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REPORT OF THE MISSION ON
JAPANESE COMBINES (Zaibatsu Mission)

DECLASSIFIED E.O. 11652, Sec 3(E) and 5(D) or (E) NND# 740132

Sandy Cresy

CONFIDENTIAL

REPORT OF THE MISSION ON JAPANESE COMBINES

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REPORT OF MISSION ON JAPANESE COMBINES

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Corwin D. Edwards, Chief of Mission
Robert Dawkins, Chief of Staff
William B. Dixon
James M. Henderson
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March 1946

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FOREWORD

The Mission on Japanese Combines, otherwise known as the Zaibatsu Mission, was sent to Japan in January, 1946, by the State and War Departments jointly. Its assignment was to recommend to the two departments standards, policies, and procedures for carrying out the basic objective of destroying the power of the great Japanese combines and families which are collectively known as the zaibatsu, or money clique. The Mission remained in Japan from January 6 to March 15. Its report is presented in the following pages.

Members of the Mission were drawn not only from the two sponsoring departments but also, by loan, from other government agencies with relevant experience. The personnel was as follows:

Head of Mission, Corwin D. Edwards, Consultant on Cartels, Department of State and Professor of Economics, Northwestern University.

Chief of Staff, Robert Dawkins, Legal Advisor and Consultant to the Federal Trade Commission.

Members: William B. Dixon, Special Assistant to the Attorney General, Anti-Trust Division, Department of Justice.

James M. Henderson, Special Assistant to the Attorney General, Anti-Trust Division, Department of Justice.

R. M. Hunter, Legal Consultant, Federal Power Commission, and Professor of Law, Ohio State University.

Samuel Neel, Special Assistant to the Attorney General, Anti-Trust Division, Department of Justice.

Raymond Vernon, Assistant Director, Trading & Exchange Division, Securities and Exchange Commission.

Benjamin Wallace, Special Advisor, Tariff Commission.

The work of the Mission in Japan was greatly facilitated by the help of officials in SCAP. SCAP not only provided office space, supplies, interpreters, and stenographic assistance when such facilities were critically scarce, but also placed its files at the Mission's disposal, arranged interviews with Japanese, and devoted a substantial part of the time of its research section to special studies requested by the Mission.

Officials

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Officials responsible for the administrative program gave their own time generously in discussion and invited members of the Mission to take part in the consideration of current administrative problems. The Mission regards the relationship which was established as a model for the treatment of visiting missions, and believes that whatever merit the present report may have is in large part due to this cooperation.

Many officials in SCAP will recognize in this report the influence of their ideas and information. Nevertheless, the Mission takes full responsibility for its recommendations.

If the policies recommended herein are adopted, their interpretation and execution will be facilitated by the fact that upon the return to the United States of Major Wheeler, able chief of the Zaibatsu & Cartel Section, James M. Henderson, a member of the Mission, was appointed by SCAP to take Major Wheeler's place.

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SUMMARY OF RECOMMENDATIONS

The recommendations of the Mission, which are set forth fully in Chapter 6, are summarized below. Certain important elaborations which appear in Chapter 6 are necessarily omitted here. The paragraphs numbered from 1 to 13 set forth a program for terminating the power of the zaibatsu. Subsequent paragraphs suggest measures to prevent the rise of new zaibatsu and to make the Japanese economy more hospitable to small competitive business.

1. The larger Japanese business enterprises should be systematically surveyed in order to make sure that all the zaibatsu have been identified and subjected to the program for ending zaibatsu power.

In this survey, the term zaibatsu should be interpreted to include any private enterprise conducted for profit, or combination of such enterprises, which, by reason of relative size in any line or the cumulative power of its position in many lines, restricts competition or impairs the opportunity for others to engage in business independently, in any important segment of business; and any individual, family, allied group, or juridical person owning or controlling such an enterprise or combination.

In applying this standard, it should be presumed, subject to refutation, that any private enterprise or combination operated for profit belongs to the zaibatsu if it is very large in total assets; if, though somewhat smaller in assets, it is engaged in business in various unrelated fields; if it controls substantial financial institutions as well as substantial industrial or commercial ones; if it controls a substantial number of other corporate enterprises;

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or if it produces or sells a large proportion of the total supply of the products of a major industry.

2. Zaibatsu corporate combines should be dissolved. Dissolution of top holding companies, though a valuable first step, is not sufficient for this purpose. It should be supplemented by the following steps:

a) Dissolution of all other concerns which are merely holding companies.

b) In the case of non-financial enterprises which are operating companies, divestiture of all securities held in other companies, including companies not believed to be part of any zaibatsu combine.

c) Prohibition of future stock acquisition by the divested concerns.

d) Prohibition of mergers of any portions of divested or dissolved concerns except when permission is granted after an affirmative showing of public interest.

e) Requirement that all officers and directors of companies included in zaibatsu combines surrender all their officers and directorships except those in the company in which they are principally engaged.

f) Dissolution of certain contractual and service arrangements among concerns included in zaibatsu combines, - specifically arrangements for performance of central office services, interchange of personnel, exclusive agency, and preferential or exclusive trading rights.

g) Requirement that enterprises which have been members of zaibatsu combines shall grant licenses on non-discriminatory

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non-discriminatory terms to all applicants under patents which they now hold and under licenses which give them rights to sub-license; that such concerns shall surrender any exclusive or preferential rights which they now enjoy under patent licenses granted them by others; and that during the period of transition such concerns shall make available to all comers on non-discriminatory terms any technology and patent rights which they make available to other concerns which have been part of the same combine.

h) Dissolution of operating companies which, standing alone, still enjoy a monopolistic position or are so large as to retain much of the combine's power. In such dissolutions, technological unity should be preserved so far as possible, but portions of a company should be severed from one another if they are in unrelated industries, if they have had a separate corporate existence within the last five years, and if they are so separated from one another physically and technologically that they do not in fact have a common operating management. Since it is not clear how far this part of the program should be carried, the most clearly objectionable companies should be attacked first and decision about the ultimate scope of the program should wait upon experience.

3. Business communities of interest based upon zaibatsu family ties should be broken. For this purpose:

a) Members of zaibatsu official families (including the individuals who exercise controlling

power

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power in certain zaibatsu combines) and persons close to them by blood, marriage, adoption, or clan loyalty should be divested of all their corporate security holdings and liquid assets.

b) Such persons should also be ejected from all positions of business responsibility.

c) After ten years have elapsed (and providing the recommendations below about compensation are adopted), such persons should be permitted to make investments and hold business positions with the same freedom as any other Japanese.

4. The zaibatsu should be compensated for their property, but compensation should not give them wealth enough to buy back a place of power in the Japanese economy. To this end:

a) Policies which facilitate the conveyance of zaibatsu property to new owners should not be modified by any effort to obtain fuller compensation for the zaibatsu.

b) The maximum compensation for any seized property should be the net proceeds from its sale; but a tax of not less than 90 per cent should be levied upon any amount by which such net sale price exceeds the August 1945 market price (in the case of securities having a market) or book value (in the case of other securities or property).

c) If possible, the level of bids for zaibatsu property should be reduced by a substantial windfall tax upon the buyer wherever the purchase price is less than fair value, - say 50 per cent of the difference in value.

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in value. If the property is resold within two years, the windfall tax should be 100 per cent of the gain from the resale.

d) If sums realized by sales under these policies are so large as to make probable a revival of zaibatsu power, outright partial confiscation should be used to whittle them down.

e) Sums credited to the zaibatsu as compensation should be frozen in government bonds for ten years from the completion of the sale of zaibatsu properties. During this period, cash payments, even of interest, should be limited in order that there may be no surplus for free investment, and any additional income should be invested in frozen government bonds, acceptable, however, for taxes.

f) Before the freeze is terminated succession by the owner's heirs should be required, coupled with payment of succession taxes at steeply graduated rates.

5. Liquidation of zaibatsu securities and properties should be rapid -- in a period of about two years. The plan of liquidation should allow for:

a) Pro-rata distribution of security holdings to non-zaibatsu individual stockholders of the holding concern (and in some cases to financial institutions which own the holding concern's stock).

b) Exchange and cancellation of securities between companies which hold each other's stock.

c) Negotiated sale of both securities and other properties.

d) Periodic

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d) Periodic invitation of bids upon securities, and acceptance of the highest bids in amounts sufficient to bring sales up to a minimum quota for each quarterly period.

6. Sales should be screened to exclude cloaks for the zaibatsu and to prevent excessive concentration of power in the future. Otherwise, no single pattern of new ownership should be exclusively favored. Among acceptable types of purchasers are cooperative organizations, executives and employees of zaibatsu companies, persons wishing to go into business for themselves, persons driven from ownership by government policy during the war, groups of organized workers, and, in the case of certain public utility enterprises, the state itself.

7. Certain principal officials of operating companies should be removed because of clan loyalties or exceptional personal relationships with zaibatsu families or individuals. There is no need, however, to undertake any general replacement of managerial personnel. Such new managers as are needed can be obtained by promotion and by employment of persons who have been displaced by military destruction and reparations policy.

8. Zaibatsu control over credit should be broken. To this end:

a) In dissolution and reconstitution of zaibatsu financial enterprises (other than insurance companies) which are insolvent, stock held by zaibatsu holding companies and zaibatsu individuals which are part of the same combine should be subordinated to that of other stockholders. Zaibatsu insurance companies

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which are insolvent should be mutualized by cutting back the face amount of outstanding policies.

b) Policy holders in zaibatsu insurance companies should be aided in buying the stock of those concerns which is now owned by the zaibatsu. Purchase should be facilitated by liberal loans on policies or payment should be permitted in the form of a reduction of the face value of policies.

c) Remaining zaibatsu holdings in financial enterprises should be liquidated like those in non-financial concerns.

9. The number of sources of credit should be increased substantially. For this purpose, former owners of independent financial institutions which have been merged with zaibatsu concerns should be permitted to reestablish their old enterprises by forced divestitures. If this expedient proves insufficient, other devices should be used also — possibly a requirement that banks over a given size must split themselves into two or more independent units within a stated period.

10. Alliances between financial and non-financial enterprises, and alliances among financial enterprises, should be broken. To this end:

a) Banks and trust companies should be prevented from investing as much as 25 per cent of their capital and reserves in the securities, loans, bills, advances and overdrafts of any one company.

b) Such concerns should not be permitted to hold in their proper, savings, and trust accounts the stock of any other company in an amount which exceeds 5 per

cent

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cent of the outstanding shares of that company, nor to vote any such stock which they may hold. Nor should they be permitted to own any stock in a competitor. Exemption should be made to the percentage rule for stock acquired in connection with bona fide underwritings or in default of loans, but any such exemption should not run longer than one year.

c) Officers and directors of any bank or trust company, and persons holding 5 per cent or more of the stock thereof, should be ineligible to hold any office or directorship or a similarly large percentage of stock in any other company. Exception should be made for part-time non-policy-making employees, such as attorneys and certifying accountants.

d) No bank or trust company should be allowed to redeposit more than 10 per cent of its deposits in any one institution other than the Bank of Japan.

11. To eliminate discriminations in favor of zaibatsu banks,

a) A system of deposit insurance should be instituted to diminish the belief among depositors that accounts in zaibatsu banks are safer than elsewhere. A limit should be set to the amount of deposits which will be insured for a single bank.

b) The postal savings system should ultimately be required to redeposit its funds in ordinary banks, allocating at least 90 per cent of what it receives in any prefecture to banks in that prefecture.

12. To break discrimination in favor of zaibatsu banks by the government:

a) The discretion which the laws now entrust to the Minister

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the Minister of Finance should be greatly reduced.

b) Bank examinations should take place at least every two years.

c) The functions and powers of the special banks should be defined and limited by law and these banks should not be allowed to engage in ordinary banking.

d) All vestiges of private ownership of the Bank of Japan should be eliminated.

e) The designated bank system should be abolished, together with financial control associations, and competition among banks for customers should be restored.

f) Employes of the Ministry of Finance and of government banks should be forbidden to hold the securities of any financial institution, and should be ineligible for employment by private financial institutions for two years after they leave government employment.

13. Control legislation should be terminated except where it serves a public purpose. To this end:

a) New government monopolies should not be established during the transition period except with the explicit consent of SCAP. The petroleum and alcohol monopolies, which were instituted for war purposes, should be terminated.

b) All legislation which forbids, or requires government approval of, formation of a new business or expansion of an old should be repealed immediately.

c) Laws and ordinances establishing control associations should be generally repealed, and the associations abolished. However, in particular fields

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in which the Japanese government determines, with SCAP'S approval, that allocation and price control are necessary as emergency measures in the reconversion period, the powers now exercised under control laws should be temporarily preserved in a reconversion statute, which, however, should have a fixed time limit. This law should preserve no authority to license business, control the disposition of profits, force consolidations and suspension, or do other acts unrelated to reconversion. Where temporary allocations and price control are to be undertaken, the old control associations or similar quasi-private new bodies should exercise delegated authority from the government, provided that final decisions are made by the government and rights of appeal to the government against abuse of powers are provided. All bodies exercising such delegated functions during the reconversion period should be liquidated upon its expiration.

d) Laws establishing special companies should be generally repealed and the companies established thereunder should be abolished. However, those special companies which perform allocation functions needed during the reconversion period should be temporarily continued by a reconversion ordinance, in accord with the foregoing recommendation. Certain other special companies which perform governmental functions should be temporarily continued, until arrangements can be made to transfer these functions

to appropriate

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to appropriate public agencies.

e) Provisions of control laws which establish subsidies and preferences should be immediately terminated, even where other features of the control are temporarily preserved.

f) Provisions of control laws which establish governmental authority over exports and imports should be temporarily continued while policy about Japan's foreign trade is being determined, but delegations of authority in this field to private and quasi-private business groups should be terminated as rapidly as possible.

14. All forms of subsidy, legal monopoly, trade preference law, and trade barrier law should be systematically reviewed, and those should be terminated which do not have a demonstrable public purpose. Subsidies which are continued should be fully disclosed. Restrictions upon entry into an industry or market should be tolerated only for generally accepted public purposes; and in the case of natural monopolies and public utilities they should be accompanied by limitations upon prices and profits. Aggrieved persons should be given the right to attack discriminations and restrictions in the courts.

15. An antitrust law should be enacted prohibiting concerted business activity which burdens trade; activity, concerted or individual, which coerces business enterprises or is designed to drive selected enterprises out of any line of business; monopoly; excessive size; and types of industrial growth or intercorporate connection which are particularly likely to lead to monopoly or excessive size.

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This law should be enforced by a specialized agency operating at a high governmental level and exercising broad investigatory and remedial power. Exemptions should be provided for the joint activities of cooperatives, provided they are not coercive nor monopolistic; for labor activities other than the restriction of commercial competition; and for natural monopolies and public utilities in so far as they are closely regulated.

16. The patent law should be amended to require that outside the field of activity of the inventor or his first assignee all applicants shall receive licenses without commercial restrictions on reasonable and non-discriminatory terms; and that if any licenses are granted within the reserved field of activity, all applicants shall be licensed upon non-discriminatory terms. Assignments and licenses not publicly recorded should not be valid. Patents used illegally in violation of this policy should be avoidable.

17. Control of corporations by insiders should be made more difficult by

a) Requirement for disclosure of relevant facts in selling corporate securities, and introduction of the concept of common-law fraud in the law applicable to such sales.

b) Requirement that management give the stockholders an accounting of its stewardship before company meetings.

c) Prohibition of misleading practices in corporate accounting, and minimum standards of disclosure in such accounting.

d) Provision

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d) Provision for the disclosure of corporate insiders' transactions in the securities of their companies and for deterrents on such transactions.

e) Provision of remedies for ultra-vires acts.

f) Requirement that all shares in the same company be paid up to the same extent.

g) Precautions to assure the independence of auditors.

h) Adequate facilities for stockholder units against management.

18. The opportunity to form intercorporate combinations should be reduced by

a) Prohibition of interlocking officerships and directorates.

b) Prohibition of substantial shareholdings in other companies by directors and officers.

c) Prohibition of stockholding by corporations, with exceptions for banks, insurance companies, investment trusts, and possibly other types of financial institutions.

19. Income and inheritance taxes should be steeply graduated, and property inherited by the head of a House should be subject to the rates applicable to other heirs. Diffusion of inherited wealth should be assured by provision for reasonably equal distribution among heirs, in place of the present provision which sets a minimum that must pass to the next head of the House. The discretionary power of the Minister of Finance in tax matters should be greatly reduced.

20. Cooperatives

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20. Cooperatives should be made a better device by

a) Terminating present legislation which makes membership compulsory for certain groups.

b) Removing legal restrictions upon the types of activities which cooperatives may undertake.

c) Terminating the participation of the government in the affairs of agricultural cooperatives.

21. Efforts should be made to create Japanese support for this program by the following means:

a) Provision for access to recent literature in English about problems of industrial organization.

b) Publication of SCAP'S factual findings about the zaibatsu.

c) Encouragement of the organization of a Japanese commission of inquiry representative of a wide range of interests and opinions to investigate the facts about the zaibatsu and make public its findings.

d) Attention to problems of industrial organization, the dangers of monopoly, and excessive concentration of economic power in revision of the Japanese educational system.

e) Provision for contact between the Japanese antitrust agency and similar bodies in other countries.

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CHAPTER ONE

THE FUNCTION OF THE MISSION

Something has been seriously wrong with the social system of Japan. Since the Meiji restoration monopolistic ventures have been the focus of Japanese foreign policy and during much of the time the army and navy have dominated Japanese politics. The industrial revolution has failed to produce the democratic, humanitarian, and cosmopolitan sentiments which were its counterpart in most countries, even in Germany before the first world war. In spite of the growth of industry and commerce, there has been neither an aggressively independent middle class nor a vigorous labor movement. Though the standard of living has risen, its increase has not been the phenomenal surge which appeared in England, the United States, and Germany under the impetus of rapid industrial development.

Doubtless no single condition is responsible for these peculiarities. The excessive concentration of economic power in Japan is, however, one of the more important conditioning factors. Instead of the diffused business initiative which gives rise to a middle class, Japan's industry has been largely under the control of a few great combines, the greatest of which began their rise to power in feudal times and all of which have enjoyed preferential treatment from the Japanese government. This type of industrial organization tends to hold down wages, to block the development of labor unions, to destroy the basis for democratic independence in politics, and thus to prevent the rise of interests which could be used as counterweights to the military designs of small groups of ambitious men. Furthermore, the low wages

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and concentrated profits which are produced by such a structure have been inconsistent with the development of a domestic market capable of keeping pace with the increased productivity of Japanese industry; and in consequence Japanese business has felt the need to expand its exports not only to pay for necessary imports of food and raw materials but also to make up for the deficiency of domestic consumption. This drive for exports and for imports of raw materials has been an outstanding motive of Japanese imperialism. Thus the concentration of Japanese wealth and economic power must carry a substantial share of the responsibility for Japanese aggression.

It is in this sense that the zaibatsu--that is, the money clique--are to be regarded as among the groups principally responsible for the war and as a principal factor in the Japanese war potential. The responsibility is primarily institutional rather than personal. Some individual zaibatsu may have been war mongers 1/ but some others not. In personal views and activities the great industrial, commercial, and financial families have differed from one another. The newer ones, which in general owe their place largely to support by the army and navy and their profits largely to armaments and colonial trade on the Asiatic continent, were, on the whole, the stronger supporters of specific acts of aggression. The older ones, with more diversified interests and a position less dependent upon the military interest, looked askance at some of the military policies as unduly hazardous and costly, and perhaps also as unduly hazardous to peace. Sentiments varied from one person to another, and it is difficult in many cases to distinguish now between deliberate support of an aggressive policy and mere loyalty

1/ See next page.

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An example is the following extract from "The Spirit of Japanese Industry" by Ginjiro Fujihara, then President of Oji Paper Company (Pages 131-133-134).

"It is the duty of the Japanese Government under any leader to foster industrial expansion in order to carry out the national policy as outlined above. I wish to point out in this connection the necessity of a powerful army and navy. These two arms of national defense constitute an important source of strength in our economic expansion.

"I am far from recommending the use of armed forces for economic expansion in an aggressive way, but I rely on the army and navy for the protection which our foreign trade needs. No nation in the world can curb the progress of Japan's foreign trade if it is supported by the whole nation and by all branches of the government. We have a splendid opportunity to expand abroad; it is the manifest destiny of the Japanese nation. Let us make up our minds to overcome any obstacles and to move forward under any circumstances....

"If the Japanese Government of the present generation adopts a policy similar to that of the Tokugawa Shogunate, Japan will never be successful in trade expansion, no matter how strenuously those engaged in business may exert themselves. The success of Great Britain in India, where the East India Company actively promoted her interests, was due to the combined efforts of the people and government for national expansion. That adventurous corporation, which may frankly be called a piratical enterprise, enabled the Britishers to act fearlessly abroad, while the British Government stood staunchly back of all the projects of the company. I see no reason why Japan's trade expansion should not succeed, if the government and people cooperate earnestly in their support of the traders.

"Nothing is more important than force in achieving this ambition. Diplomacy without force is of no value. No matter how diligent the Japanese may be, or no matter how superior their technical development or industrial administration may be, there will be no hope for Japan's trade expansion if there is no military preparedness founded on the army and navy. We can safely expand abroad and engage in various enterprises, if we are confident of protection. In this sense, any outlay for armament is a form of investment. I hope I shall not be misunderstood, but in my opinion preparedness is an investment whose object is to provide the force necessary for national expansion which would otherwise be impossible.

"My advocacy of increased armaments is subject to a reservation. It should be an investment that maintains an adequate balance with the national resources. And it is up to statesmanship to decide whether the right equilibrium is maintained. It has been pointed out that no other nation spends so much money for armaments as Japan, which devotes one half of the state revenue to armaments.

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> The average in Europe is from one-third to one-quarter. There is, however, no hard and fast rule that can be applied to the armaments of all nations, each one of which has its own requirements. Japan has come later in the world's arena and cannot afford to be so easy-going as the European nations."

to a nation which was engaged in preparing for war or waging war.

But though these personal differences are of major importance in the trial of war criminals, they are less significant than institutional factors in the development of a policy designed to prevent war in the future. Whatever the emotions of individual zaibatsu, it would have been impossible for the zaibatsu type of industrial organization to contribute in Japan to the development of the interests and opinions that make it difficult for a democratic country to go to war. Whatever these emotions, it would have been unavoidable that a dominant industrial group so closely allied with its government must have become the instrument of that government in international politics and must have served the purposes of aggression unless it refused to serve its own profits. To break the system which produces such results is the central purpose of American policy toward the zaibatsu.

1. Formulation of Policy Toward the Zaibatsu.

This policy is firmly established, and reconsideration of it is no part of the function of this report. On September 6, 1945, an initial post-surrender policy for Japan, prepared jointly by the State, War, and Navy Departments and approved by the President, was transmitted to General MacArthur. This document contained the following passage:

"Encouragement

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"Encouragement shall be given and favor shown to the development of organizations in labor, industry, and agriculture, organized on a democratic basis. Policies shall be favored which permit a wide distribution of income and of the ownership of the means of production and trade.

"Those forms of economic activity, organization and leadership shall be favored that are deemed likely to strengthen the peaceful disposition of the Japanese people, and to make it difficult to command or direct economic activity in support of military ends.

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

a) To prohibit the retention in or selection for places of importance in the economic field of individuals who do not direct future Japanese economic effort solely towards peaceful ends; and

b) To favor a program for the dissolution of the large industrial and banking combinations which have exercised control of a great part of Japan's trade and industry."

This statement of policy was supplemented in September by a basic directive transmitted by the Joint Chiefs of Staff for the guidance of military government in Japan. The directive underwent minor modifications of language after its first transmission. In final form it said that one of the basic objectives of military occupation is "the strengthening of democratic tendencies and processes in governmental, economic and social institutions." The economic portion of this objective was further described as a purpose "to encourage the development within Japan of economic ways and institutions of a type that will contribute to the growth of peaceful and democratic forces in Japan."

The program to democratize economic institutions was defined in the following passage:

"It is the intent of the United States Government to encourage and show favor to:

a. Policies

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a. Policies which permit a wide distribution of income and of ownership of the means of production and trade.

b. The development of organizations in labor, industry, and agriculture organized on a democratic basis.

"Accordingly, 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 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

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

2. Origin of the Mission on Japanese Combines. After informal conversations between officials of GHQ, officials of the Japanese government, and representatives of the largest zaibatsu, a proposal for voluntary dissolution was submitted by Yasuda Hozensha, the topmost holding company of one of the four largest combines. On October 20, 1945, this proposal was transmitted by SCAP to Washington, with a request that it be approved in principle. On October 22 WARCOS requested that no action be taken until the matter was further considered in Washington, and added:

"For your information tentative State Department views follow:

"A. Dissolution of Zaibatsu should not be effected on a contractual basis but should be by direction military government without commitment to Zaibatsu in any particular....

"C. Plan should not limit you from taking any further action you deem appropriate...."

SCAP replied on October 23:

"There is no question of a contractual relationship. The dissolution would be carried out in accordance with the direction of SCAP. It is in the nature of a consent decree to be carried out under the supervision of SCAP...."

On November 1 assent was given to the proposed plan in the following cablegram to SCAP:

"1. No objection to your proceeding in accordance with plan outlined....as preliminary step subject to following Department of State reservations, all of which have approval of leading Department of Justice experts in the field.

"2. Full freedom future action should be retained by you concerning subsequent elaboration or modification of plan. This is considered particularly vital with respect to:

"a. Subsequent

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"a. Subsequent addition of provisions relative to interlocking directorates and intercorporate stock ownership below top holding company....

"5. Department of State believes desirable that permanent satisfactory solution of zaibatsu question be initiated by Japanese, but cannot depend on them for satisfactory program or enforcement until implementation of paragraphs....of basic initial directive relating to elimination from government, industry and finance of active exponents of militant nationalism and aggression. This again emphasizes the importance of assuring that neither your hands nor the hands of future Japanese Governments are tied by any arrangements of a contractual or consent-decree nature with persons now in positions of leadership in government and industry."

The decision to send a mission to Japan was an outgrowth of examination of the Yasuda plan. Within the scope of the broad policy already defined in the basic directive, various policies are possible as to scope of the dissolution program, type of dissolution to be undertaken, future ownership and management in the establishments subjected to dissolution, compensation to be granted to former owners, safeguards to be adopted against revival of zaibatsu power, and means of encouraging the development of a more democratic industrial structure. It was desirable to formulate these supplementary policies and, in the light of them, to remedy as rapidly as possible the omissions and weaknesses of the Yasuda plan. To retain a free hand in this work the Washington cablegrams emphasized that acceptance of the Yasuda plan must not preclude any further steps deemed appropriate. On November 6, in giving general approval to the Yasuda plan, SCAP gave effect to this reservation by including the following statement in its directive:

"It should be clearly understood that full freedom of action is retained by the Supreme Commander for the Allied Powers to elaborate or modify the proposed plan at any time and to supervise and review its execution."

The same

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The same directive also instructed the Japanese government to present additional plans for dissolution of combines, a program to abrogate legislative and administrative measures which foster private monopoly, and a program for laws eliminating private monopoly and restraint of trade, undesirable interlocking directorates, and undesirable intercorporate security ownership, segregating banking from commerce, industry, and agriculture, and providing equal competitive opportunity.

The Mission on Japanese Combines was instructed to consider the ways and means that would effectively destroy the power of the zaibatsu and to make recommendations to the War and State Departments as to the lines of policy which are appropriate to the basic objective. It was to consider both what new steps should be taken and how far the Yasuda plan might need modification. Its recommendations were to be submitted through SCAP and accompanied by SCAP's comments. The present report is transmitted by this channel.

3. The Present Status of SCAP's Policy Towards the Zaibatsu. The first measures to destroy zaibatsu power have already been taken. The recommendations contained herein should be considered in the light of the program now under way.

On October 25 SCAP instructed the Japanese government to require the topmost holding companies of fifteen leading Japanese combines* to submit elaborate reports for themselves and their subsidiaries, covering earnings, balance sheets, capitalization, important stockholders, investments,

* Mitsui Honsha, Mitsubishi Honsha, Sumitomo Honsha, Yasuda Hozensha, Kawasaki & Co., Nissan & Co., Asano Honsha, Fuji Industrial Co., Shibusawa Dozoku & Co., Nippon Nitrogenous Fertilizer Mfg. Co., Furukawa & Co., Okura & Co., Nomura & Co., Riken & Co., Nisso Co.

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purchases, and management fees. The list of companies was subsequently extended to nineteen* and in January, 1946, supplemental information was required from the companies and additional information from fourteen families which have an important place in the control of the companies.

The reports required by the first directive have been received from all of the companies subject to it and a part of the supplemental information has also been submitted. Much of the information used herein was obtained from these reports.

To prevent the dissipation and concealment of zaibatsu assets while SCAP's program was being developed, directives were issued on .. _____ freezing the bank accounts of the companies and subsidiaries mentioned above and of the individuals and families who control these companies. The frozen funds can be used for ordinary business expenses and for limited withdrawals for personal expenses, but any unusual expenditure is permissible only if specifically approved by SCAP.

As has already been indicated, the Yasuda plan for dissolution of the top holding companies of the Mitsui, Mitsubishi, Sumitomo, and Yasuda combines was approved by SCAP on November 6th, subject to possible modification. Other combines subject to the freezing order were directed to submit plans for reorganization and dissolution applicable to their own companies. With the exception of companies recently added to the restricted list these concerns have all submitted such proposals. As was to be expected, the suggestions differ widely in character and in probable effectiveness. No approval has been given to any of them, pending fuller determination of the policy to be followed in dissolutions.

The approved

*. Those added were: Hitachi, Ltd., Niehiden Industrial Co., Manchuria Investment Securities Co., Ltd., Oji Paper Mfg. Co., Ltd.

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The approved Yasuda plan calls for establishment of a Liquidating Commission. A proposed Imperial ordinance creating such a commission and defining its duties has been formulated by the Japanese government and reviewed by SCAP and is now substantially ready for approval. A considerable number of persons have been considered by the Japanese government and by SCAP for membership on this commission. A panel of suitable names is being developed. An effort is being made to place upon the commission persons who are not only honest and competent but also sympathetic in general with the purposes of SCAP's program toward the zaibatsu and representative of a diversity of groups and points of view. The degree of success in choosing a strong Liquidating Commission will go far to determine whether or not additional tasks which may develop for agencies of the Japanese government in the dissolution of the zaibatsu can be assigned to this same body.

SCAP has also begun to develop plans to terminate the laws which establish control associations, to dissolve these associations, and to entrust to new bodies such control functions as may be necessary at this time. Pending the formulation of a comprehensive policy on this matter, decisions have been made case by case about particular associations where immediate action appeared to be necessary. Work is now under way to develop comprehensive instructions to the Japanese government requiring abolition of the whole control association structure and defining the parts of its functions which are to be continued and the nature of the bodies which are to perform them.

Preliminary work is under way both in SCAP and in the Japanese government looking toward the formulation of a

Japanese

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Japanese antitrust law. On two occasions groups of Japanese officials asked members of this mission to confer with them about alternative lines of policy in dealing with monopoly problems and about technical issues which arise in formulating such a law.

In February 1946 the Japanese government issued, with SCAP's approval, an Imperial ordinance prohibiting business enterprises from taking part in international arrangements which restrict production, allocate territory, fix prices or quantities to be sold, or include other similar restrictions. A copy of this document is attached to this chapter as Exhibit 1.

4. The Setting of the Zaibatsu Program: The policy toward the zaibatsu is substantially affected by other portions of SCAP's policy and by other provisions of the basic directive. Persons who are responsible for formulating or furthering Japan's program of aggression have been ordered removed from positions of political and business responsibility, and some of them are to be treated as war criminals. The top executives of two zaibatsu combines are now in prison while decision is being taken about whether they should be tried. Under a rigid interpretation of portions of the basic directive it is possible that other owners and executives of zaibatsu combines might be

imprisoned

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imprisoned or forced out of office. *

The basic policy has also cut off the foreign assets and foreign trade of the zaibatsu. The governments of the United Nations have severally undertaken extensive programs for the seizure of enemy assets found within their borders, and it is not anticipated that these assets will be returned to their original owners. The basic directive (Part III-46) instructs SCAP to take possession of all Japanese foreign exchange and external assets located within or outside Japan. Moreover, SCAP has been instructed to establish foreign exchange controls and controls over Japanese foreign trade. In practice, SCAP acts as intermediary in all substantial export transactions and thus far has approved them only as parts of programs to satisfy important Japanese needs for imported goods.

The character of the zaibatsu problem is also affected by SCAP programs for reparations and for destroying the

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* Part I, Section 7-b of the basic directive instructs SCAP to arrest and hold as suspected war criminals "All persons who have played an active and dominant governmental, economic, financial or other significant part in the formulation or execution of Japan's program of aggression...." Part II-A-23 requires SCAP to "prohibit the retention in or selection for Japanese 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,".... and all persons "who do not direct future Japanese economic effort solely towards peaceful ends." This instruction is interpreted by the statement "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." Part III-40 reiterates substantially the same requirement as to positions of important responsibility or influence in all public and private financial institutions. Moreover, the directive also excludes from responsible posts all persons who have been members of various Japanese secret and patriotic societies.

Part 1-7-g provides that when persons are arrested for having taken part in the Japanese program of aggression, all property, real and personal, which they own or control will be taken under SCAP control pending directions as to its eventual disposition.

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Japanese military potential. Plans are being developed to dismantle and ship abroad on reparations account substantial amounts of industrial equipment. In certain strategic industries maximum limits are to be set upon Japanese production. Since many of the plants affected by these decisions are owned by the zaibatsu the programs in question will reduce the scope of zaibatsu control.

The financial program for Japan includes plans for a capital levy at steeply graduated rates and for a confiscatory tax upon all war profits. These measures have been decided upon partly for fiscal reasons and partly to convince the Japanese people that war does not pay. Though not directed specifically at the zaibatsu problem they will substantially affect it, for the capital levy will reduce large holdings and the war profits tax will bear heavily upon the great enterprises which were engaged in war production.

Finally, financial policies adopted in February in an effort to check inflation will have the effect of making the zaibatsu program easier to apply. All bank accounts have been frozen except for limited withdrawals and in consequence there is much less need than before to fear evasion of the special freezing orders applicable to zaibatsu bank accounts.

The interrelated policies which have been briefly summarized in the foregoing paragraphs are scarcely more significant as a setting for a policy toward the zaibatsu than are the pervasive uncertainties which affect all Japanese business and particularly the business of the zaibatsu. Zaibatsu combines are fully exposed to the risks and losses incident to the purge of officials, the reparations program, and the cutting off of foreign assets and foreign trade. Many of their plants have suffered severe

bomb

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bomb damage and losses from termination of war contracts, but claims for compensation for the latter are in most cases still unpaid by the Japanese government. Plants which have been engaged in war production face the same problems of reconversion as in other countries. Major decisions must be individually approved by SCAP in order that funds may be unfrozen to carry them out. As a part of the process of adjusting wages in a period of rapid inflation, it has been difficult to obtain labor because the prospects of black market trading appeared better than those of work at customary rates. Ceilings on corporate dividends are still in effect from Japanese war legislation, and a more severe 5% maximum has been applied by SCAP to restricted zaibatsu concerns. In the face of inflation, these limits impede the raising of money by new stock issues even if such measures were possible in the face of existing uncertainties and during a period when the stock market is closed. In cases in which substantial expenditures would be required to bring a plant back into peacetime production, there are doubts as to whether the expenditure would be justified, and there is difficulty in obtaining credit except from banks in the same combine until the uncertainties are diminished.[1/] For such reasons, current income and the current level of operation are frequently very low and fixed expenses are unduly heavy.

1/ On March 4, 1946, K. Otani, Chief of the Yasuda combines' public relations activity, wrote: "Internationally speaking, until the formal peace treaty is concluded the total amount of the war indemnity to be paid to the Allied Powers is quite impossible to estimate notwithstanding the fact that many factory equipments and machinery have already been taken over by them as interim means. In addition to this, at home the payment of war damage claims by the Government and the determination of the amount of indemnity to be paid to munitions companies still remain unsettled. Under such situations not only the fundamental production factors such as production cost, prospective supply of necessary materials, labor problem, etc., but also the political world generally speaking are still in the state of unrest. As a natural consequence the conditions necessary to re-state production being out of order it is impossible for the capitalists to venture to invest in any enterprise."

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Exhibit 1.

10 January 1946.

Legislation prohibiting the participation in International Cartels and/or prohibiting the execution of restrictive International Contracts or Agreements

Article 1. All participants in or parties to any international cartel, and/or any restrictive international contract or agreement, shall report the terms of such cartel arrangements and furnish copies of such restrictive contracts or agreements as mentioned below to the Minister of Commerce and Industry within fourteen (14) days after promulgation of the present legislation.

(1) Any restrictive international contract or agreement with respect to production, territorial allocations or any other restrictions relative thereto.

(2) Any restrictive international contract or agreement with respect to selling prices, quantities for sale, distribution, or any other restrictions relative thereto.

(3) Any restrictive international contract or agreement with respect to markets for goods, customers, quotas and embargoes, exchange of scientific and technical knowledge or information, or any other restrictions relative thereto.

Article 2. All individuals and/or business concerns who may be presently participating in any international cartel, or the parties to any restrictive international contract or agreement, as defined in any of the items contained in Article 1, shall withdraw from such cartel and/or cancel any such restrictive contract or agreement within thirty (30) days after the promulgation of this legislation.

Any withdrawals and/or cancellations, in accordance

with

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Legislation prohibiting the participation in International Cartels and/or prohibiting the execution of restrictive International Contracts or Agreements

(cont'd)

with the preceding paragraph, shall be immediately reported to the Minister of Commerce and Industry.

Article 3. All individuals and/or business concerns are prohibited from participating in any international cartel or from entering into any restrictive international contract or agreement, as defined in any of the items under Article 1.

Article 4. Any contract or agreement containing any or all of the restricted provisions referred to in Article 1, paragraphs (1), (2) and (3) herein, or any oral or unwritten agreement or understanding containing the substance of any or all of said provisions shall be null and void and unenforcible, and any individual and/or business concern failing to comply with any of the provisions of Articles 1, 2 and 3 herein, or who shall enter into any oral agreement or understanding containing the substance of any or all of the provisions of Article 1, paragraphs (1), (2) and (3) herein shall, upon conviction, be sentenced to penal servitude, or imprisonment for a term not exceeding three years and be fined ¥10,000 and a violation of each of the provisions of Article 1 shall constitute a separate offense.

Supplementary Rule.

The Ordinance shall come into force from the day of its promulgation.

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CHAPTER TWO

THE STRUCTURE OF ZAIBATSU POWER

It is widely known that Japanese finance, commerce and industry are so completely controlled by an oligarchy that major changes must be made if freedom of economic opportunity is to be established in Japan. In order to determine how this may best be done, as well as to appraise the possible alternatives, an understanding of the existing conditions and the principal sources and organization of zaibatsu power is necessary. For the purpose of examining these questions the concerns placed on the restricted list by SCAP have been considered prima facie zaibatsu, although it is possible that a very few of these may not be finally so classified, and undoubtedly there are concerns which should be added to the list. The restricted list, as now constituted, is (by brief designation) -

Mitsui	Okura
Mitsubishi	Nomura
Sumitomo	Riken
Yasuda	Nippon Soda
Kawasaki	Nippon Nitrogenous
Nissan	Hitachi
Asano	Nichiden
Fuji Industrial	Manchurian Investment
Shibusawa	Oji Paper
Furukawa	

Concerns placed on this list have been required to furnish various data to SCAP and these data have served as an important source of information for this Mission.

The word "zaibatsu" means financial clique -- a very general term, susceptible of many applications. A study of the restricted concerns has shown the appropriateness of this broad term because the concerns restricted are almost as diverse in details of organization as they are different in name. Despite these differences in detail,

however,

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however, certain general patterns are apparent. In each of the zaibatsu combines control is centered and exercised in at least one of five ways; by a family acting as a unit pursuant to law, custom, and family rules; by the members of a family voluntarily acting together in their common interest; by a single individual; by creditors; and by management acting alone or in response to unidentified sources of control.

The first of these control patterns can be illustrated by the Mitsui family. Here the ultimate control of the family wealth of the eleven official Mitsui families is in the heads of these families, and they operate as a unit under family rules.* All major decisions are made by a family council composed of the heads of the several families and the affairs of the council are conducted under well-defined procedural rules. Title to about 90% of the family wealth rests in the eleven family heads but is not divided equally among them. The unitary control secured through the family council draws the strings of power together in all matters of consequence. The family members are ordinarily forbidden to engage in business on their own account without the consent of the council and they may be required to accept such decisions and follow such business policies as the council may direct. An individual member of the family may be dismissed for incompetence, bad conduct or disobedience and may even be deprived of a share in the family property.

The second control pattern is that of a business organization in which various parts are individually owned by one or more members of a family, who, in serving their common interests,

* These rules appear as an exhibit in Appendix A.

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interests, combine and act as a unit without relying upon any formal family rules for achieving unitary action. Mitsubishi, the name used by the Iwasaki family, is an example of this type of control. There are two principal Iwasaki families, and the control of policy for the properties of both rests in the eldest son of one of these families. By family custom this control alternates between the two families and in this manner consistent policies are achieved and the family wealth is controlled as a unit.

The type of zaibatsu organization which is controlled by a single individual as distinguished from a family group appears both among the older zaibatsu, which are generally thought of as family groups, and among the new zaibatsu, in which the creator of the combine is still living, or in which a family group of owners has not yet evolved. Although Sumitomo is one of the old zaibatsu, the head of the family owns practically all of the family wealth and has complete control of the business organization without any necessity for formal or informal cooperation from other members of the family.. Among the new zaibatsu Fuji Industrial is of this type. It was founded by Chikubei Nakajima, who owns more than half of the capital stock of the company.

The type of concern in which ultimate control rests in creditors is exemplified by Riken. This company has about 11,000 stockholders, no one of whom owns as much as 10% of the total capital stock. Its bank loans are large and a syndicate composed of the Industrial Bank of Japan (a national policy company), Teikoku Bank (Mitsubishi), Yasuda Bank, Nomura Bank and Sumitomo Bank holds a general mortgage on all Riken property and effectuates its control by means of a designee who serves as president of Riken.

The type

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The type of zaibatsu in which the ultimate resting place of control is uncertain is illustrated by Nippon Nitrogenous, which has some 30,000 stockholders, no one of whom (except one of its own subsidiaries) owns as much as 2-1/2% of its capital stock. From the information now available, this company appears to be management controlled, though it is possible that control is held by some allied group of stockholders. The number of banks and insurance companies among the larger stockholders is worthy of note. The banks are Nomura Trust, Wartime Bank, Sanwa Trust Company, Sumitomo Bank, Sumitomo Trust, Mitsubishi Trust, Yasuda Trust, Yasuda Bank, Yasuda Savings Bank, Shidzuoka Bank, Osaka Savings Fourth Bank, Mitsui Trust, and First Trust. The insurance companies are Fukoku, Nippon Life, Chiyoda Fire and Marine (Okura), Daido Life, Tokyo Marine and Fire (Mitsubishi), Teikoku (Furakawa-Mitsui), Nissan Fire and Marine, Yasuda Life, and Nomura Life.

An examination of the internal structure of zaibatsu combines discloses an almost equal diversity of organizational technique. These differences, like those by which ultimate control is concentrated, are important because of the direct bearing they have upon the means to be adopted in any dissolution program. Internal organization of the restricted concerns may be divided into four general types, although it is probable that in almost every instance an individual concern may differ in minor particulars even though it conforms in general outline to one of the patterns. These groupings are: Concerns in which all units are directly or indirectly subsidiary to a single holding company; concerns in which a single company is both the principal holding

company

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company and also an operating company upon a substantial scale; concerns in which there are several holding companies at the top level which may also be operating companies; and concerns of the single company operating type.

Mitsui is an example of the single holding company type. Its Honsha holds from 10 per cent to all of the capital stock of about 90 companies; 36 of these 90 companies hold from 10 per cent to all of the stock of some 285 companies; and there are 40 more companies in which 10 percent or more of the stock is scattered among various subsidiaries and sub-sidiaries of the Honsha. The holding company is thus the point at which the power of control over more than 300 companies is concentrated.

Sumitomo is an example of the type of internal organization in which the principal holding company is also an operating company upon a substantial scale. Its honsha, in addition to holding stock in about 123 companies, itself directly owns and operates various mines, smelting plants, forest industries and real estate properties.

The most complicated type of structure is presented by the zaibatsu in which the honsha is not a major control instrument and control is exercised through a number of holding and/or operating companies, the capital stock of each of which is directly owned by members of the family. For example, the members of the Nomura family, either individually or in combination, directly own stock in amounts ranging from a majority to practically all of the capital stock in a number of companies, the more important of which are Nomura & Company, Nomura Bank, Nomura East Indies, Nomura Shoe, and Nomura Mining. Singly or in combination, the directly owned companies control numerous other companies which, in combination among themselves

or with

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or with one or more of the directly owned companies, control still other companies. In arrangements of this kind relatively small and scattered stockholdings may easily conceal effective control. Using Nomura Steel Company as an example the stockholdings are as follows:

Nomura & Co.	29.33%
Nomura Life Ins. Co.....	20.00
Nomura Securities Co.....	18.20
Nomura Trading Co.....	.83
Nomura Mining Co.	.83
Nomura Bank	13.33*

The companies holding stock in Nomura Steel are controlled as follows: Nomura & Co., 100% owned by members of Nomura family; Nomura Life, 45.75% by Nomura Bank, 30.52% by Nomura Trading, 5.06% by members of Nomura family, and 5% by Nomura & Co.; Nomura Securities, 90.41% by Nomura & Co., 4.5% by Nomura Bank, and 4.5% by Nomura Life; Nomura Trading, 78.75% by Nomura & Co., 21.25% by Nomura Bank; Nomura Mining, 77.77% by members of the Nomura family, 10% by Nomura Bank, 5% by Nomura Securities, and 5% by Nomura Life; Nomura Bank, 75.4% by members of the Nomura family, 12% by Nomura Life, and 1.1% by Nomura & Co.

Among the zaibatsu concerns now on the restricted list there is no clear example of one which is a single operating company. Hitachi approximates this type because out of its total assets of about ¥1,900,000,000 only about ¥200,000,000 represents stockholdings in other companies, and its real importance is due to its directly owned and operated plants.

The usual means of welding the numerous companies in a zaibatsu organization into a cohesive group has been the wide use of interlocking directorates, accompanied by the use of one individual as an officer in several companies.

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* Until its recent consolidation with Nomura Bank, For the Nomura Trust Company held about 3% of the stock of Nomura Steel.

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For example, Shunnosuke Furuta served as chief of the board of directors in Sumitomo Mining Co. Ltd., Sumitomo Metal Industries, Ltd., Sumitomo Electric Industries, Ltd., Sumitomo Chemical Co. Ltd., Sumitomo Communication Industries, Ltd., Sumitomo Real Estate & Building Co., Ltd., Sumitomo Co-operative Electric Power Co., Ltd., Sumitomo Life Insurance Co., Ltd., Sumitomo Warehouse Co., Ltd., Sumitomo Metal Industries of Manchuria, Ltd., Chosen-Sumitomo Light & Metal Co., Ltd., Sumitomo Synthetic Resin Co., Ltd., Nippon Sheet Glass Co., Ltd., Hotel New Osaka, Ltd., as director in Sumitomo Aluminum Reduction Co., Ltd., Sumitomo Machinery Works, Ltd., Sumitomo Bank, Ltd., Sumitomo Trust Co., Ltd., as business adviser to Osaka-Sumitomo Marine & Fire Insurance Co., Ltd., and Antung Light Metal Co., Ltd. In similar manner one individual frequently held office in several allied corporations, though it was more common to hold office in a few companies and serve as director in many others of the same group.

In addition to such direct means of control as those afforded by common officers and directors, there are intangible factors through which effective control and direction are exercised. The ordinary directors in a corporation are frequently merely figureheads holding honorary positions without either being expected to or actually exercising influence in company affairs. Another common extension of control is through management agreements, which may be formal or informal. Usually, though not in all cases, the controlling zaibatsu hold some stock, if only a trifle, in the managed concern. Extensions of zaibatsu control without commensurate financial investment are so common as to constitute an important part of the total, but they seem to

depend

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depend so largely upon custom, verbal understandings, prestige and similar imponderables as to make an objective determination of control difficult and frequently impossible.

It is generally true of the older zaibatsu that each of them has spread its activities across the whole economic fabric of Japan, although tending in nearly every instance to emphasize a particular field. Thus, Mitsui is generally thought of first as a trading company, Mitsubishi as a shipping concern and more recently as representing heavy industry, Sumitomo as principally mining, and Yasuda as a financial group. The new zaibatsu, particularly those who became important by means of consolidations and expansions during the last decade, have not spread into so many activities, though the restricted list does not contain any which are entirely integrated. Fuji Industrial is primarily an aircraft concern, and Kawasaki a shipbuilding company, but each has subsidiaries which are engaged in activities that are not in any way related to its principal business. Apparently the newer zaibatsu have tended to follow the previously established pattern.

The following list, though not complete, indicates the economic spread of Mitsui - one of the old zaibatsu. It is engaged in banking, in the trust business, life insurance, marine insurance, fire insurance, and re-insurance in each of these lines, and carries-on a general securities business; is engaged in various forestry projects, logging, the operation of saw mills, the production of lumber and mill work, plywood, veneers, packages and cartons, mine timbers, and cooperage products and in substantially all types of lumber enterprise, including the operation of lumber yards and other distributing agencies; owns and operates

agricultural

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agricultural land, including tea and rubber plantations; engages in gathering and processing cocoons, and spinning, dyeing and weaving silk; operates flour and other cereal mills, and engages in the canning of various food products and in other processing of numerous foods for human consumption; produces various poultry feeds and animal forage; buys, sells and gins cotton; spins, weaves, and dyes cotton, wool, and rayon; produces many types of textile goods, including hosiery and clothing; engages in wood and rag scouring; buys, sells, and processes hemp; produces and processes various vegetable oils; processes tobacco; engages in brewing, and in the operation of cold storage plants; produces coke and its various by-products; manufactures chemical dyes, pharmaceuticals, synthetic resins, rayon and other artificial fibres, caustic soda, soda ash, fish oil, soap, lubricating oils, synthetic oils, carbon bisulphide, carbon sulphite, ammonia sulphate, sodium silicate, flotation agents, chemical fertilizers, caffein, matches, nicotine products, carbolic products, and operates oil refineries producing many by-products of such processing; is engaged in mining coal, bauxite, salt, lead, zinc, gold, sulphur, mica, copper, silicon, brick and porcelain clays, mercury and phosphor, and in smelting, refining or processing these various products, including the manufacture of briquettes, the production of alumina, and the manufacture of porcelain, pottery, and brick; buys, sells, owns and operates real estate properties; engages in general contracting, in engineering and construction works, and carries on a mortgage and loan business; engages in shipbuilding, ship repairing and marine engineering, and owns and operates all kinds of marine transport; manufactures machine tools, printing

machinery,

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machinery, refrigeration machinery, steam engines, internal combustion engines, railroad machinery tools and parts of railroad equipment, cable ways, elevators, farm tools and implements, automobiles, radio sets and instruments, various types of rubber goods, electric furnaces, air conditioning plants and equipment, mining tools, machinery and equipment, mechanical conveyors, airplanes, and airplane parts and accessories; produces iron and steel in various forms, fabricates iron and steel, and produces cement; engages in buying, selling, importing, exporting, forwarding, and warehousing of commodities already mentioned and others.

In contrast with Mitsui, the activities of Fuji Industrial, a new zaibatsu, were largely in the aircraft field, including the production of aircraft parts, aircraft engine parts and tools, and aircraft accessories; but it also produced machine tools, forgings, bearings, screws, electric parts, chronometer oils, and engaged in annealing metals, in mining gold, iron and manganese, in the production of fibre goods, railroad cars, automobiles, pneumatic tools, bicycle parts, agricultural implements, coke, coal gas and tar, paint, varnish, paper, nets and twine of hemp and silk, and ammunition fuses.

In some instances monopoly positions have been attained in a single industry. Oji Paper, for instance, controlled about 85% of the pulp and paper industry of Japan and the loss of its properties now outside of Japanese territory will leave it in control of 50 to 60% of this business in Japan proper. The relative rarity of such concentrations in single industries in contrast with the instances of all-encompassing spread constitutes one of the peculiarities of the zaibatsu structure. Another such peculiarity, which

contrasts

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contrasts with industrial patterns in the United States, is the inclusion of banks, trust companies and insurance companies in the zaibatsu combines; but this aspect of the problem is discussed in detail in another section of this report.

Many of the old zaibatsu first became important because of governmental subsidies and monopolistic grants. For example, the early rise of Mitsui came from serving as fiscal agent for the government, and one of the important foundations of its industrial strength has been the coal mining properties which it obtained from the government at an insignificant cost in comparison with value. Mitsubishi obtained its start in the shipping field by providing ships for the invasion and conquest of Formosa, for which it was rewarded by substantial government grants.

Beginning in the 1930's, and particularly from 1937 onward, when Japan was more urgently implementing her policy of aggression and changing to a war economy, the established zaibatsu were growing tremendously in size and power, and were receiving additions to their ranks. These newcomers owe their startling growth to armament contracts, to grants of credit, and to special concessions, monopolistic trading, and development privileges in territories acquired or conquered as a part of the Japanese program of aggressive expansion. Nissan, headed by Yoshisuke Aikawa, was one of the large beneficiaries of war expansion. Aikawa served as an adviser to the Kwantung Army, and with the aid of the army authorities and the cooperation of the Manchurian and Japanese Governments undertook extensive industrial developments in Manchuria. These industries were principally financed by the Manchurian government and by capital secured from Japanese life insurance companies through government intercession. Voting rights were concentrated in a small percent of the total stock issued, and Aikawa was president

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of the company holding this voting stock.

There is no yardstick by which the power of the zaibatsu may be precisely measured, but there are a number of objective means of reaching an approximation of their strength and importance. One of these is furnished by an examination of taxable incomes reported under the Japanese income tax law. Returns for the 1936 tax year show 10 individuals who reported taxable incomes exceeding two million yen, and all but one of these taxpayers were members of important zaibatsu families. In 1942, the latest year for which such data are available from the Ministry of Finance, there were 15 Japanese who reported taxable incomes in excess of two million yen. Of these, 13 were members of well-known zaibatsu families or clearly a part of enterprises definitely identified as zaibatsu.

As an aid toward appraising the position of zaibatsu enterprises in relation to all Japanese joint stock companies in terms of capitalization and war growth and in terms of industrial production in relation to total Japanese production, data on these points were prepared at our request by the Research and Statistics Division of the Economic and Scientific Section of SCAP. This work was done in a very limited time, without opportunity to check the accuracy of the basic figures, which had to be secured from many different sources and some of which clearly contained errors. In transmitting the data the Research and Statistics Division called attention to deficiencies and probable errors, and particularly stressed the difficulty of securing reliable national totals of industrial production from the Ministry of Commerce and Industry. Some figures furnished by that Ministry were so obviously erroneous as to be unusable,

and those

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and those which were used must be accepted with reserve and caution. While it is true that individual parts of the data are not to be greatly relied upon, the aggregate result, when considered with the explanatory notes, affords some indication of the importance of the zaibatsu.

Turning first to the matter of paid-up capital, the percentage of the paid-up capital of seventeen of the nineteen restricted concerns in 1935 amounted to 18.1% of the paid-up capital of all joint stock companies in Japan. In 1944 the zaibatsu portion of the total was 24.6%. In considering these percentages, however, it must be kept in mind that no company was included as a zaibatsu or zaibatsu subsidiary unless on the restricted list and unless 25% or more of its capital stock was owned by a zaibatsu. This greatly understates the fact for the following reasons: The figures omit two restricted concerns through lack of necessary data; the restricted list does not include all of the principal concerns which should be classified as zaibatsu; only a portion of the subsidiaries of restricted concerns have been placed on the restricted list; and some of the subsidiaries actually on the restricted list have been excluded by the application of the 25% rule mentioned above. Using Mitsui as an example, forty of the Mitsui companies were included in the zaibatsu total, when as a matter of fact Mitsui has more than three hundred companies actually under its control. In varying degrees the same is true of the other principal restricted concerns.

In attempting to measure power in terms of paid-up capital individual contrasts are interesting. Yasuda is eighth in size on this basis, when in terms of power and influence it belongs among the first four. Similarly Nissan

is at

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is at the bottom of the list by a wide margin although it has been exceedingly important during the 1937-1945 period. Other contrasts might be pointed out, including cases in which the amount of paid-up capital grossly overstates the relative power and influence of the concern.

Using individual concerns to illustrate the growth of capital and assets and as a means of indicating the extreme spread between capitalization and actual assets, the figures on these items for 1935, 1940 and 1945 for two of the old zaibatsu and two of the new zaibatsu are as follows:

Capitalization and Assets - Sample Zaibatsu
Holding Companies - 1935 - 1940 - 1945

	1935		1940		1945	
	Capital (Authorized)	Assets	Capital (Authorized) (Unit, ¥1,000)	Assets	Capital (Authorized)	Assets
Mitsui	100,000	423,468	150,000	505,147	300,000	1,233,018
Yasuda	30,000	97,999	30,000	126,689	30,000	139,927
Fuji Industrial	12,000	22,807	50,000	475,939	50,000	3,132,073
Kawasaki	80,000	149,996	200,000	345,765	600,000	1,558,172

The above figures are only for the principal holding companies and do not include any subsidiaries. The Yasuda honsha appears insignificant but it controls companies having total assets of about ¥40,000,000,000 and is one of the larger zaibatsu. Kawasaki, one of the smallest zaibatsu on the restricted list, appears to be much larger than Mitsui and Yasuda combined, because it is a holding company which is also directly engaged in production, while the Mitsui and Yasuda honshas are almost pure holding companies.

It was intended to show the zaibatsu share of Japanese industrial production separately for Japan proper and for overseas production, but the data available at this time concerning overseas production was inadequate. It was found impracticable to use broad classifications such as chemicals,

machine

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machine tools, etc., because variations in the use of classifications, time limitations and the lack of data would have made the results useless. Instead, thirty-two key industrial products were selected as a yardstick, and the zaibatsu production of these items was calculated in percentages of the national total. A survey having the same general purpose was made by the "Oriental Economist" and some items in its list are the same as those used by the Research and Statistics Division. The data compiled by the "Oriental Economist" have not been checked in any way, but the results are set up beside those of the Research and Statistics Division for such comparative value as this may afford. In the case of the Research and Statistics figures, seventeen of the nineteen restricted concerns were used, but only fifteen of these produced any of the items listed. The "Oriental Economist" used fourteen restricted concerns, of which four had no production in any of the classes of products shown. For some of the products selected, information was so inadequate that no percentage could be computed.

THE ZAIBATSU PROPORTION OF TOTAL JAPANESE PRODUCTION

Percentage of Total Production for Japan Proper

Research and Statistics 15 restricted concerns.		"Oriental Economist" 10 restricted concerns	
Coal	51.43%	Shipbuilding	60.4%*
Coke	23.71%	Pig Iron	10.8%
Rolled Steel	9.56%	Steel	30.8%
Copper	33.62%	Coal	45.3%*
Aluminum	69.48%	Aluminum	25.1%*
Gold	28.07%	Magnesium	11.0%
Pulp	55.51%	Copper	67.5%*
Paper	52.15%	Lead	73.7%
Rayon	19.45%	Zinc	51.8%
Cotton Yarn	-	Mercury	78.0%
Cotton Cloth	-	Steam engines	46.5%*
Steam engines	88.38%	Electric engines	31.5%*
Internal Combustion engines	-	Passenger cars	18.4%
Lathes	14.27%	Freight cars	20.7%*
Steam locomotives	69.01%	Automotive machinery	29.6%
Freight cars	1.97%	Electric machinery	48.9%
Trucks	1.08%	Petroleum	28.0%
Shipbuilding	-	Flour	26.8%
		Cement	51.4%
		Ship repairing	

*These are items which appeared in both lists.

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Research and Statistics 15 restricted concerns (cont'd)	
Ship repairing	68.74%
Airplanes	50.74%
Soda	88.02%
Ammonia Sulphate	43.18%
Soap	33.41%
Carbide	6.54%
Synthetic Dyes	49.50%
Explosives	29.10%
Electric Motors	-
Photo Cameras	0.90%
Sugar	-
Canned Fish	-
Cement	-
Electric Power	5.24%

"Oriental Economist" 10 restricted concerns (cont'd	
Communications equipment	47.0%

The utility of these data is limited for the reasons already indicated and they can only serve in a very general way to gauge the industrial importance of the zaibatsu. It should also be kept in mind that a major part of the zaibatsu holdings are non-industrial in nature.

In considering the economic position of the zaibatsu and the character and extent of any dissolution program, attention must be given to the effects of bomb damage upon their productive facilities and an effort made to appraise the probable effects of the execution of the recommendations of the Pauley Commission. Similarly attention must be given to the application of the extraordinary taxes which are to be imposed. The importance of these factors is not so much in their absolute effect upon the zaibatsu groups as in their effect upon the relative position of such groups to the remainder of the economy.

No analysis of the results of the bomb damage survey which distinguishes between damage to zaibatsu properties and to other properties has been available and the limited life of this mission prohibited undertaking such a study. There is some reason to think that bomb damage may have been somewhat greater to major establishments, which are principally zaibatsu enterprises, than to small and

scattered

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scattered companies. However, in several of the most heavily bombed areas resulting fires spread the damage widely, making it unlikely that damage was sufficiently concentrated upon large plants to seriously disturb the relative position of the zaibatsu.

At our request the Research and Statistics Division estimated the effect upon restricted concerns of the recommendations of the Pauley mission, if fully carried out. These estimates are stated to be rough approximations, and it was pointed out that while the losses for individual zaibatsu have ranged from 1 to 75%, the aggregate loss ratio to total holdings remained fairly constant when considered in various terms, such as book values, estimated current valuation, or investment costs. These estimates show a reduction of zaibatsu holdings by 14.3% resulting from the loss of foreign assets, and an additional loss of 5% through the application of the other recommendations of the Pauley mission.

The effect upon zaibatsu holdings in Japan proper is not large because the Pauley recommendations reach only incidentally many important zaibatsu interests and do not touch banking, insurance, or real estate. The strictly industrial part of zaibatsu assets does not constitute a major part of their total holdings. As in the case of bomb damage, the relative effect between zaibatsu and non-zaibatsu enterprises is speculative, though the maximum possibilities are fairly well-defined. The chosen instrument policy of development in overseas areas and the concentration of reparation seizures upon zaibatsu properties make it certain that enforcement of the recommendations of the Pauley mission will affect the balance between zaibatsu and non-zaibatsu, but it is obvious that this effect will be less than the total percentage of zaibatsu loss.

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The extraordinary taxes consist of the capital levy, a war profits tax of 100%, and an increased property tax. The capital levy applies to both individuals and juristic persons; the war profits tax applies to juristic persons only; and the increased property tax to individuals only. There is no means of presently determining what the effect of these measures will be, because the results will be controlled by methods of valuation, by the application of various modifiers, and by many other determinations left to the discretion of the Ministry of Finance. Whether the effect of these tax measures will be drastic or wholly insignificant depends upon subsequent actions of the Finance Ministry and no estimate could be more than a guess as to the future policy of that Ministry.

To the extent that the zaibatsu accumulated proportionately larger war profits than other concerns, any application of the war profits tax will tend to affect them more than it affects other concerns. The capital levy and the increased property tax are both based upon a graduated scale in which the tax rates increase as the taxable sum increases, and consequently these taxes will, in the aggregate, apply more heavily to zaibatsu individuals and enterprises than to others, but whether this effect will be minor or substantial is not now ascertainable.

Some zaibatsu companies have submitted estimates of the effect of these taxes upon their holdings. It is likely that these estimates exaggerate the probable effect of the taxes by being calculated upon an unfavorable basis. While we do not, for reasons already indicated, consider such estimates significant, a few samples are presented merely as general information.

The estimates

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The estimates for the Sumitomo honsha are:

War Profits Tax

War profit, 1940-44		¥ 53,238,000
Tax		53,238,000
Less		
Taxes paid in period	¥ 31,171,000	
Dividends & payments	6,865,000	
Tax to be levied		¥ 15,202,000

Capital Levy

Basis: Book value, securities at paid-up value

All property		¥443,922,000
Capital and debt	¥478,334,000	
Tax		None

If calculated upon a basis of fixed asset valuation of three times book value and securities at paid-up value

All property		¥538,244,000
Capital and debt	¥478,334,000	
Increased property tax	15,202,000	
Balance		44,708,000
Tax		11,181,000

The estimates for Sumitomo Metal Industries, Ltd., the largest operating company of the Sumitomo group are:

War Profits Tax

War profits, 1940 - 46		¥3,713,700,000
Total losses		3,323,300,000
Balance		390,400,000
Deduct		
Taxes, dividends, etc.,	¥438,450,000	
Tax		None

Capital Levy

Total assets		¥3,164,380,000
Total liabilities	¥2,509,240,000	
Paid up capital	418,750,000	
Balance		236,390,000
Tax (about)		70,900,000

The estimates for Sumitomo Machinery Works Ltd., one of the lesser companies in the Sumitomo group, are:

War Profits Tax

War profits, 1940 - 46		¥145,473,000
Losses for same term	¥111,215,000	
Balance		34,258,000
Deduct		
Other taxes & dividends	29,434,000	
Tax		4,824,000

Capital

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Capital Levy

Total Assets		¥134,829,000
Total liabilities	¥ 92,552,000	
Paid-up capital	35,000,000	
War profits tax	4,825,000	
Balance		¥ 2,452,000
Tax		490,000

While the uncertainties are obvious, no sufficient reason appears to believe that the damage by bombing and the effectuation of the Pauley mission recommendations will substantially reduce the relative power of the zaibatsu. Neither of these factors can materially affect the dominance of the zaibatsu in the important field of trading and finance. In the past, zaibatsu influence in the administration of governmental affairs has been such that it would be improvident to rely upon enforcement of a tax policy sufficiently drastic to greatly reduce the relative importance of the zaibatsu.

One of the strongholds of zaibatsu power has been their ability to strongly influence and frequently control governmental actions affecting their common interests. This has been the result of many factors, including family relationships and friendships as well as the direct holding of important government posts. A few such instances are:

(a) Hideo Kodama (Nissan, Hitachi, and Manchurian Investment) has been Governor General of Korea, Minister of Overseas Affairs, Minister of Communications, Minister of the Interior, State Minister without Portfolio, and Minister of Education. Some of his relations by marriage are connected with Sumitomo, and his sister is the wife of Shigeto Hozumi, who is directly interested in Shibusawa and also Grand Chamberlain to Crown Price Akihito.

(b) Seihin Ikeda (Mitsui) has served as Governor of the Bank of Japan, adviser to the Ministry of Finance,

Counsellor

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Counsellor to the Home Ministry, Member of the Cabinet Advisory Council, Minister of Finance, and Minister of Commerce and Industry. His daughter is the wife of Takaya Iwasaki, who also has political connections through the marriage of the eldest daughter of Hisaya Iwasaki to Renzo Sawada, who had a long career in the foreign office and diplomatic corps. In addition, the present Finance Minister, Keizo Shibusawa, and the present Premier, Kijuro Shidehara, are related by marriage to the Iwasaki family, as are a number of other individuals who hold or have held important government posts.

(c) Toyataro Yuki (Yasuda) has served as President of the Industrial Bank of Japan, Governor of the Bank of Japan, Finance Minister, President of the Cabinet Planning Board, Councillor of both the Imperial Rule Assistance Association and the Imperial Rule Assistance Political Society, adviser to the Finance Ministry, and adviser to the Greater East Asia Ministry.

(d) Kinmochi Okura (Okura) served at various times as a member of numerous governmental committees, including the Central Economic Council, the Emergency Electrical Power Investigation Committee, the Planning Council, and the Manchurian Colonists Council.

(e) Masatsune Ogura (Sumitomo) has served as Minister without Portfolio, Minister of Finance, President of the East Asia Economic Deliberative Council, adviser to the Greater East Asia Affairs Ministry, President of the Wartime Finance Bank, adviser to Imperial Rule Assistance Political Society, and in other governmental posts.

(f) Ginjiro Fujiwara (Nissan, Hitachi, Manchurian Investment, and others) at various times has served as

civilian

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civilian adviser to the navy for the occupied areas of the So. Pacific, adviser to Manchukuo War Industries, adviser to the Cabinet Advisory Council, Councillor in the Imperial Rule Assistance Political Society, adviser to the Wartime Economic Council, adviser to the Administrative Supervisory Council, Minister without Portfolio, and Munitions Minister.

(g) Kunimichi Hara (Nomura) has held various posts in the Finance Ministry and served as supervisor of the Hypothec Bank of Japan, adviser to the Kwantung Army, and adviser to the Manchurian Affairs Board of the Cabinet.

The details of the zaibatsu and governmental connections of the individuals just named are merely instances to illustrate the common pattern. The web of such connections extends in all directions and has pervaded the government to an extent comparable to the industrial, commercial, and financial spread of the older zaibatsu through the economic life of the country. Zaibatsu viewpoints and interests have had able and powerful representation in all governmental affairs, and the direction and execution of many governmental policies have been placed in the hands of members of their group.*

The causes contributing to the ability of the zaibatsu to maintain their position and continue to grow are many and varied, and some of the more important now result from the political and economic power already acquired and from the freedom with which this power may be used. The complete absence of any antitrust laws in Japan has been one extremely significant factor. Large concerns have had full opportunity to use their strength without legal hindrance, and under such

* A more detailed examination of zaibatsu and government connections is contained in Exhibit 1, at the conclusion of this chapter.

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such conditions the strong have grown on their own strength and the weak have been defenseless. It is not surprising that small independent companies have been known to invite a major zaibatsu to buy some of their stock, thus taking them under zaibatsu protection by reason of their identification with such a concern. Some instances have been reported where the invitation was so pressing that the stock was sold to a zaibatsu concern at a merely nominal price.

All of the well known devices of monopolistic power are available for use against small competitors or as a means by which the zaibatsu may extend their grasp into all types of business. The extreme diffusion of interests of the larger zaibatsu affords a means to attack from many directions simultaneously and to reach vulnerable points in a concern engaged in practically any line of business.

From the questioning of a member of experienced employee-executives of zaibatsu concerns, it became evident that four general reasons satisfactorily cover the reluctance of many Japanese to engage in independent business of sufficient size to attract zaibatsu attention. The first of these is that the control of banks and other financial institutions by the zaibatsu is sufficiently complete to block any new financing which may be desired, or to prevent the granting of financial aid in an emergency. The second factor is that the scope of zaibatsu interests is such as to make interference with, or cutting off of, raw materials and supplies to a small competitor entirely possible. The third reason is another facet of the second, in that the same scope of zaibatsu interests, particularly in general trading, makes the selling of finished goods outside of a

strictly

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strictly local market largely dependent upon zaibatsu cooperation or at least toleration. The provision of Japanese law permitting exclusive dealing contracts is a useful instrument in interfering with or preventing small concerns from securing supplies and disposing of their finished products. The fourth reason is that zaibatsu interests are able to cripple a small company by pirating its key employees and skilled workmen. Employment by a large and well known concern is commonly considered by Japanese to add to personal "face", and this intangible factor is an element in the selection of employment.

Aid in accumulating family wealth and power is afforded by the provisions of the Japanese succession laws. They provide that when by reason of death, retirement, or other of certain specified reasons, there is a succession to the "headship of a house" and there is no will, the eldest male lineal descendant of the former head, unless disqualified for reasons set out in the statute, succeeds to the headship of the house and to all property held by the former head. The head of a house cannot by will or otherwise deprive his lineal successor of a legally secured minimum of one-half of the house estate. This provision constitutes a potent instrument in preventing family holdings from being scattered by division among a number of children or other heirs, and provides the means by which through successful management tremendous family fortunes may be accumulated under individual control.

The Japanese government has affirmatively encouraged group action by business interests for the fixing of prices, allocation of raw materials, division of markets, and similar matters. When production demands for war purposes became

pressing

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pressing, a control structure was imposed upon the already monopolistic business pattern. The zaibatsu had succeeded in fighting off a move toward bureaucratic control and a revision of the General Mobilization Law, as implemented by the Major Industries Control Ordinance, became the instrument used for establishing controls. Under this enabling act substantially all industrial producers were brought under the control of associations established by government direction. Upon the establishment of a control association in an industry, each member of that industry was required to become a member of the association, the principal functions of which were to plan with the government the national program of production and distribution in the industry concerned;-to provide means for supplying the labor, raw materials, capital, and any other needs of the industry; to control and guide production and distribution in the industry, and for any enterprises in the industry; to provide for equipping the industry; to develop techniques, increase efficiency, unify production, reform the management of the industry and of its members; to carry on any enterprises needed, and in general to supervise the industry and its members. These controls, though nominally exercised by the government, were in substance operated by the associations, and these were quite commonly dominated by zaibatsu representatives. Presidents of each of the associations were selected by the appropriate cabinet minister from a list of nominees submitted by the association, and the president thus selected appointed the directors, trustees, and all other officials and directed all the activities of the association.

Using

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Using a random selection of twelve control associations as an example, the dates of establishment and the first presidents were:

Industry	Established	Name of President
Iron and Steel	November 20, 1941	HIRAO, Hachisaburo
Coal	November 26, 1941	MATSUMOTO, Kenjiro
Mining	December 18, 1941	ITO, Bunkichi
Cement	December 18, 1941	ASANO, Soichiro
Electrical Machinery	January 12, 1942	YASUKAWA, Daigoro
Industrial Machinery	January 15, 1942	OKOCHI, Masatoshi
Precision Instrument	January 10, 1942	HARA, Masaaki
Automobile	December 24, 1941	SUZUKI, Shigeyasu
Vehicles	December 22, 1941	SHIMA, Yasujiro
Rolling Stock	May 30, 1942	NAKAGAWA, Shosa
Shipbuilding	January 28, 1942	SHIBA, Koshiro
Foreign Trade Assoc.	January 27, 1942	NANGO, Saburo
Koeki Eidan	August 8, 1943	ISHIDA, Reisuke

Eight of these men are connected directly or by close family relationships with zaibatsu organizations. The manner in which these associations were organized guaranteed that they would be subject to domination by the president, since all the power was concentrated in his hands. There is reason to believe that in numbers of instances the actions of the associations favored or granted preferential advantages to zaibatsu members at the expense of others. There is also reason to believe that the very large zaibatsu often ignored the associations when it suited them to do so, and that the stringent measures used by associations were rigidly enforced only against the smaller companies.

Control associations and the control companies which served largely as executives of the associations were

greatly

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greatly used as a means of bringing about mergers. They held the powers of economic life and death through the allocations made to individual companies and the right of determining that any concern was not satisfactorily efficient in operation or management. It is obvious that a concern without great influence was unable to resist a requirement that it give up its separate and independent existence. It is certain that these powers were widely used. Though complete data on this point is not available, at least 980 industrial mergers were effected during 1942 and 1943 as a result of association activities. In the case of the import and export trade direct mergers are reported to have reduced the number of concerns engaged in foreign trade on a barter basis from some 6,000 to about 600.

There are so many forms of governmental subsidies and preferences possible and so many have been used, and the political atmosphere in which they were used has been such, that the action and interaction between the government and the zaibatsu is not reasonably susceptible of a detailed appraisal. There are no adequate translations or even listings of the many laws and ordinances concerning subsidies, monopolistic grants, or trade barriers currently available. Obviously this prevents any effort to explore systematically the extent to which such preferential laws were administered by career bureaucrats or by zaibatsu representatives holding government offices. In the case of associations composed of industry representatives, it is certain that in some cases any supervision by government agencies was at best nominal and there was no right to appeal an unjust decision. Enough is known of some of these preferential laws to say that many limit the purchase or sale of particular commodities except by or to designated concerns; require prior approval by some agency before

engaging

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engaging in certain forms of business, and impose fines and penalties for failing to first secure such approval; require the merger or consolidation of companies; require permission for making alterations or extensions of certain types of industrial facilities; grant some private enterprises the right to expropriate property; exempt certain concerns and special companies from taxes; and allow rebates on or exemptions from import duties on types of machinery used in designated industries or for particular purposes.

The brief structural sketch in this chapter shows only some of the factors contributing to zaibatsu power. These and other factors discussed elsewhere in this report serve to make it plain that a dissolution program which makes more than a feeble step toward economic freedom must reach into many fields and seek to cut the roots that nourish and maintain the zaibatsu system. - -

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Exhibit 1.

Sketch of Some Zaibatsu Relationships With Other Zaibatsu and With the Government

BARON HISAYA IWASAKI is the head of the Iwasaki family and hence of the Mitsubishi combine. His second son is TAKAYA. A prominent personage in the Mitsui combine is SEIHIN IKEDA. The latter has been managing director of the Mitsui Bank, Governor of the Bank of Japan, Finance Minister, Member of the House of Peers, Member of the Privy Council, Chairman of the Board of Directors of Mitsui Gomei, formerly the top holding organization of the Mitsui combine. His daughter, TOSHIKIO, is the wife of TAKAYA IWASAKI. Baron Hisaya Iwaski's sister, MASAKO married KIJURO SHIDEHARA, the present Prime Minister of Japan. - 1- A niece of Baron Misaya Iwasaki, TOKIKO KIUCHI, married Viscount KEIZO SHIBUSAWA. He is head of the Shibusawa family and has been Chairman of the Board of Directors of the Tokyo Savings Bank, Vice President of the Dai Ichi Bank, President of the Finance Control Association, Governor of the Bank of Japan, member of the House of Peers, Minister of Commerce and Industry, Chief of the Wartime Economic Bureau, Member of the Wartime Commodity Price Investigation Council. He is at present the Minister of Finance.

BARON IWASAKI's eldest daughter, MIKI, married RENZO SAWADA. He has had a long career in the Foreign Office, serving in various countries. He was Minister to Burma at the time of the surrender. The Baron's nephew, JUSHIRO KIUCHI, has also had a career in the Foreign Office, serving in various legations and embassies. His last position was that of Secretary to the Japanese Legation in Italy. His wife is the daughter of TEIZABURO SEKIYA, an ex Vice Minister of the Imperial Household. Another nephew, NOTALANO KIUCHI, has had a long career in the Yokohama Specie Bank. His

wife

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wife is the daughter of TETSUJIRO SHIDACHI, former president of the Industrial Bank of Japan, and interested in both Sumitomo and Mitsubishi concerns.

The Baron's sister, HARUJI, married KOMEI KATO, former ambassador to London, Prime Minister and leader of the Minseito political party. Her daughter, MISAKO, married VISCOUNT NAGAKAGE OKABE, a diplomat and politician now lodged in Sugamo Prison.

KAMESABURO IKEDA, President of the Nippon Kasei Kogyo Company, Managing Director of Mitsubishi Mining Company and Mitsubishi Coal Liquefaction Company, and Director of several other Mitsubishi companies was a member of the Estimating Committee of the Coal Control Society.

KOSHIRO SHIBA is Chairman of Mitsubishi Heavy Industries Company, Japan Optical Industries Company, Mitsubishi Steel Material Company, Nippon Iron Works, Nippon Battery Company, Dai Nippon Paint Company, Imperial Aviation Association, Dowa Motor Car Company, Mitsubishi Electric Machinery Company. He was appointed President of the Shipbuilding Control Association in 1944. He was honored for boosting war production during the China Affair.

SOBUN YAMAMURO, twin brother of Lt. Gen. Munetake Yamamuro, is Chairman of the Board of Directors of Mitsubishi Trust Company, Director of the Mitsubishi Bank, Chief Director of the Mitsubishi Economic Investigation Institute, Auditor of Mitsubishi Heavy Industries, Mitsubishi Electric Machinery Company, and Japan Chemicals Industry Company, and served as Counsellor of the Japan Financial Control Society.

BARON TAKAHARU MITSUI, President of the Mitsui Steamship Company and Director of Mitsui Mining Company, has been

President

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President of the Japanese-Hungary Cultural Society and Chairman of the Constitution Committee of the Japanese-German Hall.

TERUO AKASHI, a brother-in-law of Finance Minister Viscount Keizo Shibusawa, is President of Teikoku Bank (Mitsui), Chairman of the Board of Directors of the Tokyo Bankers' Clearance House, Tokyo Savings Bank, South Seas Development Co. Japan Economic Federation. He has been President of the Japan Banking Association and member of the East Asia Advisory Council. In 1944 he was in charge of the general affairs of the Imperial Rule Assistance Association, active participation in which has been considered reason sufficient for disqualification for election to the Diet. He has been an adviser to the Ministry of Finance and adviser to Dai Nippon Seiji Kai, and was a Diet member of its predecessor, the Imperial Rule Assistance Political Society prior to its dissolution in March 1945.

TOYOTARO YUKI is a Director of Mitsui Trust Company, formerly Managing Director in London for the Yasuda Hozensha, Director of N.Y.K. (Steamship Lines), Nippon Electricity Company and Nippon Wireless Telegraph Company. He has been President of the Industrial Bank of Japan, Governor of the Bank of Japan, Finance Minister, President of the Cabinet Planning Board, Member of the House of Peers, Counciler to the Imperial Rule Assistance Association and Imperial Rule Assistance Political Society, Adviser to Greater East Asia Ministry, and member of the Wartime Commodity Price Investigation Council.

CHUZO IWATA, is a lawyer for Mitsubishi, auditor of the Mitsubishi Bank and the Sumitomo Trust Company. He has been Minister of Justice and has acted as legal adviser to the

Imperial

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Imperial Household, the Bank of Japan, N.Y.K. and The Hypothec Bank. He is a director of Gisei-kai one of the two top holding organizations of the Nissan combine.

BARON KICHIZAEMON SUMITOMO is President of the Sumitomo Honsha, Director of the Sumitomo Warehouse Company, Sumitomo Bank, Sumitomo Mining Company, Sumitomo Trust Company and Sumitomo Life Insurance Company. He married the granddaughter of Prince Kiminocho Saongi who over a long period of years was one of the most influential persons in the Japanese Government. Her relative Prince Hachino Saiongi has held many high positions in the Imperial Household Ministry.

SHUNNOSUKE FURUTA is Director-general of the Sumitomo Honsha, Chairman of the Manchuria Sumitomo Metal Industries Company, Sumitomo Metal Industries Company, Director Sumitomo Trust Company, Sumitomo Electric Industries Company, Hokkaido Development Company, Nichi-Man Magnesium Company, Sumitomo Life Insurance Company, Sumitomo Chemical Industries Company, Sumitomo Electric Machine Works, Sumitomo Warehouse Company, and Sumitomo Mining Company. He is Auditor of the South Manchurian Railway Company, Japan Electric Generation and Transmission Company, Nippon Iron Company and North China Development Company. He was appointed a cabinet adviser of the Koiso Cabinet on October 1944.

SHOZABURO KAWAI is Chief Comptroller of Sumitomo Honsha. He married the eldest daughter of Takio Igawa a very well known politician and member of the Privy Council.

MASATSURE OGURA was formerly Director General of Sumitomo Honsha. He was Minister without Portfolio on the second Konoye Cabinet. Minister of Finance in the third Konoye Cabinet, President of the East Asia Economic Council and headed the Japanese Economic Mission to China in March 1944. He was Supreme Economic Advisor to the Puppet Nanking regime and to the Greater East Asia Affairs Ministry. He is a Chairman of the Board of Directors of Sumitomo Mining

Company

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Company, Sumitomo Warehouse Company, Sumitomo Life Insurance Company and other companies and a Director in a great many of the Sumitomo companies. He was formerly President of the Wartime Finance Bank, Director General of Gold Reserve during the war, member of the Planning Board of the Education Investigation Council. He was formerly an advisor of the Imperial Rule Assistance Political Society.

HIRAMA KASUGA is a Director of the Sumitomo Head Office, President of Sumitomo Metal Industries Company, and a Director of several Sumitomo companies. He has been a member of the Army Aeronautical Industry Association being one of four men in charge of Iron and Steel. He was councillor for the Steel Control Society.

KIUCHI MIMURA is managing Director of Sumitomo Besskin Copper Mines, Sumitomo Heavy Industries Company, Director of Sumitomo Honsha, and several other companies. In 1943 he was councillor of the Coal Control Society and of the Industrial Machine Control Society. He was advisor to the Japanese Embassy at Nanking and to the Greater East Asia Ministry.

YOSHISUKE AIKAWA has been the chief personage in the Nissan combine. He became a member of the House of Peers in 1943 and was a member of the Cabinet Advisory Council. He was Councillor to the Board of Technology. He is largely responsible for the development of war industries in Manchukuo.

BARON BUNKICHI ITO is President of Japan Mining Company, Godo Real Estate Company, Taiwan Mining Company, Nissan Steamship Company, Director of Nissan Marine and Fire Insurance Company, Toa Kogyo Company, Taiwan Chemical Industries Company, Nissan Life Insurance Company, Kita Karafuto Petroleum Company, Kuhara Mining Company, Hitachi, Ltd., and

Niigata

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Niigata Bank. He served as Chief of the Mine Controlling Association, President of the Mine Distribution Controlling Joint Stock Corporation, Councillor of Industrial Organization, Member of the Advisory Committee on Industrial Equipment Evaluation, and of the Mining Industry Evaluation Mine Products Demand Committee. He had held many Governmental Offices in the early part of his career.

MASASUKE FUJITA is President of Nippon Fat and Oil Industries Company, Nippon Sulphuric Acid Company, Titan Kogyo Company, Kyoritsu Kogyo Company and director of several Nissan Companies. He was President of the Oil Control Society.

GINJIRO FUJIHARA is a Councillor of Gisei-kai one of the two top holding organizationsof the Nissan combine, and was President of the Oji Paper Company. He has been Minister of Commerce and Industry in the Yonai Cabinet (1940), member of the Greater East Asia Sphere Establishment Administration in the Cabinet, civilian advisor to the Naval Authorities in Occupied Areas of the South Pacific, President of the Industrial Equipment Corporation (1942), Advisor to the Cabinet Advisory Council, Wartime Economic Council and Administrative Supervisory Council (1943), Minister without Portfolio in the Tojo Cabinet (1943), and Munitions Minister in the Koiso Cabinet (1944), Cabinet Advisor to supervise iron and steel production. Councillor to Imperial Rule Assistance Political Society (1945) and Advisor to Manchukuo War Industries (1945).

KUMMICHI HARA is President of Nomura Gomei Kaisha. He has been Economic Advisor to the Kwantung Army, Director of the Nippon Steel Federation, Vice President of the

Manchuran

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Manchuran Affairs Board of the Cabinet.

MASATOSHI OKOCHI has been President of the Institute of Physical-Chemical Research and Chairman of Riken Heavy Industries Company and several other Riken companies and a director in still others. He was a Cabinet Advisor to the Tojo Cabinet (1943-44) and Councillor to the Board of Technology (1944), Advisor to the Munitions Industry (1945), Member of the Diet System Investigation Council (1945).

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ADDENDUM A

CORPORATION LAW AND THE ZAIBATSU PROBLEM

If the corporate law of Japan and the means of its enforcement had been greatly different, the zaibatsu might not have attained the position which they came to achieve in the Japanese economy. The absence of certain restraining provisions and the failure to enforce others permitted the zaibatsu to develop in a fashion which other countries facing similar problems have succeeded in avoiding or limiting.

The revision of Japan's corporate law, however, is needed not merely to prevent the re-formation of zaibatsu companies in the forms in which they have developed in the past, but also to prevent certain related absuses which may easily occur in years to come. If the proposals of this mission are adopted they will create a more widely diffused ownership of corporate industry in Japan than has heretofore existed. A widely diffused ownership creates new advantages and new risks. Given the traditions of the Japanese economy, diffused ownership is bound to create the very serious risk that management will come to dominate industry without any particular concern for the wishes and interests of the stockholders. A new kind of concentration of control not less arbitrary than the zaibatsu structures might therefore easily be created. For that reason, it is essential to review the salient characteristics of Japanese corporate law.

Absence of Corporate Restraints

In the western world, the right of business to incorporate was originally looked upon as a special privilege to be granted only when it was surrounded by adequate safeguards.

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safeguards. The ingrained fear of big business and of monopoly was responsible for the sparing manner in which the first corporate charters were granted in Great Britain and the United States and for the many restraints in state corporation statutes and federal law.

In Japan, on the other hand, the corporate form did not evolve as an institution restrained by the ingrained suspicions of the people. It was adopted as a matter of convenience in the synthetic process of westernization which began with the Meiji restoration.

Since the restoration, government and business in Japan have worked in close concert. There has never been any movement in Japan strong enough to produce a Sherman Act, a Commissioner of Corporations, a Money Trust Investigation, a Federal Trade Commission, or a Securities and Exchange Commission such as developed in the United States, nor a series of Royal Commissions to amend the Companies Acts such as Great Britain produced. The partnership between business and government in Japan is evident throughout the fabric of Japanese law; it is reflected in the complex system of subsidies, monopolies, discriminatory taxes, and other devices favoring business. It is evident also in the manner in which Japanese law relating to business is enforced.

The disposition on the part of the Japanese government to permit corporate forms of organization which would be least restrictive on business is indicated in the first instance by the fact that the Japanese based their Commercial Code, 1/ which was first enacted in 1898, primarily on the German code. Through this code and the methods

of

1/ See next page

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of its enforcement, Japan assimilated modern forms of incorporation but neither developed nor copied the corresponding restraints and limitations found in Western countries.

One of the features of Japanese law is the absence, in practice, of the concept of ultra viras acts. Although articles of incorporation are required to state, inter alia the objects of the company, there is neither any significant limit to these objects nor any attempt to confine the business activities to the objects stated in the articles.

The only limitations on the scope of corporate activity are the prohibition of acts against public morals and policy 1/ and the requirement of stockholders' consent for the leasing or selling of all or part of the business and the leasing or buying of all or part of another business. This consent is in practice pro forma only, as will be seen from the comments below on the nature of shareholders meetings.

Even

(1/see previous page)
Under the Commercial Code, Japanese corporations are of five fundamental types, Gomei Kaisha (GMK), Goshi Kaisha(GK), Kabushiki Kaisha(KK), Kabushiki Goshi Kaisha(KGK) and Yugen Kaisha(YK). These are generally translated as partnership companies(not to be confused with a Kumiai or partnership under the Civil Code), limited partnership companies (not to be confused with the Tokumei Kumiai or undisclosed association), limited company, limited company en commandite, and private company; all of these companies are juridical persons. The terms Honsha, Hozensha, and Dozoku, used in the names of holding companies, do not represent different types of corporations but are merely part of the name of one of the standard types, usually Kabushiki Kaisha. They are translated as "home office", "family company", and "clan" or "tribe".

1/ Although a clause such as this might conceivable be used to cover the types of activities which are the subject matter of our familiar reform legislation on monopolies, trade practices, etc., examples of its application seem to be limited to crimes of violence, blasphemy, or other criminal or quasi-criminal acts.

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Even the prohibition in western law against corporations entering into partnerships is not effectively present in Japanese law. Although corporations are forbidden by law to enter into partnership companies organized under the Commercial Code, they are permitted to enter freely into partnership under the Civil Code. An example of this is the Kawakami Coal Partnership, which is a business partnership of the Mitsui Mining Co. and the Oji Paper Co. Mitsui Mining is also a partner in four other businesses. Since the formation of such partnerships is not attended by the same publicity as exists in connection with the organization of a corporation, it has been possible for the zaibatsu to create numerous business alliances which have been kept secret from the public.

Factors such as these enable Japanese corporations to engage in widely scattered and often unrelated lines of business. For example, they permit Sumitomo Honsha, primarily an investment company and a holding company, to operate mines, and make possible the many other incongruous combinations of economic activity which characterize zaibatsu organizations.

The concept that interlocking directorates or intercorporate stockholdings may be potentially dangerous is foreign to Japanese thought. The only limitation on stockholdings by a corporation is a general prohibition against an issuer holding its own stock. This prohibition is supposedly for purpose of preventing a company from dissipating its capital in order to raise or peg the market prices of its securities. However, this statute is widely evaded by

zaibatsu

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zaibatsu combines, simply by having a subsidiary buy the stock of a parent company 1/ or by having two affiliates buy each other's stock.

Exclusive agency and sole agency contracts are both legally acceptable and widely used in Japan. The extensive vertical development of the principal zaibatsu trusts -- including credit, production of all sorts, trading, warehousing, insurance, export and import, transportation, raw materials, retailing -- and the large percentages of total production and sales which they control in many industries illustrate the potency of these weapons.

Requirements of Corporate Law

While Japanese corporation law fails to contain many of the basic restraints typical of Western law, it does contain certain safeguards seemingly calculated to protect the stockholder. In practice, however, these requirements have been loosely drawn and -- as far as zaibatsu enterprises are concerned -- even more loosely enforced. In effect, the Japanese commercial code has imposed no significant restraints upon zaibatsu enterprise.

As a result, the relationships between stockholders and management in the zaibatsu-controlled corporations is a distillation of the most objectionable features to be found in other economies. To begin with, the stockholders of any corporation are sharply divided into two groups -- those who control, and others. In practice the identity of the

1/ For example, Mitsui Life, a subsidiary of Mitsui Honsha, owns 40,000 shares of the latter's stock.

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of the two groups is never in question. Both groups look upon the corporation as being the property of the zaibatsu stockholders. The non-controlling stockholders purchase their securities almost entirely on the basis of the reputation of the controlling group.

It would be a mistake to confuse this situation with that existing in the corporate field in the United States, simply because there are some elements of comparability. In a Japanese zaibatsu company, a proxy fight is not simply unusual; it borders on the inconceivable. Stockholder suits to recover damages, to compel payment of dividends, or to remove management in such corporations are scarcely within the scope of Japanese conception.1/

The deficiencies of the Japanese law and methods of enforcement will best be understood by a brief elaboration. Japanese corporate law embodies certain provisions which appear to restrain the corporation and corporate management. On creation of the corporation, for example, promotors are required to draw up and register articles of incorporation. These articles must contain not only the corporate by-laws and similar basic information but also a statement, inter alia, of "any special benefits to be received by promotors..." On examination of such articles, however, such information is never to be found. For in practice scarcely any privilege irrespective of its value, is regarded by the promoter as a "special benefit" within the meaning of the law. For example, when Mitsubishi Trading (or any other Japanese corporation)

1/The universal reaction of Japanese business men to questions on the status of the stockholder was to explain that in Japan "the stockholder has nothing to say".

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corporation) sets up a subsidiary and offers a part of the shares of the subsidiary to the public, it does not consider that it is required to disclose the fact that a contract exists between it and the subsidiary whereby the trading company is to take all the subsidiary's output.

Another disclosure which the articles purport to require is any "property which has been undertaken to be taken over after the coming into existence of the corporation, the value, and the full name of the transferors". In this case again disclosure is evaded. Even though there may be a precise understanding as to the exact facilities which a new company is to take over after its creation, no disclosure of the arrangement is made, probably on the implausible contention that no final commitment had yet been made at the time of incorporation. As a matter of fact, the only data relevant to the promotors or the promotion which ordinarily appear in the articles of incorporation are the promotors' names and addresses.

Japanese corporation law also provides that securities must have a stated par value and that sales cannot be made at less than par. At times, corporations find it essential to float additional shares at a time when the market price of their outstanding shares is below par. Such a flotation is bound to be unsuccessful unless the market price is first raised. The prohibition of Japanese law against corporations owning their own shares prevents them from running up the price. But this is no obstacle in the zaibatsu combines, for whenever it is advantageous to manipulate the price of a corporations shares, the accepted practice is for the honsha or an affiliate to purchase the shares of the affected company in the open market and thereby raise the price to par or more.

Another

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Another illustration of the difference between law and practice is afforded by the provisions relating to the appointment of inspectors and auditors. In theory, an inspector is designated by the courts to assure compliance with the provisions of the law relating to the formation of new corporations; but in fact the inspector is designated by the promotors. In theory, auditors are appointed by the stockholders to safeguard their interests in the subsequent operations of the company; but in fact the auditors are designated by the company's creditors or by its affiliates or parent.

The institution of the corporate auditor is perhaps the best illustration of a seemingly sound institution being misused for the ends of management. The auditor institution is European in origin and has no counterpart in Anglo-Saxon corporation law. The auditor is intended as a sort of watchdog of stockholder interests. He is empowered to convene extraordinary meetings of stockholders, to call upon the directors at any time for special reports, to prohibit a director from doing business with the corporation, and to sue for the removal of a director on the grounds of neglect or misconduct if stockholders with 10 per cent of the shares demand it. Moreover, he is required to examine the annual reports and all other documents which directors propose to submit to the shareholders and to report upon them at a meeting.

However, in practice, the position of the auditor is often used as a kind of training ground for the lesser officials of a combine. For example, Takeo Kato, an auditor of Mitsubishi Paper, Mitsubishi Mining, Mitsubishi

Trading,

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Trading, Mitsubishi Chemical Industries, Mitsubishi Heavy Industries, and Mitsubishi Steel Manufacturing, is also a director of Tokyo Fire and Marine Insurance, all Mitsubishi subsidiaries, and of the Japan Economic Federation. Suematsu Nakaguchi, an auditor of Nissan Life Insurance, Nissan Fire and Marine Insurance, Nissan Corp., Kanto Kogyo, Nissan Construction, Nissan Cargo Airplane, and Nissan Kisen Kaisha, is also president of Nippon Tochi Shoken, all Nissan subsidiaries.

In other cases, an auditorship is simply a sinecure for a prominent official of a combine. Kosuki Saito, an auditor of Hitschi, Limited, is president of Hitachi Machinery and director of Meiji Life Insurance. Shin Ibuki, an auditor of the Hitachi, Limited is president of Nissan Life Insurance, and a director of Nissan Fire and Marine Insurance and of Nissan Corp. Sakai Suzuki, an auditor of Mitsubishi Trust and Mitsubishi Honsha, is also a director of Tokyo Fire and Marine Insurance and Japan Corn Products, president of Toa Fire and Marine Insurance, and chairman of Tokyo Alarm Manufacturing and Nippon Salvage. These multiple affiliations are hardly calculated to aid an auditor in the efficient discharge of his function of scrutinizing the acts of management.

The same contrast between the law's apparent intent and the practice is manifest in the requirements of Japanese corporate law that there should be a general meeting at least once a year, that the call for the meeting should state its objects and the matters to be discussed, and that certain specified reports and financial statements should be placed before the meeting. The call for meetings is

limited

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limited to the briefest and most general statement of subject matter without any supporting information. Blanket proxies are solicited on the basis of such calls.

The reports given at the meetings are of the barest nature. The following report for Mitsui Bussan, covering the six months ending September 30, 1937, is a typical business report:

> "Outline of Business-
> "In the first half of this term imports for the augmentation of the productive power of industries continued briskly, bringing about prosperity generally.
>
> "But toward the middle of the term, trade with China came to a standstill owing to the outbreak of the China incident; stricter control of foreign exchanges by the Government also added another barrier to foreign trade."

The business transacted at the meeting consists of a report of this kind, usually given by the managing director, plus unanimous passage of a resolution accepting the report. Thereupon, the meeting adjourns. 1/

The financial statements submitted to Japanese stockholders are curiosities in obscurity and evasion. By way of illustration, the stated assets of Yasuda Kogyo, as carried on the 1944 balance sheet, are reproduced below:

Plant and

1/ Minutes of three successive meetings of the shareholders of Mitsui Honsha read as follows: a) Extraordinary meeting of April 18, 1945: a one page verbatim record of the report of the Baron Mitsui plus, "There being no opposition, the resolution was carried and the meeting ended"; b) General meeting of June 18, 1945: a one-and-a-quarter page report by the Baron plus "The assembly, having voted unanimously the approval of the business report and balance sheet, inventory and statement of losses and profits, the meeting ended"; c) The extraordinary meeting Aug. 20, 1941, a page-and-a-half speech by the Baron plus, "The meeting, without anything to discuss, ended there."

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	In thousands of Yen
Plant and property	740
Investments	444
Other fixed assets	11
Cash	5
Bank deposits	1,691
Receivables	1,865
Inventories	617
Deferred charges	358
Other current assets	34,679
Total assets	40,410

The absence of reserves for depreciation, of an indication of the basis for valuation of assets, of a description of the nature of receivables, and of any provisions for bad debts would be major deficiencies in themselves; but the lumping of more than 75 percent of the assets under the caption "other current assets" deprives the balance sheet of any real value which it might otherwise have.

Another common device in Japanese balance sheets is the designation of assets and liabilities by almost meaningless terms. A single balance sheet, for example, may contain among its liabilities the items "temporary receipts in advance", "receipts in advance", "money intrusted", "short term debts" and "notes payable". The possibility always exists, of course, that distinctions among the terms have been lost in translation. But it would be erroneous to ascribe more than a fraction of the obscurity to that cause. Corporate executives, when asked to explain the meaning of such items on the reports of their own companies, have frequently been incapable of an explanation without resort to supplementary information not available to the public.

The profit and loss statements of Japanese corporations are as obscure as their balance sheets. The 1944 statement of the same Yasude Kogyo (with some rearrangement of items) appear as follows:

Income Items

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Income Items	In thousands of Yen	
Sales	4,863	
Income from investments	2,403	
Miscellaneous other income (including return from tax reserves)	250	
Total income		7,521
Expense Items		
Cost of sales (including depreciation)	4,666	
Taxes paid	208	
Miscellaneous other expenses	1,573	
Total expenses		6,447
Net earnings		1,074
Dividends paid	670	
Other deductions	342	
Total deductions		1,012
Carried to surplus		62

The statement needs no detailed comment. The blanketing of all expenses into "cost of sales" and "miscellaneous other expenses" is sufficient to prevent it from serving much useful purpose.

There are certain essential types of financial information which the Japanese do not provide in any form. Consolidated balance sheets are not to be found in Japanese accounting. This is particularly unfortunate because large Japanese corporations almost always control a large number of subsidiaries; systems of that kind cannot be viewed accurately without statements on a consolidated basis. Supplementary schedules providing a reconciliation of surplus and showing the details regarding depreciations and other reserves also are foreign to Japanese accounting practice. A proposal that disclosure be made regarding corporate reserves would be particularly repugnant to the Japanese corporate executive. Fictitious provisions for reserves, concealment of real profits and losses, and consequent distortion of assets and liabilities are accepted as an essential feature of corporate accounting to which no invidious connotations are attached.

With

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With such leeway in methods of making financial reports, the question of enforcement becomes almost academic. But the Japanese go through the motions of enforcement of these disclosure requirements. The Taxation Bureau of the Finance Ministry receives and examines these financial reports in connection with the tax on corporate profits. The Ministry has been known on rare occasions to object to the data filed with it, but all such cases have involved "small corporations". So far as is known, no such objection has ever been raised in connection with a zaibatsu enterprise.

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ADDENDUM B

TAXES AND THE HOUSE SYSTEM

There are at least twenty-three principal taxes levied by the Central Government. Of these five are of special significance in connection with the zaibatsu problem. These are (1) Income, (2) Extraordinary Profits, (3) Corporation, (4) Succession, (5) Special Tax on Dividends and Interest. In addition there are three new taxes which have not yet been levied. These are (6) Capital Levy, (7) War Profits, and (8) Increased Property Tax.

The main features of each of the laws providing for these various taxes are as follows:

(1) The Income Tax Law (Eff. Apr. 1, 1940)

Levied upon (a) Individuals residing in Japan, property or receiving money in Japan.

(b) Juridical persons receiving interest and dividends in Japan.

Classes - Classified and Composite

Rates - Classified Ranging from 7% to 57% in various categories

Composite From 6% to 77% depending on amount.

Exemptions - Certain institutions, and types of income, and from 100 to 150 yen per family for certain kinds of classified income tax and 3000 yen per family for composite income tax.

Deductions - Varying amounts ranging from 400 yen per family upward.

(2) Extraordinary Profits Tax

(1937 and amended each succeeding year, including 1944)

Levied upon - 1. Individuals residing in Japan for a year
Individuals having property in Japan, as to that property.
2. Corporations

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Kind of Tax - Excess profits

Computation - 1. Individual -

a. Business profit - Gross income less expenses
b. Assignment profit - Gross income less acquisition value and expenses
To value on December 31, 1936 of immovables, ships and mining equipment, 5% added.

2. Corporations -

a. General - Gross gain less gross loss
b. Mutual companies and membership exchanges - yearly surplus.

Rates - Corporation -

Over 100,000 yen capital	Under 100,000 yen
Over 10% on capital 60%	50%
Over 20% on capital 70%	60%
Over 30% on capital 80%	70%

Individual - 1. Business profit - 35% of profit
2. Assignment "
Under 100,000 yen - 30%
Over 100,000 yen - 40%
Over 300,000 yen - 60%

Exemptions - Individual - Business Profit - 10,000 yen
Assignment Profit - 30,000 yen
Sales of agricultural, forest, livestock or aquatic products by producer
Income exempt under Income Tax Law.

Corporations - Non-Profit Corporations
Income and net profit exempt under income, corporation and business taxes
Prefectures and public subdivisions

(3) Corporation Tax Law (1940, 1942, 1944)

Levied Upon - Corporation with head office, principal place of business, or assets or business in Japan

Kind of Tax - Tax on (1) income of each year, (2) income at liquidation, (3) capital used in year

Income - Gross profit minus gross loss

Deductions

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Deductions - (1) 70% interest on national bonds with exceptions
(2) Excess profits tax
(3) Classified income tax paid on dividends & interest

Rates -

	Corp. Head Office in Japan	Others
(1) Income during year	33%	48%
(2) Income at liquidation	36%	48%
(3) Capital employed	0.3%	

Special tax on family corporation reserving amounts out of income rates ranging from 30% to 74% on amounts from 50,000 yen or less to 500,000 yen or more. Or excess of amount reserved over 30% of income or excess of total amount reserved minus 10% of income and whole amount reserved at end of year over 1/2 paid up capital or contribution whichever is largest.

(4) Inheritance Tax Law (1905 -- amended in subsequent years including 1944)

Levied upon - Japanese residents inheriting property and others inheriting property in Japan.

Computation - For residents - sum of inherited property and gifts within preceding year minus (1) taxes, (2) funeral expenses, (3) debts.
For non-residents - same minus (1) property taxes, (2) secured debts, (3) obligation of the gift as to property. Values as of date of inheritance. Values of superfices, permanent tenancy and terminable money valued according to prescribed schedules.

Rates - On Succession of Head of House
Vary from a minimum of 1.3, 2 or 2.6% on an inheritance under 10,000 yen to a maximum of 44, 49 or 58% on an inheritance of 5,000,000 or more, the different rates applying to (1) direct descendents, (2) spouse or ascendant and (3) others.

On Succession to Property
Vary from a minimum of 2.6, 4 or 5.5% on an inheritance under 5000 yen, to a minimum of 60, 64, or 67%.

Exemptions - Retirement allowance, etc. - 5000 yen
Succession to head of house - 5000 yen
Succession to property - 1,000 yen
Gifts - 1,000 yen
Life insurance policy or postal annuity - 5,000 yen
Gift or legacy to public corporation, utility or charity.
Where death is caused by or traceable to battle.

Deductions -

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Deductions - On succession to head of house under 50,000 yen -- 150 yen for each member of the household under 18 or over 60. On succession to property under 30,000 - 1500 yen for each member of household under 18, over 60 or disabled. Deductible amount not to exceed remainder after subtracting sum of legacy and gifts from the tax value.

(5) Special Tax on Dividends and Interest (1940)

Levied upon - Those receiving corporate dividends and interest on public and private bonds. Collected at the source.

Rates - Dividends - 19%
Interest - 20%

(The only information concerning this tax which was available was that contained in the Civil Affairs Handbook on Japan, Section 4: Government Finance, p. 76.)

(6) Capital Levy Law

Levied upon - (1) Individuals resident or owning property in Japan.
(2) Juridical persons having principal offices or property in Japan.

Taxable Amount (1) For individuals - value of whole property less debts. Family living together is a unit for taxation. Debts of one member exceeding his property may be allowed as credit to others.
(2) For juridical person - assets less (a) debts and (b) paid up capital and contributions.

Exemptions - (1) For individuals - (a) furniture, utensils, clothes, etc. necessary for daily life and other property as prescribed by ordinance of Finance Minister. (b) 20,000 yen to a family living together.

Deductions from taxable amount - (1) For individuals - (a) Increased Property Tax
(b) Up to 10,000 yen for war damage or benefit payment
(c) 2000 yen per capita for head of family and member

(2) For Juridical Persons - (a) War Profits Tax deductible from reserves.

Rates - (1) For individuals - graduated incrementally from 10% for amounts between 20,000 and 30,000 yen to 70% for amounts exceeding 50,000,000 yen.
(2) For juridical persons - (a) those liable for corporation tax - on reserves - 20%
- on other property - 30%
(b) those liable for special corporation tax - on reserves - 15%
- on other property - 25%
(c) those other than (a) and (b) - 10% (maximum 30,000 yen)

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Modifiers - to be applied to determine value of land, houses, and leases.

Discounts - for deposits, savings and other credits of individuals to be prescribed, i.e., some fraction of such credits to be deducted in arriving at taxable amount.

Manner of Payment - Cash or Government Bonds, with special permission payment may be made in kind or in installments.

Time of Payment - (1) For individuals - prior to February 28, 1947
(2) For juridical persons - prior to January 31, 1947.

(7) War Profits Tax Law

Levied on - juridical person owning head office, assets or business in Japan on terminal date.

Computation - gross profits between April 1, 1940, and terminal date less gross losses.

Rate - 100%

Deductions - (1) Tax not deemed loss under corporation tax law
(2) Dividends and bonuses

Collection - At one time. Provisions of capital levy law as to payment in kind and installments applicable.

(8) Increased Property Tax Law

Levied upon - Individuals domiciled, resident, or owning property in Japan.

Computation - Terminal property (whole property less debts, taxes, etc. on terminal date) minus initial property (as of April 1, 1940)

Classes - Class A portion -
Whole amount of increase minus 30,000 yen deduction per family, minus the initial property as modified by a modifier to be determined by the Finance Minister. In case of land, house or other property held throughout period any increase is not counted as Class A portion. Insurance collected for loss to property owned throughout period the class A portion shall be computed as prescribed by ordinance of Finance Minister.

Class B Portion -
Whole amount of increase minus 30,000 deduction and Class A portion.

Rates

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		Class A	Class B
Rates	- Amount not exceeding 100,000 yen -	60%	10%
	Amount exceeding 100,000 yen -	80%	20%
	Amount exceeding 300,000 yen -	100%	30%

Class A or Class B portions of family taxed as unit and amounts apportioned.

Exemption - 30,000 yen on Class A portion is deductible and therefore represents an exemption. 30,000 yen on Class B portion.

Date of Collection - Prior to February 28, 1947

Significant Features Common to All Tax Laws

A study of the different tax laws leads one to the conclusion that in their drafting considerable care has been used to insure against their bearing too heavily upon the corporation and individuals of greatest means. The following is a brief enumeration of the devices which may be noted in the laws:

(1) Relatively low rates of the tax laws in force during the war.

Japan, in common with other nations, continually exhorted its citizens during the war to give all for the common cause. There is little doubt that the common people of Japan endured real hardships in the sacrifices required of them in order that the war might be carried on. Against this background of national sacrifice the tax rates imposed by the various laws do not appear to have been based upon any principle of ability to pay. Some are uniform in their application and others involve some upward graduation. In none of the war time laws is there to be found a rate of taxation which would indicate the plight of a nation fighting for its very existence. It is true that extraneous factors, such as air raid damage, may have brought home to those at the top of the economic structure the plight of Japan. However, one looks in vain in the various tax laws for manifestation

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of a policy to impose the burden of war upon the great in anything like the degree it was imposed upon the small.

There is at this time no basis for guessing what the actual impact of the three 1946 tax laws will be. Disregarding the numerous important determinations yet to be made by ministerial officials, certain facts are clear as to the maximum burden to be imposed. The capital levy is not intended to bear heavily upon corporations or other juridical persons. After all exemptions, deductions, modifiers, discounts, and allowances have been taken into account, the maximum rate to be applied to any portion of any juridical person's net worth (assets less debts, capital and contributions) is 30 per cent.

In the case of individuals the rates under the capital levy are actually less than they appear to be at first glance. A family with property valued at 1,000,000 yen, after all the exemptions, deductions, discounts, modifiers, etc. have been taken into account might actually pay a tax of 35-1/4 per cent. This results from the incremental character of the rate schedule. A rate of 45 per cent on amounts exceeding 1,000,000 yen should not be hastily assumed to involve a tax of 45 per cent on total taxable property of 1,000,000 yen. While the increased property and war profits tax laws of 1946 purport to carry rates as high as 100 per cent, certain factors must be considered before jumping to the conclusion that anything like confiscation is actually involved. These factors are mentioned below.

(2) <u>Uncertainties and loopholes in all the tax laws, including those of 1946.</u>

There is a common feature in the various laws which is most disturbing to one familiar with the assessment of

taxes

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taxes in the democratic countries. This is the matter of leaving to ministerial determination and discretion most important questions in the application of the taxes. For example, in the capital levy law of 1946 there are scores of provisions which leave to the Minister of Finance complete discretion in determining how certain phases of the law shall operate. While rates specified in the capital levy, war profits, and increased property tax laws have an appearance of being quite high there is no certainty whatever as to the actual impact of these laws. The all important determination of modifiers and discounts remains to be made. Until these are known there is no justification for characterizing the laws as either drastic or innocuous.

In computing war profits and increase of property the initial date is stated to be April 1, 1940. It is quite certain that many of the zaibatsu companies and individuals obtained a large portion of their war profits from the exploitation of Manchuria and China in the war which was carried on prior to that date. So far as the two 1946 laws are concerned, therefore, the profits resulting from the war on the continent of Asia prior to 1940 are entirely untouched.

If, in connection with the new laws, tax payers are permitted to submit financial statements of the character heretofore commonly found, there will be endless possibilities of concealment of assets and profits. The nature and extent of the defects on financial statements are discussed elsewhere in this report.

(3) <u>The Family</u>

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(3) The Family Structure and Modified Primogeniture

The Japanese law places great emphasis upon the family relationship. Tax laws as well as other legislation contain many provisions applicable to the "head" and "members" of a "House". Persons who are relatives of the head of a House and are in the House, and their spouses, are members of the House, The head of the House is under a duty to support the members of his House. A member may not establish his place of residence anywhere against the will of the head of the House. A member must obtain the consent of the head of the House in order to contract a marriage or to effect an adoption. The head of the House may not retire as such until he has completed his sixtieth year and his successor has accepted the succession.

Under the law the eldest son of the head of the House succeeds him in the headship, provided he is not disqualified for any one of several reasons, including having been cruel to the former head, guilty of a gross insult to him, incompetent, or a convicted criminal who would bring disgrace on the House name. In case of there being no son, or of disqualification, various others may be eligible in a prescribed order of preference.

A successor to the headship of a House succeeds, as from the time of the opening of the succession, to the rights and duties of the previous head of the House, except such as are entirely personal to the head. The law assures him one half the former head's property if a lineal descendent. A member of a House may acquire property and upon his death it may be transmitted by inheritance or will to his heirs or legatees. Available figures pertaining

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to the more important zaibatsu families indicate that the head of the House holds the lion's share of all personal holdings and the other members of the House much smaller portions. With this in mind the classification to be found in the Inheritance Tax Law becomes more significant. The exemptions, deductions, and rates are all stated in terms which favor the succession to the headship as against succession to the property of a member.

The capital levy law of 1946 permits the head of a House, or another member, to take advantage of the insolvent status of any member of the House under rules to be prescribed by the Minister of Finance. Therefore, it may well be that a head of a House with a large amount of property which would otherwise be subject to the capital levy will escape the levy in whole or in part by claiming the credit arising from the excess of debts over assets of a member of the House.

From the above it would seem that any real attempt to help the Japanese attain an economy in which there is a more equitable distribution of wealth than that which has heretofore existed will involve a readjustment of the tax structure and abolition of the kind of primogeniture now recognized.

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CHAPTER III

FINANCIAL INSTITUTIONS AND THE ZAIBATSU

Since Japan became westernized, the banks and the Government have been the only important sources of external capital available to the Japanese business man. Until recent years, savings by individuals in Japan had been scant and badly distributed. To the extent that such savings existed outside the commercial banks, they were usually in the form of hoarded currency, or were otherwise unavailable to industry. 1/ There has been no Japanese tradition of the personal ownership of corporate securities. 2/

As a result, bank credit has been the principal source of capital for Japanese industry. The older zaibatsu--the Mitsui, Mitsubishi, Sumitomo and Yasuda--have relied heavily for their growth upon their affiliated banks and insurance companies. The Asano combine, whose origins are contemporaneous with the Yasuda, has drawn on the latter for credit. And the more recent zaibatsu, such as Nakajima,

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1/ In the course of the war, however, individuals saved in substantial amounts. According to estimates of the Japanese Government, the liquid savings of individuals from 1942 to 1944, exclusive of savings in currency, amounted to 80 billion yen. Savings in currency in those years and in all forms in 1945 would add substantially to these totals. At the end of 1945, these savings were reflected in part by deposits in the Postal Savings System and in the Central Cooperative Bank of Agriculture and Forestry, amounting in all to about 57 billion yen, and investments in the small denomination debentures of the Hypothec Bank, amounting to over 5 billion yen. These pools have important implications for the future of the Japanese credit structure.

2/ Although no data on the distribution of corporate securities are at hand, the validity of these generalizations is beyond serious question. They are confirmed by Japanese of all backgrounds and interests and are reflected in numerous institutional features of Japanese investment and commercial banking, some of which are discussed below.

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Nakajima, Nissan, and Kawasaki Heavy Industry, have depended upon the Government and its special banks for their working funds.

This part of the report will describe the use of their financial institutions by the zaibatsu. The first section will deal with the private financial institutions in the Japanese economy and show how these institutions have operated as essential organs of the zaibatsu combines. The second section will describe how the policies of the Japanese Government and the government banks have contributed to the growth of zaibatsu power. 1/

The Zaibatsu Institutions

Their relative importance. Of the 61 ordinary banking institutions which have survived the wartime merger program, 2/ 11 are controlled through stock ownership by the zaibatsu. For various reasons which will become apparent, one must assume that the ramifications of zaibatsu control extend much further in the banking field; that is to say, that there are a great many more banks which would respond readily to any zaibatsu request that they extend credit or refrain from extending credit, buy securities or refrain from buying them.

However,

1/ No effort is made here to describe fully the modus operandi of Japanese banking and insurance; only those aspects of the system are described as are essential for an exposition of the use of these institutions by the zaibatsu. For a systematic description of Japanese banking and insurance practices, see "Money and Banking", Civil Affairs Handbook, Japan, Section 3, and "The Administration of Japanese Public and Private Finance", Military Government Technical Manual CAHSA, August, 1945.

2/ See below for a discussion of the program.

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However, if we consider only the 11 banks under direct zaibatsu control, Table I shows that such banks accounted for 56.6 per cent of total assets of all ordinary banks at the 1945 year-end. More than that, they covered 70.8 per cent of all loans and advances, taking less than their proportionate share of the Government bonds carried by the banks. 1/ There are in fact only three sizeable banks in Japan which are not under direct zaibatsu control--the Sanwa Bank, 2/ the Tokai Bank, and the Kobe Bank. Only 27.8 per cent of the assets of Japan's ordinary banks lie outside of the hands of these three banks and the zaibatsu. 3/

Zaibatsu

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1/ This distribution of assets was the result of a calculated policy on the part of government and quasi-government bodies, including the Ministry of Finance, certain special banks, and the National Financial Control Association; see below.

2/ It is significant that although the Sanwa Bank was the largest ordinary bank in Japan in 1941, each of the four major zaibatsu banks was much larger than the Sanwa by the end of the war.

3/ These data omit the Central Cooperative Bank of Agriculture and Forestry, the banking agent of the cooperative movement in Japan. This bank operates pursuant to a special statute and therefore is not classified as an ordinary bank. Before the war, it was relatively unimportant, with deposits of less than one billion yen. However, during the war the deposits of this bank grew phenomenally, largely because of the increased savings in agricultural areas; as a result, the bank is now one of the largest in Japan, its deposits equalling those of the large zaibatsu banks in size. The Cooperative Bank derives its deposits from local agricultural associations; the latter are not regarded as banks or branches of banks by the Japanese, even though they perform banking functions, and the proposals contained in this report are not intended to apply to them.

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TABLE I

Relative Importance of Zaibatsu

Ordinary Banks

December 31, 1945

	Total Assets		Loans & Discounts		National Gov't Bonds		Deposits	
	Million Yen	% of Total	Million Yen	% of Total	Million Yen	% of Total	Million Yen	% of Total
11 Zaibatsu Banks (a)								
Teikoku	21,239	15.4	15,466	21.5	2,887	8.2	12,150	11.9
Sumitomo	13,851	10.0	8,673	12.0	2,566	7.3	9,250	9.0
Miye	119	0.1	32	--	48	0.1	105	0.1
Mitsubishi	15,361	11.1	10,201	14.2	2,735	7.8	10,339	10.1
Yokohama Koshin	1,975	1.4	612	0.8	614	1.7	1,639	1.6
Yasuda	18,794	13.6	12,989	18.0	2,823	8.0	12,953	12.7
Higo	368	0.3	83	0.1	170	0.5	349	0.3
Ohgaki Kyoritsu	577	0.4	180	0.2	229	0.7	480	0.5
Shikoku	869	0.6	133	0.2	329	0.9	.788	0.8
Fukuoka	1,439	1.0	455	0.6	512	1.4	1,279	1.2
Nomura	3,624	2.6	2,219	3.1	816	2.3	2.796	2.7
50 Other Banks	59,903	43.4	21,010	29.2	21,423	61.0	50,221	49.1
TOTAL	138,119	100.0	72,053	100.0	35,152	100.0	102,349	100.0

(a) Indentation indicates subsidiary relationship.

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Zaibatsu domination in the savings bank and trust company field is even more complete. While the zaibatsu control only one of the four Japanese savings banks, it is by far the largest such bank from every point of view. Table 2 shows that at the end of 1945, the Nippon Savings Bank had over 99 per cent of all savings bank assets, government bonds, other securities and deposits.

Of the seven trust companies which exist in Japan, 1/ six are zaibatsu controlled. Zaibatsu banks control 69.5 per cent of the assets, 67.1 per cent of Government bonds, and 67.1 per cent of the deposits, in trust accounts.

Private insurance in Japan is not nearly as important as private banking; the assets of the insurance companies at the end of 1945 amounted to less than one-tenth those of the banks. Nevertheless, the zaibatsu also are substantially represented in insurance. 2/ In the fire and property insurance field, as Table 3 shows, the nine zaibatsu companies accounted for 74.4 per cent of all assets.

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1/ So-called trust companies came into being in Japan in 1924, when the four principal zaibatsu banks each set up an affiliated trust company; present-day Ministry of Finance officials consider that the operation of such companies by banks was in violation of the law since banks were not then authorized to operate a trust business and were not so authorized until 1943. The issue is a quibble, however, because the typical so-called trust account in Japan is not a trust account at all; it is nothing more nor less than a time deposit with unusual withdrawal restrictions.

2/ The Government is itself engaged in the life insurance business to a considerable degree, selling its policies through the post offices. On March 31, 1945, Government life insurance in force totalled 21,538 million yen as compared with 66,404 million yen of such insurance issued by private companies.