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Reparations

INCOMING MESSAGE

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ROUTINE

28 May 49

FROM : DA (CSCAD)

TO : CINCFE

NR : WCL 44171

Statement by Philippine member to FEC on 19 May on Japanese reparations and level of industry is subj.

"On Mar 17, a little over 2 mos ago, I made here on behalf of the Philippine Govt a gen statement of the problem of Japanese reparations. I deplored the prolonged delay in the solution of the problem of reparations, pointing out that this in itself was the result of our vacillation in defining the basis upon which a Japanese peacetime economy should be built. Because of its special responsibilities as the occupying power in Japan, I addressed an earnest appeal to the US to help out the vicious circle in which the Com was doomed to travel so long as we could not make up our minds as to the future of Japan."

On May 12, the US representative on the Com made a Statement on Japanese reparations and level of industry. In that statement he announced that the US Govt was "impelled to rescind its interim directive of Apr 4, 47, bringing to an end the adv trf program called for by that directive," "to withdraw its proposal of Nov 6, 47, on Japanese reparations shares," and to state "that it has no intention of taking further unilateral action under its interim directive powers to make possible add reparations removals fr Japan." He gave 4 reasons for this action:

First, the need of stabilizing the deficit economy of Japan and permitting it to move towards self support;

Second, the reluctance of American tax payers to cont underwriting this deficit;

Third, the failure of the FEC to agree on a schedule of national reparations shares;

Fourth, the fact that Japan has already paid substantial reparations through the expropriation of its former overseas assets and under the adv trf program."

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75153

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FROM : DA NR : WCL 44271 28 MAY 49 CONT'D CSCAD

"Out of our anxiety and perplexity, we addressed 2 mos ago a ques to the US Govt. Today we have the answer before us. When first informed of the decision of the US Govt, my immediate personal reaction was as rptd in the press. I said that I was "flabbergasted." I used a colloquialism which those who are familiar with the nuances of their American idiom know to signify a combination of chagrin, astonishment and unbelief. My reaction was personal and individual, like that of a man who, having pleaded with his friend for help and recd some assurances that it would be given, is informed in the end that while his need is indeed great, that of the common enemy of the two of them is greater still."

"But this problem, Mr Chairman, is of vital importance to the people of my country and I would be recreant to my dy if I did not try to establish before this Com by means of this preliminary statement the basis, beyond the level of personal sentiment, upon which the attitude of my Govt rests. Candor, therefore, compels me to state that the people and Govt of the Philippines are greatly disturbed by the decision of the US Govt, that they protest in the strongest possible terms against it, and that they cont to have faith that this decision, whatever its immediate effect, will not bar the Com fr reaching a just and satisfactory solution thru the means that are still open to it."

"The effect of the US statement of May 12 is that there is now neither a policy nor a program on Japanese reparations. The slate has been wiped clean. The vicious circle to which I have previously referred has not been cut; it has been swept away altogether. The partial, makeshift solutions have been discarded, and we are now face to face with the basic problem as we were in the beginning."

"The basic principles governing the ques of reparations are familiar to the Com. They were reviewed in the US statement of May 12, and I do not propose now to make an extended exposition of them."

"At the core of these principles stands Para 11 of the Potsdam Declaration, issued on Jul 26, 45, defining the terms of the surrender of Japan: '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 re-arm for war.'"

"This gen principle was spelled out in dtl in Part 4 of the basic post-surrender policy for Japan adopted by the FEC on Jun 19, 47. While making prov to "avoid "acute economic distress" among the Japanese people which might militate

75153

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ROUTINE

FROM : DA NR : WCL 44171 28 MAY 49 CONT'D CSCAD

against the long-range objectives of the occupation itself, the Com laid down the principle in Sec 1, Part 4, that: "The existing economic basis of Japanese military strength must be destroyed and not be permitted to revive." The Com then decreed in Sec 4, that one aspect of this principle would be carried out by means of reparations: "For acts of aggression committed by Japan and for the purpose of equitable reparation of the damage caused by her to the Allied Powers and in the interests of the destruction of the Japanese war potential in those industries which could lead to Japan's rearmament for waging war, reparations shall be exacted fr Japan."

"Standing like an arch over the whole structure of reparations policy is this solemn declaration to be found in Sec 3: "The plight of Japan is the direct outcome of its own behaviour, and the Allies will not undertake the burden of repairing the damage. It can be repaired only if the Japanese people renounce all mil aims and apply themselves diligently and with single purpose to the ways of peaceful living. It will be necessary for them to undertake physical reconstruction and basically to reform the nature and direction of their economic activities and institutations."

"The whole policy on reparations, therefore, was based on a philosophy of stern justice tempered by a sober regard for the welfare of the Japanese people themselves and the success of the Allied occupation."

"Accordingly, the FEC took several steps towards an overall reparations settlement, incg a series of policy decisions establishing an intern removal program, selection of plants for reparations, setting up criteria to be used in determing shares for each claimant country, and determining the peaceful needs of Japan."

"The Com, Mr Chairman, has worked hard and long at these policy decisions. It is true that it has not always been possible to work out a satisfactory formula on every aspect of the reparations problem, and that on one point in particular, that of the scd of national percentage shares, we have so far

(over)

75153

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ROUTINE

FROM : DA NR : WCL 44171 28 MAY 49 CONT'D CSCAD

failed to come to an agreement. But I beg to point out that the FEC has reached agreement on a number of vital matters much more often than have the analogous bodies concerned with the occupation of Germany or, indeed, than similar political organs of the UN with whose work I happen to be familiar. When, therefore, the US Govt gives this instance of our failure as one of the reasons for its decision; I am constrained to suggest that while such a show of impatience may confirm one's sense of virtue and satisfaction, in the end it accomplishes nothing. I refer to the Com as a whole when I say that a good surgeon does not amputate a whole arm because of an infected finger; nor is it a good thing as the saying goes, for a man to cut off his nose in order to spite his face."

Strangely enough, the spirit underlying the interim directive unilaterally issued by the US Govt on Apr 4, 47 was also one of impatience, that is, with the members of the Com who could not agree on their respective shares quickly enough to suit the generous temper of the US. The US Govt was anxious to get on with the business of reparations, and in order to give it a firm push forward, the adv trf program was established. That was fine and logical; but now, we are virtually being told that one and the same fact, namely, the failure of the Com so far to adopt a set of reparations shares, may justify two completely contradictory acts."

"As a matter of fact, therefore, while there may be various subsidiary factors that have contributed to the new US policy on reparations, there is only one reason behind it; namely, the desire to stabilize the deficit Japanese economy in order to permit it to move towards self support. The argument has been angled to catch the eye of the American tax payer, that anonymous yet politically potent being who has carried on his broad shoulders the Herculean burdens of lend lease, the Marshall Plan, the Atlantic Pact, and the Berlin Airlift, but who is not prepared to carry one moment longer the crushing burden of the deficit Japanese economy. The further argument that a strengthened Japan would be a factor of some importance in the struggle for power in Asia may, of course be assumed as corollary to the first."

"The desire to prop up the Japanese economy is understandable, and far be it from me to wish that there shall be no diminution in the heavy financial commitments of the US. But I believe that the American tax payer is entitled to know all the

75153

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ADJUTANT GENERAL'S OFFICE
RADIO AND CABLE CENTER

INCOMING MESSAGE

UNCLASSIFIED
ROUTINE

FROM : DA NR : WCL 44171 28 MAY 49 CONT'D CSCAD

facts about the economic cond of Japan, particularly the reasons why it's economy is not recovering as fast as it should. The American layman who reads in his newspaper that Japanese reparations are being stopped because otherwise the US would have to spt Japanese economy to the tune of one billion dollars every year, is apt to jump to the conclusion that the American people are in fact sptg Japan in order that she in turn may be able to pay reparations to other counties."

"As is well known, Mr Chairman, the total reparations so far removed fr Japan and delivered to the 4 countries amt to about seventy million dollars. These have incd for the most part machine tools and laboratory and pilot plant equipment. Not one single industrial plant has been removed. Now we are told that successive surveys conducted by various American investigators have necessitated 'progressive upward adjustments of earlier estimates' of Japan's future industrial requirements, and therefore, correspondingly progressive downward adjustments of earlier ests of the excess plants and equip that could be earmarked for repar."

"With all due respect for the opinions of these American experts, I would like to say that so long as vital and far reaching policies affecting not America alone but other countries as well were to be based on the findings and recms of these investigators, it would have been a wise thing to have sent mixed multi-national missions to Japan and thus ensure a certain degree of controls and counter-checks on their findings. It should be noted that three different American surveys have given three different ests of the peacetime industrial requirements of Japan. Apart fr the objective factors that could so markedly affect the ests of three different gps, all of them composed of Americans, there would have been a certain insurance against error and partiality in the participation of non-Americans in such surveys. It is reasonable to suppose that the ests of Chinese or Filipino experts who come from their little industrialized and devastated countries would serve as a corrective factor in the ests of American experts who are apt to judge Japan's peacetime requirements on the basis of the massive and prosperous industrial plant of the US."

75153

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ROUTINE

FROM : DA NR : WCL 44171 28 MAY 49 . CONT'D CSCAD

"My first point about these survey rpts, therefore, is that there is no way of checking them, and the fact that they vary so considerably fr one another leaves the accuracy and validity of any one of them open to serious doubt."

"My second point concerns the internal pressures within Japan itself that have contributed to her critical economic cond. I have already stated that the basic post-surrender policy for Japan lays down the stern doctrine that "the plight of Japan is the direct outcome of it's own behaviors, and the Allies will not undertake the burden of repairing the damage." The policy goes on the state: "It will be necessary for them (the Japanese) to undertake physical reconstruction and basically to reform the nature and direction of their economic activities and institutions."

"Now, we are told that the Japanese economy is in so critical a cond that the whole reparations program must be scrapped, since, in the words of the US delegate, "the Japanese must be enabled to spt themselves at a tolerable standard of living," and since "no one could reasonably suggest that Japan should be abandoned to economic despair."

"No, Mr Chairman, we could reasonably suggest such a thing, but we could more than reasonably suggest that the critical economic cond of Japan is due to it's own behaviour in a war of it's own making, and furthermore, that it's failure to revive economically is in large measure due to a deliberate conspiracy of it's own industrial leaders, the Zaibatsu, and their political agents in Govt to sabotage such industrial recovery."

"The responsibility of Japan for the critical cond of it's economy is thus a double responsibility: The original one of being fully responsible for the consequences of it's own criminal act of aggression, and the secondary one of being mainly responsible for the deliberate attempt to create financial chaos and to slow down production in order to embarrass the occupation auth and win the sympathy of the Allies, especially the US of America."

"There was no re to Japanese responsibility in the US statement of May 12, and I feel therefore that this responsibility must be stated and fixed in order that it might become utterly clear to the world that what we ought to do is not to give the impression that Japan must be protected fr the greedy reparations claims of other countries but rather that Japan needs above all to be saved fr it's own folly."

"There is a chapter in the book "Prospects for Democracy in Japan" by T A Bisson, recently published under the imprint 75153

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FROM : DA NR : WCL 44171 28 MAY 49 CONT'D CSCAD

to the institute of PAC relations, which the Com will find interesting reading. Mr Bisson has written with considerable auth of the subjs and he brought to the writing of this volume first had knowledge and experience which he gathered as an important member of the Govt Sec of Gen MacArthur Hq in Tokyo. The Com will find highly pertinent to this ques of Japanese responsibility certain observations of Mr Bisson. I quote fr Chapter 6 on "The Struggle on the Economic Front:" "The occupation authorities were well aware of the necessity for far reaching changes in the Japanese economic structure. But while they were drafting long-range programs it soon became apparent that the Old Guard (the Zaibatsu, that is) was waging it's shrewdest battle against the occupation on the economic front."

"As far as reparations were concerned, virtually no removals of Japanese industrial plants had actually occurred, and here again it was old business gps that were most disturbed by the prospect of such removals."

"The economic crises in Japan reflected the opr of a more broadly determining factor. Stated in it's simplest terms, this was the failure of the occupation to achieve a sufficiently rapid and thorough destruction of the Zaibatsus power, with the result that the leaders of these great combines were left in a position where they could effectively sabotage efforts to expand productions and curb inflation."

"The author conts, and I am still quoting: 'To obtain production of essential basic materials and consumers goods, strict allocations of materials to essential industries were obviously nec. Prudent fiscal policies were also needed. Such a program, however, did not suit the requirements of Japan's business leaders, and they had the power to prevent it's application. As the occupation began, the Zaibatsu concerns had control of Japan's industrial plant and the bulk of her commodity stocks. Their power incd not only opnl control of fiscal measures, but also the ability to block any program looking toward the controlled allocation of materials."

"Fr these vantage points, they even fought to secure Govt indemnities for the losses suffered in destruction and damage to their munitions plants. The Zaibatsu firms had made vast

75153

(over)
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ROUTINE

FROM : DA NR : WCL 44171 28 MAY 49 CONT'D CSCAD

profits during the war, and it was obvious that by seeking indemnities, they also hoped to escape the burden of paying for a war that they had lost by shifting the burden to the shoulders of the Japanese people."

"I should add, at this juncture, Mr Chairman, that, having passed the burden on to the Japanese people, the Japanese industrialists would indeed be very happy to see that the burden is next passed on to the victims of Japanese aggression in other lands."

"In the next chapter on 'Recent Economic Trends,' Mr Bisson goes on to say: 'Inasmuch as the economic machinery of Japan was left in the hands of Japanese that were bent on sabotaging industrial recovery so long as American control remained in force, this policy imposed a contd financial drain on the US. This situation gave American Army and banking interests a plausible excuse to deplore the heavy financial burden placed on the US as a result of Japan's failure to achieve industrial recovery and economic stability. Their proposed solution of the problem was to restore Japan to what was, essence, her pre World War II industrial status, with one notable difference henceforth American capital would be a partner of the Zaibatsu in prewar-style international cartels, or would simply take over certain key Japanese industries by means of large direct investments.'"

"I have given rather extensive quotations fr this timely book Mr Chairman. Of them I am not in a position to state that they are in all respects accurate or true, but only that they are pertinent to the ques of whether it is reasonable to ask the FEC to accept as fact the statement that reparations must be discontd because Japan is an impoverished country, so long as there is evidence that the Japanese economic crises has been deliberately brought on by the Japanese themselves in order to arouse American sympathy and ensure American assistance."

"The Com does not need, I am sure, to be told with what jubilation the news of the new US policy was recd in Japan. The Mainichi of May 13 had an editorial saying: 'The latest Wash announcement has saved Japan's face in relation to the world. We feel that we can stand square-shouldered in front of the countries which may suspect us of attempting to rearm ourselves.'"

"Nor need I tell you, Mr Chairman, that in Manila the same news was recd with dismay, even with bitterness. The Phillippine Under Secy of Fgn Affairs was quoted as saying over
75153

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ROUTINE

FROM : DA NR : WCL 44171 28 MAY 49 CONT'D CSCAD

the radio that the Philippine Govt considers itself specially entitled to Japanese reparations, and that the US and other members of the FEC will readily see the justice and fairness of our claims. The Philippines, he said, has not lost hope of winning it's case before the Com. Somewhat more realistically, the National Economic Council of the Philippines met in a hurry to study the effect on the industrialization program of the American decision to curtail Japanese reparations."

"I can recall, sir, only one instance in recent years of a news rpt which created jubilation in Tokyo and consternation in Manila, and that was the news of the Japanese sneak attack on Pearl Harbor. Times must indeed have changed very much since then to produce this curious duplication of events in reverse. Or perhaps, we should say that this a new sneak attack, only an infinitely more insidious one--a delayed action attack that will someday explode in the very faces of those who now deplore the cost of the Japanese occupation, in the form of another massive effort of containment and perhaps war that will cost a billion dollars for every ten millions that are now being spent to sustain the Japanese economy."

"If I speak with some bitterness, I would beg you, Mr Chairman, to understand that I but reflect in moderation the sentiments of the Filipino people. I beg you also to believe that these sentiments spring fr no blind vindictive passion directed against the Japanese people. Our interest in their political and economic reformation is genuine, just because they are our immediate neighbors and we are eager in future that they shall live at peace with us. The US can stay or pull out of the FE as it pleases, but we have no choice, we shall always be there. In a very important sense, therefore, we have a stake in a peaceful and democratic Japan far more intimate and real than yours. For us it is not, as it is for you, a mere matter of forgetting the past and overcoming a deep and justifiable resentment toward Japan. It is rather a ques of making absolutely certain that Japan will never again be a menace to our security and liberty."

"With the whole world clamoring for American prod, the US had no reason to fear, now or in the predictable future, the revival of Japanese industry. But we have. The US can

(over)

75153

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FROM : DA NR : WCL 44171 28 MAY 49 CONT'D CSCAD

regard without alarm the prospect of Japan becoming the 'Workshop of Asia,' but we can't. For we know that mil power is a concomitant of industrial power, and the wilful and wily Zaibatsu class which is engineering the re-emergence of Japan as an industrial power will soon, we have no doubt of it, be clamoring for an Army and Navy. The time to stop them is now, before we become weary of the burdens of occupation, specially of the thankless task of watchdog and overseer. And the way to stop them is to take away the instruments of power fr their hands. If we do this resolutely and refuse to fall into the snares and deceptions which are their stock-in-trade, we shall be serving not only our own interests but the interests as well of the Japanese people. For us there shall be no security and for the Japanese people themselves no peace and no prosperity while these ambitious and ruthless men remain in power."

"The problem of reparations is not a problem of Japanese-American relations. It is not a ques of Soviet-American power of the states of the Com that have a stake in the future of Asia. It must, therefore, be solved on that basis, and a just solution must start not on the premise that reparations must be curtailed in order to permit Japanese industrial recovery, but rather on the premise that the remedies which lie within resources of the Japanese economy itself must first be explored and exhausted in some such manner as I have indicated. The Japanese must first help themselves to the utmost before we are asked to help them thru abstention fr reparations."

"Mr Chairman, I will conclude. No one can ques the right of the US Govt to rescind the program of interim reparations which it intiated unilaterally, of it's own free will. This offer, for which my Govt is endlessly grateful, was a gesture of magnanimity and as such may be withdrawn at any time by the same hand that bestowed it. However, in international relations there are considerations beyond those of legal rights that ought, in our opinion, to be taken into acct in ques of this kind. A decision, even if unilateral and voluntary in the beginning, creates in the course of time a whole system or relations between the parties which subsequently limits the freedom of action of either of them. Neither may then withdraw fr that new system of relations with the complete freedom, the Arbitrary Liberty of choice with which they first entered into the relation."

75153

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FROM : DA NR : WCL 44171 28 MAY 49 CONT'D CSCAD

"If I should seem to draw a thin line of moral responsibility across this ques, I beg you, Mr Chairman, to believe that I do so with the greatest diffidence and only because it is difficult for me to be completely objective and to cast out my mind the special ties of affection and loyalty that bind my country to yours. My country was one of the 4 that benefited fr the US program of interim Japanese reparations, but it was not the first act of the kind that had taken place during the period of our long association, in peace as well as in war. It is not out of place, I trust, for a Filipino to express, even in this gathering of various nations wherein the US must speak impartially on a ques of high policy, the hope that since this policy gravely affects the interests of my country, some means will ultimately be found to make it conform to the established pattern of generous American action towards the Philippines."

"I have made this preliminary statement on behalf of my Govt, reserving my right to make subsequent submissions to the Com either on the proposals that the US representative has announced he will adv at a later time or on proposals of our own that we hope to be able to bring to the attention of this body."

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ACTION : CIV PROP CUST

INFORMATION : COMMANDER IN CHIEF, CHIEF OF STAFF, G-4, AG,
GOVT, ECON & SCI, DIPLOMATIC

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14 May 49

FROM : DA (SAOAS)
TO : SCAP (PERSONAL TO MACARTHUR)
NR : WCL 39888

Statement by US Representative, FEC this date, on Japanese Reparations and level of industry is subj:

"The Japanese reparations problem has been one of the most important and pressing questions with which the Far Eastern Com and its member countries have had to deal. The US, on its part, has taken a long and cong interest in this problem and has been keenly aware of the interest of the other FEC countries in finding a reasonable solution to it. It is to be regretted that this controversial issue which for such a long time has proved incapable of solution by this Com conts to retard the achievement of economic self-spt by Japan which is so greatly in the interest of our common objectives with respect to that country.

"In our discussions of the matter here in the Com we have proceeded fr the agreement contained in the Potsdam Declaration that reparations would be exacted fr Japan and that they should be in a form which would not impair the ability of the Japanese people to spt themselves. Fr the earliest days of the Far Eastern Com the US has been guided by a desire that the victims of Japanese aggression rec as reparations such of Japans resources as was possible without jeopardizing Japans ability to meet its own peaceful needs. The US has felt, further, that in order that the nations

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UNCLASSIFIED

UNCLASSIFIED
PRIORITY

FROM : DA (SAOAS) NR : WCL 39888 DTD 14 MAY 49 CONT'D

devastated by Japan might rec reparation while their need was greatest, in order that there might be removed fr the mind of the Japanese Govt and people uncertainty regarding the reparations ques, and in order that as many as possible of Japans post-war obligations might be disposed of during the period of the occupation, a reparations program should be worked out and put into effect at the earliest practical moment.

"These factors led the US Govt to take the initiative in making a number of policy proposals to the FEC. In Apr 46 the US submitted to the FEC a pattern of proposals provg that there should be made in aval for reparations designated quantities of industrial facilities which were at that time considered to be clearly surplus to Japans peaceful needs. Between May and Dec of that yr the Com adopted a series of interim reparations policy decisions based upon these US proposals, but the subsequent inability of the Com to agree on a scd of shares for div of the facilities among the claimant countries prevented implementation of the decisions. In Apr 47 the US Govt offered further proposals, which would have had the effect of making known to Japan precisely, and on a final basis, that industrial capacity should be considered by that country to be immune fr removal as reparations and what should be eligible for removal. In the same month, the US because of its desire to work toward a settlement of this matter issued an advance transfer interim directive, under auth granted in Para 3, 3 of the terms of re of the FEC, instrg the Supreme Comdr to effect delv to 4 of the FEC countries of 30% of the facilities which the FEC itself had previously determined in the interim removals decisions to be aval for reparations removal. Issuance of this directive was motivated in part by a desire to assist those countries which had in the course of fighting against Japans aggression on their own territories suffered most grievously, but it was also motivated by a desire to prompt FEC move to agree upon a reparations program fr which all 11 countries might benefit.

"In Nov 47, the US Govt took the initiative once more in an effort to end the stalemate within the Com on the ques of reparations shares, a stalemate which contd to make it impossible for any of the Coms decisions on the reparations problem to take practical effect. This US proposal contained the provision that if the FEC countries would acpt the scd of percentages which had been worked out by the US Govt on the basis of prolonged exchanges of views among Com members as to the equities involved the US Govt, on its part, would make aval an

69859

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INCOMING MESSAGE

UNCLASSIFIED
PRIORITY

FROM : DA (SACAS) NR : WCL 39888 DTD 14 MAY 49 CONT'D

important part of its own share for distr among the countries which could accept the US proposal as a whole. 16 months have passed and this proposal has not been acptd by the Com.

"I should like to emphasize at this point that the action of my govt, and, it is assumed, of the other member govts, in participating in the policy decisions which have been taken by the Com on the ques of reparations was predicated upon 2 basic assumptions, namely, that the resources to be removed fr Japan as reparations were clearly excess to the peaceful needs of a self-supporting Japanese economy and that there would be a shares scd acceptable to and agreed upon by the FEC countries which would determine in what proportions avai reparations should be divided.

"As I have already stated, and as the Com well knows, the second of these assumptions has not been realized and there seems little prospect of its being realized. As regards the first assumption, that reparations removals should be limited to facilities clearly excess to the needs of a self-sptg Japanese economy, successive studies during the past 18 months of Japan's future industrial rqmts have necessitated progressive upward adjustments of earlier estimates of these rqmts. The first of these studies was that of Overseas Consultants, Incorporated, whose rpt was made avai to the Com, on 2 Mar 48, and the second was that of the so called Johnston Committee, whose rpt was made avai to the Com on 19 May 48. Both of these rpts came to the sober conclusion that the quantity of capital equip in Japan which could be properly considered in excess of Japan's peaceful needs had been greatly overestimated. Both rpts indicated that for a variety of reasons the Japanese economy was contg to opr at a heavy deficit even though living standards remained at a minimum level, and that the end to these deficits is not in sight. The vidence contained in these rpts, and the common knowledge of all FEC countries, leads to the inescapable conclusion that the Japanese economy, can be made to bear add economic burdens, beyond those directly related to meeting its own rqmts, only by prolonging or increasing the staggering costs borne by the American taxpayer.

"The US has, since the time of the Japan surrender, carried the burden of preventing such disease and unrest in Japan as

69859

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UNCLASSIFIED
PRIORITY

FROM : DA (SAOAS) NR : WCL 39888 DTD 14 MAY 49 CONT'D

might jeopardize the purposes of the occupation. The critical economic bonds with which it is now apparent, Japan is faced, and the prospect of contg deficits in Japans international pmts for some years to come, render meas of Japanese economic recovery of utmost importance. It is inescapable that if the basic purposes of the occupation are to be achieved, the Japanese people must be enabled to opt themselves at a tolerable standard of living. No one could reasonably suggest that Japan should be abandoned to economic despair. So to abandon Japan would be to undo the costly victory in the Pacific.

"I am sure that other Com countries agree with my govt that the Japanese people themselves must exert maximum efforts for the attainment of recovery. For some months the US Govt has explored means whereby this objective could best be achieved. In issuing its directive of Dec 10 regarding Japans economic stabilization, the US Govt took a maj stz towards rgg the Japanese people to exert their utmost energies in stabilizing their economy and rgg their dependence for subsistence on fgn subsidy. Under present circumstances in Japan the cost of dismantling, packing, and transg reparations facilities would conflict with the program of Japans economic stabilization and would constitute an add financial burden upon the US Govt. I do not wish to emphasize this point unduly, but the US Govt would be lacking in candor if it did not point out that the resources at its disposal to meet demands from all parts of the World are limited.

"It is now apparent to the US Govt that the first as well as the second of the two basic assumptions mentioned earlier, assumptions which underlay the policy decisions of the FEC having to do with reparations and are a precondition for an FEC reparations program, has not been realized. This fact has led my govt to several conclusions. Before stating them, however, I wish to emphasize that the US Govt maintains fully and categorically its support of the principle adopted by the FEC that Japans War-making capacity should be eliminated. As you know, all of Japans specialized War-making facilities have been destroyed. The US Govt believes that all other equip used for War purposes in the past should, if retained in Japan, be fully converted to the purposes of and utilized in Japans peaceful economy. Where this cannot be done, the US Govt believes that such equip should be scrapped. The US will not permit difficulties in reaching a solution of the

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reparations problem to be a means whereby Japan's war capacity re-emerge.

"It may not be amiss at this point to recall that Japan has already been deprived not only of all its overseas territorial possessions, but also of substantial quantities of real property of Japanese ownership and origin in the former possessions and elsewhere abroad. This property constitutes a large part which the Japanese have already made towards satisfaction of their reparations obligations. Unfortunately, from the standpoint of equity, some countries have benefitted more than others in the reparations that they have obtained in this form. However, from the standpoint of equity, some countries have benefitted more than others in the reparations that they have obtained in this form. However, from the standpoint of Japan, the loss of properties, whatever the proportions in which they happen to have been distributed, drastically reduces Japan's ability to support even a minimum level the needs of its people.

"In view of the above considerations, the US is forced to the following conclusions:

"(A) The deficit Japanese economy shows little prospect of being balanced in the near future and, to achieve eventual balance, will require all resources at its disposal.

"(B) The burden of removing further reparations from Japan could detract seriously from the occupation objective of stabilizing the Japanese economy and permitting it to move towards self-support.

"(C) There is little or no prospect of FEC agreement on a reparations shares schedule despite the repeated initiatives by the US over the past 3 years to assist the Com in reaching such an agreement. Without agreement on a shares schedule the existing FEC policy decisions regarding reparations are incapable of implementation.

"(D) Japan has already paid in substantial reparations through expropriation of its former overseas assets, and, in smaller degree, under the advance trust program.

"In light of these conclusions the US Govt is impelled to rescind its interim directive of 4 Apr 47 bringing to an end the advance trust program called for by that directive. It is impelled also to withdraw its proposal of 6 Nov 47 on Japanese reparations shares and I am so informing the Secretary General. Finally, the US Govt takes this occasion to announce

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that it has no intention of taking further unilateral action under its interim directive powers to make possible add reparations removals fr Japan.

"I earlier stated my govts belief that maximum efforts should be exerted by the Japanese themselves for their economic recovery. It is the view of the US that all facilities, inog so-called "primary war facilities" presently designated as aval for reparations which can contribute to Japanese recovery should be utilized as nec in Japans peaceful economy for recovery purposes.

"With regard to "primary war facilities," all of which as I earlier stated were sometime ago stripped of their sp purpose equip and thus of their "war facilities" characteristics, it is the view of the US that SCAP, under the auth granted in Para 10 of the FEC decision of Japanese industrial War potential, should as rapidly as practicable rq the dismantlement, dispersion or other action for the utilization in Japans peaceful economy of such of these facilities as are required to meet the needs prominently inc economic recovery. Remaining "primary War facilities" should continue to be protected, in the sense of preventing loss or scrapping of individual items, pursuant to the above mentioned FEC decision reg their "impounding." Impounding does not, however, inc rqmt that the facilities be kept in their present locations or that the Japanese devote resources to preserve their value of maintain them in working order.

"The US, it will be recalled, has repeatedly clarified its understanding that the "level of industry" proposals before the Com, excepting those levels which will lapse by FEC decision on 1 Oct 49, had application only to the ques of the quantities of industrial facilities which could be spared for reparations, and had no bearing on the matter of future levels of industrial capacity in Japan. Turning now to this latter ques, I have already emphasized my govts spt of the principle that Japans capacity to make War should not be permitted to reemerge. It is the considered view of the US Govt that this objective does not rq that Japans pdn for peaceful purposes be limited or that limitations be imposed on levels of Japanese productive capacity in industries devoted to peaceful purposes. This belief, coupled with the evidence of Japans present economic plight and the difficult problems Japan will face in future in attaining levels of industrial pdn and fgn trade sufficient to support its people

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even at minimum levels, render it clearly advisable in my govts view that Japan be permitted to develop its peaceful industries without limitation. The problem facing us is not one of limitation of Japans peaceful industries but of reviving these industries to prov the peoples barest wants.

"The US Govt plans shortly to submit to the FEC for its consideration proposals for the rescission or amendment of existing and pending FEC reparations and "levels-of-industry" policy papers so as to bring FEC policies on these matters should the proposals be approved by the Com info conformity with the pos which I have set forth. My govt earnestly hopes that the other member govts will appreciate the considerations underlying this position and will be able to concur in the US proposals."

WEST

ACTION : SECY GEN STAFF

INFORMATION : COMMANDER IN CHIEF, CHIEF OF STAFF, AG, ECON &
SCI, CIV PROP CUST

ADDED DIST : GOVT (14 Mar 49)

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