Allied Powers should prepare long-range import-export plans, for appropriate consideration by the Far Eastern Commission and the Inter-Allied Trade Board in accordance with their respective terms of reference, in such a way as to assure that authorized amounts of imports, in excess of requirements for the prevention of disease and unrest in Japan will contribute to economic revival and reconstruction throughout the Far East as well as to attainment of economic self-support by Japan."

OE:RWBarnett/evc

12/23/47

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NO. 64
Memorandum • UNITED STATES GOVERNMENT

DATE: 16 Jan

TO : Mr. Buttermuth FE
FROM : P. Clayton to AS
SUBJECT :

Here is the draft revision of ^{SANACE} 1384 ~~72~~
series prepared for presentation to
Army. It has been cleared by
Martin
OE, Bennett and Barton. I am
giving a copy to Soliman who is most
anxious to get this problem settled.

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STATEMENT TO BE MADE TO FAR EASTERN COMMISSION BY U.S.
MEMBER AND TRANSMITTED TO SCAP AND RELEASED FOR PUBLI-
CATION

The U. S. Government has reviewed the accomplishments of the first two years of the occupation of Japan in the light of the ultimate allied objectives as contained in the Potsdam Declaration and elaborated in subsequent policy statements.

This review has revealed that in implementation of ~~the~~ basic policies SCAP has destroyed Japan's ability to make war on the land, on the sea, and in the air. He has nearly completed the elimination of the exponents of Japanese militarism and ultra-nationalism from positions of power in Japan. Under present surveillance by the Allied Powers, Japan can not menace the peace and security of the world, and it is fully within our power to see that she never shall.

Great strides have also been made toward establishing political and economic institutions which will permit the development of a democratic and peaceful Japan which can assume the responsibilities of a member of the community of nations. The framework of a democratic Japanese Government has been established in accordance with the provisions of a new constitution adopted by the Japanese people. A popularly elected government is now in office. Economic reforms are under way which will give the Japanese people a stake in the maintenance of a peaceful and democratic Japan.

The progress of Japan toward establishing a self-supporting economy, a fundamental condition to the successful achievement of the objectives of the occupation, has lagged behind. The ravages of the war and the penalties which the Japanese people are still paying for blindly following their leaders in a war of aggression are such that Japan does not yet have the economic strength and stability to maintain a self-sufficient economy and to carry out all of its international responsibilities. Japanese industry and commerce are not yet sufficient to sustain the Japanese economy, there is not yet final Allied determination of the reparations Japan will be required to pay, and Japan is not yet in a position to participate fully in world

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trade and to contribute her indispensable part to the economic rehabilitation of the Far East. Economic chaos in Japan has been prevented only at the expense of the American people who have financed the importation of vital food and other materials required to prevent widespread disease and unrest.

It is my Government's view that in order to achieve our fundamental objectives in Japan and to establish the conditions necessary to enable Japan to make her essential contribution to the economic rehabilitation of the Far East and to take her rightful place in the community of nations,

Considerably more emphasis must be placed on the attainment of a self-supporting Japan with a reasonable standard of living. Progress toward this goal must be speeded up. This will require greater efforts by all concerned. We feel that the Japanese Government and people, the Far Eastern Commission and its member states and the Supreme Commander must take all possible and necessary steps, consistent with the basic policies of the occupation, to increase the ability of Japan to support herself.

To this end the Japanese Government under the supervision of SCAP must prepare ^{plans for regard to} production, consumption, export and import ~~plans~~ under which Japan can become self-supporting at the earliest possible time, certainly within a limited number of years. We understand substantial progress has been made on ^{such planning.} ~~this project.~~ Primary responsibility for the preparation and execution of such ~~a plan~~, of course, rests on the Japanese Government and people. However, SCAP under the ample authority already given him must take all possible and necessary steps to see to it that the Japanese Government and people discharge their responsibility.

Neither the Japanese people nor SCAP can successfully carry out such a program without the cooperation of this Commission and its members. The Commission has already agreed on a number of policies directed toward this goal. For example, the Far Eastern Commission has ~~already~~ declared that measures should be continued or taken to stimulate Japan's production of goods required for export and to insure that goods produced are those in

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demand in countries requiring supplies from Japan. It has recently opened Japan to limited private trade and authorized the establishment of a revolving fund to aid in financing peaceful foreign trade. The U. S. Government is now considering the possibility of submitting to the FEC ~~a limited number of~~ ^{certain} additional policy proposals on specific steps similar to those already approved by the Commission.

Meanwhile, pursuant to this common objective, the US Government will begin discussions in the Congress within the next few days of a proposal to provide funds for the fiscal year 1949 for the procurement of imports of industrial raw materials, spare parts and so forth, to assist Japan to expand the output of its peaceful industries. This request will be in addition to the amounts normally requested for food, medicine and so forth.

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SECRET**DEPARTMENT OF THE ARMY
OFFICE OF THE UNDER SECRETARY
WASHINGTON, D. C.**

12 December 1947

MEMORANDUM FOR THE SECRETARY, STATE, ARMY, NAVY, AIR FORCE
COORDINATING COMMITTEE:

It is requested that the enclosures be considered by
The State, Army Navy, Air Force Coordinating Committee as a
matter of priority.

William H. Draper, Jr.
Under Secretary of the Army

Encl.

1. Rev. S/D paper for FEC
2. Orig D/A paper amended to be sent to SCAP
3. Stmt by War member

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THE ECONOMIC RECOVERY OF JAPAN
Memorandum by the Army Member of SANACC

A review of the accomplishments of the first two years of United States occupation of Japan reveals that the first phase of the occupation has been completed. It is becoming increasingly apparent, however, that further progress toward the reestablishment of Japan as a productive and respected member of the community of nations will be difficult, if not impossible, without the creation of a self-sustaining Japanese economy. Until such time as these conditions are created, the economy of the Far East will remain disrupted and Japan will continue to be an increasingly onerous burden on the resources of the United States.

It appears, therefore, that immediate steps must be taken to hasten the economic recovery of Japan. Not only is it necessary to bring about the earliest possible determination of the reparations which Japan will be required to pay, but it will be necessary to issue, within the framework of existing Far Eastern Commission policy decisions, an appropriate directive to SCAP.

To this end it is recommended that the enclosures be approved by the State-Army-Navy-Air Force Coordinating Committee: (a) as a policy statement to be introduced into the Far Eastern Commission, and (b) as a statement of United States policy to be dispatched by the United States Government to General MacArthur, be transmitted to the Far Eastern Commission for its information, and simultaneously to be released to the press for publication.

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ENCLOSURE

Whereas the Supreme Commander for the Allied Powers has disarmed Japan and has taken vigorous and effective steps to suppress or eliminate from Japanese life institutions and persons expressive of the spirit of militarism and aggression;

Whereas the Supreme Commander for the Allied Powers has encouraged the Japanese people to desire individual liberties, respect fundamental human rights and form democratic and representative organizations;

Whereas the Far Eastern Commission has declared that Japan should be permitted eventual participation in world trade relations and access to raw materials necessary for a peaceful economy;

Whereas the Far Eastern Commission has authorized the Supreme Commander for the Allied Powers to designate for assured retention under Japanese ownership industrial capacity capable of practical use to meet current needs;

Whereas the Far Eastern Commission has determined that the peaceful needs of the Japanese people should be defined as being substantially the standard of living prevailing in Japan during the period of 1930-34;

Whereas the Far Eastern Commission has declared that reparations shall be in such a form as would not endanger the fulfillment of the program of demilitarization of Japan and which would not prejudice defraying of the costs of occupation and the maintenance of a minimum civilian standard of living;

Whereas the Far Eastern Commission has declared that measures should be continued or taken to stimulate Japan's production of goods required for export and to insure that goods produced are those in demand in countries requiring supplies from Japan;

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Whereas the Far Eastern Commission has directed the Supreme Commander for the Allied Powers to be responsible for ascertaining the types and amounts of goods in Japan available for export and for recommending the types and amounts of goods to be imported and to develop a trade program;

Whereas the Far Eastern Commission has established an Inter-Allied Trade Board for Japan to recommend to the United States Government on the best arrangements for facilitating Japanese exports and imports generally;

Whereas the Far Eastern Commission has authorized the Supreme Commander for the Allied Powers to establish a revolving fund to aid in financing production designed to contribute to the revival of productivity in a Japanese peace economy;

Whereas the Far Eastern Commission is conscious that the development of a sound and self-supporting economy is essential to the establishment of a democratic and peaceful government which will carry out its international responsibilities, respect the rights of other states and support the objectives of the United States;

Whereas the Far Eastern Commission is conscious that the fulfillment of Japanese obligations to the Allied Powers requires help to the people of Japan in their own interest as well as that of the world at large in finding means whereby they may develop within the framework of a democratic society an intercourse among themselves and with other countries along economic lines that will enable them to satisfy their reasonable individual and national needs and bring them into permanently peaceful relationship with all nations;

Whereas the authority of the Japanese Government is now limited to the four main islands and a few minor outlying islands;

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Whereas, all possible efforts should be made to reduce, as soon as possible, the drain on non-Japanese resources to prevent widespread disease and unrest;

The Far Eastern Commission, therefore, resolves that the United States Government, the Supreme Commander for the Allied Powers, the Far Eastern Commission and its Member States, should each and collectively take such positive measures as are appropriate within their respective jurisdictions as will contribute to prompt and healthy economic reconstruction in Japan and throughout the Far East as a whole, and to this end as initial steps approve the following proposals as matters of policy.

In order to fulfill completely the fundamental objectives of the Basic Post-Surrender Policy and to establish the conditions requisite for a peace treaty that will enable Japan to take her rightful place in the community of nations, the economic recovery of Japan for her benefit and that of the entire Far Eastern area must hereafter be stressed.

SCAP should therefore recognize an appropriate shift of emphasis to facilitate the early revival of the Japanese economy on a peaceful, self-supporting and democratic basis, and should take all possible and necessary steps to increase the ability of Japan to attain that goal, consistent with the basic objectives of the occupation.

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SECRETENCLOSURESTATEMENT OF UNITED STATES POLICY

Part I--Ultimate Objectives -- of the Basic Post-Surrender Policy for Japan, as approved by the Far Eastern Commission, is as follows:

"1. The ultimate objectives in relation to Japan, to which policies for the post-surrender period for Japan should conform are:

a. To insure that Japan will not again become a menace to the peace and security of the world.

b. To bring about the earliest possible establishment of a democratic and peaceful government which will carry out its international responsibilities, respect the rights of other states, and support the objectives of the United Nations. Such government in Japan should be established in accordance with the freely expressed will of the Japanese people.

"2. These objectives will be achieved by the following principal means:

a. Japan's sovereignty will be limited to the islands of Honshu, Hokkado, Kyushu, Shikoku and such minor outlying islands as may be determined.

b. Japan will be completely disarmed and demilitarized. The authority of the militarists and the influence of militarism will be totally eliminated. All institutions expressive of the spirit of militarism and aggressions will be vigorously suppressed.

c. The Japanese people shall be encouraged to develop a desire for individual liberties and respect for fundamental human rights, particularly the freedoms of religion, assembly and association, speech and the press. They shall be encouraged to form democratic

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and representative organizations.

d. Japan shall be permitted to maintain such industries as will sustain her economy and permit the exaction of just reparations in kind, but not those which would enable her to rearm for war. To this end, access to, as distinguished from, control of, raw materials should be permitted. Eventual Japanese participation in world trade relations will be permitted."

The U.S. Government has reviewed the accomplishments of the first two years of the occupation of Japan in the light of the ultimate allied objectives as listed in the Basic Post-Surrender Policy for Japan.

This review has revealed that SCAP has taken the steps necessary to assure the accomplishment of the objective that Japan shall not again menace the peace and security of the world. In implementation of the basic policy SCAP has destroyed Japan's ability to make war on the land, on the sea, and in the air, and has eliminated the exponents of Japanese militarism and ultra-nationalism from positions of power in Japan. Under the present surveillance of the Allied Powers, and later surveillance of the United Nations, Japan should not again menace the peace and security of the world.

Great strides have also been made toward bringing about conditions whereby a democratic and peaceful Japan can assume the responsibilities of a respected member of the community of nations in accordance with the second ultimate objective of the Basic Post-Surrender Policy. A peaceful and democratic Japanese Government has been established in accordance with the provisions of an enlightened constitution adopted by the freely expressed will of the Japanese people. The ravages of the war and the penalties which the Japanese

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people are still paying for blindly following their leaders in a war of aggression are such, however, that Japan does not yet have the economic strength and stability to maintain a self-sufficient economy and to carry out all of its international responsibilities. At present economic stability in Japan is maintained at the expense of the American people through the importation of vital food and other materials required to prevent widespread disease and unrest.

The first three of the four principal means for achieving the ultimate allied objectives regarding Japan, as listed in the Basic Post-Surrender policy, have been fully utilized. The authority of the Japanese Government is now limited to the four main islands and a few minor outlying islands. Japan has been completely disarmed and demilitarized. The authority of the militarists has been eliminated and the Japanese people have been encouraged to develop a desire for individual liberties and respect for fundamental rights.

With regard to the fourth of these principal means, Japanese industry and commerce are not yet sufficient to sustain the Japanese economy, there is not yet final Allied determination of the reparations Japan will be required to pay, and Japan is not yet in a position to participate fully in world trade and to contribute her indispensable part to the economic rehabilitation of the Far East.

It is now apparent that the first phase of the occupation has been completed. In order to fulfill completely the fundamental objectives of the Basic Post-Surrender Policy and to establish the conditions requisite for

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peace treaty that will enable Japan to take her rightful place in the community of nations, the economic recovery of Japan for her benefit and that of the entire Far Eastern area must hereafter be stressed.

It is realized that this is not fully attainable by SCAP until there is Allied determination of (1) the capital plant and equipment to be retained for the Japanese economy and (2) the capital plant and equipment to be delivered by Japan as reparations.

Meanwhile, all possible efforts must be made to reduce, as soon as possible, the drain on U.S. resources resulting from the cost of sustaining the Japanese economy. Pending determination of a Japanese level of industry and Japanese reparations SCAP should, therefore, take all possible and necessary steps, within the limits of his authority, to increase by all appropriate means and to the maximum extent possible consistent with the basic objectives of the occupation, the ability of Japan to support herself.

SCAP should, therefore, direct the Japanese Government to devise and develop plans under his supervision for the economic recovery of Japan to the end that the Japanese economy will be balanced at the earliest possible time. Greater efforts by the Japanese people, coupled with such assistance as the American Government may be able to provide for a temporary period, should eliminate the burden on the U.S. taxpayer of supporting the Japanese economy. Elimination of this burden must be one of SCAP's principal objectives. The U.S. people will not continue indefinitely to subsidize the economy of Japan.

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It is therefore the policy of the U.S. Government that SCAP should recognize, in implementing economic policy, an appropriate shift of emphasis to facilitate the early revival of the Japanese economy on a peaceful, self-supporting and democratic basis.

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Dear Mr. Draper:

The State Department has given careful consideration to the revision, which you sent me on October 29th, of SWNCC 384, "Economic Recovery of Japan."

The State Department is in full agreement with the desire of the Department of the Army to make it known to SCAP, to the U. S. public, to Congress, and to the Far Eastern Commission that the United States Government desires to accelerate the processes of economic recovery in Japan. There is agreement also that any statement of U. S. policy on this subject should be formulated in such terms as to make clear the desirability of a "shift in emphasis" toward a more positive attitude, as far as increasing trade and industrial productivity are concerned.

Such a statement, it is believed, should be so worded as to minimize fears that this "shift of emphasis" implies in any way reversal or repudiation of the broad principles and policies which have underlain long term occupation objectives. It should seek to elicit maximum support of allied countries in the Far East for those practical measures and commitments essential to any program of actual economic reconstruction in Japan and in their own countries. At the same time, it should be sufficiently specific and clear in its intent to assist in obtaining Congressional support for the financial assistance required to attain our ends.

With these considerations in mind the State Department has prepared the enclosed statement which, it is believed, includes all the points of substantial importance contained in the latest version by the Department of the Army of SWNCC 384. These points, however, are presented in a manner suitable for delivery as a formal statement by the U. S. Member of the Far Eastern Commission.

In addition

Honorable William H. Draper, Jr.,
Under Secretary of the Army,
Department of the Army,
Washington 25, D.C.

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State Proposal

State Proposal

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In addition to the points taken from SWNCC 384, the enclosure contains a resolution and a proposal to the FEC for policy action designed to impress upon the FEC two facts. The first is that FEC policy decisions already adopted clearly imply the desirability of placing emphasis upon Japan's economic recovery. The second is that FEC, as such, and the individual countries thereof, are recognized as having effective jurisdiction over policy matters upon which their decision is an essential prerequisite to setting in motion a successful recovery program for Japan and for other Far Eastern countries.

The statement for the U. S. Member of FEC is couched in such terms as to make it suitable for release to the Press, if that should be deemed desirable, and for use in Congress if there should arise in that quarter a desire for evidence demonstrating that the U. S. Government is taking positive steps to assist Japan to become economically self-supporting.

Sincerely yours,

Charles E. Saltzman

Enclosure:

Statement.

A-S:PPClaxton:hjh

11/11/47

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**Proposed Statement by General McCoy
to the Far Eastern Commission on the Role of Japan's
Economic Recovery in Far Eastern Economic Recon-
struction.**

My Government has instructed me to place before the Far Eastern Commission a resolution and proposals for Far Eastern Commission policy decision on several specific matters.

The U. S. Government has reviewed the accomplishments of the first two years of the occupation of Japan in the light of the Potsdam Declaration and of those ultimate objectives which the Far Eastern Commission has incorporated in its Basic Post-Surrender Policy for Japan. Member countries of the Far Eastern Commission have shown a deep and continuing interest in programs which the Supreme Commander for the Allied Powers has set in motion to accomplish these objectives. There can be little question in your minds, I am sure, that SCAP has taken effective measures to disarm Japan so that Japan's ability to make war on the land, on the sea and in the air, has been destroyed, and that SCAP has taken vigorous steps to eliminate from positions of prominence and responsibility in Japanese society exponents of Japanese militarism and ultra-nationalism. Under the Allied regime of control Japan cannot menace the peace and security of the world.

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A peaceful Japanese government, established in accordance with the freely expressed will of the Japanese people, has begun to put in motion through legislation and executive action processes for development in Japan of democratic institutions and ways of life.

In the economic sphere Japan lacks both the strength and stability to meet its needs or to carry out its responsibilities either to its own people or to the peoples of the Far East.

Many causes contribute to Japan's economic instability, its lack of industrial productivity and its inadequate commercial operations.

When the Far Eastern Commission can reach decisions on unresolved policy matters in the field of reparations, that action can contribute to reconstruction in Far Eastern countries. It can also lay the basis for healthy recovery of industrial activity within Japan. Nevertheless, pending those decisions, important both to Japan and reparations claimant countries, the Supreme Commander for the Allied Powers, the Japanese Government, the U. S. Government, and each of the other countries members of the Far Eastern Commission, can take certain economic measures which could contribute towards accomplishment of the basic objectives of the occupation. Both Japan and

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those Far Eastern countries which continue to suffer from the impact or ravages of Japanese aggression can benefit from positive and immediate exploration of all appropriate means and methods whereby economic recovery in Japan and throughout the Far East can be accelerated.

I must mention here that it is well known that the American people have borne the costs of importing into a Japan, at first prostrate and subsequently unstable and inadequately productive, those foods and materials required to prevent widespread disease and unrest. The load of these costs is one which the American people will not willingly carry indefinitely. For a temporary period continued assistance can be expected, but through greater efforts by the Japanese people and through early restoration of mutually profitable commercial relations between Japan and the rest of the world, Japan should move towards that self-support which can remove this burden on the U. S. taxpayer. Existing Far Eastern Commission policies, the economic interests of all of the Far Eastern Commission countries, and the immediate requirements of Japan combine to emphasize the great need for recognizing the importance of taking all appropriate measures which can contribute to self-support in Japan and maximum trade between a peaceful and increasingly democratic Japan and these countries

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of the Far East and of the world which can benefit from early and broad expansion of commerce.

My Government therefore has instructed me to put before the Far Eastern Commission the following resolution and the following proposals for Far Eastern Commission as a recommended policy decision:

"Whereas the Supreme Commander for the Allied Powers has disarmed Japan and has taken vigorous and effective steps to suppress or eliminate from Japanese life institutions and persons expressive of the spirit of militarism and aggression;

"Whereas the Supreme Commander for the Allied Powers has encouraged the Japanese people to desire individual liberties, respect fundamental human rights and form democratic and representative organizations;

"Whereas the Far Eastern Commission has declared that Japan should be permitted eventual participation in world trade relations and access to raw materials necessary for a peaceful economy;

"Whereas the Far Eastern Commission has authorized the Supreme Commander for the Allied Powers to designate for assured retention under Japanese ownership industrial capacity capable of practical use to meet current needs;

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"Whereas the Far Eastern Commission has determined that the peaceful needs of the Japanese people should be defined as being substantially the standard of living prevailing in Japan during the period of 1930-34;

"Whereas the Far Eastern Commission has declared that reparations shall be in such a form as would not endanger the fulfillment of the program of demilitarization of Japan and which would not prejudice defraying of the costs of occupation and the maintenance of a minimum civilian standard of living;

"Whereas the Far Eastern Commission has declared that measures should be continued or taken to stimulate Japan's production of goods required for export and to insure that goods produced are those in demand in countries requiring supplies from Japan;

"Whereas the Far Eastern Commission has directed the Supreme Commander for the Allied Powers to be responsible for ascertaining the types and amounts of goods in Japan available for export and for recommending the types and amounts of goods to be imported and to develop a trade program;

"Whereas the Far Eastern Commission has established an Inter-Allied Trade Board for Japan to recommend to the U. S. Government on the best

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arrangements for facilitating Japanese exports and imports generally;

"Whereas the Far Eastern Commission has authorized the Supreme Commander for the Allied Powers to establish a revolving fund to aid in financing production designed to contribute to the revival of productivity in a Japanese peace economy;

"Whereas the Far Eastern Commission is conscious that the development of a sound and self-supporting economy is essential to the establishment of a democratic and peaceful government which will carry out its international responsibilities, respect the rights of other states and support the objectives of the United Nations;

"Whereas the Far Eastern Commission is conscious that the fulfillment of Japanese obligations to the Allied Powers requires help to the people of Japan in their own interest as well as that of the world at large in finding means whereby they may develop within the framework of a democratic society an intercourse among themselves and with other countries along economic lines that will enable them to satisfy their reasonable individual and national needs and bring them into permanently peaceful relationship with all nations; and

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"The Far Eastern Commission, therefore, resolves that the U. S. Government, the Supreme Commander for the Allied Powers, the Far Eastern Commission and its Member states, should each and collectively take such positive measures as are appropriate within their respective jurisdictions as will contribute to prompt and healthy economic reconstruction in Japan and throughout the Far East as a whole, and to this end approves the following proposals as matters of policy:

"I. The Supreme Commander for the Allied Powers should take steps, as soon as practical, to remove restrictions upon the entry in Japan of Allied personnel for business purposes;

"II. The Supreme Commander for the Allied Powers should permit the movement from Japan of Japanese business men to any Allied country; Providing arrangements for such movement are supervised by the Supreme Commander for the Allied Powers in accordance with such standards on types of business men and restrictions on numbers of business men as may be laid down by such particular Allied countries as may permit Japanese business men to enter.

"III. The Supreme Commander for the Allied Powers should prepare long-range import-export plans, for appropriate consideration by the Far Eastern

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Commission and the Inter-Allied Trade Board in accordance with their respective terms of reference, in such a way as to assure that authorized amounts of imports, in excess of requirements for the prevention of disease and unrest, can contribute effectively towards Japan's self-support and economic reconstruction throughout the Far East as a whole."

OS:R. W. Barnett
11/4/47

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STANDARD FORM NO. 64

CONFIDENTIAL*Office Memorandum* • UNITED STATES GOVERNMENT

TO : A-S - Japan-Korea Secretariat

DATE: October 10, 1947

FROM : FE - Mr. Borton

SUBJECT: SWNCC 384

I approve the substance of the attached memo drafted in OE and have initialed it, and also agree with the editorial changes proposed by NA. I would also suggest consideration of the following changes in the memorandum:

1) Page 2, paragraph 2, second sentence to read:

"The language of the final paragraph of SWNCC 384 is so general as to relieve SANACC of responsibility for further guidance on any proposals concerning 'the early revival of the economy of a peaceful and democratic Japan' and to transfer such responsibility to SCAP. Not only would such a directive impose extremely difficult implementing decisions upon SCAP, but it would deprive the Department of State of what it considers to be a legitimate interest in formulation of policy. It should be pointed out, in addition, that the United States has the authority to issue interim directives to SCAP pending action by the Far Eastern Commission whenever urgent matters arise not covered by policy already formulated by the Commission. When the Far Eastern Commission reviewed this directive, as this directive covers policy already considered by the Commission, it would be difficult if not impossible to justify the action of this Government. If it is not the intent of SWNCC 384..."

2) Page 3, paragraph 2, to read:

"In view of the fact that the quotation of page 2 and 3 of SWNCC 384 has already been issued to SCAP in the form of a directive, the Department of State considers it inappropriate to be included in a subsequent interim directive such as that proposed by SWNCC 384. If publicity for SCAP's..."

Have this material

HTB

FE:HBorton:mls

STANDARD FORM NO. 64

Office Memorandum · UNITED STATES GOVERNMENT

DATE: Oct. 10, 1947.

TO : A-S: Japan-Korea Secretariat

FROM : NA: R Fearey

SUBJECT: Memorandum on SWNCC 384

NA fully approves the substance of the attached draft memorandum and has initialed it, but wishes to propose the following editorial changes for possible inclusion:

Page 1, second para, line 1: An "s" should of course be added to the word "Department", but a preferable reading would seem to be "between the Department of the Army and the State Department."

Line 8: substitute "would" for "does".

Line 18: suggest "detailed discussions of SWNCC 381 with the Department of the Army and has already incorporated in that paper many ..."

Page 2, line 10: Suggest "by SWNCC 381 would seem to have far greater ..."

ADDRESS OFFICIAL COMMUNICATION
THE SECRETARY OF STATE
WASHINGTON, D. C.



DEPARTMENT OF STATE
WASHINGTON

MEMORANDUM FOR THE SECRETARY, SWNCC

Subject: The Economic Recovery of Japan -
SWNCC 384.

I cannot approve SWNCC 384 for the following reasons.

There is no disagreement between the Department as to the urgent need for making Japan self-supporting or as to the need for SCAP to place more emphasis on recovery. However, it should be pointed out that since there is already another paper before SWNCC - The Revival of the Japanese Economy, SWNCC 381, submitted by the Department of State on July 22, 1947, a new paper on this same subject does not seem appropriate. The comprehensive economic recovery program contained in SWNCC 381 includes the "Japanese recovery plan" suggested in SWNCC 384, but the Department of State regards such a "Japanese plan" standing by itself as of doubtful value. If the Department of the Army considers the comprehensive recovery program contained in SWNCC 381 to be incomplete in any respect, the Department of State would be happy to study specific amendments. For over two months the Department of State has been engaged in detailed discussions with the Department of the Army and has already incorporated in SWNCC 381 many changes which have been requested.

I would like to comment generally on the proposal that a directive seeking to foster Japanese recovery be issued unilaterally. Even if there were no objections to the content of the directive the Department of State would oppose the proposed procedure since unilateral action by the United States is bitterly

resented



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resented by other countries in the Far East whose cooperation is absolutely essential to Japanese recovery in the long run. Many of these countries are concerned that the United States is apparently placing Japanese recovery ahead of the recovery of the rest of Asia. Rational or not, this concern must be reckoned with when commercial planning inherent in the Japanese recovery program is being worked out. The approach to obtaining international cooperation in Japanese recovery suggested by SWNCC 381 has somewhat greater possibility of success than a unilateral directive to SCAP. There is also the need for obtaining maximum cooperation of other countries in drafting a Japanese Peace Settlement. A blatant assertion of United States emphasis on Japanese recovery at this time would hardly be conducive to the attainment of our objectives at the Conference.

If the purpose of SWNCC 384 (final paragraph) is to modify the responsibilities of SCAP under established Far Eastern Commission policies covering demilitarization, reform, etc., it is suggested that a proper procedure would be to invite SCAP to offer for SWNCC study proposals for modification of specific reform policies which seem to conflict with economic recovery. The language of the final paragraph of SWNCC 384 is so general as to give SCAP a blank check, which is objectionable to the Department of State, and would impose without adequate guidance extremely difficult implementing decisions upon the SCAP. It should be pointed out, in addition, that the United States has the authority to issue emergency interim directives only in areas of policy not covered by Far Eastern Commission decisions. If it is not the intent of SWNCC 384 to propose modification of existing policy directives, then no directive to SCAP would appear necessary.

Further, if a purpose of SWNCC 384 is to reopen consideration of the United States position on level of industry as set forth in SWNCC 236/43, the Department of State takes strong exception. The position in SWNCC 236/43 was reached after prolonged study and discussion and represents agreement not only among the Departments

concerned

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concerned but also by Mr. Strike and Mr. Pauley, and has been transmitted to Overseas Consultants in Tokyo as their policy reference in determining the availability of industrial facilities for reparations. It represents, in the view of the Department of State, a soundly conceived United States policy on this question. Furthermore, the United States is already engaged in negotiations to obtain Allied agreement on SWNCC 236/43. In the light of these negotiations it is clear that any new United States proposals for level of industry more lenient to Japan than those in SWNCC 236/43 would be regarded as a repudiation of existing United States commitments and might be resisted so strenuously by our Allies as to rule out any possibility of agreement. At the very least, reaching Allied agreement would be greatly delayed. Yet it has always been agreed by the Departments of State and the Army that failure to reach level of industry decisions in the Far Eastern Commission has complicated Japanese recovery.

The Department of State considers the first three and one-half pages of SWNCC 384 to be inappropriate in a directive to SCAP, especially in an interim directive. If publicity for SCAP's fine performance is desired, this can be accomplished as previously by comments and speeches of appropriate officials in the United States Government.

Charles E. Saltzman
State Member
State-War-Navy Coordinating Committee

THE STATE-ARMY-NAVY-AIR FORCE COORDINATING COMMITTEE

WASHINGTON, D.C.

DEPARTMENT OF STATE
COMMUNICATIONS AND RECORDS
JAN 23 1948
Enclosure
Statement made
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DIVISION OF
SOUTH AND EAST ASIAN AFFAIRS
22 January 1948
JAN 23 1948

MEMORANDUM FOR THE SECRETARY OF STATE: DEPARTMENT OF STATE

Subject: SWNCC 384.

By informal action on 21 January 1948 the State-Army-Navy-Air Force Coordinating Committee approved SWNCC 384, after amending.

In approving SWNCC 384, the Committee further agreed that the revised enclosure thereto should be presented to the Far Eastern Commission by the U.S. Member; that the Department of State would release it for publication; and that it would be transmitted to SCAP for information.

The Joint Chiefs of Staff have been requested to transmit the revised statement to SCAP for his information.

Copies of SWNCC 384 as approved by the Committee are attached for use by the Department of State in connection with paragraph 2 above.

For the State-Army-Navy-Air Force Coordinating Committee:

Ja
W. W. Whalley
CHARLES E. SALTZMAN,
Chairman

FEB 2 1948

FILED

Enclosures:
Copy Nos. 77 & 78,
SWNCC 384

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*Mr Manning -
I understand the men released
come out yesterday & also that
you Mr Coy have been in formal
advised (Mr. Rudkin A-S can
confirm it). Leave it up to you if
you need to formalize
action. W W*

UNCLASSIFIEDCOPY NO. 7722 January 1948STATE-ARMY-NAVY-AIR FORCE COORDINATING COMMITTEEMEMORANDUM FOR HOLDERS OF SWNCC 384THE ECONOMIC RECOVERY OF JAPANNote by the Secretaries :

Holders of SWNCC 384 are requested to downgrade their copies from SECRET to UNCLASSIFIED.

H. W. MOSELEY

W. A. SCHULGEN

V. L. LOWRANCE

V. F. FIELD

Secretariat

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COPY NO. 77

21 January 1498

STATE-ARMY-NAVY-AIR FORCE COORDINATING COMMITTEE

DECISION AMENDING SWNCC 384

THE ECONOMIC RECOVERY OF JAPAN

Note by the Secretaries

1. By informal action on 21 January 1948, the State-Army-Navy-Air Force Coordinating Committee approved SWNCC 384 after amending.
2. Holders are requested to substitute the attached revised enclosure (pages 2, 3, 4 and 5) for the one contained therein and destroy the superseded pages by burning.
3. In approving SWNCC 384 the Committee further agreed that the revised enclosure thereto should be presented to the Far Eastern Commission by the U.S. Member thereof; released for publication by the Department of State; and be transmitted by the Joint Chiefs of Staff to SCAP for his information.
4. In view of the above, no further action is required by the Committee on SANACC 384/1.

H. W. MOSELEY
W. A. SCHULGEN
V. L. LOWRANCE
V. F. FIELD
Secretariat

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COPY NO. _____

SWNCC 3843 October 1947Pages 1 - 5, incl.STATE-WAR-NAVY COORDINATING COMMITTEETHE ECONOMIC RECOVERY OF JAPANNote by the Secretaries

The attached memorandum and its enclosure, presented by the Army Member, are circulated for consideration by the Committee as a matter of PRIORITY.

H. W. MOSELEY

W. A. SCHULGEN

V. L. LOWRANCE

Secretariat

SWNCC 384

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THE ECONOMIC RECOVERY OF JAPAN

Memorandum by the Army Member, SWNCC

A review of the accomplishments of the first two years of United States occupation of Japan reveals that the first phase of the occupation has been completed. It is becoming increasingly apparent, however, that further progress toward the reestablishment of Japan as a productive and respected member of the community of nations will be difficult, if not impossible, without the creation of a self-sustaining Japanese economy. Until such time as these conditions are created, the economy of the Far East will remain disrupted and Japan will continue to be an increasingly onerous burden on the resources of the United States.

It appears, therefore, that immediate steps must be taken to hasten the economic recovery of Japan. Not only is it necessary to bring about the earliest possible determination of the reparations which Japan will be required to pay, it will be necessary to issue, within the framework of existing Far Eastern Commission policy decisions, an appropriate directive to SCAP.

To this end it is recommended that the enclosure be considered by the State-War-Navy Coordinating Committee as a directive to be dispatched by the U.S. Government to General MacArthur and subsequently released to the press for publication.

SWNCC 384

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E N C L O S U R E

STATEMENT TO BE MADE TO FAR EASTERN COMMISSION
BY U.S. MEMBER AND TRANSMITTED TO SCAP FOR INFORMATION
AND RELEASED FOR PUBLICATION

The U.S. Government has reviewed the accomplishments of the first two years of the occupation of Japan in the light of the ultimate allied objectives as set forth in the Potsdam Declaration and elaborated in subsequent policy statements.

This review has revealed that in implementation of the basic policy, SCAP has destroyed Japan's ability to make war on the land, on the sea, and in the air. Exceptional progress has been made in establishing political and economic institutions which will permit the development of a democratic and peaceful Japan capable of assuming the responsibilities of a member of the community of nations. The frame work of a democratic Japanese Government has been established in accordance with the provisions of a new constitution adopted by the Japanese people, and a popularly elected government is now in office.

However, the establishment of a self-supporting economy in Japan, without which the achievements of the occupation cannot be consolidated, has not yet been accomplished. Japanese industry and commerce are not yet sufficient to sustain the

SWNCC 384

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(Revised 21 January 48)

Enclosure

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Japanese economy; there is not yet final Allied determination of the reparations which Japan will be required to pay; and Japan is not yet in a position to participate fully in world trade and to contribute its part to the rehabilitation of world economy. Economic chaos in Japan has been prevented only at the expense of the American people who have financed the importation of vital food and other materials required to prevent widespread disease and unrest.

It is the view of the U.S. Government that if the fundamental objectives of the occupation are to be achieved, and if there are to be established the conditions necessary to enable Japan to make its proper contribution to the economic rehabilitation of world economy and to take its place in the community of nations, a much greater effort must be made to bring about the attainment of a self-supporting Japan with a reasonable standard of living. To this end, my Government believes that the Japanese Government and people, the Far Eastern Commission and its member states, and the Supreme Commander, recognizing the conditions which now require that more emphasis be placed on such a program, should take all possible and necessary steps, consistent with the basic policies of the occupation, to bring about the early revival of the Japanese economy on a peaceful, self-supporting basis.

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(Revised 21 January 48)

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The Japanese Government, under the supervision of SCAP, must prepare and implement plans under which Japan can become self-supporting at the earliest possible time. Progress has already been made in this direction. Although the primary responsibility for the preparation and execution of such a plan rests on the Japanese Government and people, SCAP must take the requisite steps to ensure that the Japanese Government and people energetically and effectively discharge that responsibility.

Greater efforts by the Japanese people, coupled with such assistance as the United States Government may be able to provide for a temporary period, should eliminate the burden on the American taxpayer of supporting the Japanese economy. While the American people will not continue indefinitely to subsidize the economy of Japan, the U.S. Government will shortly begin discussions in the Congress of a proposal to provide funds for the fiscal year 1949, in addition to funds requested for subsistence items, for the procurement of such imports as industrial raw materials, and spare parts to assist Japan to expand the output of its peaceful industries toward a status of self-support.

SWNCC 384

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(Revised 21 January 48)

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The Far Eastern Commission has already agreed on a number of policies directed toward this goal. For example, it has already declared that measures should be taken or continued to stimulate Japan's production of goods required for export and to ensure that goods produced are those in demand in countries requiring supplies from Japan. It has recently opened Japan to limited private trade and authorized the establishment of a revolving fund to aid in financing peaceful foreign trade. The U.S. Government, recognizing that the cooperation of the Far Eastern Commission and its member states is essential to the successful accomplishment of a program for bringing about a self-supporting economy in Japan, requests favorable consideration of future policies to be presented to the Commission toward this end.

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(Revised 21 January 48)

Enclosure

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STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

TO : General C. E. Snow

DATE: 27 January 1948

FROM : C. H. Pfuntner

SUBJECT: Withdrawal of Proposals

1. In connection with the question of whether or not a delegation may withdraw its own proposal after formal submission to the Commission and possible consideration by the Commission or by one of its committees, there are two clear precedents.

2. At the twenty-ninth meeting of the Steering Committee, 10 September 1946, the minutes indicate that, in response to a United States request that FEC-024/1, Japanese Research in Technological Subjects, be withdrawn for redrafting, "The Committee unanimously approved the request of the United States member to withdraw FEC-024/1 without prejudice for purposes of clarification . . ."

3. At the seventeenth meeting of Committee No. 7: Disarmament of Japan, 31 October 1946, the United States member asked leave to withdraw C7-010/1, Control of Japanese Military Activity in Japan, a United States substitute for SC-020/7 introduced earlier at committee level. The request for leave was voted on and a split vote (one member being absent) resulted. The Chairman therefore ruled that leave to withdraw was not granted.

4. In the light of the above, to date FEC practice on the subject of withdrawals would seem to imply the following general rules:

a. Once a proposal has been introduced and discussed by the Commission or one of its committees it cannot withdraw the proposal unilaterally, but must make a formal request for leave to withdraw.

b. The request for leave to withdraw can properly be made at the level at which the proposal is receiving consideration at that time, and may be acted on by that body.

5. Mr. Stratton has reviewed the above and concurs in the conclusions.

Carl H. Pfuntner
Carl H. Pfuntner.

FEC - Japanese Research
CHP/mrc

This Document Must Be Returned To
DC/R
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productivity per worker?

3. In the past what proportion of the gross national product have the Japanese consumed or invested at home?

4. Is a fundamentally democratic state a sound assumption for the future Japan?

5. Will there be ready openings for foreign investment in Japan?

6. How much of her pre-war U.S. market will Japan be able to recapture?

7. Because of Japan's past misdeeds will the Asiatic countries boycott her exports?

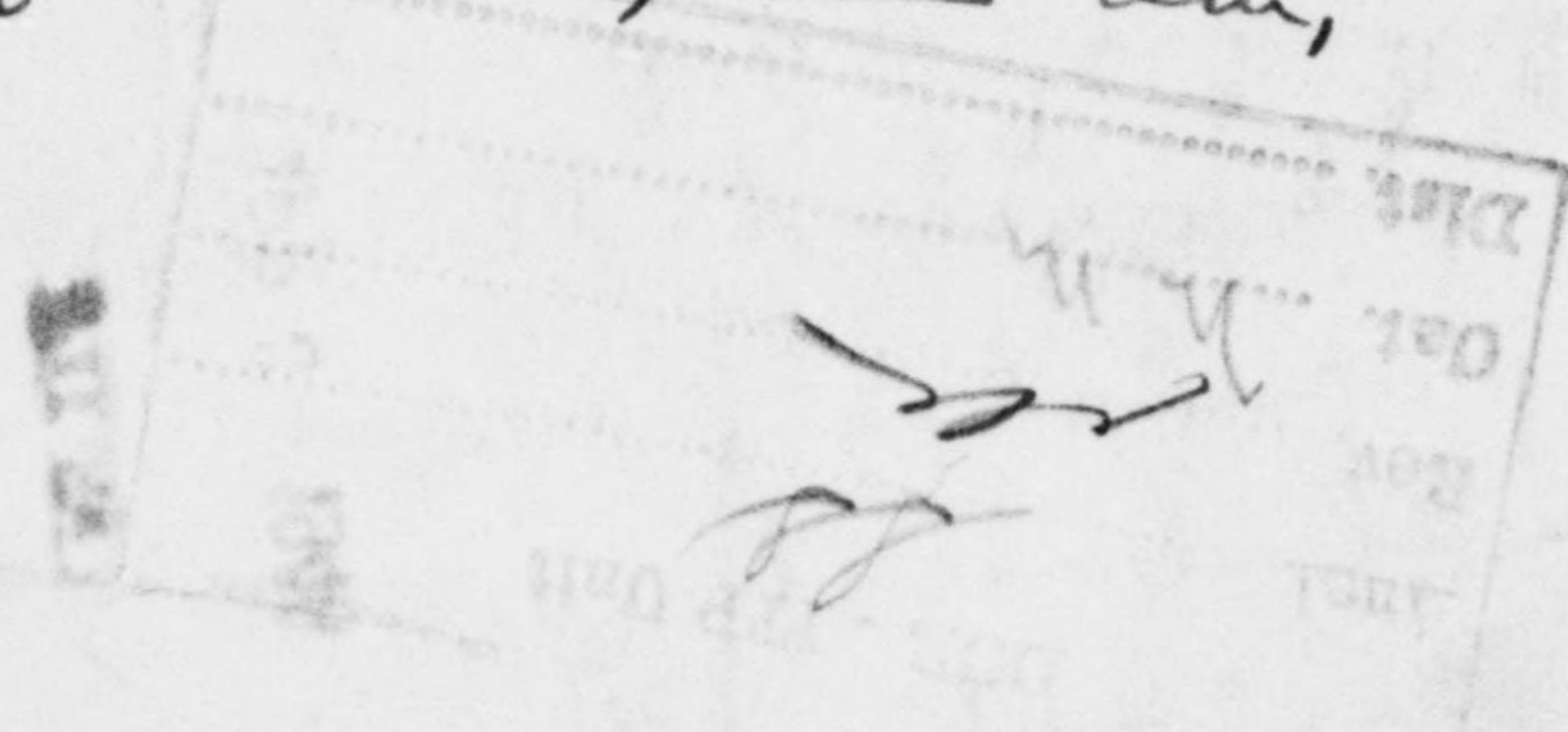
8. What can Japan supply to these countries and with what can they pay her?

9. Will Japan be allowed to impose any measure of exchange control to maintain her competitive position?

10. Will any of her international reserves or overseas assets be left to Japan?

With grateful thanks for any time you may spend in answering these questions, I am,

Very truly yours,
Donald B. Hirsch



PC/R

MAR 2 1948

In reply refer to
OE

My dear Mr. Hirsch:

I desire to acknowledge the receipt of your letter in which you ask a series of questions relating to the present and future of Japan. My answers to your various questions will necessarily be brief but I am enclosing herewith two publications, Occupation of Japan and Activities of the Far Eastern Commission, that may be helpful to you. Your questions and my replies are as follows:

1. "In what specific ways and to what extent is Japan being de-industrialized?" I refer you to the Table of Contents of the two publications herewith enclosed.

2. "Of the total population what percent will be in the labor force in, say, 1950, and what is the estimated productivity per worker?" It is probable that the labor force in 1950 will constitute in the order of 40 percent of the total population. We are unable to forecast with regard to the "productivity per worker" although an optimistic view would be that, if adequate food, raw materials, and capital equipment becomes available, worker productivity might move toward prewar levels.

3. "In the past what proportion of the gross national product have the Japanese consumed or invested at home?" This proportion varied but probably in the prewar decade it never fell below the order of 90 percent and in some years it probably somewhat exceeded 100 percent due to investment of foreign capital in Japan.

4. "Is a fundamentally democratic state a sound assumption for the future Japan?" I refer you again to the two publications enclosed herewith.

5. "Will there be ready openings for foreign investment in Japan?" As Japan's economic recovery proceeds foreign investment in Japan may become possible although opportunities may not be great.

Mr. Donald B. Hirsch,
24 Ferncliff Road,
Scarsdale, New York.

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6. "How much of her prewar U.S. market will Japan be able to recapture?" The answer to this depends of course upon many economic factors. Since, however, the bulk of Japan's dollar earnings originated with raw silk and since the U.S. market for raw silk is very small compared with prewar years, the present outlook for Japan in the U.S. market is not optimistic.

7. "Because of Japan's past misdeeds will the Asiatic countries boycott her exports?" We are unable to forecast whether the Asiatic countries will boycott Japan but we are, of course, hopeful that trade throughout the Far East will be restored to high levels, thereby contributing to world peace.

8. "What can Japan supply to these countries and with what can they pay her?" I presume Japan would endeavor to sell many of the same items she produced in prewar years, and that she would be paid with many of the same items. I am sure that data relating to Japan's prewar trade are available in many standard reference works.

9. "Will Japan be allowed to impose any measure of exchange control to maintain her competitive position?" Over the near term, of course, exchange controls will be necessary in order to use the export proceeds to promote economic recovery so that Japan will not be a burden on the United States.

10. "Will any of her international reserves or overseas assets be left to Japan?" Again, I refer you to the two publications herewith enclosed.

Sincerely yours,

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

2 Enclosures:

1. Occupation of Japan.
2. Activities of the Far Eastern Commission.

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ON *HWA* ✓
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