

DEPARTMENT OF STATE  
ASSISTANT SECRETARY

TO: Mr. *Moulard*  
FROM: Mr. C. E. Conger

For concurrence.

SUSPENSE: Nov. 7  
*if possible*

T-666

October 31, 1947

A-S - OE/Secretariat

OE - Mr. Whitman

Proposed Telegram to SCAP on raw silk sales to Tokyo.

For several weeks the Inter-Allied Trade Board has been discussing the feasibility of SCAP selling raw silk to private buyers in Tokyo. In its meeting of October 28 the Board unanimously requested the U.S. member to transmit a recommendation to SCAP to the effect that private buyers in Tokyo be permitted to purchase raw silk. The attached telegram includes the requested recommendation. In addition to the recommendation the cable makes clear that the U.S. Government not only makes no recommendation with regard to the pricing formula to be employed by SCAP but that the U.S. member on the IATB rejected proposed recommendations relating to the pricing formula. The proposed telegram also indicates that this government is well aware of the New York stockpile of raw silk and that we will be sympathetic to SCAP action with regard to the pricing formula and the sale to private buyers in view of the New York stockpile situation.

Informal clearance of this action was obtained from the Commerce Department and the Department of the Army when the working party on silk of the OAC Subcommittee on Far Eastern trade was working on a silk report submitted September 18.

A-S - OE/Secretariat

October 31, 1947

OE - Mr. Whitman

Telegram to SCAP.

DRAFT TELEGRAM TO SCAP

1. Inter-Allied Trade Board in <sup>Recent</sup> ~~the~~ meeting ~~of 28 Oct~~ unanimously requested that following statement from Board's minutes be transmitted to SCAP:

"The Board considered the feasibility of SCAP arranging for the sale of raw silk in Tokyo to private buyers. The consensus of the Board membership was that SCAP should, in the very near future, make arrangements whereby foreign traders in Tokyo would be able to purchase raw silk, without necessarily purchasing through their respective governments. The chairman pointed out that he was most mindful of the heavy inventories of raw silk in the United States but that he concurred with the views of the other board members since the advantages of such a course more than offset any minor disadvantages. The chairman agreed to inform the U.S. Government of the Board's view, which, he believed, would be transmitted to SCAP with the concurring views of his government."

2. Draft of statement considered by Board included sentence "Private buyers in Tokyo should be offered price and quality opportunities equal to those prevailing in New York." With this general principle there was

general

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general agreement, <sup>although</sup> however UK member suggested adding statement to effect that equality of opportunity as to price between buyers in Japan and in New York should be defined in light of current intergovernmental agreements re silk pricing. In other words he proposed SCAP/silk to <sup>sell</sup> UK traders at same prices that would be charged if UK Government were purchaser. U.S. member as chairman was noncommittal on UK suggestion but indicated that U.S. could not agree to a proposal which would bind SCAP to offer same terms to private buyers as to their governments.

3. No objection here SCAP arranging for sale raw silk to private buyers in Tokyo. Price policy objective would appear to be to offer silk in Japan at prices and on terms which will not be attractive to buyers who are catering to US market as long as they can have their orders filled out of stocks already in the US but which will be attractive to buyers who are catering to other markets. ~~It is felt that UK and other EC countries would be most unlikely to resell raw silk in US to realize dollars.~~

DE: DO Bowman )  
RMPaige ) : bcb 10/31/47

Cleared by  
Commerce Dept.  
In. l. ee in  
draft - R.P.

A-5/12K  
IR  
RAB RAY  
NA-AS

STANDARD FORM NO. 64

*Office Memorandum* • UNITED STATES GOVERNMENT

TO : A-S - OE/Secretariat

DATE: October 31, 1947

FROM : OE - Mr. Whitman

SUBJECT: Proposed Telegram to SCAP on raw silk sales to Tokyo.

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STANDARD FORM NO. 64

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-2-

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OE:DOBowman )  
RMPaige ) : bcb 10/31/47

Commerce Dept.

CP

IR

**SECRET**

WAR DEPARTMENT  
WAR DEPARTMENT SPECIAL STAFF  
CIVIL AFFAIRS DIVISION  
WASHINGTON 25, D. C.

ASSISTANT SECRETARY  
A-S  
DEC 22 1947  
SALTZMAN  
DEPARTMENT OF STATE  
22 December 1947

CSCAD

MEMORANDUM FOR: EXECUTIVE ASSISTANT, OFFICE OF THE ASSISTANT SECRETARY OF STATE FOR OCCUPIED AREAS (ATTN: MR. HEMMENDINGER)

SUBJECT: RTAC Responsibilities

1. Reference is made to your memorandum which was forwarded under date of 16 October 1947 on the stated subject of "RTAC Responsibilities". Dispatch of a cable in the form of an interim answer to GHQ, SCAP is not now necessary inasmuch as the problem was discussed recently with Brigadier General Fox, Deputy Chief of Staff for SCAP. A specific proposal on this problem of an appropriate agency to make allocations of assets to be removed from Japan on reparations account should be dispatched to GHQ, SCAP for comment and recommendations at the earliest possible moment and not later than mid-January 1948. Discussions concerning such a communication with GHQ, SCAP have taken place this week between Mr. Pollard of this Division and Mr. R. Burr Smith of your Department (OE).

2. For your interest and study there is accompanying this a draft statement entitled "Establishment of Japanese Reparations Allocating Agency" which was prepared in the Civil Affairs Division. This draft represents an attempt to meet the requirements of GHQ, SCAP in that it would transfer from SCAP to an international agency the responsibility for allocating to claimant countries assets which are declared available for removal from Japan on reparations account. This draft avoids the difficulties mentioned in the draft cable which accompanied your memorandum of 16 October 1947.

3. In the light of the foregoing, it seems appropriate to return to you unsend the proposed draft cable.

FOR THE CHIEF, CIVIL AFFAIRS DIVISION:

2/13

*No further action required, per nh.  
Sent notice to CAD.*

*Ray J. Lane*  
R. J. LAUX  
Lt. Colonel, GSC  
Executive

2 Incl  
Draft  
*Statement by Army member  
Janacc.*

2352

*Copy sent OE Smith with mail  
Dec 23  
not*

**SECRET**

3198

*74A.00119 (Control Japan) / 12-22-47*



October 16, 1947

TO: Executive Officer, CAD.

FROM: A-S Mr. Hermendinger.

SUBJECT: RTAC Responsibilities.

Attached hereto is a draft cable to SCAP with respect to the above subject. This cable is in reply to C 53888, July and X 54709, August.

I would appreciate it if you would inform me when concurrence has been obtained on this cable.

235-2  
3-191

Oct. 16

CONFIDENTIAL

SCAP

ACTION

D/PO; OASW; CAD; CAD - State.

From CSCAD.

Reurad C 53688 July and X 54709 August, U. S. cannot unilaterally: (1) direct other nations assume responsibilities suggested or (2) derogate authority granted SCAP by Moscow Conference. Therefore not possible by unilateral action to go beyond provisions in Allocations Procedures Directive (ourad 95604 April Part B) re advisory functions of REAC. However in current negotiations on F&C policy re reparation allocations procedures, we are bearing in mind SCAP views expressed in cited cables.

C 53688 is CM IN 1299, July.  
X 54709 is CM IN 1891, August.

2352  
3198

*Mr. Jervak*  
 DEPARTMENT OF STATE  
 ASSISTANT SECRETARY

*Mr. Hennundinger.*

*For comment +  
 concurrence.*

*JW - Cudge*

*W 198*

*Supervise: Oct. 16*

T-646  
612

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DRAFT CABLE TO SCAP

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*RBS*  
OE:RBSmith-SGKallis/gp  
SGK

*Le/P* *NA*

*JK/Sec* A-S - JK/Sec A-S

2352  
3198

A-S - JK/Sec

8 October 1947

OE - R. B. Smith

Draft Cable on RTAC Responsibilities

The attached proposed cable has been drafted to keep SCAP advised as to opinion here on the responsibilities which can, under existing conditions, be assigned to the RTAC re reparation allocations matters, and to give assurance that his views, as expressed in C53888 July and X54709 August are being fully considered here.

SGK  
OE:RBSmith-SGKallis/gp

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STANDARD FORM NO. 64

7-646

*Office Memorandum* • UNITED STATES GOVERNMENT

TO : A-S - JK/Sec  
FROM : OE - R. B. Smith  
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DATE: 8 October 1947

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OE:RBSmith-SGKallis/gp  
SGK

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3196

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## DRAFT CABLE TO SCAP

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OE:RBSmith-SGKallis/gp    Le/P    NA    A-S - JK/Sec    A-S

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*Mr. Juebeck's  
cy.*

WAR DEPARTMENT  
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CONFIDENTIAL I VI

PARAPHRASE NOT REQUIRED. HANDLE AS CONFIDENTIAL CORRESPONDENCE  
PER PARAS 511 and 60a (4) AR 380-5

From: CINCFE Tokyo, Japan

To: War Department

Info: USAFIK

Nr: X 54709

10 August 1947

Reurad State Serial 300, 1st August 47. RTAC should be given full responsibility for allocations subject to the limitations stated on ourad C 53888, 8 July, for reasons as follows. The best plants will be in demand by most of the claimants. Each nation is supposed to get its fair share of the various types and conditions of plants. Only one nation can get the best plant in any category. The other claimants will have to accept their second, third, fourth, or lower choice. Therefore, in order to make their fairest allocations the conflicts for the best plants will have to be settled first, then the resulting and contingent conflicts over plants of successively lower choices. Those plants about which there are no conflicts may well be a minority, consisting of plants remaining after conflicts are settled. But because they absorb part of the percentage share of the claimant nation, which that nation might prefer to use on one of the plants in conflict, if necessary, their allocation might also be a contingent one. The allocation of plants not subject to conflicting claims would in most cases be made after all conflicts are resolved. Therefore, since RTAC would already have all the claims and records besides being cognizant with the entire problem it should make the allocation. There should be no divided responsibility for allocations between SCAP and RTAC. It is impossible to foresee all possible problems which may arise and division of responsibility might

CM IN 1891 ( 10 Aug 47 )

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THIS DOCUMENT CONTAINS INFORMATION AFFECTING THE NATIONAL DEFENSE OF THE UNITED STATES WITHIN THE MEANING OF THE ESPIONAGE ACT, 50 U. S. C. 3231, AND ITS TRANSMISSION OR THE REVELATION OF ITS CONTENTS IN ANY MANNER TO AN UNAUTHORIZED PERSON IS PROHIBITED BY LAW.

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CONFIDENTIAL IVT

Page 2

From: CINCPAC Tokyo, Japan

Nr: X 54709

10 August 1947

cause delays, friction, and other undesirable results.

2. Voting principles. The drawing of lots or use of mechanical methods should be substituted for voting wherever possible. Where voting is necessary it should be decided by simple majority vote (6) of the 11 nations having members on the committee. To require a two thirds majority would often make it difficult to resolve conflicts-sometimes impossible. It is essential that the execution of such industrial reparations program as may be finally adopted be expedited. If decisions must be made in sequence, then holding up one decision would unduly delay the balance of the program. No such decision, involving only one facility, is of sufficient importance to delay the balance of the program. The provision in ourad C 53888, authorizing SCAP to withdraw from availability for allocation plants which may not have been allocated by RTAC, will serve to prevent unnecessary harm to the Japanese economic situation. However, that provision does not insure the positive provision of reparations to claimant nations get something which they can use, than to receive nothing at all; therefore, the making of decisions, where voting is necessary, should be as simple as possible.

3. The time limit for decision. RTAC should be allowed six months from the time when catalogs of industrial facilities or evaluations are presented to the R and R delegations, by SCAP, provided that national shares shall have been decided not later than three months before the expiration of the six months period. Inspection of plants in SCAP custody

CM IN 1891

( 10 Aug 47 )

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Page 3

From: CINCPAC Tokyo, Japan

Nr: X 54709

10 August 1947

is now going on. The study to be conducted by overseas consultants incorporated should result within about six months lists of all industrial facilities available for reparations. Catalogs of all such plants and evaluation will be given to the reparations delegations as soon as completed thereafter. The six months period should begin when the last catalog or evaluation to be issued has been presented to the delegations, since claims in all categories should be considered together as indicated in paragraph five below. Six months from that date should be adequate to complete inspections and to make allocations.

4. Data required for resolving disputes. The data required for resolving disputes should include only the percentage shares remaining to each claimant and the stated preference of each claimant. The arraying of these preferences if utilized as stated in paragraph one above will result in a fair and equitable balance of items. It can also be presumed that the facilities nations desire most will be the ones which will integrate best and be most easily utilized in their economies. It is impossible for RTAC or any other single agency to verify economic justifications for claims submitted by claimants. To require such evidence and to use it in resolving conflicting claims merely encourages deliberate falsehoods and exaggerated statements of justification, and penalizes those claimants who try to be honest. Any attempt to utilize substantiating evidence will cause serious bickering, recriminations, and accusations in RTAC, possibly resulting in the complete breakdown of the committee's functions.

CM IN 1891 ( 10 Aug 47 )

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CONFIDENTIAL I VI

Page 4

From: CINCPAC Tokyo, Japan

Nr: X 54709

10 August 1947

5. Certification of disputes to RTAC. If RTAC makes all allocations, no certification will be required, since all claims will be handled initially by RTAC. If RTAC handles only conflicting claims as recommended by the Australian delegate in the FEC, the following procedures are recommended: Each claimant nation will submit to SCAP a list of all industrial facilities in all designated categories desired by or acceptable to him, arranged in the order of his preference. These lists will show the conflicting claims for all facilities of first choice. SCAP will by letter transmit these claims to RTAC. RTAC will then have to settle the conflicts for first choice which settlement will result in new conflicts for second and subsequent choices. When RTAC shall have finished settling all the conflicting claims, SCAP will then be able to make out allocation notices for those facilities on which there are no conflicts.

6. RTAC secretariat. If the justification for claim is limited to those stated in paragraph four above, RTAC will need only competent administrative and clerical assistance to keep the records and perform the mechanics of carrying out the tentative and final decisions regarding allocations. If RTAC must resolve conflicting claims as to economic justification for reparations, then there will be required a strong force of economists representing all the different powers. First alternative is preferred.

End

300 is CM IN 410 ( 3 Aug ) CAD  
C 53888 is CM IN 1299 ( 9 Jul ) CAD  
ACTION: CAD  
INFO : ASW, P&O, SSP  
CM IN 1891 ( 10 Aug 47 )

DTG 100735Z sej

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COPY NO. 19

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**INCOMING TELEGRAM**

DEPARTMENT OF STATE—DIVISION OF COMMUNICATIONS AND RECORDS

TELEGRAPH BRANCH

REPRODUCTION OF A WAR DEPT MESSAGE TO STATE FOR INFO

3

Info:  
S/S  
UE  
A-H  
FE  
OCD  
ITP  
ESP  
FC**CONFIDENTIAL**  
Paraphrase not required*Reph drafted July 18  
miss Kallis -  
draft returned  
A H 2352 -  
NH*

Control 2922

Rec'd July 9, 1947  
5:42 p.m.

FROM: CINCFE Tokyo Japan

TO: WDSCA

NO: C 53888

8 July 1947

Refer Teleconference 19th June. Consider transfer of responsibility for allocations of industrial reparations from SCAP to RTAC to be highly desirable provided adequate safeguards for related functions of SCAP are guaranteed.

There should be clearly defined division of reparations responsibility. Allocations made by SCAP and accepted by claimants under provisions of advance transfer directive must be recognized by RTAC because removals will have been initiated. RTAC should make all allocations after date of transfer of responsibility whether as advance transfers or otherwise, since large majority of claims are likely to be conflicting and interrelated. Most allocations will therefore be successive and contingent. SCAP must have authority to prevent unnecessary delays and inaction in the allocation decisions.

It is recommended:

A. That RTAC be given full responsibility for all allocations of industrial reparations, except those which may have been made by SCAP and accepted by claimant prior to date of transfer of responsibility.

B. That RTAC responsibility for allocations include following essential related matters: The form, content, and supporting evidence of claims; dates and methods of submissions and processing of claims;

CM IN 1299

(9 Jul 47)

provision

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INFORMATION COPY

*Mr. Gubek's cy.  
2352**Kallis*

## CONFIDENTIAL

-2- Control 2922, from Tokyo

provision and maintenance of worksheets and records essential to determining allocations except as defined in subparagraph C below.

C. That SCAP be responsible for designating availability of industrial facilities for reparations; for provision of necessary inventories, engineering data, and evaluation of facilities; schedules and control of inspections of reparations facilities. On receipt of allocations notice from RTAC: Scheduling arrangements and control of dismantling, packaging, and delivery of allocated facilities on board ship of claimant nation.

D. That SCAP may at his discretion declare no longer available for allocation any industrial reparations facility which has not been allocated within a period of six months after date of presentation to RTAC of necessary descriptive engineering or evaluation data pertaining to said facility, whichever is the later delivery.

E. That in the reparations delegation of the country to which a given facility is allocated by RTAC fails to submit to SCAP within one month after the date of allocation of a facility, a definite commitment to accept said facility as reparations and to accept delivery of the said facility within a time limit to be designated by SCAP, SCAP will allow RTAC one additional month in which to reallocate the said facility. If the reallocation is not accepted by the recipient delegation within one month SCAP may in his discretion withdraw said facility from availability for claim, allocation, and removal.

F. It is further recommended that the suggested amendments in Teleconference therefore be further revised in accordance with the above and referred here for further comment.

ACTION: CAD

CM IN 1299

(9 Jul 47)

LV

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STANDARD FORM NO. 64

*Office Memorandum* • UNITED STATES GOVERNMENT

TO : Mr. N. Hemmendinger, A-H  
Dept. of State

FROM : Mr. Geo. M. Pollard

DATE: 5 Sept. 47

SUBJECT: Reparations Technical Allocations Agency - Pertinent material

1. CINCFE cable X 54709 (CM IN 1891 of 10 Aug. 47 to WD)
2. State cable to SCAP No. 300, 1 Aug 47, (CM IN 410 of 3 Aug.)
3. CINCFE cable X53888, 8 July 47 (CM IN 1299, 9 July)
4. TT 8241 of 19 June 47, Item WD-12
5. TT 8262 of 25 June 47, Item WD-8
6. SVC Msg 18706 re telecon TT 8266 Item 8.
7. FEC 211/3, Paras 1 g, 1 i, 1 j, 1 o.
8. SWNCC 236/44, Part I, Para 3 c, 8 a, 8 c, 8d, 12, and 13.
9. SCAP cable to WD of 8 Nov. No. C67079 (CM IN 1586 of 9 Nov. 46)
10. Telecon TT 7193, Oct. 46, WD-3.
11. WD cable to CINCAFPAC, W 86804 of 3 Dec. 46
12. SWNCC 236/4 and W 97239, 14 Feb. 46
13. SCAP cable CA 57993, 18 Feb 46
14. WD cable to CINCFE, W 89522 of 10 Jan. 47
15. CINCAFPAC cable C 59473 (CM IN 99, 1 Apr 46)

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26 August 1947

TO : Mr. N. Hemmendinger  
Department of State

FROM : Mr. Geo. M. Pollard *GMP*

SUBJECT: RTAC → JRAA

Accompanying this is a "think statement" providing for the establishment of a Japanese Reparations Allocating Agency to perform the function which the SCAP<sup>previously</sup> has been directed to perform, namely, allocate to claimant countries assets available in Japan for removal on reparations account.

This statement is designed to provide the basis for a directive to satisfy SCAP's request that he be relieved of this allocating function. Your comments and suggestions will be appreciated.

Incl.

CC: Burr Smith  
O. McDiarmid  
R. Whitman

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There should be established in Japan a Japanese Reparations Allocating Agency hereinafter called the Agency. The sole function of this Agency should be to allocate to claimant countries assets which are declared available for removal from Japan on reparations account.

Each nation which is a member of the Far Eastern Commission should designate a member of this Agency to represent the interests of that country. The members of the Agency should be considered as a part of the de facto diplomatic missions representing the respective countries at GHQ, SCAP.

The U. S. member of the Japanese Reparations Allocating Agency should serve as the Chairman of the Agency and should direct all executive and administrative work involved in the functioning of the Agency in Japan.

The Agency should have full responsibility for all allocations of industrial assets which may be declared available for removal from Japan on reparations account except those which have been allocated previously by the SCAP under outstanding directives and which have been accepted by a claimant nation prior to the date on which the transfer of responsibility for making allocations from the SCAP to the Agency is effected.

The allocating responsibility of the Agency shall include all essential matters such as the form, content and supporting evidence to accompany claims (i.e., requests); the timing and methods of sub-

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allocation of the same assets; the Agency to coordinate the Agency to  
in instances where more than one claimant country requests  
the members of the Agency who are to present any case  
of the asset is to be made should be determined by a majority vote of



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Each nation which is a member of the Far Eastern Commission should designate a member of this Agency to represent the interests of that country. The members of the Agency should be considered as a part of the de facto diplomatic missions representing the respective countries at GHQ, SCAP.

The U. S. member of the Japanese Reparations Allocating Agency should serve as the Chairman of the Agency and should direct all executive and administrative work involved in the functioning of the Agency in Japan.

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The allocating responsibility of the Agency shall include all essential matters such as the form, content and supporting evidence to accompany claims, (i.e., requests); the timing and methods of submitting and processing claims, and provision and maintenance of work sheets and records essential to allocation determinations.

In any case, wherein more than one claimant nation requests allocation to it of a given asset, the nation to which the allocation of the asset is to be made should be determined by a majority vote of the members of the Agency who are present and vote.

In instances wherein more than one claimant country requests allocation of the same asset, the Agency in selecting the country to

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which the allocation should be made, would be expected to consider primarily the proportion unfilled of the respective countries' total share of assets to be made available from Japan on reparations account and the statement of preferences made by the respective claimants.

The SCAP will continue to be responsible for all matters concerning reparations not directly related to allocation of available assets to claimant countries. The SCAP should continue to be responsible for designating industrial assets to be made available for reparations removals; for provision of appropriate and necessary inventories, engineering data and evaluation of assets; for scheduling and for controlling inspections of reparations assets; and upon receipt of notice of an allocation being made by the Agency, for scheduling, arranging and controlling of dismantling, packing and delivery of allocated facilities on board ship of the claimant nation.

Any asset which the SCAP has notified the Agency is available for removal from Japan on reparations account and which the Agency does not within the following six months allocate to any claimant country, should no longer be considered as available for reparations removal and should be released to the Japanese Government for disposition by it.

If the claimant country fails to submit to the SCAP within one month after the date on which that country has been allocated an asset by the Agency, a definite commitment to accept this asset on reparations account and to accept delivery of the said asset within a time interval to be stipulated by the SCAP, the Agency should re-allocate the said asset within the ensuing two months. If a re-allocation and definite commitment to accept an asset on reparations account and to accept delivery of such asset is not accomplished within four months after the initial allocation, the asset should be withdrawn from the available assets and released to the Japanese Government for disposition by it.

CONFIDENTIAL

Classification approved by:

SECRET

*T-695*

December 22, 1947

A-S/SJK

OE - Mr. Whitman

SCAP Proposal to Permit Foreign Banks in Japan to  
Loan Yen Funds to Licensed Commercial Entrants

In C-57171, SCAP has proposed that foreign banks licensed to operate in Japan be authorized to make yen loans to "commercial entrants". He requested advice as to whether W-88573, which has been approved by SANACC, constituted requisite authority to implement this plan.

The attached proposed cable requests further information on the nature of the transactions contemplated, and states that these transactions do not appear to be within the category of those approved in W-88573.

Request despatch through CAD.

740.00119-CONTROL (JAPAN) / 12-2247

SECRET FILE

OS / W

12-2247

*740.00119 Control Japan*

*o j m*  
OE:OJMcDiarmid:mw

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UNITED STATES POLITICAL ADVISER FOR JAPAN

DCR file  
full NA  
WS

Tokyo, December 24, 1947.

Personal

Dear Niles:

I greatly appreciate your very nice letter of December 2, which arrived only today--presumably in the crush of problems you had forgotten to mail it!

First of all, I would like to extend to you my heartfelt sympathy upon the loss of your Father. There is so little that one can say when these things happen that I shall not attempt to say more other than I am extremely sorry and feel with you.

As you probably know, John Allison has advised me by telegram of his departure from Washington on December 27. This should get him here approximately December 30. We will, of course, do what we can to make John's visit fruitful and worth the effort. In my opinion, these visits are always good and in addition to giving the people at home some idea concerning the problems with which we are faced here as well as the realities of the Japanese situation, the people in Headquarters also are usually duly impressed with the intelligence and interest taken by our people.

I also look back on our trip to Okinawa as a profitable and pleasurable experience. Admittedly it was very short but, under the circumstances, I think that we were able to squeeze a lot of juice out of the orange. Since our visit, a number of improvements have already taken place, including the organization of a small staff in Headquarters of Philrycom specifically charged with Military Government for the Ryukyus. In addition, General MacArthur and the Chief of Staff had General Moore on the mat after I spoke to them about conditions in Okinawa as I saw them. I do not know what the Department's reaction will be to the despatch concerning our visit (which I hope you will keep in close circulation in the Department only), but certainly all this can do no harm and I hope might do some good.

I have just come from a Council meeting which followed the pattern of the previous one, namely, purely pro forma in nature.

Niles W. Bond, Esquire,  
Acting Chief,  
Division of Northeast Asian Affairs,  
Department of State,  
Washington, D.C.

AUG 8 1950

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740.00119 CONTROL (JAPAN) / 112-2447 / 12-24-47

740.00119 Control

- 2 -

Perhaps all this is merely a lull before the storm as I cannot imagine the Soviet Member keeping quiet much longer. In the interim, he probably is marshaling his "facts" with a view to blasting some phase or other of the Occupation. However, all this is part of the day's work and I shall, of course, do what I can to minimize the effect upon our policies here.

With cordial best wishes and personal regards,

Sincerely yours,

*Bill.*

W. J. Sebald

STANDARD FORM NO. 64

# Office Memorandum

UNITED STATES GOVERNMENT

TO : FE: Mr. Penfield

FROM : NA: R A Fearey

*Frank*

Office of  
**FAR EASTERN AFFAIRS**  
**DEC 29 1947**  
 DIRECTOR  
 Department of State

DATE: December 29, 1947.

SUBJECT: Progress Report on Proposal to Withdraw UK Contingent from Japan.

I just for the second time called Colonel Hart, to whom Colonel Taylor seems to have referred this matter, to find out how things were coming along. He said that SCAP had answered their wire and had no objections, and that they had sent the file up to the JCS for final action last Friday December 26. He estimated that the JCS would take about a week in all to act, and said he had recommended that they request the Secretary of SANACC to notify State formally of their decision. I have asked him (Colonel Hart) and Jack Gardiner to let me know immediately either of them has a JCS decision so we can inform the Australian Embassy without further delay.

740.00119 CONTROL (JAPAN)

*R*

12-2947

GS/J

*(Japan) / 12-2947*

State Dept.  
 Northeast  
 Asian Affairs  
 Division  
 from Fearey

RM/R
<i>7</i>
<i>J</i>

NA:RAF/hhc

~~NB~~ ~~RAF~~

MG (Summary of attached)  
With no item on the  
agenda under procedural  
matters, the 48<sup>th</sup> Meeting  
of the ACTJ on Dec. 24  
adjourned after Holiday  
Greetings were extended  
by the Chairman to his  
Colleagues & the Secretariat.



UNITED STATES POLITICAL ADVISER  
FOR JAPAN

DIVISION OF  
NORTHEAST ASIAN AFFAIRS

JAN 13 1948 G

No. 1480

Tokyo, December 29, 1947.  
DEPARTMENT OF STATE.

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DEPARTMENT OF STATE

1948 JAN 8 AM 9 52

SUBJECT: Forty-eighth Meeting of the Allied Council  
for Japan, December 24, 1947.

740.00119 Control (Japan)  
FE-FC-A-9-05-80-EE-00D-2-1147

The Acting Political Adviser has the honor to refer to this Mission's despatch No. 1443 of December 11, 1947, and previous correspondence in regard to meetings of the Allied Council for Japan, and to forward as enclosures five copies each of the Agenda and Corrected Verbatim Minutes of the forty-eighth meeting of the Council held on December 24, 1947.

1/ 2/

After approval had been given the Minutes of the forty-seventh meeting, the Chairman thanked the staff of the Secretariat for its efficient work during the past year and expressed to the Members his best wishes for the Holiday Season.

FE  
COPIES  
TO:  
A-S  
FC  
EE  
BC

Enclosures:

1. Five copies of Agenda, forty-eighth meeting, Allied Council for Japan.
2. Five copies of Corrected Verbatim Minutes, forty-eighth meeting, Allied Council for Japan.

Original and ozalid to the Department.

Copies to: American Embassy, London.  
American Embassy, Nanking.  
American Embassy, Moscow.  
American Embassy, Canberra.  
American Embassy, New Delhi.  
American Legation, Wellington.

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740.00119 Control (Japan)



Enclosure No. 1 to Despatch No. 1480, dated December 29, 1947, from the Office of the United States Political Adviser for Japan, Tokyo, entitled "Forty-eighth Meeting of the Allied Council for Japan, December 24, 1947".

48-1224

AGENDA

for the

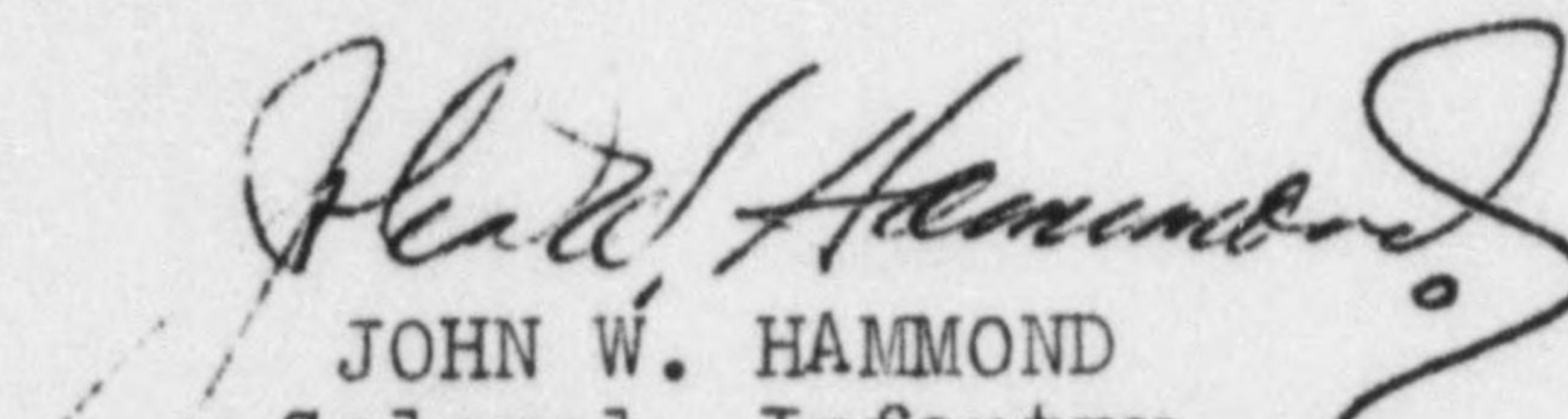
FORTY-EIGHTH MEETING

ALLIED COUNCIL FOR JAPAN

To be held in the Meiji Building, Tokyo,  
Wednesday, 24 December 1947, at 1000 Hours

- I APPROVAL OF THE CORRECTED VERBATIM MINUTES OF THE FORTY-SEVENTH MEETING (1 Session, Numbered 47-1210).
- II PROCEDURAL MATTERS
- None held over or submitted as subjects for this Agenda.
- III OFFICIAL MATTERS
- None held over or submitted as subjects for this Agenda.

By Direction of the Chairman:

  
JOHN W. HAMMOND  
Colonel, Infantry  
Acting Secretary-General

19 December 1947

Enclosure No. 2 to Despatch No. 1480,  
dated December 29, 1947, from the  
Office of the United States Political  
Adviser for Japan, Tokyo, entitled  
"Forty-eighth Meeting of the Allied  
Council for Japan, December 24, 1947".

48-1224

CORRECTED  
VERBATIM MINUTES  
of the  
FORTY-EIGHTH MEETING  
ALLIED COUNCIL FOR JAPAN

Meiji Building, Tokyo, Wednesday, 24 December 1947, at 1000 Hours

MEMBERS PRESENT

Mr. William J. Sebald, Deputy for the Supreme Commander, Chairman,  
and Member for the United States

His Excellency General Shang Chen, Member for China

Mr. Thomas W. Eckersley, representing the Member for the United  
Kingdom, Australia, New Zealand and India

Mr. Nikolai I. Generalov, representing the Member for the Union  
of Soviet Socialist Republics

ACTING  
SECRETARY-GENERAL

Colonel John W. Hammond

Office of the Secretariat  
Allied Council for Japan  
24 December 1947

THE CHAIRMAN: The meeting will please come to order.

The Corrected Verbatim Minutes of the Forty-seventh Meeting have been circulated among the Members. In the absence of objection (Pause) they will be recorded as approved.

There is no item on the Agenda under procedural matters, but I would like to take this occasion to express, on behalf of the Members of the Council, our thanks and appreciation to the hard-working staff of the Secretariat for the very efficient and smooth manner in which they have carried out their multitudinous tasks during the past year. At the same time I would like to express to my colleagues on the Council my cordial best wishes for the Holiday Season.

There is nothing under official matters, and in the absence of any further discussion the meeting will stand as adjourned.

(The meeting adjourned at 1002 hours.)

Enclosure No. 1 to Despatch No. 1480,  
dated December 29, 1947, from the  
Office of the United States Political  
Adviser for Japan, Tokyo, entitled  
"Forty-eighth Meeting of the Allied  
Council for Japan, December 24, 1947".

48-1224

AGENDA

for the

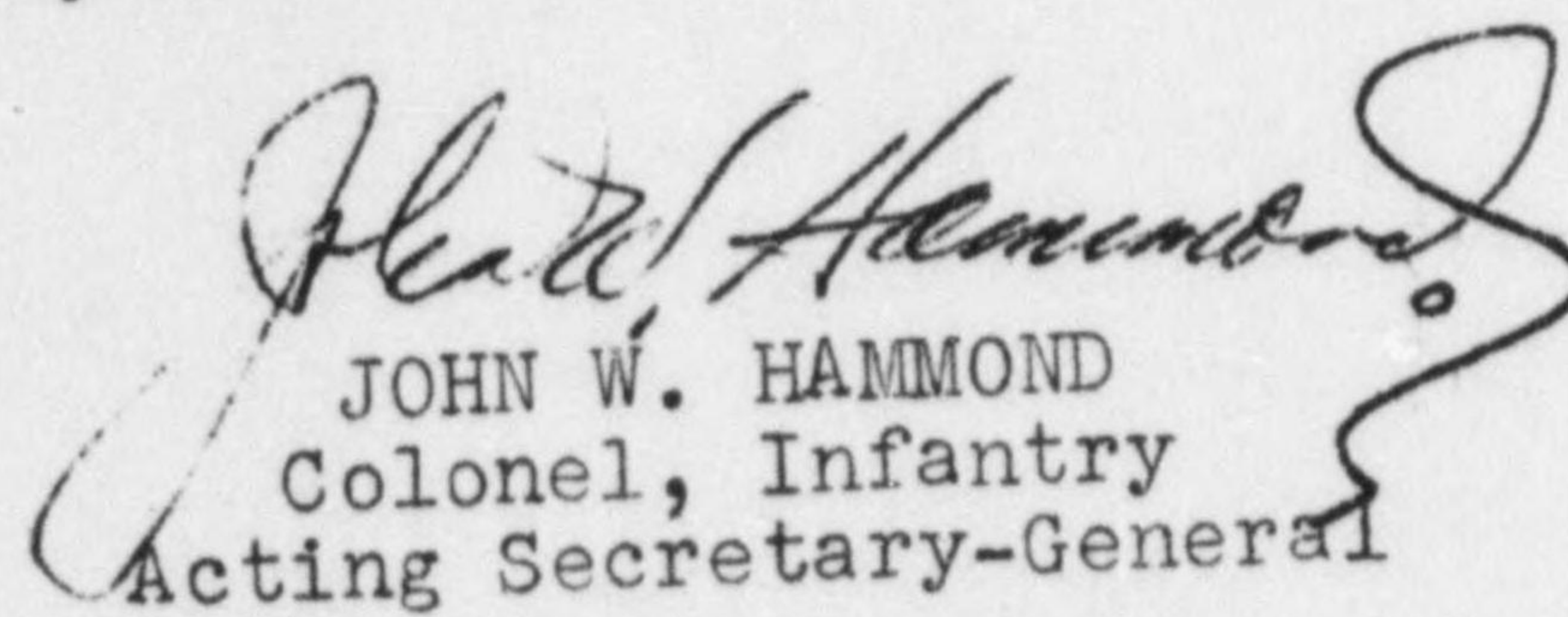
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Colonel, Infantry  
Acting Secretary-General

19 December 1947

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48-1224

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24 December 1947

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(The meeting adjourned at 1002 hours.)



UNITED STATES POLITICAL ADVISER  
FOR JAPAN

~~RAF~~  
~~MG~~  
NW3

Tokyo, December 30, 1947.

PERSONAL and CONFIDENTIAL

Dear Niles:

*74000119 (Japan)*

The enclosed proposed press release represents lost labor in so far as I am concerned. I had proposed to General MacArthur that we again meet the repatriation problem head-on by issuing a press release. After the General read the enclosure he felt that it represents nothing new and therefore decided against its issuance. He suggested, however, that it be kept on file for later use if and when desirable.

I am sending you a copy for your personal files as I believe it gives a fairly good summation of the repatriation problem and the difficulties which we are experiencing in our dealings with the Soviets here. It is possible that NA may at some time be called upon to answer questions regarding repatriation--the factual matter contained in the enclosure is accurate as of December 30, 1947.

Sincerely yours,

*Bill*  
W. J. Sebald

Enclosure:

Copy of proposed press  
release. (Not issued)

Niles W. Bond, Esquire,  
Assistant Chief, Division of Northeast Asian Affairs,  
Department of State,  
Washington 25, D.C.

*740.00119 (Japan) / 12-30-47*

COPY

Not Issued - wj

The following is a statement made by Mr. William J. Sebald, Chairman of the Allied Council for Japan and Chief of SCAP's Diplomatic Section:

"In recent months the Japan Communist Party and its organ, Akahata, have carried on a campaign of deliberate distortion regarding the question of repatriation from Soviet-controlled areas. This campaign has apparently been designed to focus responsibility for the slowness of effecting repatriation upon the Japanese Government and, inferentially, upon General Headquarters, SCAP. At the outset, it should be made clear that evidence available to this Headquarters indicates that this vicious campaign has been dictated by the Japan Communist Party for purposes of its own and in an endeavor to confuse the issue and to absolve from blame those responsible for retardation of the repatriation program. The Japan Communist Party line on this question is identical with statements appearing in propaganda organs of the U.S.S.R. and with the reported indoctrination received by repatriates before embarking at Soviet-controlled ports for Japan. Needless to say, it is unworthy of the standards of responsible journalism that Akahata should thus flagrantly violate the press code by failing to demonstrate a proper sense of responsibility in reporting upon a problem of vital interest and concern to the Japanese people, and by misusing the freedom of the press in a studied effort to disseminate propaganda.

"The facts concerning repatriation are clear. At the forty-fourth meeting of the Allied Council for Japan on October 29 of this year, when the repatriation question was discussed, the text of the Repatriation Agreement of December 19, 1946, between the SCAP and the Soviet authorities, was released. Although General Headquarters had offered,

12-3047



-2-

before signature of the Agreement, to provide sufficient shipping to return 360,000 repatriates monthly and thus complete the repatriation program by approximately the end of July 1947, the offer was declined. A greatly reduced figure of 50,000 per month was finally agreed upon as a result of limitations imposed by the Soviet authorities' insistence on use of small ports subject to freezing in winter and by their refusal to make arrangements to accommodate larger, oil-burning vessels.

"Consistently, month after month during the past year, ships with passenger spaces outnumbering those requested by the Soviet authorities have been dispatched to repatriation ports. All Soviet requests for shipping for this purpose, made with reasonable advance notice, have been punctually met. In no single month has the total capacity thus provided by SCAP been filled, and at the end of the first year of the program unused spaces totaled more than 69,000. Moreover, since June 1, 1947, the number of repatriates returned per month has fallen below the agreed monthly rate of 50,000 persons. Notwithstanding the Soviet authorities' apparent lack of desire to complete repatriation in the shortest possible time, the Supreme Commander's Deputy made a formal offer at the forty-fourth meeting of the Allied Council for Japan to increase the monthly rate of lift to 131,500 repatriates, and to maintain a rate of 160,000 from the second month until completion of the program. Acceptance of this offer would have returned to Japan every Japanese in Soviet-controlled areas within five months. No reply to this offer has been received.

-3-

"Despite their failure since June 1947 to maintain a monthly repatriation rate of 50,000 persons, Soviet authorities in Tokyo on December 2 last compounded this discouraging feature of the situation by informing General Headquarters that repatriation activities at the ports of Maoka and Nahodka, the only ports permitted by them to be used for the return of Japanese from Siberia, Karafuto, and the Kurile Islands, would be suspended from December 1 until the opening of navigation in April 1948. This decision, made one month earlier than last winter, has evidently been taken without any attempt or desire to study the possible use of alternate ports. It occasions much needless suffering and anguish to the individuals concerned. On December 10 SCAP made an offer to the Soviet authorities in Tokyo to furnish icebreakers to overcome icing conditions in Maoka and Nahodka harbors or, if so desired, to dispatch repatriation vessels to any other ports not subject to winter closing. These proposals have been declined by letter dated December 24, 1947.

"It can be seen, therefore, that there is no foundation whatsoever for the mendacious allegations, referred to above, that the Japanese Government and by inference, SCAP, have wilfully obstructed the repatriation program. On the contrary, the inhumanly prolonged detention of Japanese persons away from their homeland is directly contrary to the principles enunciated in the Potsdam Declaration and can be attributed only to a decision by the Soviet authorities concerned not to carry out those principles.

"To those unfortunate Japanese families still grieving for the return of absent members General Headquarters, SCAP, extends its fullest sympathy and gives renewed assurance

-4-

that every possible effort has been and will continue to be made to accomplish the earliest possible return of the unrepatriated to their homes."

JAN 2 1948

740.00119 CONTROL (JAPAN/12-3147

My dear Senator Smith:

This is in reply to your letter of December 31, 1947, asking for comment on the clipping from Newsweek of December 1, dealing with Mr. J. L. Kauffman's report on conditions in Japan and with the statement of proposed U. S. policy known as FEC - 230.

Mr. Kauffman's report, which is quoted in part in Newsweek, was received some time ago in the Department and has since been considered in full. In commenting on this report, it may be helpful at the outset to point out that in matters relating to the occupied areas, the Department of State's responsibility relates to policy formulation while the Department of the Army is charged with the implementation of policy. Consistent with the Department's responsibilities, therefore, this letter will refer only to those questions raised by Mr. Kauffman which relate to general policy decisions.

This distinction is of some importance in connection with Mr. Kauffman's comments on the economic purge. The general directive from Washington to General MacArthur relating to this purge was very general. It consisted of the following paragraph from the public document entitled "Basic Directive for Post-Surrender Military Government in Japan Proper", which was sent to General MacArthur by the U. S. Government immediately after the Japanese surrender, before any international body for formulating Japanese occupation policy had been established:

"You will prohibit the retention in or selection for positions of important responsibility or influence in industry, finance, commerce, or agriculture of all persons who have been active exponents of militant nationalism and aggression, of those who have actively participated in the organizations enumerated in paragraph 5 g (Page 8, Political and General Part) of this directive, and of any who do not direct future Japanese economic effort solely towards peaceful ends.

(In the

The Honorable  
H. Alexander Smith,  
United States Senate

*Handwritten signature*

JAN 2 3 1948

CS/N

*Handwritten note:* 740.00119 Control (Japan) 12-3147

-2-

(In the absence of evidence, satisfactory to you, to the contrary, you will assume that any persons who have held key positions of high responsibility since 1937, in industry, finance, commerce or agriculture have been active exponents of militant nationalism and aggression.)"

The manner and degree of this directive's execution has been determined by General MacArthur, who has repeatedly stated, in response to queries from the Army and State Departments, that the purge was not being carried out on such a large scale as to deprive the Japanese economy of valuable economic talent.

Insofar as Mr. Kauffman's criticisms of labor conditions relate to policy formulation, they arise out of an Allied policy directive to General MacArthur entitled "Principles for Japanese Trade Unions", of which the basic paragraph reads as follows:

"Japanese workers should be encouraged to form themselves into trade unions for the purpose of preserving and improving conditions of work, participating in industrial negotiations to this end, and otherwise assisting the legitimate trade union interests of workers, including organized participation in building up a peaceful and democratic Japan."

This paper was made public as FEC/045 in December, 1946, after being unanimously approved by the Far Eastern Commission which formulates occupation policy for Japan, and on which are represented the eleven nations which participated actively in the war against Japan.

Before the war, trade unions were restricted and finally suppressed by the Japanese Government. If the occupation authorities had attempted to continue that restriction or suppression, leadership of Japanese labor would almost inevitably have been assumed by extremist elements. As it is, these elements are losing ground, and Japanese labor is displaying increasing moderation, possibly as a result of a campaign by the occupation authorities to acquaint it with the rights and duties of trade unions in a private enterprise economy. It was inevitable that a certain amount of immaturity should have been displayed when the formation of free trade unions was first permitted by General MacArthur immediately after the Japanese surrender. That phase now seems to be passing, however, and Mr. Kauffman's comments are not believed representative of the over-all labor situation in Japan today.

Mr. Kauffman also criticizes the present deconcentration policy in Japan, which is based on the following paragraph of the "Basic Post-

Surrender

-3-

"Surrender Policy for Japan", an Allied directive to General MacArthur which was made public after being unanimously approved by the Far Eastern Commission as FEC/104 in June 1947:

"Encouragement shall be given to those forms of economic activity, organization and leadership deemed likely to strengthen the democratic forces in Japan and to prevent economic activity from being used in support of military ends.

"To this end it shall be the policy of the Supreme Commander:

"a. To prohibit the retention in important positions in the economic field of individuals who because of their past associations or for other reasons cannot be trusted to direct Japanese economic effort solely towards peaceful and democratic ends; and

"b. To require a program for the dissolution of the large industrial and banking combinations accompanied by their progressive replacement by organizations which would widen the basis of control and ownership."

New enterprises established as a result of this deconcentration are being sold to private Japanese purchasers. The effect of this program is thus to expand the area of competitive private enterprise in Japan. The State Department, the Army Department, and General MacArthur are also fully cognizant of the necessity of carrying out this directive in such a way as not to interfere with Japanese economic recovery. It is contemplated that in the implementation of policies and in the administration of specific legislation, the breaking down of operating companies into too small components will be avoided where the effect would be to impede economic recovery in Japan.

Mr. Kauffman's report is highly critical not only of the specific programs referred to above, but also of all the reform policies presently being followed in Japan with respect to labor, agriculture, and industry. These policies, I might say, are generally designed to bring about in Japan the kind of diffusion of economic power and initiative that exists in the United States. It is hoped that this diffusion will create what has never hitherto been present in Japan: a class of citizens interested in defending their economic freedom and property rights against any form of totalitarianism. It is also hoped that this diffusion will reduce the severe economic grievances of many elements of the Japanese population, which constitute a potential source of political activity leading to totalitarianism. These reform policies are thus one essential means of realizing our occupation objectives in Japan, and are believed to be necessary to create in that country conditions of political and economic freedom.

The

-4-

The essential nature and tenor of these policies is well described by General MacArthur in his recent New Year statement to the Japanese people:

"Economically, Allied policy has required the breaking up of that system which in the past has permitted the major part of the commerce and industry and natural resources of your country to be owned and controlled by a minority of feudal families and exploited for their exclusive benefit. The world has probably never seen a counterpart to so abnormal an economic system. It permitted exploitation of the many for the sole benefit of the few. The integration of these few with government was complete and their influence upon governmental policies inordinate, and set the course which ultimately led to war and destruction. It was indeed so complete a monopoly as to be in effect a form of socialism in private hands. Only through its dissolution could the way be cleared for the emergence of an economy conducive to the well-being of all people -- an economy which long experience has demonstrated alone provides the maximum incentive to the development of those fundamental requirements to human progress -- individual initiative and individual energy."

In addition to the above comments on quotations made by Newsweek from Mr. Kauffman's report, I believe a few comments on Newsweek's discussion of FEC/230 would be appropriate.

FEC/230 was originally proposed as a statement of U. S. policy with respect to excessive concentrations of economic power in Japan. Its origins are as follows: Soon after the surrender, General MacArthur began to carry out a deconcentration program in Japan, under the terms of his Basic Directive, referred to in the third paragraph of this letter. Paragraph 25 of the directive reads as follows in regard to deconcentration:

"You will:

"(1) Require the Japanese to establish a public agency responsible for reorganizing Japanese business in accordance with the military and economic objectives of your government. You will require this agency to submit, for approval by you, plans for dissolving large Japanese industrial and banking combines or other large concentrations of private business control.

"(2) Establish and maintain surveillance, until satisfactory plans for reorganization have been approved, over the Japanese businesses described in subparagraph (1) above in order to ensure conformity with the military and economic objective of your government.

"(3) Dissolve

-5-

"(3) Dissolve the Control Associations. Any necessary public function previously performed by these associations should be transferred to public agencies, approved and supervised by you.

"(4) Abrogate all legislative or administrative measures which limit free entry of firms into industries to be reorganized where the purpose or effect of such measures is to foster and strengthen private monopoly.

"(5) Terminate and prohibit all Japanese participation in private international cartels or other restrictive private international contracts or arrangements."

Partly as a result of consultation with Assistant Secretary of War McCloy, who was in Japan in October, 1945, and who had participated in the preparation of the above-mentioned directive, the Supreme Commander requested the dispatch to Japan of a Mission composed of persons technically qualified to advise him concerning appropriate methods for the execution of the program. A State-War Department Mission including experts in the problems of corporate concentration, Commission, the Securities and Exchange Commission, and the Federal Trade Commission, was accordingly sent to Japan in January 1946.

This Mission completed its work in March 1946, and submitted to General MacArthur a lengthy and detailed report concerning means of carrying out the program. General MacArthur forwarded the report to the War and State Departments with his general approval and with several suggestions for specific changes in the recommendations.

The Mission's recommendations, and SCAP suggestions with respect thereto, formed the basis for the preparation by the State-War-Navy Coordinating Committee of the above-mentioned paper, entitled "A Statement of Proposed U. S. Policy With Respect to Excessive Concentrations of Economic Power". This proposed policy statement was sent for comment to General MacArthur, who expressed his approval and suggested certain further final drafting changes, almost all of which were made. The statement of policy was approved as SWNCC 302, on April 29, 1947, by the State-War-Navy Coordinating Committee, then composed of Assistant Secretary of State Hilldring, Assistant Secretary of War Peterson, and Assistant Secretary of the Navy Sullivan.

Since the policy statement was regarded as a Far Eastern Commission matter, the U. S. Government did not send it to General MacArthur as a directive but transmitted it to the U. S. representative on the Far Eastern Commission for submission to that body.

The Far



The Far Eastern Commission designated the paper as "FEC/230", gave it a "Confidential" classification, and has had the paper before it since May 1947. Differences arose between the U. S. government which favors the sale of divested Zaibatsu holdings to private purchasers, and certain other governments represented on the Commission which favor nationalization of these holdings. FEC action has not been completed and the paper has not been transmitted to General MacArthur as a directive.

Recently, the Departments of State and the Army, while not questioning the necessity of breaking up excessive concentrations of economic power in Japan, have considered that some parts of FEC/230 should be re-examined. Consequently the paper is undergoing review, in expectation that the revision resulting from this examination will be given to the Far Eastern Commission in substitution for the original FEC/230.

The quotations from FEC/230 in Newsweek are so abbreviated and so presented out of context as to give a misleading impression of the document, whose substance and intent are as stated in this letter. In addition, the article is inaccurate in indicating that a special effort was made to prevent public disclosure of FEC/230. The document was treated according to standard procedures, which provide for the publication of policy papers only after they have been approved by the Far Eastern Commission and sent to General MacArthur as a directive. All directives so far sent to General MacArthur with respect to deconcentration have been made public, and are quoted above in this letter; FEC/230 would have been made public in the same way if it had been approved by the Far Eastern Commission.

I hope that these comments on the clipping which you sent me will prove helpful to your friend. If I can furnish you with any further information in this connection, please do not hesitate to let me know.

Yours sincerely,

Robert A. Lovett,  
Undersecretary.

S/S  
JAN 23 1948

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Ferry/pe

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Read by [unclear] and  
revised acc. his  
comments. pe

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ARTHUR H. VANDENBERG, MICH., CHAIRMAN  
 ARTHUR CASPER, KANS. TOM CONNALLY, TEX.  
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 HENRY CABOT LODGE, JR., MASS. CARL A. HATCH, N. MEX.

FRANCIS O. WILCOX, CHIEF OF STAFF  
 C. C. O'DAY, CLERK

**United States Senate**  
 COMMITTEE ON FOREIGN RELATIONS

DIVISION OF  
 NORTHEAST ASIAN AFFAIRS

JAN 29 1948

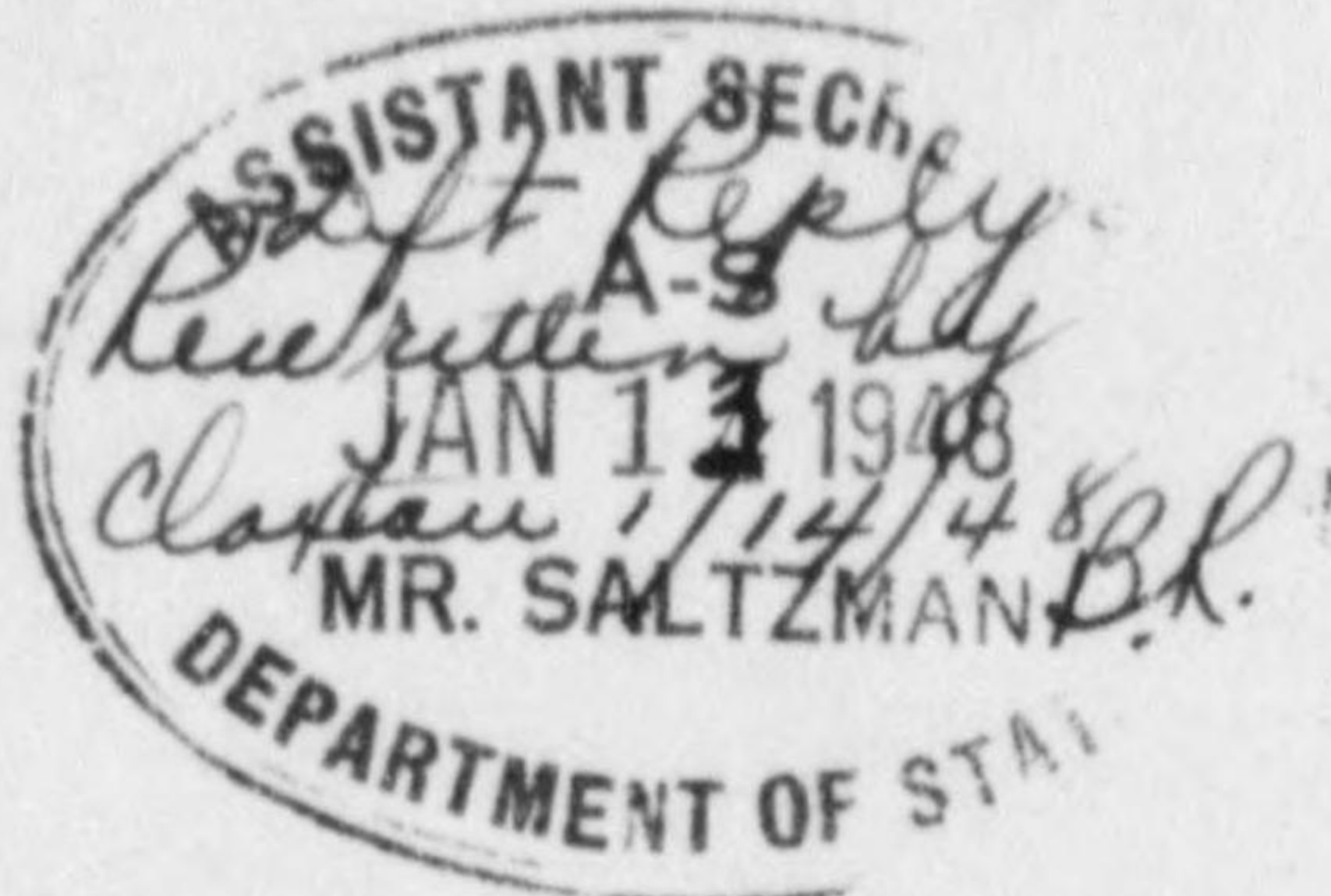
DEPARTMENT OF STATE  
 December 31, 1947

DIVISION OF  
 NORTHEAST ASIAN AFFAIRS

JAN - 6 1948

DEPARTMENT OF STATE

*Sent special to  
 OIE: for action  
 Jan 6 1948*



My dear Mr. Secretary:

An old and valued friend of mine, who lives in New Jersey, has sent me the enclosed clipping from NEWSWEEK of December 1st. My friend is very much troubled by this story and has asked me to find out about it. Possibly you could give me some comment that I could send to my friend with regard to our Japanese policy.

With kindest personal regards and best wishes, I remain

Always cordially yours,

*H. Alexander Smith*

740.00119 CONTROL (JAPAN)  
 /112-3147

Honorable Robert A. Lovett  
 Under Secretary of State  
 Department of State  
 Washington, D. C.

HAS:W

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 1-2-48  
 DC/R-LDP*

FEB - 3 1948

FILED

CS/A

*740.00119 CONTROL  
 (Japan) / 112-3147*

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## FOREIGN AFFAIRS

## A Lawyer's Report on Japan Attacks Plan to Run Occupation . . .

A report giving a critical analysis of American occupation policies in Japan is now under serious consideration by high War and State Department officials. It was prepared by James Lee Kauffman, a prominent New York lawyer, who visited Japan late last summer on behalf of business clients. Mr. Kauffman was professor of American and English law at Imperial University, Tokyo, from 1913 to 1919. He was one of five American businessmen suggested to General MacArthur as an economic cabinet last spring in one of the unsuccessful efforts to strengthen SCAP.

Mr. Kauffman made his report in a private capacity and so far government officials have not discussed it publicly. However, since it is being officially considered and since it deals with a vital but little-known phase of American occupation policies, NEWSWEEK herewith presents excerpts from it. Mr. Kauffman's opinions, naturally, are his own.

Heretofore the purpose of an occupation has been to demilitarize the occupied country, restore order, and protect and conserve property until a peace treaty could be concluded. Demilitarization was deemed to have been accomplished when the conquered nation was physically disarmed. In Japan, however, it was decided that demilitarization included the complete reformation of the nation's ideology. One of the means for bringing that about has been the imposition of an economic theory which has, I believe, no counterpart anywhere else in the world. It is not Communistic but it is far to the left of anything tolerated in this country.

**Voice of Inexperience:** This experiment is being carried out by Army officers, former Army officers, economic theorists, and a few persons with some business experience. Army officers found upon arrival in Japan that there were many civilian positions in SCAP (Supreme Commander Allied Powers) more remunerative than their majorities or colonelcies, so a large number changed their clothes to their monetary advantage. The higher echelons are therefore either Army or former Army, and are not qualified by knowledge or experience for the work they are trying to do.

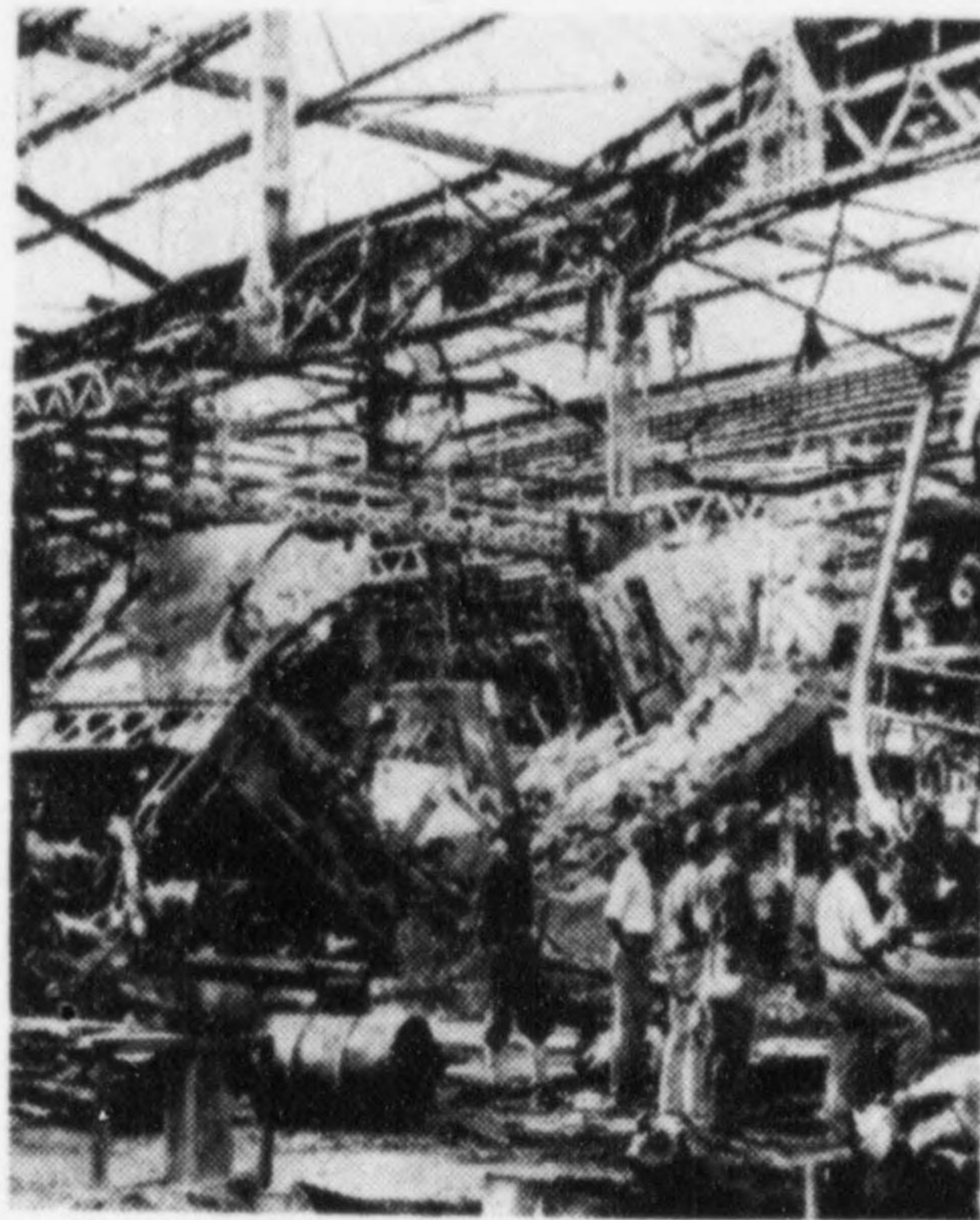
The economic advisers to those in authority are for the most part either former instructors at universities who have also served some years in one of the many bureaus in Washington, or recent college graduates. Few of these men have had any practical experience. The few businessmen in SCAP with real experience are not on the policy-making level.

**Democracy Redefined:** SCAP proposes to create in Japan what it terms a "democratic Japanese economy" and "to this end, it is desirable that the Japanese

economy be reorganized and concentrations of economic power be eliminated at the earliest possible date." There is no definition in writing, as far I have been able to learn, of what is meant by a "democratic Japanese economy" but whatever that term may mean, in this instance it is proposed to distribute the wealth of Japan to the workers, farmers, and small traders through the medium of taxes, sales of valuable properties at nominal values, financial assistance, regimentation, and regulation.

Mr. Kauffman's report goes on to analyze FEC 230, a highly important document setting forth American economic objectives in Japan. At the end of Mr. Kauffman's report NEWSWEEK prints pertinent excerpts from FEC 230.

This policy (as outlined in FEC 230) has been implemented by SCAP-sponsored Japanese laws such as the Enterprise Reconstruction and Reorganization Law, (Oct. 18, 1946) and the Labor Standards



Japan's biggest task: Rebuilding

Law, (April 5, 1947). SCAP also intends to have the Japanese Government enact several other laws, one of which is sweeping and general in its terms and provides for breaking up companies on the ground of "excessive concentration of economic power." The policy has been further implemented by instructions, directions, and explanations given by various members of SCAP.

**Undemocratic Overtime:** For example, take the Labor Standards Law. This forces on an impoverished Japan the same high standards enjoyed by American labor.

At present the labor situation in Japan is chaotic. The country is in desperate need of coal and yet miners even at time and a half or double time refuse to work

overtime because they claim that working overtime is "undemocratic." Actual work in many mines is not over five hours a day and the working days each month are considerably less than 25. The miners work until they have made what they consider enough for the support of their families and themselves, and then take the rest of the month off. Extra food which is sold in the black market helps to supplement the income and reduce the days of work.

Many labor contracts go far beyond such agreements in this country. The agreement between the Japanese company in which a well-known American company had a controlling interest and the company union, in addition to the usual provisions for a closed shop, hours, rights of dismissal, cost of living, wages, etc., states that part of the profits (not stating what part) shall be paid to the union, and the election and removal of directors, inspectors, and advisers of the company may be accomplished only after consulting the union.

**Broken Economy:** But it is largely through the medium of the Enterprise Reconstruction and Reorganization Law and the law dealing with concentrations of economic power that the existing economy is to be destroyed and one radically different from ours is to be substituted.

These new laws require that Japanese corporations be broken into many small units. At first the idea of dividing companies into many small units was confined to the Zaibatsu (family) holding companies and those in which the Zaibatsu had substantial interests. Now under the theory of an "excessive concentration of economic power" the Antitrust and Cartels Division of the Economic and Scientific Section of SCAP has the power to destroy any single Japanese company. This is true even though the Zaibatsu has no connection with such corporation.

Of course, the family holding companies should have been dissolved and their hold on Japan's economic life broken. But the manner in which this is now being done makes one wonder whether for Japan and the world the remedy may not prove worse than the disease.

**Broken Men:** This purge is being used by us as a lethal weapon in the socialization of Japan. It is estimated that upwards of 200,000 Japanese have already been purged and over another 100,000 will shortly be added.

Note that many of those who have been and are to be purged are not members of the Zaibatsu. Thus Count Aisuke Kabayama, more than 80 years of age, a graduate of an American college, and considered to be America's greatest friend in Japan, was purged. Count Kabayama came under the purge because he was

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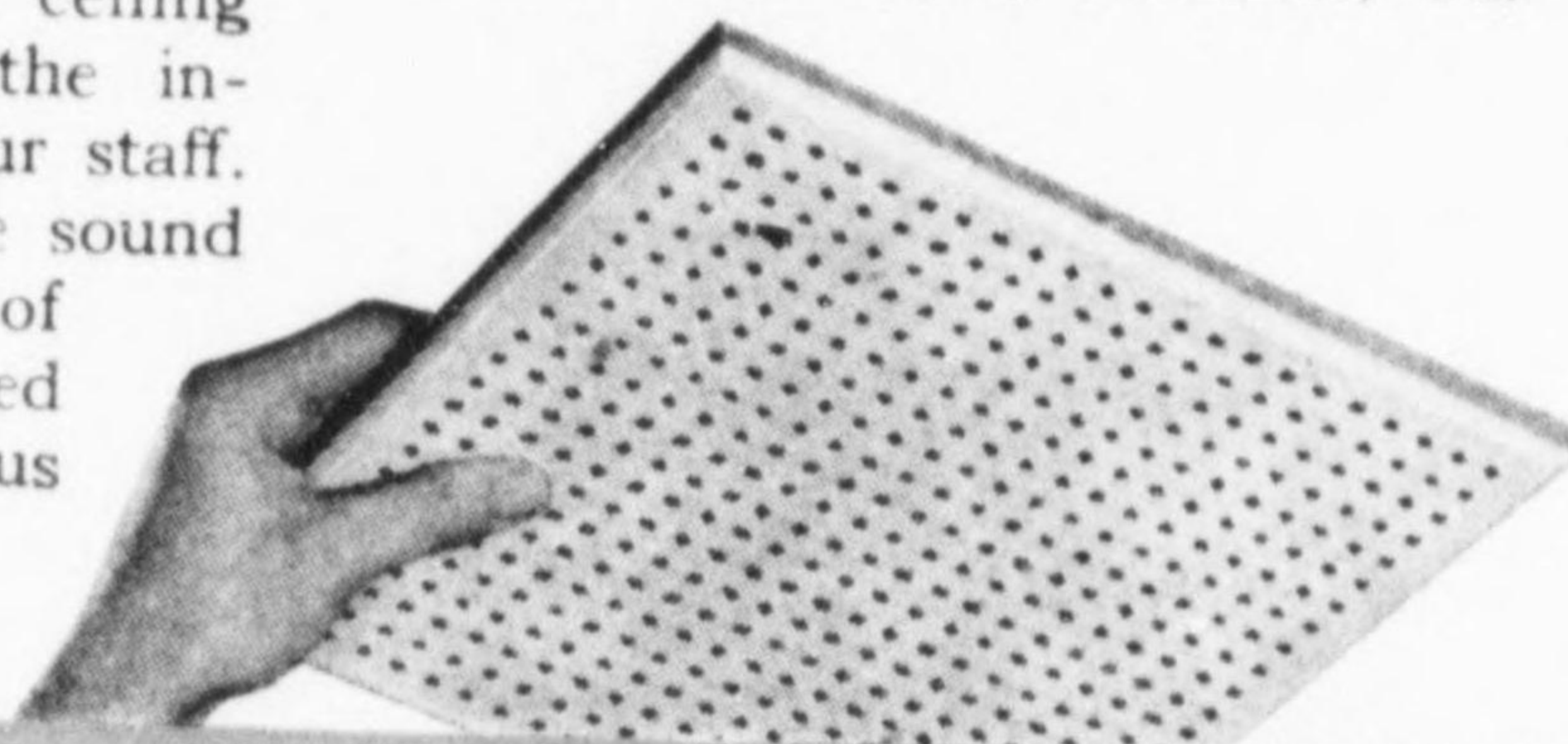
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life." Such excessive concentrations were then defined as:

"Any private enterprise or combination operated for profit is an excessive concentration of economic power if its asset value is very large; or if its working force . . . is very large; or if, though somewhat smaller in assets or working force, it is engaged in business in various unrelated fields, or if it controls substantial financial institutions and/or substantial industrial or commercial ones; or if it controls a substantial number of other corporate enterprises; or if it produces, sells, or distributes a large proportion of the total supply of the products of a major industry . . ."

**Divestment:** FEC-230 continued: "Excessive concentrations of economic power should immediately be dissolved into as many nonrelated units as possible . . ." Creditors, stockholders, managers, or any other individuals who have "exercised controlling power" in any excessive concentrations will be:

"a. Divested of all corporate security holdings, liquid assets, and business properties;

"b. Ejected from all positions of business or governmental responsibility;

"c. Forbidden from purchasing corporate security holdings or from acquiring positions of business or governmental responsibility at any time during the next ten years."

**Sale:** In order to liquidate excessive concentrations FEC-230 provided for a "Holding Company Liquidation Commission, a wholly public agency of the Japanese Government operating under close supervision of SCAP. Especial care should be taken not to allow representatives of large-scale business, large-scale trade, or large-scale finance . . . to have any place on this commission." The individuals whose holdings are liquidated "shall be indemnified." However, FEC-230 carefully stated that no effort would be made to obtain a fair price for their holdings: "The overriding objective should be to dispose of all the holdings in question as rapidly as possible to desirable purchasers; the objective should be achieved even if it requires that holdings be disposed of at a fraction of their real value."

Furthermore, "a decided purchase preference, and the technical and financial aid necessary to take advantage of that preference, should be furnished to such persons as small or medium entrepreneurs and investors, and to such groups as agricultural or consumer cooperatives and trade unions . . . All possible technical and financial assistance should be furnished the trade unions concerned."

Finally, FEC-230 applied to the interests in Japan of American and other United Nations businesses. These interests were to have special consideration only "insofar as this can be accomplished without limiting the effectiveness of these measures."

Newsweek, December 1, 1947

STANDARD FORM NO. 64

*Office Memorandum* • UNITED STATES GOVERNMENT

TO : U - Mr. Lovett  
Through : S/S BES 1/2/48  
FROM : A-S - Mr. Wisner *AW*

DATE: January 16, 1948

SUBJECT: Attached Letter.

There is attached a draft letter to Senator Smith in reply to a letter from him asking for comments on our Japanese policy which he could send to a friend who had written him concerning the NEWSWEEK article on FEC 230 and the Kauffman report.

The draft letter follows the substance of the letter to Senator Knowland on FEC 230, and has additional comments on other points raised in the NEWSWEEK article.

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