

Rudlin
Mokh

SECRET
DEPARTMENT OF STATE
ASSISTANT SECRETARY

November 19, 1947

- S - Mr. Secretary

Subject: Policy on Implementation of Excessive Concentration of Economic Power in Japan (Zaibatsu program).

This Document must be Returned to the RM/R Central Files

This memorandum is submitted pursuant to your request to Mr. Saltzman for a brief summary of the background and present status of the Zaibatsu program. You indicated to Mr. Saltzman that you desired this information in order to reply to certain questions which had been raised with you by Secretary Royall.

The Zaibatsu Program originated with the President's Policy statement on Japan of August 29, 1945 and with the JCS Post-Surrender Directive to SCAP in which he was directed to require the Japanese to dissolve large industrial and banking combines or other large concentrations of private business control and to take other action to encourage a wide distribution of income and ownership of the means of production and trade. This policy has since been adopted by the FEC. The means for executing the program were developed two years ago by a combined State-Army Mission to Japan, and a policy paper embodying its report was approved by SCAP and SWNCC, after being considered by Assistant Secretaries of War McCloy and Petersen and by General Hilldring. This paper is currently being considered by FEC. Implementation has been proceeding in Japan for the past two years on the basis of the original JCS Directive and is now well advanced.

*McCloy not
7/2/47*

Essentially, the program seeks to establish a system of competitive enterprise in Japan with substantial diffusion of ownership and control. To this end, certain laws and ordinances have been passed and others are currently being considered. Because of the nature of the problem, these measures necessarily place substantial administrative discretion in the hands of SCAP and the Japanese Government. Analogous laws in the United States and Canada are similarly constructed. Working groups which have dealt with this problem are satisfied that no adequate program can be drafted without placing such discretion in the administrator.

Until recently there has been general agreement in the Government on the Zaibatsu Program. Several weeks ago, however, the Army Department raised certain questions concerning the policy paper now before FEC, and

concerning

RM/R
23
at

SECRET

894.054/11-1947

CJC

SECRET

894.054/11-1947

3706

-2-

SECRET

concerning an Ordinance, now before the Japanese Diet as an addition to the series of anti-monopoly measures already in operation in Japan. By agreement between Mr. Draper and Mr. Saltzman these questions were referred to a working level group in the two Departments. Agreement was reached on a cable (Tab A) suggesting to SCAP that the administrative powers given by the Ordinance to the liquidating agency be restricted. SCAP was also informed that the FEC policy paper was under review by the two Departments and was requested to delay adoption of the Ordinance. Mr. Royall followed this cable with a personal message from himself to General MacArthur (Tab B) also requesting delay on the Ordinance. General MacArthur replied (Tab C) that the procedures of the Ordinance are designed to accomplish most effectively the implementation of existing policy and detailed his reasons for giving the Japanese authorities, under his supervision, the maximum of direct responsibility in carrying out Allied decisions. Shortly thereafter a more up-to-date draft of the Ordinance became available in Washington and was found by working levels in the Army to satisfy most of the questions which had been raised.

Insofar as Mr. Royall's apprehensions are known to the Department, they are as follows. First, he seems to fear that the program is "un-American". The specific objection is thought to be the fact that compensation for divested property is inadequate. It is inadequate and obviously must be, for if full compensation were paid, the former owners would retain the financial power to resume their former positions of economic domination. Certainly the objective of the program - the breaking of the identity of interest between monopolistic business and the totalitarian state by encouraging a system of free enterprise - is soundly American. As General MacArthur has pointed out, (Tab C), "this program, if successful in transforming a small number of monopolistic combines into numerous competing units and in bringing about widespread ownership of the instruments of production and trade, will erect a solid bulwark against the spread of ideologies or systems destructive of both free enterprise and political freedom under democratic capitalism."

Another fear appears to be that the program has been or may be carried too far. The basic directives, however, contain no instructions to SCAP to take extreme action. The Ordinance is written in general terms and is not, in the opinion of State and Army working levels, extreme. Criticism of the Ordinance is apparently based on the fear that it might, however, be administered in too drastic a manner. It is difficult to believe that General MacArthur, who as Theater Commander is responsible for implementation, would permit this.

The third fear is that the Program may interfere with economic recovery. It is SCAP's conclusion, with which the Department of State experts agree, that Japanese recovery would on the contrary be seriously jeopardized by delay in carrying out the Program. As long as the
divested

SECRET

SECRET

divested securities of former Zaibatsu concerns remain in the hands of the Japanese Government, where they now are, opportunity for free enterprise is restricted. A further important consideration is that delay would create uncertainty among Japanese businessmen and others as to whether we really intend to free them from the domination of the Zaibatsu, and whether they may now assume positions of responsibility in the Japanese economy without fear of reprisal at the hands of resurgent Zaibatsu interests.

It is understood that Secretary Royall has suggested that a committee of prominent private citizens be formed to investigate the program. A primary disadvantage of this proposal is that the activities of this committee could not possibly be kept secret, and the knowledge in Japan that the United States was uncertain about the program would greatly endanger its successful implementation. The program's success depends on encouraging Japanese businessmen to take independent measures towards Japanese recovery, and upon minimizing their fear of taking action inimical to Zaibatsu interests.

Since the program would almost inevitably have to be held up pending receipt of the committee's report, the success of the program and economic recovery would both be imperilled in the interval. Also, the continued retention by the Japanese government of the divested securities for any longer period than necessary would strengthen the groups in Japan and those countries of the FEC who prefer that ownership and control of enterprises remain permanently in the hands of the Japanese government. General MacArthur has pointed out (Tab A) that "involved in the failure or success of the program is the choice between a system of free competitive enterprise which goes hand in hand with political freedom and a socialism of one kind or another under which political freedom is a myth", and that "reopening the policy for discussion at this time might well result in altering not only procedural or policy matters but in sacrificing the essential objective."

Conclusions:

1. The appointment of a special committee of prominent private citizens is unnecessary and undesirable, for the reasons set forth above.
2. Further delay in passage of the above-mentioned Ordinance would have highly undesirable consequences both for the program and for Japanese recovery, and should not be incurred unless specific and compelling reasons for so doing are presented.

Secretary Royall should be urged to present forthwith any specific objections to the program or recommendations for alterations in the program. If these cannot be made forthwith, then he should be asked

to

SECRET

-4-

SECRET

to agree to the passage of the Ordinance, in accordance with General MacArthur's recommendation, and rely on the fact that State and Army Departments can in consultation with SCAP, make necessary adjustment if the Ordinance is carried out in a too drastic manner.

This memorandum has been concurred in by A-T (Mr. Thorp), A-S (Mr. Saltzman), (FE) Mr. Butterworth, NA (Mr. Allison), OE (Mr. Whitman), and IR (Mr. Vernon).

Charles F. Saltzman
by Frank G. Wisner

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

SECRET

DEPARTMENT OF STATE

THE UNDER SECRETARY

A-S - Mr. Wisner

In accord with
our phone conversa-
tion. Suggest
you classify the
attached papers
"Secret."

McWilliam
S/S

SECRET

DEPARTMENT OF STATE

Memorandum of Conversation

DATE: November 20, 1947

SUBJECT: Proposal to reconsider Zaibatsu Program.

PARTICIPANTS: The Secretary of State,
A-S, Mr. Wisner

COPIES TO: A-T - Mr. Thorp
FE - Mr. Butterworth
NA - Mr. Allison
OE - Mr. Whitman

894.054/3.650

This entire memo herein mentioned is completed then distributed with

This Document must be Returned to the RM/R Central Files

894.054/11-2047

FORM 1-1408

The attached memorandum dated November 19, 1947 was submitted to the Secretary on the morning of November 20 by Mr. Wisner, who was requested by the Secretary to remain present while he read the memorandum.

After reading the memorandum in its entirety, the Secretary remarked that it seemed to him to be a very effective presentation of the case in favor of the Zaibatsu Program. After further reference to the memorandum he gave the following instructions:

1. That the memorandum be re-written in such manner as to remove all references to Mr. Royall personally, and any statements which might contain the inference that Mr. Royall is the person who has expressed the doubts and reservations. The revised memorandum should retain the full substance of the original but care should be taken to assure that it is not argumentative in tone. It should be a factual review of the history and development of the Zaibatsu Program and a forthright statement of the case. The conclusions should also be deleted. It would be desirable to add any particularly significant facts which may have been omitted in the effort to compress the memorandum.

2. When the memorandum has been completed and fully coordinated with the interested offices of the Department, it should be sent to Mr. Royall by Mr. Lovett. It is desired that Mr. Lovett assume the Secretary's role and responsibility in dealing with Mr. Royall and the other individuals concerned

in

SECRET

CJC

894.054/11.2047
SECRET FILE

RM/R	75
Anal	
Rev	
at	

-2- SECRET

in connection with the proposed submission of this question to a committee of prominent citizens. The manner of presentation of the memorandum by Mr. Lovett to Mr. Royall was left to the discretion of Mr. Lovett.

The Secretary clearly indicated that he considered it advisable for a copy of the memorandum to reach and be read by Mr. Stimson and any other individuals who may be requested to consider this matter together with Mr. Stimson. He said that he hoped Mr. Royall would see fit to present the memorandum to Mr. Stimson and the others. He further stated that it might very well be the conclusion of Mr. Stimson and the others, after reading the memorandum, that no investigation or reconsideration of the Zaibatsu Program by them would be necessary or advisable.

The Secretary then stated that he felt the memorandum might contain, as a separate paragraph at the end, a reference to the situation in Germany. He was not explicit in this statement, but he spoke of the fact that General Clay had apparently been opposed to the adoption of a program for Germany similar to the Zaibatsu Program in Japan. He said that whereas all of the details were not fresh in his mind, he believed that there had been a controversy in Germany as the result of which some "Treasury person", who had gone to Germany to inaugurate and implement such program, had been sent home by General Clay. He summed up this point by saying that in some manner the difference between the situations in Germany and Japan should be brought out.

- 0 - 0 -

Mr. Wisner received the impression from the Secretary's remarks that he was unwilling to join with Mr. Royall in a representation and recommendation to Mr. Stimson and the others that the entire program be reviewed. The purport of his remarks was that he would prefer that if Mr. Stimson and any others are to be requested to consider this matter, they should do so strictly on the merits of the case - including all the relevant facts - and arrive at their conclusion without any persuasion or prejudgment of their decision.

Finally, the Secretary said that he assumed that all aspects of the matter would be treated on a secret basis.

Frank B. Wisner

A-S:FGWisner:asm
11/20/47

SECRET