



UNCLASSIFIED DIVISION OF
EMBASSY OF THE UNITED STATES OF AMERICA

FEB 18 1947

DEPARTMENT OF STATE

DEPARTMENT OF STATE
Moscow, January 29, 1948

No. 121

SUBJECT: Soviet Press Articles Condemning US Economic Policy in Japan

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The Ambassador has the honor to draw the Department's attention to two Soviet press articles condemning US policy in Japan. These articles, in addition to the usual Tass despatches, serve to illustrate the continued Soviet concern in Far Eastern developments.

Copies of the Joint Press Reading Service full summary translation of the first article, "The Plans of the American Imperialists in Japan," Trud, January 20, are enclosed. This article provides an excellent summary of Soviet propaganda charges and complaints concerning developments in the program of the reconstruction of Japanese industry and economy. Asserting that American tactics of economic penetration in the name of "economic reconstruction" are the same in Japan as in Germany, the article criticizes recent activities of William Draper and Kenneth Royall and attacks American economic policies along the following lines:

"Under the pathetic and hypocritical slogan of preventing the sterilization of Japanese business capacity is hidden the stake of preserving the Japanese monopoly system, not only subordinate to American control but largely transformed into an American-Japanese economic system. The further coalescence of Japanese and American monopolies with retention of control in the hands of Wall Street should facilitate American credits for Japan and American investments in that country. According to the New York Post the USA intends to invest one billion dollars in 'the reconstruction of Japan' in the next five years, which is 2-1/2 times as much as was invested in Japan's economy by Americans before the Second World War ... "

"The so-called 'Marshall Plan' for Japan which envisages the transformation of Japan into the 'industrial works of the Far East' is designed to maintain American control over the Far Eastern markets and to put a brake on the development of the national economy of the Far Eastern countries. Just as in Europe, the US hopes, relying on Western Germany, to spread its control to other countries, so the transformation of Japan into an American bastion is designed to facilitate American domination in China and in other countries of

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AIR MAIL

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D-121, Moscow
Jan. 29, 1948

the Far East. The American imperialists cherish the plan of using Japan as a military and strategic base to accomplish their expansionist plans and suppress democratic movements of the peoples. It is precisely these considerations which lie at the foundation of present American policy in Japan, which the US is seeking to strengthen with the help of a peace treaty dictated to Japan unilaterally."

The second article, "'Self-Sufficient Democracy' á la Royall" from Izvestiya, January 25, attacks Secretary of War Royall for his recent speech in San Francisco. The Joint Press Reading Service full translation reads:

"In the period immediately following the war American generals and diplomats were generous in their promises to destroy the basis of aggression in the former enemy countries--the power of the monopolies. In particular not a few speeches were made in Japan censuring the 'Zaibatsu,' the cliques of financial and industrial magnates, which unleashed war. The time has now come to cast aside the mask-- as was to be expected, it was easier for the bosses of Wall Street to reach agreement with the businessmen of Tokyo than with the Japanese people. It now turns out, according to the statement made by the US Secretary of War, Royall, that Japan does not need a democracy of the usual type but a 'self-sufficient democracy.' And of course the people, who are themselves provided with sufficient capital, are in the best position to 'provide' for this 'democracy.'

"Addressing members of the 'Fellowship of Nations' club in San Francisco, Royall said: 'The liquidation of the Zaibatsu is not perhaps in itself an economic problem, but at a certain stage the excessive de-concentration of industry may, while reducing the capacity of unleashing war, at the same time inflict damage on the processing industry and reduce total production, also the export surplus of Japanese industry and for that reason may defer the day on which Japan will become self-sufficient.'

"After this admission Royall paid a tribute to the talent of war criminals, who, in his opinion, represent the best tool for carrying out American policy in Japan. Royall gives the following flattering description of them: 'The people, who played the most active part in the establishment and organization of the Japanese war machine in military and industrial respects, were frequently the most able leaders of the business circles of that country and those capable of the greatest successes. Their services would in many cases contribute to the economic revival of Japan.'

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D-121, Moscow
Jan. 29, 1948

"It is difficult to believe that these words were uttered by an American minister only six years after Pearl Harbor! However, in order to avoid misunderstanding, it should be borne in mind that Mr. Royall is not only War Secretary but an important banker. The spiritual attraction of Royall and of circles which he represents for every sort of 'Zaibatsu' of both hemispheres then becomes comprehensible."

Enclosure: ^{at} *with orig*

5 copies of "The Plans of the American Imperialists in Japan," Trud, Jan. 20, 1948

Copy to Tokyo with copy of Trud article

Original and hectograph
to the Department

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PART I

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Section A20th January, 1948TRUDPLANS OF THE AMERICAN IMPERIALISTS IN JAPAN

By M. Markov

Slowing down the restoration of Germany's peacetime industry and establishing the power of American corporations and banks in Western Germany, the leaders of American policy explain activity of this kind by a desire to help in the "economic reconstruction" of Germany. The same tactics have been chosen by the American authorities to conceal the true nature of their economic policy in Japan. The result of almost 2½ years of US efforts allegedly directed toward the "reconstruction of Japanese economy" is a standstill of Japanese industry. The level of industrial output in Japan is at the present time 40% of the 1934 level. The explanation offered by the Americans is that industrial production is complicated by overhead expenditure. You see, wages in Japan "have risen artificially in connection with the development of a trade union movement". ("Christian Science Monitor").

There is another explanation for those to whom this ludicrous one is unconvincing. It is that the excessively large reparations programme from Japan is hindering normal development. According to the new American formula only that industrial equipment may be removed on reparations account "which has no vital importance for the reconstruction of the Japanese economy". Just what conveniences this formula has may be judged from an assertion by an American government spokesman that the destruction of synthetic rubber plants may have an adverse effect on the reconstruction of Japan's peacetime production, and this holds also for shipbuilding wharves, chemical works and other war industry plants eliminated from the reparation lists by MacArthur's headquarters.

Japanese economic reconstruction is also allegedly obstructed by the "excessive deconcentration of industry", that is, the liquidation of the Zaibatsu.

A few days ago Kenneth Royall, Secretary of War of the USA, said without any embarrassment that the USA "does not object to changing the previously announced programme for the broad demilitarisation of Japan since this programme contradicts the new purpose which is the resurrection of the Japanese economy."

Not those American leaders are concerned over Japan's economy, who are now engaged in "revising" this programme. Before the Allied programme can be officially revised in Washington the American authorities on the spot have already for a long time been pursuing an entirely different programme dictated by Wall Street and coinciding with the American economic programme in Western Germany.

William Draper, who visited Japan a few months ago, returned to Washington dissatisfied. Even the half way and highly patronising policy of MacArthur's headquarters regarding the Japanese industrial and financial magnates, which is officially entitled a policy of "liquidating the Zaibatsu" evoked the rage of this champion of the restoration of international cartels. On his insistence the War Department, directing the activity of many American government organisations, demanded a revision of this policy in order to determine in what manner such Japanese monopolies as the Mitsuis and Mitsubishis could be compensated.

Draper's Chief, Royall, says that the liquidation of the Zaibatsu can not only "damage the productivity of the manufacturing industry" and thereby postpone the day when Japan becomes "self-sufficient" but is also unfeasible. "People who took the most active part in building and directing Japan's war machine, says Royall, are the irreplaceable "leaders of business circles" without whose services Japan's economy cannot function.

PART I

-20-

Section 420th January, 1948TRUD (cont'd)

Under the pathetic and hypocritical slogan of preventing the sterilisation of Japanese business capacity is hidden the stake of preserving the Japanese monopoly system, not only subordinate to American control but largely transformed into an American-Japanese economic system. The further coalescence of Japanese and American monopolies with retention of control in the hands of Wall Street should facilitate American credits for Japan and American investments in that country. According to the "New York Post" the USA intends to invest 1 billion dollars in "the reconstruction of Japan" in the next 5 years, which is $2\frac{1}{2}$ times as much as was invested in Japan's economy by Americans before the Second World War.

As in Germany, the American authorities in Japan are seeking to replace the reconstruction of peacetime industry by an export-import programme. A group of American banks has already concluded talks to furnish Japan with a loan of 60 million dollars, with which Japanese textile plants will pay for deliveries of American cotton. Since the beginning of the occupation American exporters have already sold 200 million dollars worth of cotton in Japan, and the "New York Times" Tokio correspondent writes that Japanese factories have produced enough textiles to pay for this entire debt for cotton had they been able to sell the cotton fabrics to the US. But while American cotton planters insist that Japan buy only American cotton, the American textile monopolies are hindering the sale of any Japanese cotton fabrics in the US. No need to say that Japan's trade balance is unfavourable.

The so-called "Marshall plan" for Japan which envisages the transformation of Japan into the "industrial works of the Far East" is designed to maintain American control over the Far Eastern markets and to put a brake on the development of the national economy of the Far Eastern countries. Just as in Europe, the US hopes, relying on Western Germany, to spread its control to other countries, so the transformation of Japan into an American bastion is designed to facilitate American domination in China and in other countries of the Far East. The American imperialists cherish the plan of using Japan as a military and strategic base to accomplish their expansionist plans and suppress democratic movements of the peoples. It is precisely these considerations which lie at the foundation of present American policy in Japan, which the US is seeking to strengthen with the help of a peace treaty dictated to Japan unilaterally.

This tendency to the establishment of an imperialist peace in the Far East is profoundly alien to the most urgent interests of the peoples of Asia and the entire world. This is why even the Kuomintang Government, the very existence of which in large measure depends on American subsidies, where the question of a peace treaty with Japan is concerned, seeks to resist the pressure of its creditor.

Only a consistent policy of a democratic peace in the Far East can open a way to the real revival of Japan and guarantee lasting peace for all the peoples in the Far East.

(1½ columns) (Full Summary)

TRUD 20.1.48

ALL PAPERSKINNEN PROTECTS JAPANESE WAR CRIMINALS

TOKIO 19th January TASS "Stars and Stripes" writes that on the 15th January it was learned from authoritative sources that the Chief Prosecutor in the International Tribunal in Tokio, the American, Kinnen, recommended to Washington the release of the Japanese who are awaiting possible trial on charges of unleashing the war in the Pacific ocean. Among the arrested persons are five former ministers in the Tojo Cabinet.

(13 lines)

ALL PAPERS 20.1.48

SOME PAPERSCOURT TERROR IN CHINA

SHANGHAI 19th January TASS The newspaper "Hopingjihpao" writes that the Chinese Government intends to set up all over the country special courts to try Communists.

(12 lines) (PR)

SOME PAPERS 20.1.48

PLAIN

-2- # 202, January 30, from Shanghai

Although US feels it can obtain domination of Asia by small capital outlay in Japan this mistaken plan will antagonize all Asiatics and bring boycott of both Japan and US goods according to paper. Even if all-out aid to Japan is only to check Soviet expansion "it will only cause us to change our hatred for Japan to US" and "make Asiatic countries more pro-Soviet".

CABOT

JMS:GN

PLAIN

A.S. 7.80

~~Mr. Hulick:~~ CWA

Charley - This is water over the dam. Mr. Lovett has already expressed the view that FEC 230 should be withdrawn. Mr. Whitman plans to urge Mr. Thorpe (4:30, Feb. 25) to urge Lovett to persuade Allison in taking same line with Butterworth.

PPC

DEPARTMENT OF STATE

ASSISTANT SECRETARY

Phil:

25 Feb.

Frank Wisner thinks that the attached is somewhat obsolete. Do you agree. Note date of drafting & date of receipt CWA

STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

TO : Mr. Wisner - A-S

DATE: February 19, 1948

FROM : Mr. Whitman - OE

SUBJECT: FEC 230

R. H. Whitman

I reported our discussion with Mr. Kennan on February 18, 1948, with regard to a hold-up of action on outstanding policy papers until his return from Japan, with Mr. Thorp that same day. We believe that in view of Mr. Kennan's strong position, it would be inadvisable to press action on this document with the Secretary or Under Secretary pending Mr. Kennan's return. In the meantime, I am willing to continue to block further FEC action on the old FEC 230.

This is in no way contradictory to the logic of the position you took in the Kennan meeting. I certainly feel that there is no genuine justification for a hold-up of action. However, to press it now may be to lose the battle.

If you disagree with this conclusion, I am sure Mr. Thorp will be glad to discuss the matter further.

ASSISTANT SECRETARY
A-S

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MR. SALTZMAN
DEPT. OF STATE

OE:RHWhitman:mw

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STANDARD FORM NO. 64

OE

St Claire

Office Memorandum • UNITED STATES GOVERNMENT

DATE: February 25, 1948

TO : C - Mr. Bohlen
FROM : C - F. Kirlin
SUBJECT :

*BMS
file*

The attached is only worth a glance -- for your information. It illustrates the problem of how best to work with Congressional Committee staffs.

*AK
8/11/03*

We might have a discussion of this problem, soon, with Marcy, Moreland and St. Claire.

Memo from OE - Mr. Whitman, 2/20/48, to Mr. Marcy, re "Material left with Mr. Elliott, RM/R Staff Director, House Foreign Affairs Committee.

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STANDARD FORM NO. 64

Office Memorandum • UNITED STATES GOVERNMENT

BMS *pls attach*

TO : C/LC - Mr. Marcy

DATE: February 20, 1948

FROM : OE - Mr. Whitman

SUBJECT: Material left with Mr. Elliott, Staff Director, House Foreign Affairs Committee.

Walter
JWB

see
8/10/38

Mr. Butterworth has objected strongly to our failure to clear with him the action taken with respect to leaving material with Mr. Elliott.

I had assumed that in previous arrangements made between Mr. Butterworth and Mr. Martin that Mr. Butterworth was acting on behalf of the Counselor's office in a matter which I considered was mainly the Counselor's responsibility. I also assumed that if the Counselor's office thought any further check was required with FE for our change in procedure they would make it. I hope you were not under the impression that I had cleared with FE before you took the matter up with Mr. Bohlen.

No - em

Mr. Butterworth also commented that this procedure raised a question as to whether the State Department could appropriately furnish any information to Congressional Staff Committees in view of the separation of executive and legislative powers. He also felt that correction in the Chinese figures (see my memorandum of conversation of February 14.) was a mistake since otherwise it would have been easier to discredit the material prepared by the House Staff Committee.

8/4/38/2-20/48

R. W. Whitman

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OFFICE OF THE COUNSELOR
C-LC

DEPARTMENT OF STATE

FEB 18 1948

Memorandum of Conversation

DEPARTMENT OF STATE

DATE:

February 14, 1948

SUBJECT:

Proposed House Foreign Affairs Staff Report "Problems of Interim Aid to Japan".

PARTICIPANTS:

Mr. William Vandell Elliott, Staff Director, House Foreign Affairs Committee; Messrs. Whitman and Owen for the Department.

COPIES TO:

- A-T - Mr. Thorp
- OPD - Mr. Hess
- A-S - Mr. Wisner
- C-LC - Mr. Marcy
- ED - Mr. Havlik
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Mr. Whitman and Mr. Owen of OE called on Mr. Elliott to discuss with him the proposed House Foreign Affairs Staff report "Problems of Interim Aid to Japan" in accordance with arrangements approved by the Counselor's Office. Mr. Elliott had sent the report earlier to Mr. Martin, with a request for his comment thereon. In the course of the meeting Mr. Elliott asked Messrs. Whitman and Owen to look at portions of a similar report dealing with problems of interim aid to China. They were also shown a number of proposed additions to the Japanese report. Both reports were apparently prepared for Mr. Elliott by Mr. William McGovern (Northwestern University) who has been a member of his staff. The following are comments on the results of this conversation:

1. Because of the lateness of receipt of the comments prepared by OE there is no indication there will be any basic changes in the Japan report which had reached the "proof" stage. Among statements which will cause difficulty later is the estimate that Japan can be made self-supporting by an expenditure of \$500 million. The lateness in submitting the OE comment to Mr.

Elliott

2/24/48
After FE, in line with C's suggestion, objected to formal transmittal, Whitman (late on a Friday night), as I recall, said that Elliott had raised a good fuss when he found after 2 months that State would not comment. Whitman asked if I saw any objection to handing the comments to Elliott informally on Saturday since comments would be made in the report. I said I did not see any objection provided that these were not formal State Dept. comments and indicating that FE had closed the night + I should not call DE back. CM

Sheet 8/29/48 - nd

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Elliott was due to the need for circulating these comments in written form through a variety of Departmental clearances. In the future, immediate oral conferences between the interested Congressional Staff and Departmental personnel would seem a more suitable way of handling this type of problem.

2. Proposed additions to the report included criticisms of the deconcentration program and recommendations for modifications therein. Mr. Elliott agreed to modify these criticisms so that they would relate more to possible future than to past developments, and so that they would relate more to implementation than to the policy itself.

3. Proposed additions to the Japan report will probably also contain a criticism of the recent Far Eastern Commission action on disarmament and demilitarization, and will indicate that Japan should be allowed to build up some minimum security forces before the end of the occupation in order to prevent Communist infiltration and internal disorder thereafter.

4. Further proposed additions to the Japan report will probably contain a recommendation that our aid programs to China and Europe be used to force immediate agreement to a reasonable settlement on the Japanese level of industry and reparations.

5. The China report, as seen by OE representatives, contained statements, among others, to the effect that:

a. China would be made selfsupporting with a total expenditure of \$500 to \$600 million.

b. The provision of surplus arms and ammunition to the Chinese Central Government would end the civil war in a very short time.

Mr. Elliott asked for general comments on the China report, and was told that the OE representatives were not competent in this field. It was suggested that he get in touch with FE, if he wanted further information in this regard. Mr. Elliott then asked for a

personal

- 3 -

personal opinion of the two statements referred to above, and it was pointed out to him that they were inconsistent with most published information on this subject. Mr. Elliott said that he would modify these statements.

6. It is concluded from the above that, in the Far Eastern field at least, the Department might well profit from a closer liaison with the Staff of the House Foreign Affairs Committee which would make accurate and up-to-date information available, on a continuous and informal basis, to the members of that staff.

OE:RHWhitman:cmh 2-17-48

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CONFIDENTIAL

Report on Conditions in Japan

As of September 6, 1947

So long as present conditions continue in Japan I believe it inadvisable to make any investment in that country in dollars or the equivalent. The reasons on which this conclusion is based and which I believe merit no other recommendation will, I hope, become abundantly clear in this report.

That the occupation of Japan as a military accomplishment was most successful no one can gainsay. But that aspect of the occupation was completed some months ago. Certainly for the past year the emphasis should have been upon the restoration of the Japanese economy. So far this phase of the occupation has not been successful, much to the delight of several hundred Russians who are attached to the Soviet Embassy in Tokyo and who are wishing and waiting for the economy of Japan to collapse.

Heretofore the purpose of an occupation was to demilitarize the occupied country, restore order and protect and conserve property until a peace treaty was concluded. Demilitarization was deemed to have been accomplished when the conquered nation was physically disarmed and the implements of war including the plants for producing war were destroyed. In Japan, however, it was decided that demilitarization included the complete reformation of its ideology. One of the means for bringing that about is the imposition of an economic theory which has, I believe, no counterpart anywhere else in the world. It is not Communistic and

certainly it is not that practiced in our country. It probably approaches more closely the socialistic ideal than anything else. Japan has now become the great economic experiment which has attracted many Americans who were formerly employed in bureaus and regulatory bodies in Washington.

This experiment is being carried on by Army officers, former Army officers, economic theorists and a few persons with some business experience. Those in the policy making level and their advisers are all very diligent and sincere, while many in the lower echelons appear to have nothing to do but to wait for closing time. Most offices seem to be greatly over-staffed. Everyone seems to have lost the ability to walk even a few steps. Transportation seems to be a vital necessity and much time and effort is spent in obtaining it. A person's importance seems to be measured by the kind of transportation he is furnished just as it is by the hotel at which he is billeted. There is more face saving, it seems, among the occupational personnel than there is among the Japanese.

No one can criticize an Army officer for not being an economist or a business man. In this highly specialized world if one has some real knowledge in a single field, he is fortunate. Gen. Marquat is the head of the Economic and Scientific Section of the Occupational Government, which will be referred to as S.C.A.P. This section more than any other holds the power of life and death over the Japanese economy. The General is a

very sincere and hard working man with probably no former economic training or business experience. He is just what he says he is "a good anti air craft officer". Yet the fate of Japanese business life is largely in his hands.

Army officers found upon arrival in Japan that there were many civilian positions in S.C.A.P. more remunerative than their Majorities or Colonelcies, so a large number changed their clothes to their monetary advantage. The higher echelons are therefore either Army or former Army and are not qualified by knowledge or experience or fitted for the work they are trying to do.

The economic advisers to those in authority are for the most part either former instructors of universities who have also served some years in one of the many bureaus in Washington, or recent graduates from college. Few of these men have had any practical experience. The few business men in S.C.A.P. with real experience are not in the policy making level. They are employed to carry out policies, not to make them.

In Tokyo alone there are thousands of officers and civilians employed in the offices of S.C.A.P. at salaries ranging from five to ten thousand dollars a year. The hotels where one can get good meals and a comfortable room with bath for forty dollars a month are run by the Army. All resorts - hotels have

been taken over also by the Army and are either free or a nominal charge is made. Effective September 1st automobiles for recreation cost 25¢ an hour. Before that they were free. The Army sees to it that there are many amusements and plenty of recreation, so life is much easier, cheaper and pleasanter for both Army and civilian personnel than at home. Naturally under these conditions if the personnel have anything to say about it, the occupation will continue indefinitely.

All of this extravagance might be tolerated were it not for the economic theory being foisted upon the Japanese which may result in an economic collapse which will to a large extent destroy all the good will so far gained by the occupation.

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

Under date of May 12, 1947 the Far Eastern Commission at Washington issued a document directed to S.C.A.P. in Japan known as F.E.C.230. Until quite recently this document was confidential. The letter of transmittal states that the dissemination of the information contained in the document to unauthorized persons or to the press is forbidden. Thus, the interests of American business which are obviously effected by the plan set forth in this document and the American people whose future well being may be seriously jeopardized by what was directed in it were kept in complete ignorance of its contents. This document, which was first drafted in Tokyo and sent to Washington for approval if the usual procedure was followed, is a most complete and detailed statement of how a "democratic Japanese economy" is to be effected.

In paragraph 17 it is said, "In connection with current and impending revision of Japanese tax law, every effort should be made to favor wide distribution of income and ownership envisaged in this paper, through the following means:

(a) Income and inheritance taxes should be much more steeply graduated than they are at present.

* * *

(c) Diffusion of inherited wealth should be assured. * * *

In providing for the disposition of the property of the Zaibatsu (plutocracy) which is the term commonly employed to describe the large family holding companies subparagraph a of paragraph 6 states: "The over-riding objectives should be to dis-

pose of all the holdings in question as rapidly as possible to desirable purchasers; the objectives should be achieved even if it requires that the holdings be disposed of at a fraction of their real value. In negotiating sales of divested holdings to desirable types of purchasers, the purchaser's ability to pay, rather than the real value of the holdings, should affect the fixing of the price and terms of payment". Under such a directive an administrative official with a donative turn of mind could give away much of the wealth of Japan.

On the same subject the directive describes "desirable types of purchasers" in subparagraph b of paragraph 8. "A decided purchase preference, and the technical and financial aid necessary to take advantage of that preference should be furnished to such persons as small or medium entrepreneurs and investors, and to such groups as agricultural or consumers cooperatives and trade unions, whose ownership of these holdings would contribute to the democratization of Japanese economy." In passing it is interesting to note to date agricultural cooperatives have been organized either by rich farmers or leftists for the purpose in both instances of taking advantage of the ignorant farmers.

While P.E.C.230 deals with the liquidation of the holdings of the Zaibatsu it is by no means confined to that subject. Businesses in no way connected with the large family holding companies are to be split up if, by the whim of some bureaucrat in Tokyo operating behind a dummy Japanese committee as a front,

they constitute an excessive concentration of economic power. This term has been variously defined in the document, one of which is "a material potential threat to competitive enterprise". To one which an imaginative turn of mind this would include most enterprises.

It is proposed to split up the banks on the theory "The permissible size should be set at a level sufficiently low to force a significant number of such actions and thus greatly increase the number of independent sources of credit, but sufficiently high to guard against the dangers of financial insecurity associated with excessively small banks." (Subparagraph b of paragraph 10.)

Not only financial institutions but all business is to come under the knife of the economic quack for "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" is to be split into as many small units as some gentleman sitting in Tokyo may deem appropriate.

As one of the steps for accomplishing this, and which is of particular interest to foreign patent owners, the directive provides: "where units in question hold license under Japanese patents owned by foreigners under terms incompatible with the sense of this paragraph, these terms should be renegotiated. Where the licensor will not agree to renegotiation, the Japanese unit should cease utilizing the license, so that the Japanese Government can cancel the patent or open up the patent to licensing on non discriminatory terms & c."

Many more specific provisions could be cited to illustrate the economy which is being saddled on the Japanese people, but it is hoped that enough have been quoted to demonstrate conclusively that that economy is not ours. It is good old socialism masquerading as "economic democracy".

This policy has been implemented by laws which Japan has already been forced to pass, such as the "Law Relating to Prohibition of Private Monopoly and Methods of Preserving Fair Trade", promulgated April 12, 1947, the Enterprise Reconstruction and Reorganization Law, promulgated October 18, 1946, The Labor Standard Law, promulgated April 5, 1947, Securities and Exchange Law, promulgated March 27, 1947, the Income Tax Law, promulgated March 31, 1947, the Law of Special Treatment for Establishing Self Cultivated Farms, promulgated October 19, 1946. S.C.A.P. also intends to have the Japanese Government enact several other laws one of which is sweeping and general in its terms and may be known as the Economic Reconstruction Standard Act. The Enterprise Reconstruction and Reorganization Law is also to be amended in several important respects. The policy has been further implemented by instructions, directions and explanations given by various members of S.C.A.P., particularly the members of the Anti Trust and Cartel Division of the Economic and Scientific Section which is headed by E. C. Welsh. Mr. Welsh was formerly an assistant professor of economics in Ohio State and thereafter connected with O.P.A.

In "The Oriental Economist" of August 23, 1947 the provisions of the "Law Relating to Prohibition of Private Monopoly and

Methods of Preserving Fair Trade" commonly called the Anti Trust Law are summarized as follows. "The Japanese Anti-Trust and Fair Trade Act is a good deal more specific in its provisions than its American prototype, presumably having incorporated therein some of the recommendations made by the Temporary National Economic Committee. In addition to the general provisions against private monopolies, undue restraint of trade, too substantial a disparity in bargaining powers, etc., it prohibits all holding companies; restricts the holding by financial institutions of more than five per cent of the stocks of any one company; and prohibits any company to own more than 25 per cent of the debentures of another company. It permits no person to own more than 10 per cent of the stocks of any two or more companies that are in competition against one another; allows no officer of a company to hold a similar position in another company in the same kind of business or to acquire stocks therein; and makes it illegal for an individual to hold directorship in more than three companies simultaneously. Thus there is no room under the Act for such Giants as the A.T. & T. or U.S. Steel, nor for "cornering" of a company's stocks by any person with sufficient financial backing, nor yet for interlocking directorate of unlimited scope and complexity as in the United States. The Japanese Act is undoubtedly many steps ahead of the present American legislation on trusts, combines and other business giantism."

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true

This quotation does not mention what seems to be one of the most important features of the Act. For Article 10 prohibits any

company other than a financial institution from acquiring shares in another company without the permission of the Fair Trade Commission created by the Act. Such permission can only be requested if the shares are to be acquired in accordance with certain specific conditions set forth in the Act. Even when these conditions have been met the Fair Trade Commission may in its discretion refuse to permit the acquisition. Under the Act a company could not acquire some of the shares of another company for anything but cash and such acquisition could not be made in the open market but must be made directly from the company of certain treasury or unissued shares.

The text of the Act in Japanese as well as the official translation uses the general term "any company" throughout the Act. According to a member of the Fair Trade Commission the term "any company" means just what it says and includes not only a corporation organized under the laws of Japan but corporations organized under foreign law whether or not registered in Japan. On the other hand Dr. Welsh, head of the Anti Trust and Cartel Division of S.C.A.P. says "any company" means only a corporation organized under the laws of Japan and does not even include a foreign corporation carrying on business in Japan. Thus we have one of the many examples of the rule of men not law governing the economic existence of Japan.

It would seem that Dr. Welsh's interpretation is incorrect for it is difficult to believe a foreign corporation would be permitted to carry on business free of restrictions of the Anti

Trust Act which are applicable to a domestic one. If so the whole purpose of the Act might be defeated. Further if Dr. Welsh is correct the Zaibatsu, after the peace treaty is signed, could go to a foreign country, organize a corporation, and purchase shares in Japanese corporations to their hearts content. The safe course, therefore, for any American Corporation is to consider this Act as applicable to it in dealing with a corporation organized under Japanese law and to a foreign corporation owned by it or in which it has an interest which is carrying on business in that country.

Everyone at all familiar with Japan would agree that conditions under which agriculture lands were held and farmed needed reformation. Large tracts were in the hands of absentee landlords and farmed by tenant farmers under leases which together with usurious interest rates on loans to farmers kept the tenants in a continual state of abject poverty. The Law of Special Treatment for Establishing Self Cultivated Farms was passed to correct these conditions. It provides that agriculture lands owned by an absentee landlord may be purchased by the Government and sold to the tenants. Each tenant to receive that portion which he is farming under lease. If a resident landlord has substantial holdings he too must sell so much thereof as the Government designates, which in turn is sold to the tenants. Payment may be made by the purchasers in installments. The purpose of the Act as defined therein is to break up large estates and spread the ownership of agriculture lands among the real farmers. Like so many other laws enacted for lofty purposes this law in its application is

being used for the purpose of distributing the wealth of Japan. Owners who paid fair market value for agriculture lands are being required to surrender them for a song. In one of several instances of which I have personal knowledge land in the Hokaido which was acquired with yen having a purchasing power equivalent to \$15,000 must now be surrendered by the owner for yen having a purchasing power equivalent to \$7.50. This is not an exceptional case but one illustrative of the usual way in which the law is being administered. While this is being done in the name of the Japanese Government it must always be kept in mind that S.C.A.P. allows the Japanese Government about the same freedom of choice and decision as Edgar Bergen does Charlie Mc Carthy.

As Athene in all her beauty came into this world via Zeus' forehead so The Labor Standard Law sprang full blown from Mr. Cohen's brain. Mr. Cohen who until recently headed the labor division of S.C.A.P. organized Japanese labor so successfully that General Mac Arthur woke up one morning to find he had a general strike on his hands. This was stopped by an order forbidding it and Mr. Cohen was supposed to have had his wings clipped by being removed as head of the Labor Section. He is now one of the chief advisers to General Marquat, Chief of the Economic Section of S.C.A.P. where he will have the opportunity to do to business what he did to labor. I am told that Mr. Cohen is a fairly recent graduate of New York University and much of his previous experience was as the labor leader of the union which functions in the Carborundum Company.

The Labor Standards Law deals in considerable detail with labor contracts, wages, working hours, (including recess, rest, annual vacations with pay) safety and sanitation, women and minors, apprentices, workmen's compensation, rules of employment, dormitories, etc.

The Law provides for an eight hour day or forty-eight hour week with one day off; minimum wages to be fixed after hearings before Wage Boards composed of labor management and the public; labor contracts for not longer than one year dealing with wages, hours, and working conditions; pay for miners from "pit-mouth" to "pit-mouth"; child labor generally forbidding employment of persons under 16 years of age; medical treatment, compensation for certain illnesses, accidents and death; and various other matters. The law embodies at least all the gains which American workers have won through many years of struggle. Many of the provisions of the

Labor Act are good but these benefits were thrust on Japanese labor which was unequipped by experience either to understand many of them or to know how to use them. If you have ever seen an American Indian spending his money shortly after oil has been discovered on his property you will have some idea of how the Japanese worker is using the labor law. At present the labor situation in Japan is chaotic. The country is in desperate need of coal and yet the miners even at time and a half or double time refuse to work overtime because they claim that working overtime is undemocratic. Giving of extra food as an inducement to work has not proven successful. Some of this food finds its way into the black market. Actual work in many mines is not over 5 hours a day and the working days each month considerably less than 25. The miners work until they have made what they consider enough for the support of their families and themselves and then take the rest of the month off. Extra food which is sold in the black market helps to supplement the income and reduce the days of work.

Throughout industry strikes of all kinds are prevalent, the workers in most industries or factories doing just about as they please. Even Dr. Welsh admits labor is "inefficient, expensive and out of hand." While workers are receiving from 3000 to 8000 yen per month they are worse off than before the war because the real wages now are less than then.

There are approximately 12,000,000 workmen union members in Japan. The largest union is that modeled on C.I.O. lines made up of workers in the same kind of industries, such as newspapers, transportation. Civil servants also belong to this union which is the most radical in Japan and in which the leaders are mostly Communists. Then there is a union, the second largest, which is modeled after the A.F. of L. composed of members of the same crafts. This union is dominated by the Socialist party and is fairly conservative. There are two other national unions, one a combination of smaller unions, the other an aggregation of company unions. Since the attempted general strike which was forbidden by order of General Mac Arthur the power of communism in labor seems to have declined.

Since 1937 prices for consumer goods have increased 65 times while wages are only 27 times higher than they were in that year. This differential was intended to be bridged by the Government distributing essentials but the plan has not worked very well in practice.

Practically all industries have labor contracts of which about 50% provide for a union shop, 30% for an open shop and 20% for a closed shop. Since the passage of the Taft Hartley bill Japanese labor has become more cooperative and has shown a disposition to be more reasonable in its demands.

Many of the labor contracts go far beyond such agreements in this country. The agreement between the Japanese company in which a well known American Company had a controlling interest and the company union in addition to the usual provisions for a closed shop, hours,

rights of dismissal, cost of living, wages, etc. states that part of the profits (not stating what part) shall be paid to the union, and the election and removal of directors, inspectors and advisers of the company may be had only after consulting with the union.

The labor contract of another Japanese company in which an American company has a substantial share interest does not give labor the power over management that the contract just mentioned does. This contract does go pretty far, however, for it provides that a committee composed of fourteen members divided between management and labor, of which the president of the company is chairman, shall decide such questions as production, manufacturing efficiency and matters on which the labor committee cannot agree. The committee will also discuss frankly and exchange opinions regarding production and operation policies, financial statements, expenditures and income.

While Japanese labor, to use a slang expression, has gone hog wild for the present, it doesn't seem to me that the situation is hopeless. What has happened is what anyone with a knowledge of Japan would have anticipated when Mr. Cohen and his cohorts began dispersing benefits which the Japanese workers were unequipped to accept and handle. These workers are in many respects like children and have to be treated as such. You can imagine what would happen in a family of children of ten years or less if they were suddenly told all restraints were off and that they could run the house and their own lives as they pleased. The Japanese workers are still the most law abiding, intelligent and industrious

laborers in the Orient. Give a Japanese a job where he has reasonable assurance that he will make enough to feed and house his family and himself and he will work hard. As consumers goods become more available and inflation is checked Japanese laborers will again work hard and efficiently under fair contracts for reasonable wages. This present spree, however, is not benefiting the Japanese worker or the Japanese economy. The same benefits to labor could have been conferred without the present headaches had those in charge of labor policies possessed an intelligent knowledge of conditions in Japan.

S.C.A.P. has seen to it that Japan should have a Securities and Exchange Act. The Japanese are not a security minded people and purchasers of securities there are usually well informed so do not require protection to the extent of our public. The Japanese Act seems much simpler than our own and will possibly do no harm. How much good it will do is problematical. It does provide for the creation of a Securities Transaction Commission, another link in the chain of bureaucracy which is being forged by the occupational Government for Japan.

The method of taxing corporations has not been materially changed under the new tax law. Corporations, both domestic and foreign, carrying on business in Japan must pay an ordinary and an excess income tax. Normal income is taxed at the rate of 35% for domestic and 45% for foreign corporations. Excess income tax is assessed on the excess of normal income over a percentage of the capital employed. Thus the tax is 10% on the excess of normal income over 10% of the capital employed, 20% over 20% of

the capital employed, and 30% on the excess over and above 30% of the capital employed. In the case of foreign corporations doing business in Japan the capital employed is determined by taking that percentage of the entire capital which corresponds to the proportion of the corporation's assets employed in Japan or on some similar basis. Under the present law with a normal tax of 35 to 45% on all income and an excess income tax of 30% on all income greater than 30% of its capital a corporation may be required to pay 65% to 75% of most of its earnings in taxes.

As with us it is the individual income tax and the inheritance tax in Japan which is employed to redistribute wealth. The income tax rate is 20% on taxable income of 10,000 yen, about \$50 at the black market rate of exchange, and increases to 75% on and above taxable incomes of 1,000,000 yen, equivalent at the same rate to \$5,000. The law does not permit separate returns, but incomes of all members of a family living together must be added together for the purpose of determining the tax.

The laws so far discussed disclose the economic theory being imposed upon Japan, since they are intended to implement that theory. But it is largely through the medium of the Enterprise Reconstruction and Reorganization Law as it is to be enacted and the Economic Reconstruction Standard Act which the Japanese will be forced to enact that the existing economy is to be destroyed and one radically different from ours is to be substituted.

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

I first heard of the term Zaibatsu in 1944 when lecturing to the men attending the Civil Affairs Training Schools established at several of our universities. It soon became apparent that there was a well established movement on foot to destroy at any cost the vested interest in Japan of those persons popularly termed the Zaibatsu. The leaders in this movement were the same as those who advocated broad reforms for Japanese workers. They also demanded the abolition of the office of Emperor. These people advocated making over Japan according to what they thought was good for that country and they never doubted for a moment that they knew what was good for the Japanese.

Of course the family holding companies should have been dissolved and their hold on Japan's economic life broken. But the manner in which this is now being done, i.e. by a purge of a large part of the intelligent and experienced businessmen to be followed by a sale of interests in Japan's most important industrial, mining and financial enterprises at nominal prices to labor unions and cooperatives makes one wonder whether for Japan and the world the remedy may not prove worse than the disease. At any rate the

cry "exterminate the Zaibatsu" has proven a most effective slogan to disguise what apparently is the real purpose, that of socializing Japan. Reformers of this kind, as we know, have insatiable appetites for power. Those in Japan are no exceptions, for having conquered the Zaibatsu they are now moving into every phase of Japan's economy claiming the necessity of breaking up "excessive concentrations of economic power" as their justification.

A draft of the Economic Reconstruction Standard Act (if that is the name by which the law when enacted will be called) submitted by S.C.A.P. to the Japanese Government states "1. The purpose of this law shall be to insure that measures for Japan's reconstruction are concentrated with peacetime and democratic purposes and to lay the ground work for building a healthy and democratic economy. To this end it is desirable that Japan's economy be reorganized and the concentrations of economic power be eliminated at the earliest possible date."

The Act then goes on to define what is meant by concentrations of economic power and some of the tests which can be applied for discovering its existence. Paragraph 5 set up the procedure for eliminating it. This paragraph provides as follows: "The Holding Corporation Liquidation Committee (a committee of Japanese puppets controlled by S.C.A.P.) shall take such action in regard to the elimination of concentrations of economic power subject to this law as it finds appropriate to accomplish the purpose thereof, including dissolution, liquidation or reorganization of enterprises or associations; prohibiting juridical persons or natural persons from engaging in such activities or performing such acts as might perpetrate concentrations of economic power; cancellation of obli-

gations of cartels, syndicates, trusts, exclusive purchase as sales agents, companies or other organizations of a monopolistic or restrictive character, and shall to the extent appropriate, carry out the provisions of the law and have power to:

- (a) Issue such rules, regulations, orders, directions and definitions as may be deemed appropriate;
- (b) Determine the principles, plans and procedures for elimination of concentrations of economic power subject to this law;
- (c) Consider reports, etc.
- (d) Investigate, collect and compile information, etc.
- (e) Require the compilation and submission of information, etc.
- (f) Take possession of, hold or require the conveyance of property, conversions of property of individuals or families into non-negotiable securities, direct the termination or dissolution of any contracts, enterprises, arrangements or relationships, and take such other measures as it may deem appropriate and consistent with the provisions of this law; request designated enterprises or persons to submit plans for disposal of assets or other appropriate action for the purpose of compliance with this law; approve such plans; propose plans of reorganization for enterprises for the purpose of compliance with this law, and appoint receivers with power to execute the same * * *

This would seem to be bureaucracy carried to the nth degree. Is it strange that Japanese are beginning to question this kind of democracy which is clearly a rule of men, not law.

Apparently the Japanese Government inquired of S.C.A.P. as to the manner in which it proposed to exercise these unlimited powers

for a memorandum entitled "Standards of Enterprise Reorganization" was delivered to it. This document sets out the ideas of how certain individuals in S.C.A.P. propose to deal with the Japanese economy. The following are quoted from this document:

"To eliminate control company functions unless it can be shown that separate plants cannot operate with a reasonable degree of efficiency under conditions of competition.

To employ differences in geographic location as one factor in determining separation of ownership and control provided that it cannot be shown that such separation would cut off sources of raw materials or make marketing of the product extremely difficult.

To separate unrelated activities unless it can be shown that there is a very significant effect on efficiency through advantages of large scale purchase of materials or through the advantage of scientific marketing.

**** No combination should own raw material supplies or raw material capacity substantially in excess of the needs for production of the final product.

**** Consequently horizontal combinations will generally not be justifiable.

**** In instances in which production of several products under joint cost condition is allowed to continue, the general principle should be non-ownership of the source of raw material.

**** If the brand has such a history as to give it monopolistic powers, such brand name should be abolished and separate companies should take new and different brand names.

**** Likewise, in separating the company into several companies, care should be taken to see that no one of the several companies has more than twice the capacity of any other of the separate companies unless its capacity is no greater than 20% of the total capacity of the industry."

Thus the great experiment, noble in purpose is reborn in Japan but still at the American taxpayers' expense.

The purge so dear to the Soviet is being used by us as lethal weapon in the socialization of Japan. It is estimated that upwards of 200,000 Japanese have already been purged and over another 100,000 will shortly be added. This includes Army and Navy personnel as well as businessmen including 56 members of the Zaibatsu families.

Far Eastern Commission directorate 230 at paragraph 5 lays down the rules for determining who shall be purged. It divides such persons into two classes, "all individuals who have exercised controlling power in or over any excessive concentration of economic powers, whether as creditors, stockholders, managers, or in any other capacity" and all other persons likely to act on behalf of such individuals. Note that many of those who have been and are to be purged are not members of the Zaibatsu. Thus Count Kabayama, upwards of seventy years of age, a graduate of an American college, and considered to be America's greatest friend in Japan was purged. Count Kabayama came under the purge because he was president of the Imperial Steel Company although it is reported he was made president at the insistence of the English Vickers interests when they became investors in that Company. The story goes the

Vickers insisted upon someone friendly to English interests who was not allied with what is now called the Zaibatsu. Count Kabayama was chosen because he met these requirements. He was most intimate with Mr. Grew, our last Ambassador, and his predecessors, and is reputed to have assisted them by interpreting Japanese policy and action.

The first class are to be divested of all corporate security holdings, liquid assets and business properties. The second class are permitted to retain an inconsequential amount of such property. The first group are "ejected from all positions of business or Governmental responsibility." The second group only from those positions which might be used to favor Zaibatsu interests. The first echelon are "forbidden from purchasing corporate security holdings or from acquiring positions of business or Governmental responsibility at any time during the next ten years." The next lower echelon are forbidden from doing any of these acts during the next ten years if they are done in favor of the Zaibatsu interests.

Because of this purge both the Japanese Government and businesses have been stripped of older men of ability and experience. Japanese banks are being run by former cashiers and assistant vice presidents - while business concerns are being directed by former plant managers and clerks. Young men hold the key positions in Government. They are hard working, sincere and intelligent but lack experience and working knowledge in Governmental affairs which is so desperately needed at this time.

The purge is tragic for those who come under it. I talked with two or three of the purgees as they are called and found

that all their funds are blocked and nothing can be done by them without the consent of S.C.A.P. They are forbidden to work for their old companies and any other ones are afraid to employ them. They are required to make voluminous reports to S.C.A.P. including minute estimates of their expenditures. One man with six dependents was permitted to draw approximately 8000 yen per month from his blocked account. This at the black market rate is equivalent to \$40. He was wondering what was going to happen to his family and himself when his blocked account was exhausted. This man, a graduate of one of our universities, said he told Tojo before the war on several occasions it would be a fatal blunder to have war with America. So long as it was possible he said he did what he could to prevent war, but once the national policy was determined he had to bow to it. His is only one of many cases in which it seems in the interest of ourselves as well as Japan the desired result could have been accomplished by following a more intelligent and less drastic course. Certainly while controlling the situation and without danger we might have utilized ^{the} knowledge and experience of some of the purgees.

The Japanese people have lost confidence in their currency. The black market rate of exchange which everyone recognizes as the true criterion of value is 200 yen to one dollar. In fact the black market is the real market in Japan for practically everything. There is price control but little if any of the controlled products can be bought except in the black market. Several weeks ago price control was taken off vegetables and Tokyo was flooded with supplies. Then for some unexplained

reason control was put back and the vegetables disappeared. The farmers are beginning to show some reluctance in selling for yen, preferring to receive property instead. The Chinese, Koreans and Formosans who are reported to have made billions in black market operations together with the agriculture cooperatives and trade unions constitute the only prospective purchasers for the Zaibatsu holdings shortly to be offered for sale. Because of inflation workmen in spite of the high wages in numbers of yen per month are not as well off as they were before the war. Higher wages are being constantly demanded and in some instances food allowances are being paid in lieu of part of the monetary wage.

The only cure for inflation appears to be much larger production in the first instance of consumers' goods. In view of the many uncertainties in the Japanese economic world that would appear to be possible only in the somewhat distant future.

There are too many real imponderables in Japanese economic life to warrant other than a most pessimistic outlook. Reparations is another one of them. Until this policy is established and it is known just what form reparations are to take and what plants are to be moved, Japanese businessmen cannot plan for the future. Dissolution of the Zaibatsu companies, forced sale of their securities to unions, cooperatives and perhaps Chinese and Koreans, the purge of practically all experienced businessmen, the separation of companies into many independent ones on the theory of "excessive concentration of economic power", inflation and reparations would seem enough to give any economy an acute case of indigestion. Add to this the sustained effort to socialize Japan by a rule of men as

distinguished from one of law and you have what can only be described as a mess.

There is grave danger that the entire Japanese economy may collapse resulting in a sacrifice of a substantial part if not all of the good which the occupation of Japan from a military point of view has accomplished. The Japanese had been told by their military leaders that American troops would loot, rape and kill. When they arrived and this did not happen but instead they conducted themselves in a truly admirable manner and showed a disposition to help, there was a complete revulsion of feeling on the part of the Japanese. This fear quickly changed to enthusiasm for the occupation. As they began to realize how much better off they were in our hands than they would have been in those of Russia, they showed a real desire to cooperate and to carry out what the occupational Government directed. The restoration of law and order, the demilitarization and repatriation of troops were all most ably carried out under the most skillful, intelligent and sympathetic leadership of General Mac Arthur. But the military phase of the occupation was completed months ago and was succeeded by the necessity of restoring the Japanese economy. In this respect the occupation to date has not only been a failure but it has sought to impose on the Japanese an economic system which is distinctly unamerican. The high command in Japan has failed to take advantage of the services of experienced businessmen which have been offered. It has accepted the advice of mediocre people and listened to the siren song of a lot of crackpots.

Some Japanese have already lost their enthusiasm for the occupation and this number is being constantly increased by those who are beginning to doubt our good will and sincerity because of our economic policy. Such persons are asking themselves whether the real reason for breaking up all large Japanese companies, for selling corporate securities to labor unions at nominal prices may not be the desire to make Japan economically impotent. As the existing chaos and confusion continues and the Japanese people enter another hard winter with practically no heat, few warm clothes and little food the number of doubters will grow and the good will recently engendered by the occupation will disappear.

Japan's real desire to be friends and do our bidding should not lightly be tossed aside. She is still the leading oriental nation in ability, respect for law and order and desire to work. She is not communistic and while communism is growing, Japan will embrace it only as a last resort. Vis a vis our relations with Russia, Japan can be either for or against us. We want her for us, because she can be the buffer against Soviet Russia on our Pacific side just as England is in the Atlantic. Because the complete success of the occupation of Japan is a matter so vital to all Americans whether or not engaged in foreign trade, it is nothing short of catastrophic that the economy of Japan is being made the guinea pig for a group of radical reformers.

Japan is costing the American taxpayers millions of dollars a year. Theoretically Japan is paying the costs of occupation. A military operation, at least with us, is always expensive and

in this instance it is particularly so on the basis that Japan is paying for it. So houses with large staffs of servants are demanded for officers and their families at rentals far below their cost to the Japanese Government. Club houses and servants are supplied without cost to the members on the supposition that it is all on the Japanese so why worry. Innumerable other extravagances of a similar nature are going on constantly. It is true that most of these are paid for directly in yen by the Japanese Government which is given a corresponding credit against future reparation payments. But in fact the American taxpayer is paying for this joy ride. We have to supply millions of dollars worth of food and other necessities to Japan for which we may never be paid. Perhaps if we did not compel Japan to use her limited resources to furnish luxury and amusement to the personnel stationed in Japan she might have more for her own needs. How long will the American taxpayers continue to stand for this, or probably what is more to the point, why should the American taxpayers stand for it at all? Are we interested in paying the freight so that some economic theorists may try an experiment there which we did not want here?

Americans in general are interested in seeing that Japan cannot carry on future wars. In accomplishing this we would like, if it can be done, to retain that country's good will. But under any conditions once Japan is completely demilitarized, we want her to get off our back and become self supporting.

General Mac Arthur says Japan has been so completely demilitarized she could not possibly wage war for another fifty years.

By rationing vital imports such as petroleum, by stationing in Japan observers and by maintaining an effective air force within striking distance of that country, there would seem little danger of Japan being able to wage war in the foreseeable future. That being so why should we tolerate the installation of a bureaucracy of Americans in Japan which will make that country a dependent for years to come.

Finally, what about American business interests in Japan. So long as existing conditions continue in that country I cannot see how an industrial enterprise owned in whole or in part by Americans can be successfully and profitably carried on. Neither can I see any reason why American capital should be attracted to that country. Were economic conditions otherwise, I am convinced Japan would be a most attractive prospect for American industry and a fertile field for American capital. Whether Japan can be made such a place depends in my opinion upon the willingness of our Government to do two things. First, put an end to the economic experiment being conducted in Japan, and second, replace the theorists now there with men of ability and experience who can if action is taken promptly still restore Japan's economy. Such a modification in policy must be followed shortly by a withdrawal of the military forces and the repatriation of thousands of highly paid American bureaucrats, lawyers, former members or employees of bureaus in Washington, clerks and secretaries.

Such a modification in policy would within a reasonable time make Japan self supporting, establish her once again as a country attractive to American industry and capital, insure the success of the occupation, and over and above all give us a far eastern bastion.

James Lee Kauffman

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DIVISION OF OCCUPIED AREAS
ECONOMIC AFFAIRS
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AMERICAN CONSULATE GENERAL
DEPARTMENT OF STATE
Shanghai, China, February 20, 1948. *DC/R*

Subject: Criticism of United States Economic Policy
in Japan

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THE HONORABLE
J. LEIGHTON STUART,
AMERICAN AMBASSADOR,
NANKING.

SIR:

I have the honor to report that the TA KUNG PAO has broken its week long silence on its reaction to my speech before the local Rotary Club by the publication on February 13 of a special article under the heading "A Discussion with Mr. John M. Cabot, United States Consul General in Shanghai, on America's Helping Japan to Recover". This special article has been followed by a lengthy editorial in the February 17 issue entitled "Facts Speak Louder than Words - It is not untrue that the United States is building up Japan". Both articles take a very critical attitude toward our economic policy in Japan and claim to develop conclusive cases showing that our plans go much further than "the livelihood of the Japanese".

Other editorials criticizing our policy in Japan and including references to my speech have appeared in the SHIH SHIH HSIN PAO (owned by H. H. Kung and David Kung) of February 13 and in the CHIH SIEN JIH PAO (with Chinese Army and CC Clique connections) of February 14. The critical tone of these editorials is milder, however, than that employed by the TA KUNG PAO; and on February 14 the SIN WEN PAO (CC organ) gave prominence to a statement by an official of the Nanking Government on its acceptance of our basic program in Japan. Each of these three latter articles contains such expressions as "we still feel that the trouble is that we have been unable to give a good account of ourselves" and "it is possibly true that the only dependable course for us to take is to achieve regeneration by our own efforts" and "success in the development of Chinese industry depends on our own efforts rather

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than on the oppression of Japan". From these circumstances it would appear likely that the Chinese Government may be attempting to restrain the press attacks on American policy to some extent. As previously indicated by the Consulate General, however, it is believed that the Government cannot escape a measure of responsibility for the consistently strong anti-American tone of the TA KUNG PAO. In view of the paper's connection with the Political Science Group and of the generally accepted fact that the Government dictates to the paper those subjects on which it may editorialize freely and those which it is forbidden to discuss, the Government's sincerity in discouraging attacks on our Japan policy must remain open to some suspicion so long as the paper's views on that subject retain their hostile character. The traditional "independence" of the TA KUNG PAO would indeed make it an especially convenient mouthpiece for ideas which the Government might wish to have published but for which it would be anxious to disown responsibility.

An attack from another quarter was contained in the February 14 issue of the local American journal, CHINA WEEKLY REVIEW, entitled "Look at the Record" which, the editorial claims, conclusively disproves my contention that America is falsely criticized by those who assert that the United States is building up Japan and neglecting China.

The special article appearing in the TA KUNG PAO opened with the statement:

"Under the protection and with the assistance of the United States Government which is monopolizing the control of Japan, and of the Supreme Commander for the Allied Powers in Japan, General Douglas MacArthur, Japan's fascist militarism which capitulated two years ago, is again rising rapidly. This is a problem which concerns the life and death of our whole nation. We therefore cannot but increase our vigilance and alertness."

It continues with the assurance:

"If during the period of control the United States can truly carry out the Potsdam Declaration by thoroughly effecting a military, economic and spiritual disarming of Japan and genuinely setting up a peaceful democratic Japanese Government, then in the process of China's future reconstruction, the more developed the industry is and the higher the standard of living of this non-aggressive Japan the more favorable it will be to the Chinese mission, and the more the United States helps Japan to recover the more it will be welcomed by us." But "unfortunately the former has completely cast aside the Cairo

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Declaration and the Potsdam Declaration and also the many documents pertaining to the disposal of Japan concluded after the latter's capitulation, such as America's preliminary policy for the occupation of Japan and the Allied basic policy toward Japan. What the United States is positively helping along is not Japan's genuine democratic forces but rather the remnants of Japanese fascist militarism.....the United States has actually preserved and even strengthened the Mikado system which is the crystallization of Japan's reactionary, aggressive political system.....the two major political parties which dominate the Diet, the Liberal and Democratic Parties, are substitutes for the pre-war Seiyukai and Minseitō.....the monopolistic plutocrats who were the motive force which prompted Japan to aggression and the economic structure controlled by feudalistic landlords are left completely untouched."

There then follows a lengthy paragraph which purports to be "a review of the development of events in the last two years (which) will convince you that we are not alarmists". Among these developments are included the failure to sentence a single Japanese top war criminal, the preservation of Japan's Yawata iron and steel works, the increase of the police force to 125,000 men, the delivery to Japan of 28 war vessels, the transfer to the United States for training of Kamikaze airmen, the rejection of the Pauley reparation plan in favor of the strike*reparation plan, the dispatch of the Sloan mission to assist the restoration of Japan's shipping, and the proposed restoration of the Japanese textile industry. In this last connection William Jacob, head of the Industrial Mission, is quoted as saying, "No matter how other Asiatic countries object, the United States is determined to restore the Asiatic market and the colonial market of Japan's textile industry".

Objection is also taken to the remark attributed to Lieutenant-General Eichelberger, "As the storehouse of American friendship, Japan can stave off the attack of any enemy on the United States in the future". Secretary Royall is quoted as saying, "The determining of the Japan occupation policy is based on the principle of coping with any possible threat of aggression", and Admiral Halsey as saying, "Europe is in need of recovery; Japan also needs to recover. In the future Japan is likely to become a strong fortress between the United States and her future aggressor". To Congressman Short is attributed the remark, "The Japanese will put on American military uniforms and fight shoulder to shoulder with American troops".

* (sic)

In summation

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-3-

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In summation

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-4-

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In summation the article states "All these have encouraged the remnants of Japanese fascist militarism to resume an arrogant attitude and show their ferocious faces again" and continues with a long list of supposed instances of arrogance which it claims "clearly indicates that Japan is, in the words of Lattimore, a time bomb in the Far East, the time for whose explosion is getting nearer and nearer. How can this not make Japan's close neighbor, China, anxious and worried?"

The tone of the article then changes to one of friendly warning about a Japan "hiding a dagger in the smile and treachery under sweet words". It points out that a weakened China will fall first prey. It expresses high regard for the century-old friendship between China and the United States and the American assistance extended, "but" it says "this certainly cannot make us sacrifice our whole country and our whole people by merely looking on without saying a word while America rears a fierce tiger by our side". It concludes with the statement, "finally we wish to make it clear that what we oppose is merely the wrong Japan policy of the United States Government which is manipulated by Wall Street's monopolistic capitalists. As to the mass of the American people who love peace we are just as friendly to them as we have ever been".

In its editorial of February 17th the TA KUNG PAO follows a line identical with that of its special article writer but makes a more direct reply to my speech with such remarks as: "We know that it was not Mr. Cabot's intention to make any explanation or propaganda which was contrary to the facts.....Mr. Cabot should point out some new facts in place of his subjective explanations..... What Mr. Cabot has said is quite different from what General MacArthur and other American leaders have said. It seems to us that what General MacArthur and others have said is bolder and more frank." The editorial also takes strong exception to the February 7 editorial of the NEW YORK HERALD TRIBUNE which "warned the Chinese press that if China continues to attack the United States policy of aiding Japan, it may adversely affect China". It replies, "We feel that such a way of cowing China into making concessions on the Japanese problem is regrettable. The United States certainly does not understand China. The Chinese people cannot sacrifice their national destiny just because of their gratitude to the United States for its relief since Japanese militarism once revived will be lasting while relief will be only temporary."

The editorial in the SHIH SHIH HSIN PAO remarks that "it looks as if the Americans have been dreading the threat of Soviet Russia night and day while the Chinese have oversensitively been trying to prevent Japan from resurging.....

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During the past two or three years the Japanese have gradually stepped onto the road to recovery and some people in China have been greatly worried lest another great catastrophe be around the corner." The editorial then reverts to the self-help theme and concludes "We should intensify our effort to get in touch with Japan, to understand her and to help the Japanese people to uproot any thought of aggression. So long as we are afraid of Japan we shall remain defeatists."

The CHIEN SIEN JIH PAO editorial remarks that "While the United States authorities have been so hesitant and indecisive regarding the steps to be taken in extending aid to China, they have so frankly and resolutely expressed their readiness to 'help Japan reconstruct herself'. China cannot help deploring and being jealous of this.....Yesterday Premier Chang Chun again referred to 'self-help'. It is possibly true that the only dependable course for us to take is to achieve regeneration by our own efforts."

The news article in the SIN WEN PAO attributed to an official spokesman in Nanking the remark "we must try to understand United States Japan policy from the point of view of the over-all world situation.....The United States hopes that Japan can soon become economically self-supporting and self-sufficient. The aim of the United States in proposing a program of helping in the rehabilitation of Japan at the Far Eastern Commission meeting is twofold, namely, to lighten the United States occupation burden and to stabilize the economic life of the Japanese people. Greater emphasis is placed on the latter point for if the 80 million Japanese people cannot have a reasonable standard of living they will easily fall prey to the Communists". It continues, "So far as China is concerned we certainly cannot permit the reappearance of an industrialized Japan and agricultural China. However, success in the development of China's industries depends on our own efforts rather than on the oppression of Japan."

It is believed that these press articles provide further convincing evidence of the crying need for clear statements of our case backed up by factual data. Virtually all of the criticism stems from Chinese fears that we are restoring the industrial economy of Japan and that such action will pave the way for rearmament and resurgent militarism as Japan, with our aid, resumes her former dominating position in the Far Eastern economy.

It seems quite obvious that much of this criticism stems from a Chinese fear of Japanese competition. China, in the midst of a grave crisis, is unable to take over the world trade that was Japan's before the war and which China

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-6-

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now regards as rightfully hers. Fear that this world trade, which China had hoped would enable her to raise her own economy, has been lost is responsible for some of the criticism. The basis for this fear should be very easily exploded. The Department might ask its foreign trade experts to prepare material with facts and figures to discount this theory.

Frank and clear statements of policy outlining in detail our position in urging the partial economic restoration of Japan stressing the fact that the United States presently is bearing a huge economic burden through the cost of occupation and stressing the fact that economic assistance to other Far Eastern countries is perhaps limited because of the high cost of maintaining the occupation. Facts and figures showing the costs being borne by the United States in relation to other occupying powers might be helpful also. The cost of occupation to the United States has never been clearly stated. Figures should explain why the cost is so great.

Exact information on what has been done to dismantle Japan's war industries and to break up the huge monopolies that controlled all Japanese business in the past would be helpful. Facts on the purging of the Zaibatsu explaining in detail how this was carried would be very useful.

Since another of the greatest Chinese fears is their fear that China will be the first victim of a strong Japan, factual material explaining our complete demilitarization of Japan, destruction of her potential for making war, her army and her navy would be most useful. The recent assignment of certain patrol vessels for use in customs prevention work was criticized bitterly. A full explanation of what these ships were intended for, what types, fact they had almost no armaments, if true, would be useful in dispelling such criticism.

From time to time the Chinese press carries stories that we are training Japanese pilots. This is linked with criticism that we are building up Japan as an anti-Soviet bastion in the Far East. Such criticism must be met by frank, clear policy statements that outline our position in full and satisfactorily explain our occupation policy.

Chinese editors themselves do not clearly indicate whether they are accusing us for deliberately building up Japan or for just permitting Japan to be built up through muddle-headedness. A clear statement of our objectives should be helpful in this respect.

Charges that we are allowing the Japanese to pull the wool over our eyes when we believe they are being democratized should be met from time to time with frank American

statements

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-7-

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statements that we well realize the task is difficult and cannot be done overnight and therefore we have no intention of ending the occupation until we are certain Japan will no longer be a threat to any country.

None of these criticisms will be turned aside overnight. A steady flow of well-considered factual information is essential. The facts must be repeated over and over again until they have gained the currency that will affect Chinese public opinion and, in turn, give us a favorable press.

Respectfully yours,

John M. Cabot

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Hectograph and copy to Department.

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February 20, 1948

S/P - Mr. Kennan

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Subject: Kauffman Report

Mr. Green has requested that you be furnished a copy of the Kauffman Report. It is attached, together with OE's analysis.

Since it represents the personal views of Mr. Kauffman, you will no doubt be interested in his background.

I understand that he was professor of English and American Law at the Imperial University in Tokyo from 1913-1919. He was at some time director of an insurance and cork company; he was a partner in the law firm of McIvor, Kauffman, Smith & Yamamoto with offices in New York and Tokyo; he was decorated with the Japanese Order of the Sacred Treasury, Fourth Class; he was recommended by Mr. Biggers of Libby-Owens-Ford to go to Toyko with a group of economic advisers to SCAP, but some of this group - including Mr. Kauffman - were not accepted by SCAP; in August 1947 he went to Japan as a technical adviser on the U. S. Reparations and Restitution Mission which was also charged with the investigation of the status of certain private properties. He spent 25 days in Japan on this mission. His report resulted from this trip. Since it deals in a broad way with General MacArthur's program it might be worthwhile to discuss the report with him.

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P. P. Claxton, Jr.

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Henry Owen (OE)

MEMORANDUM

Subject: Mr. J. L. Kauffman's Report on Conditions
in Japan.

1. Subject report discusses the various economic reform programs now underway in Japan, and concludes that they are detracting from, rather than contributing to, the establishment of a peaceful, stable, prosperous, and pro-American Japan. The author recommends, therefore, that the Supreme Commander for the Allied Powers (General MacArthur) abandon his sponsorship of these programs.

2. The most important programs in question are:

(a) The program for dissolving excessive concentrations of economic power;

(b) the program for increasing cultivator ownership of farm lands;

(c) the program for establishing independent trade unions and improved working conditions;

(d) the program for establishing a progressive system of taxation.

The economic purge, to which Mr. Kauffman devotes considerable attention, is more of a political than an economic measure, and so is not treated in this memorandum. There appears to be good reasons for believing that the application of this purge may have been excessively broad, but so far SCAP has not responded favorably to Washington suggestions that it be relaxed. It should be emphasized that this purge is not a part of the deconcentration program referred to under (a), above: out of a total of several thousand persons affected by the purge, only a very small number have been Zaibatsu.

I. Basic Reason for Initiation of Reform Programs

3. In the pre-war economy of Japan:

(a) A few families, commonly known as the Zaibatsu, dominated Japanese industry and commerce, through the medium of several large holding

FW. 874.50 / 2-2048

-2-

holding companies, to a degree unparalleled in the United States or in any other major industrial nation. This domination prevented the creation in Japan of a politically influential property-owning middle class, such as has traditionally been the basis for democratic development in the West. As another result of this domination, unregular monopolistic policies in many sectors of Japanese economy appear, through such means as the sale of goods to domestic consumers at non-competitive prices, to have prevented the living standard of large groups of the Japanese people from reaching levels which they might otherwise have achieved.

(b) Farm tenancy was widespread, and the conditions of tenancy were such as to accentuate the already very difficult economic position of the average farmer. The landlords dominated the countryside in a political as well as an economic sense.

(c) The size and activities of trade unions were held to minuscule proportions by the Government; wages and conditions of employment were bad.

(d) Regressive taxation and primogeniture laws increased the existing concentration of wealth to a marked degree.

4. As a consequence of the conditions cited above, large groups of the Japanese people, e.g., small business men, working men, and tenant farmers, had very substantial and acute economic grievances. The extreme concentration of economic power was partly responsible for a similar concentration of political power which prevented these groups from redressing their grievances through peaceful democratic methods. These disaffected groups were, therefore, susceptible to conversion by extremist parties seeking power through extra-democratic methods. The growth of the political power of extreme militarism in Japan during the late nineteen thirties owed more than a little to that susceptibility.

5. If the pre-war economic organization of Japan had been restored after the surrender, the eventual result would have been to re-establish,

in extreme

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in extreme form, both the economic grievances and the parliamentary impotence of the Japanese groups referred to above. It is not likely that these groups would have again turned to militarism as a remedy; Communism would have been the more probable beneficiary of their desperation. There might have taken place in Japan what has recently taken place in other countries, such as China and Greece, where badly wanted and needed reforms have been postponed too long; an increasingly violent split between strong factions of an unyielding Right and a desperate Left. At worst, such a conflict might have finally ended in a Communist Government in Japan; at best, it might have ended in a Rightist Government, lacking broad popular support, and maintaining itself in power only as a result of substantial and continuing U. S. intervention.

6. It was partly to reduce the probability of such a conflict that the U. S. Government favored, and that General MacArthur launched, the four reform programs cited in paragraph 2. It was hoped that, as a result of these programs, potentially disaffected groups in Japan would find their past grievances somewhat alleviated and their political power to remedy future grievances considerably increased. These groups might then accept more readily a status quo which afforded them both economic benefits* and a measure of political influence, and their immunity to extremism would be enhanced accordingly. Under these circumstances, Japan would probably enjoy a government which, being non-Communist might orient itself towards support of U. S. world policy, and which, being stable and popular, might be able to make
that

* The classic example of such a change of outlook may be found in the conversion of the French peasantry from radicalism to an intense and continuing conservatism, as a result of the redistribution of land effected in France after 1789.

-4-

that support effective.

II. Possible Threat to Recovery

7. The previous discussion illustrates the reasons which led to initiation of the reform programs referred to in paragraph 2. Mr. Kaufman objects to these programs principally on the ground that they are now greatly hampering Japanese recovery. If properly administered, it is not believed that these programs should have this effect:

(a) The dissolution of excessive concentrations of economic power will not, under the terms of present policy, interfere with the operation of technologically unified and efficient enterprises, or produce such a fragmentation of Japanese industry as to deny the Japanese an opportunity to exercise their undoubted talent for teamwork. On the other hand, it will terminate economic entities and relationships which, in many cases, restricted industrial efficiency. Pre-war Japan owed a good deal to the acumen of its businessmen, but it would be a mistake to consider that this acumen was necessarily a product of, or given optimum scope by, the pre-war organization of Japanese industry. This organization often deprived managerial personnel of the freedom and incentive to maximize the efficient operation of their enterprises. It resulted in the creation of some enterprises whose size was so great as to hinder rather than promote productivity, and in the creation of some control associations which stifled individual initiative in the business community. It is hoped that the deconcentration of Japanese industry will remedy these defects, and thus in some ways increase the efficiency of Japanese industrial operations. An analogy may be cited in this country, where the dissolution of utility holding companies under the utility holding company act of 1935 is considered by certain competent observers to have improved the financial position and operating efficiency of many of the individual companies thus released from their allegiance to non-operating control.

(b)

-5-

(b) The redistribution of farm lands will, if anything, increase the total yield secured from these lands, in the opinion of SCAP.

(b) The establishment of mandatory minimum working conditions and of genuine trade unions should not, in the long run, necessarily detract from operating efficiency in industry. It is true, of course, that unionism is open to serious abuses, but an attempt to repress such unionism is often even more disturbing to industrial peace. Japanese organized labor has recently shown a tendency to conduct itself with greater maturity than characterized its activities immediately after the surrender when, for the first time in Japan's history, extensive organization of independent trade unions was allowed in that country. This recent moderation, which appears to result from a growing familiarity with the rights and duties of trade unions in a private enterprise economy, may be expected to continue, and to be accelerated by educational efforts on the part of the occupation authorities. Probably only an attempt by the Japanese Government to revert to its pre-war repressive policies vis-a-vis trade unions would restore to leadership the more aggressive extreme left-wing labor elements, which aim at disrupting economic activity in Japan.

(d) The establishment of reasonably progressive Japanese tax laws and practices should have no more adverse affect than did the establishment a number of years ago of the U. S. laws and practices on which they are modeled.

8. It is therefore believed that, if SCAP's economic reform programs are hampering Japanese recovery, it can only be because of their improper administration as being too rapid and over-zealous, but his lack of supporting data casts doubt on the soundness of that criticism. This doubt is enhanced by the fact that a number of

competent

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competent U. S. Newspaper reporters in Japan (for example, those of the Christian Science Monitor and of the New York Herald-Tribune) have concluded that execution of these reforms is proceeding too slowly because of the hostility of conservative Japanese officials. If there is maladministration, it is more likely to be of this type than of the type suggested by Mr. Kauffman. Such excessively slow execution would indeed hamper Japanese recovery, by creating unnecessarily widespread and prolonged uncertainty in the Japanese economic community. The most appropriate remedy would seem to be to accelerate completion of these reform programs, and steps to this end are currently being taken.

9. Mr. Kauffman is right in saying that Japanese recovery is not taking place, and that, as a consequence, there are few attractive possibilities now for investment in Japan. He is believed in error, however, in saying that the main obstacle to Japanese recovery is constituted by U. S. policies and personnel in Japan. The fundamental obstacle to Japanese recovery is the same as that to recovery in England and the other highly industrial trading nations of Western Europe; Japan's productivity has been critically reduced by war damage and deprivation, and, as a consequence, Japan cannot produce enough exports to pay for even these limited imports required to avert disease and unrest within her borders. The United States is providing these imports, but it is not providing those further food and raw material imports required to rehabilitate the productivity of Japan's labor and capital plant. Nor is Japan's economic future sufficiently bright to enable her to "borrow" those further imports from any private or public agency which lends in expectation of repayment. Until, however, Japan receives such increased imports, it does not appear that she will be able to restore her production to the level required in order to maintain a self-supporting status.

Almost

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Almost equally important as an obstacle to Japan's recovery is the fact that the Japanese Government has not yet instituted effective economic policies in order to restrain inflation and stimulate production; a failure which arises partly out of the opposition of such policies of the very pro-Zaibatsu groups whose leadership Mr. Kauffman considers so essential to Japanese recovery. The fundamental prerequisite for recovery in Japan is thus the same as that for recovery in Europe: the provision by the United States of substantial food and raw materials imports, coupled with the adoption of more effective economic policies by the country receiving such aid. As a U. S. observer wishing to promote Japanese recovery, he should report this fact, and the consequent necessity for increased U. S. expenditures for Japanese imports. He is deceiving his readers in leading them to believe that Japanese recovery can be achieved quickly or cheaply by a U. S. withdrawal from Japan.

III. Possible Threat to Free Government of Free Enterprise

10. Mr. Kauffman criticizes SCAP's economic reform programs as being incompatible with American ideals of political and economic freedom; he states that they involve a rule of men rather than laws, and that they are socialist. As will be seen from the previous discussion, however, exactly the reverse is true.

11. Before the war, Japan was subjected to a rule of men rather than of laws. Public laws--at least in the economic field--were purposely drafted in extremely vague and permissive terms by a legislature whose limited powers and composition reflected the non-representative character of the Japanese State. These laws were carried out by a powerful bureaucracy, closely related to, and heavily influenced by, the dominant economic groups, in such a way as to favor those latter on almost every occasion. Zaibatsu firms violated the bank inspection

laws

-9-

laws with impunity; wealthy tax violators were left unpunished; the Government conveniently over-looked impressment of laborers for work in Hokkaido coal mines; and a series of land reform statutes left the system of far tenancy largely unaffected. It is hoped that a diffusion of political power resulting from the current deconcentration of economic power in Japan will make possible the creation and survival of a strong and representative legislature which will be able to assert the will of the Japanese people effectively over the executive bureaueracy of the Japanese Government. Only then will Japan have, for the first time in its history, a government of laws rather than men.

12. Before the war, the Japanese economy was dominated by a close alliance of big government and big business. The Government subsidized and favored the Zaibatsu enterprises as its "chosen instruments", in such a way as to prevent any effective challenge to them from arising in Japan. The Zaibatsu in turn repaid this favor by regulating the Japanese economy (though both their ownership interests and their all-pervading control associations) in accordance with the desires of that Government. In its effect on the freedom of action of the average member of the economic community, this system may appropriately be compared to state socialism. The economic reform programs are designed to diffuse the holding of property and the exercise of business initiative among a sufficient number of private persons to prevent the re-creation of this or any similar quasi-socialist system which so concentrates economic power in the Government, or in groups allied thereto, as to deny entrepreneurial freedom and rewards to the average member of the Japanese economic community. These programs are thus designed to establish and preserve, rather than to destroy, the private enterprise system which Mr. Kauffman favors.

IV. Possible Threat to Pro-American Orientation of Japan

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13. Mr. Kauffman implies that continuation of economic reform programs in Japan may endanger the pro-American orientation of that country, by weakening political forces of the Right and strengthening political forces of the Left, so as to facilitate a gradual assumption of power by the extreme Left.

14. As pointed out under I, it is believed that the balance of political and economic power within pre-war Japan produced tensions within that State which could not be resolved peacefully. Any abandonment of present economic reform programs in order to re-establish that pre-war balance would produce even greater tensions, in view of the freedom therefrom, and consequent benefits, which have been enjoyed by certain Japanese groups (e.g., workingmen, tenant farmers, small businessmen) during the occupation*. These heightened tensions would, for the reasons pointed out in paragraph 5, make it unlikely such an abandonment would result in the establishment and maintenance in power of an effective, stable, Rightist Japanese Government. Moreover, the international policies of any government of the extreme Right which did come to power under these circumstances might well be characterized by that opportunism which is the hallmark of a regime not solidly grounded in public opinion and support. The major aim of any regime not so grounded must be to maintain itself in power against a variety of domestic threats; ideological considerations cannot be allowed to bar, and public opinion is unable to prevent, any step which will contribute to that aim. This was made evident by the German-Soviet rapprochement of 1939. Thus, an attempt to return to the Japanese

status

*It should also be noted that such a US reversal of policy could hardly be concealed, and hence would lessen US prestige among many people in Japan who have so far looked with favor on our reform policies there. These people would undoubtedly consider that they had been betrayed by the United States. Moderate left-wing groups in other countries would also be dismayed, and could hardly fail to draw unhappy conclusions as to the probable results of increased US influence in their own countries.

-10-

status quo ante bellum would not necessarily produce a Japanese Government both willing and able to serve as a (to quote Mr. Katiffman) "buffer against Soviet Russia on our Pacific side just as England is in the Atlantic". If Japan is to play the role in the East which the United Kingdom plays in the West, she will have to have -- like England -- a government which is sufficiently responsive to popular sentiment to be consistent, in its execution of anti-totalitarian foreign policy.

15. One should be careful, however, not to exaggerate the extent to which political power is now being redistributed in Japan. If present economic reform programs are completed successfully, it seems probable that the distribution of wealth and economic initiative in Japan will be somewhat similar to that now obtaining in the United States. These programs are designed to redress the extreme concentration of wealth and power prevailing in pre-war Japan; they are not intended to destroy the wealth and power of the propertied classes. Specific individuals (e.g., former Zaibatsu) may be hard hit, although, so far, they have shown surprising financial resilience. Their plants, in any event, will be neither socialized nor destroyed nor generally sold to non-profit organizations; these plants will thus pass into the hands of other persons (e.g., former plant managers), who--although more numerous and less wealthy than the former Zaibatsu--will still constitute a propertied class. This class is now, and--failing some unforeseen development--will remain, powerful in Japan. It seems likely, therefore, that post-war Japanese governments will--like the present Katayama cabinet--represent a compromise between its interests and those of other elements previously without influence in the Japanese State. It is difficult to conceive how such a balance could facilitate assumption of power by the Japanese extreme Left, any more than the existence in this country of an Administration which derives some support

-11-

support from organized labor is likely to facilitate a US Communist assumption of power. It is true that the overthrow of Rightist regimes in Europe by moderate Left groups has sometimes been followed by a Communist coup. However, in each case, the Communist coup resulted not from the preliminary triumph of the moderate Left, but from the prior utter destruction of the power of the Right of which that preliminary triumph was only one symptom. This destruction was due in each case to an extraordinary event (e.g., an unpopular and disastrous war in 1917 Russia, or Soviet domination of 1947 Hungary). No such utter destruction of the power of the Right has occurred in present day Japan, as is evidenced by the conservative complexion of the Diet, and the demonstrated ability of the Government to deal firmly with disorderly or illegal actions of workingmen. It is believed that completion of US economic reform programs in Japan will not sufficiently alter that present balance of Japanese political power to permit a Communist assumption of power in that country by peaceful or other means.

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My dear Senator Smith:

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

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

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

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

(In the

The Honorable
H. Alexander Smith,
United States Senate.

File 874.50/2-2048

- 2 -

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

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

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

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

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

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

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

Surrender

- 3 -

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

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

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

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

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

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

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

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- 4 -

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

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

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

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

"You will:

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

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

"(3) Dissolve

- 5 -

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

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

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

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

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

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

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

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- 6 -

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

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

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

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

Yours sincerely,

Robert A. Lovett,
Undersecretary.

OE:HDOwen:jr 1/12/48
A-S:PPClaxton:br 1/15/48

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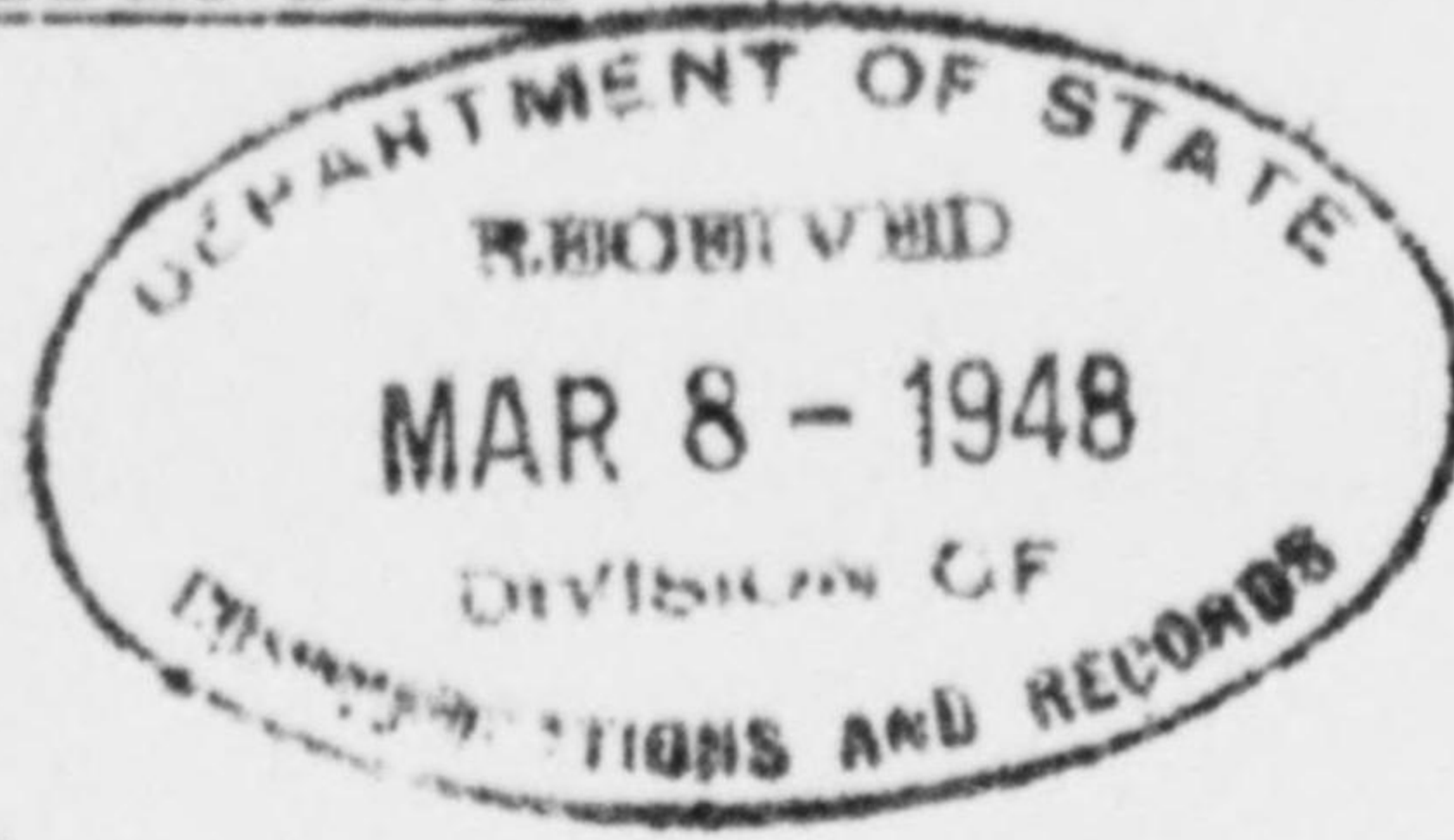
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BRITISH EMBASSY.

WASHINGTON 8, D. C.

CONFIDENTIAL

24th February, 1948



Dear Whitman,

I was very interested in your excellent article on Economic Recovery in Japan (MI-149/1). I wondered exactly how you were using the term "sterling area" in the table on page 6 where you differentiate between it and India and also treat South East Asia outside the sterling area, although some parts are of course in it. A year and a half ago we made a study in London of sterling area trade with Japan and as it contains some statistics I think you may be interested in it, particularly paragraphs 7, 8 and 10 and appendices 2, 3 and 4. Please treat the paper as confidential and return it to me when you have finished with it as I have no other copy.

Yours sincerely,

J. F. Ford

J.F. Ford

894.50/2-2448

Reply
 DIVISION OF OCCUPIED AREAS
 ECONOMIC AFFAIRS
 FEB 25 1948
 DEPARTMENT OF STATE
Be/r file

Mr. R.H. Whitman,
 State Department,
 12 Old State Dept. Bldg.,
 Washington, D.C.

DOE - IEP Unit

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My dear Mr. Ford:

Thank you for your letter of February 24, 1948, enclosing the paper "Sterling Area Trade with Japan." I have found it a most interesting and useful document, and return it herewith in accordance with your request.

You asked me what I meant in my article on Economic Recovery in Japan (MI-149/1) by the term "Sterling Area" as opposed to "India" and "South East Asia." I treated India separately from the sterling area in order to illustrate its large individual trade with Japan. By "South East Asia" I meant the nations in that region not in the sterling area, viz: NEI, French Indochina, Siam, and the Philippines. Aside from that, I included the same nations for "Sterling Area" your paper includes in its Appendix I, using, indeed, the same sources--The Annual Return of the Foreign Trade of Japan and The Japan Year Book. You will note that my percentages for 1936 are virtually the same as yours recited on page 3, para 7, except that you use the years 1935-7, and I used 1936 alone, and I, as stated above, treated India separately. I think that the two papers are useful supplements to each other.

Sincerely yours,

CS/V

Enclosure:

Sterling Area Trade
with Japan.

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

Mr. J. F. Ford,
British Embassy,
Washington 8, D.C.

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MAR 8 1948

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February 27, 1948

U - Mr. Lovett

Subject: Material for Telephone Conversation with
Mr. Draper on Withdrawal of FEC 230.

In response to your request for material on this subject,
it is suggested that you tell Mr. Draper:

1. The Department has decided to take the following action: To inform Gen. McCoy that the Government has decided to withdraw its support from the paper in this particular form but not to withdraw the paper physically from FEC. Pending further instructions, the U. S. representatives in FEC will not press this paper or take any action on it. If the matter is raised by others, the U. S. representatives will oppose in any way necessary any action or discussion which would move the paper forward. If it is impossible to prevent the paper being raised for action by others, the appropriate U. S. representative will state that the U.S. no longer supports this particular paper because it is reviewing the whole deconcentration policy in the light of developments. If necessary, he will veto the paper.

2. This course has been decided on because it is believed to be the simplest and safest. As a practical matter a request to withdraw could lead to a difficult and embarrassing situation if other members opposed it. Such a maneuver would create a very severe reaction. It could easily result in the introduction by one of the more radically inclined countries of a much more severe paper which would have general support. It might even precipitate the whole question of U. S. intentions regarding Japan. This would be most disadvantageous at a time when it is essential that the U. S. get full cooperation from these nations for Japanese foreign trade. These countries are already sensitive on this subject as a result of Gen. McCoy's statement on Japanese recovery. In any case, it seems inadvisable to precipitate this whole issue until we have reached a firm position after Mr. Kennan's return.

3. Withdrawal

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3. Withdrawal is completely unnecessary to prevent action on FEC 230 until a firm U. S. position is reached. The paper is low on the agenda of the Economic Committee and it will be possible to prevent discussion of it for the necessary interval.

Frank G. Wisner

A-S:PPClaxton:br

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STANDARD FORM NO. 64

SECRET

Office Memorandum • UNITED STATES GOVERNMENT

TO : U - Mr. Lovett

DATE: Feb. 26, 1948.

FROM : A-S - Mr. Wisner

SUBJECT: Material for Telephone Conversation with Mr. Draper
on Withdrawal of FEC-230.

In response to your request during our conversation yesterday afternoon, the following material is provided as a basis of explanation to Mr. Draper why it is believed inadvisable to withdraw FEC-230 at this time.

1. Withdrawal would arouse uncertainty as to our deconcentration policies in Japan, with a possible retarding effect on recovery --

It seems certain that no matter how carefully the withdrawal were handled the action would be interpreted in Japan as a repudiation of the deconcentration program. As such it would be likely to throw the Japanese Government and Japanese industry into a state of confusion regarding US and Allied policy in this field, with an adverse effect on recovery. While substantial modification or repudiation of a large part of the program may turn out to be necessary, it is important that the change be brought about in an orderly and well planned manner so that whatever is good in the program will not be jeopardized, and so that the change will promote Japanese recovery instead of hampering it by further increasing business uncertainty.

2. Practically speaking, withdrawal would be difficult to accomplish --

The US might as a practical matter find it very difficult to withdraw the paper. It has become well established precedent in the Far Eastern Commission that no paper which has been formally introduced and given an FEC number may be withdrawn without the consent of a majority of the membership of the Committee to which it has been referred. Since most other FEC delegations have been pressing for this paper for some time it may well be impossible to get this consent in the Economic Committee, where the paper now is. Our only course in that event would be to announce that we were withdrawing our support from the paper, which could lead to a difficult and embarrassing situation if the other nations decided to press forward with the paper.

3. Withdrawal

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- 2 -

3. Withdrawal would arouse suspicion in the FEC as to our entire program in Japan --

Any attempt by the US to withdraw the paper would arouse the immediate and strong suspicions of virtually all the other FEC member nations, suspicions which would extend beyond this single problem to our entire Japanese reform program. China, the Soviet Union and other countries which have criticized our reform and democratization programs in Japan as not going far enough would feel themselves confirmed in this suspicion.

4. Withdrawal at this time would add to the distrust and resentment occasioned by General McCoy's recent statement on Japanese recovery --

The Soviet member a few days ago submitted a number of questions occasioned by General McCoy's recent announcement that the Congress was being asked for funds to assist Japanese recovery. General McCoy was prepared to answer these questions in general terms today, but there is danger that American policy on this issue may come in for strong criticism in the FEC in coming weeks. If in the course of this criticism the US were to withdraw FEC-230, the possibilities of preserving a relatively united front with the other FEC countries on the occupation and at a peace conference might be seriously jeopardized.

5. Withdrawal would have the effect of prejudging an issue which can be better decided after Mr. Kennan's return --

It is the Department's desire that no important Japan policy decisions or actions be taken until Mr. Kennan has returned and submitted his recommendations. If these recommendations, and subsequent policy decisions within the U.S. Government, do not call for radical change in our deconcentration policies, we might have cause to regret prejudging the issue by withdrawing the paper at this time.

6. Withdrawal might jeopardize the success of Mr. Kennan's mission --

There is reason to fear, in view of General MacArthur's strong personal support of the deconcentration program, that withdrawal of FEC-230 while Mr. Kennan is in Japan and with his prior knowledge might so displease General MacArthur as to jeopardize the success of Mr. Kennan's mission.

7. Withdrawal

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- 3 -

7. Withdrawal is unnecessary to prevent action on FEC-230 until a final decision is reached in the matter --

FEC-230 is now fairly well down on the agenda of the Economic Committee of the FEC and there should be no difficulty in postponing consideration of the paper until our deconcentration policy has been fully reviewed in the light of Mr. Kennan's overall recommendations. If the paper should come up for consideration before that time, General McCoy is being instructed to state that the United States will be unable to discuss the matter until a review of the paper currently being carried out within the U.S. Government has been completed.

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RAY
NA:RAFearey/hhc

A-S Mr. Saltzman

February 13, 1948

A-S Mr. Claxton

Reasons for Continuing With FEC-230.

The following are the reasons why the State Department believes that, either by way of amendments or by the introduction of a substitute paper, the US Government should proceed in FEC with the consideration of FEC-230.

1. During the last few months, a number of cables have been sent to SCAP which, whether intended to or not, can be the effect only of indicating serious concern or uncertainty in Washington regarding not only the terms of SWNCC 302/2 and FEC-230, but of the program actually being carried out by General MacArthur. SCAP has indicated in no uncertain terms his feeling that the program is important and necessary and if, in the face of his expressed views, we abandon the work of revising FEC-230, he and his staff could get no other impression than that they are operating without real Washington support.
2. Abandonment or further postponement of revision of FEC-230 would place the State Department in an extremely embarrassing position vis-a-vis the Congress, and the Far Eastern Commission. We have not seen the end of attempts to blacken not only 230 but the program itself. As late as this morning, Mr. Rudlin was called by a representative of Liberty Magazine who asked the same invidious questions that have previously been presented to us and to the public, eg., "what is the name of the person who wrote FEC-230," and "has Secretary Marshall ever personally approved this policy?"
3. SCAP and interested Japanese know that deconcentration policy is being reconsidered by the US Government. Failure to act on a revised FEC-230 increases the uncertainty surrounding the future of the program and, therefore, jeopardizes still further both its success and Japanese economic recovery. General MacArthur has already (MC-IN-53308 of 10 January 1948, Tab A) emphasized the extent to which apparent uncertainty in Washington is having a bad effect on the implementation of this and other economic programs.
4. The proposed revision of FEC-230 is so general in language that future changes in the extent or manner of the program's implementation could be made without changing this paper. If a basic change in the policy should ever prove desirable, a new policy statement could be prepared in substitution for, or as an addition to this paper. A review made in the State Department of the Japanese laws on this subject, and of other relevant data, indicate that the deconcentration program has not yet been implemented in Japan to such an extent as to render unnecessary US policy statement on this subject. Even if this were not so, the US Government could hardly deny the FEC the opportunity to formulate policy in this field.

help to get
it over

- 2 -

5. The State Department has satisfied itself that the US Government can not unilaterally withdraw FEC-230 from the Far Eastern Commission. It would have to seek Commission approval to withdraw, which might but probably would not be granted. If it were not, this would present the US Government with the alternatives of (a) introducing such amendments as would be tantamount to complete disapproval of the substance of FEC-230, or (b) to exercise a veto when the paper comes up for final decision, with all the effects that that would have on opinion in the US, in SCAP, and among the Japanese.

STANDARD FORM NO. 64

SECRET

Office Memorandum • UNITED STATES GOVERNMENT

TO : NA Mr. Fearey
 OE Mr. Whitman
 FROM : A-S Mr. Rudlin *WRH*
 SUBJECT: FEC 230.

DATE: February 26, 1948

*physically
from FEC*

In line with our conversation this morning, the following are the statements which Mr. Lovett has requested from Mr. Wisner. The decision stands at letting FEC 230 lie dormant for the time being and not to seek to withdraw it at this time. Mr. Lovett has followed up this decision by requesting:

1. a. A statement to General McCoy. This should inform him that the United States Government has decided to withdraw its support from this particular paper although not to withdraw the paper itself. ~~To withdraw the paper would have unfortunate and harmful consequences.~~

b. The United States Government believes and expects that no action will be taken on this paper in FEC or in any committees or sub-committees. U. S. representatives should do everything possible to insure that the matter is not raised.

c. If the matter is raised by others, General McCoy, the United States or U.S. members on the FEC should oppose action or discussion in any way necessary. They should be prepared to make a statement to the effect that the U. S. Government no longer supports the paper for the reason that it is reviewing the whole deconcentration policy.

2. A memorandum which Mr. Lovett can use ~~as~~ the basis of a telephone conversation today with Mr. Draper at which time he will inform Mr. Draper of the decision ~~which will~~ leave the paper in FEC for the time being. This memorandum should contain in convenient form the reasons for doing so and the harmful consequences which may be expected from withdrawal at this time.

*This is
an
instruction
to McCoy**894.50 / 2-26-48*

SECRET

UNITED STATES POLITICAL ADVISER
FOR JAPAN

DIVISION OF
NORTHEAST ASIAN AFFAIRS
APR 15 1948

DEPARTMENT OF STATE
Tokyo, February 27, 1948.

No. 126

RESTRICTED

Subject: Documents on Economic Deconcentration, Japan.

3
RECEIVED
DEPARTMENT OF STATE

The Honorable
The Secretary of State,
Washington.

DIVISION OF OCCUPIED AREAS
ECONOMIC AFFAIRS
MAR 15 1948
DEPARTMENT OF STATE

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I have the honor to enclose herewith copies of certain papers currently in active use by the Economic and Scientific Section of this Headquarters in the implementation of current economic deconcentration measures.

These undated papers have been copied in the form in which received. In their finalized forms all will reach the Department in the course of time through the usual Department of the Army channels. They have been copied for transmission with this despatch because of probable delay in obtaining clearance for release of the final papers if officially requested.

The Mission will in due course submit observations with regard to the question of deconcentration. It has been thought that the transmission of the present papers without delay may serve the Department's convenience for reference purposes.

Respectfully yours,

W. J. Sebald
W. J. Sebald

Enclosures:

1. Undated text, ELIMINATION OF CONCENTRATION OF EXCESSIVE ECONOMIC POWER LAW.
2. Undated text, HOLDING COMPANY LIQUIDATION COMMISSION, STANDARDS FOR EXCESSIVE CONCENTRATIONS IN INDUSTRIAL FIELDS.
3. Undated text, HOLDING COMPANY LIQUIDATION COMMISSION, STANDARDS FOR EXCESSIVE CONCENTRATIONS IN BANKING FIELDS.
4. Undated text, HOLDING COMPANY LIQUIDATION COMMISSION, STANDARDS FOR EXCESSIVE CONCENTRATIONS IN DISTRIBUTIVE AND SERVICE FIELDS.
5. Undated text, HOLDING COMPANY LIQUIDATION COMMISSION, STANDARDS FOR EXCESSIVE CONCENTRATIONS IN INSURANCE FIELDS.
6. Undated text, INDUSTRIAL COMPANIES DESIGNATED IN THE DECONCENTRATION LAW (LAW 207 of 1947).

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DEPARTMENT OF STATE

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INTERNATIONAL RESOURCES DIVISION

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RESTRICTED

Enclosure No. 1 to Despatch No. 126 dated February 27 from the Office of the United States Political Adviser at Tokyo, on the subject of: "Documents on Economic Deconcentration, Japan."

ELIMINATION OF CONCENTRATION OF EXCESSIVE
ECONOMIC POWER LAW

Article 1. This law, by eliminating the excessive concentrations of economic power at the earliest possible date and rationally reorganize the national economy, as a part of the series of measures taken for the reconstruction of the peace time and democratic nation, aims to lay the groundwork for building a democratic and healthy national economy.

Article 2. Enterprise shall include every kind of economic business or financial instrumentality or person, whether in the form of cartel, syndicate, combine, trust, stock company, partnership, association, concern, aggregate of firms or bodies, individuals, or otherwise.

Independent enterprise shall mean any enterprise having separate juridical existence.

Relationship shall mean every form of relationship, including agreement, combinations, associations, or understanding.

Fields of activity shall include every kind of economics business or financial activity.

Enterprise of monopolistic characteristics shall include any enterprise which has or may have influence in any field or activity which shall have resulted from merger of independent enterprises or which shall have resulted from excessive expansion of activities during the period between 1 July 1937 and 1 September 1945 in relation to its previously existing position in the field of activity. In this case, influence shall mean control sufficient to have a substantial effect upon the price or flow of capital, or upon the price or flow of goods or services, if the enterprise were withdrawn from the market.

Unrelated field of activity shall mean any field neither corresponding to those fields of production which are dependent upon each other in productive process, which are stages of production relating to production of same final product, nor to those fields of activity which are useful for each other in production, marketing or management rationalization.

Competition and competitor shall mean actual or potential competition or competitors.

Production capacity shall mean degree of production obtainable by maximum operation of production facilities at normal condition.

Family shall mean person, his or her spouse and relatives within third degree kinship.

Enclosure No. 1 to
Tokyo's No. 126,
February 27, 1948.

- 2 -

Wealth of an individual or family shall include property of all enterprises as well as all other property owned or controlled by such individual or members of family.

Article 3. The HCIC shall designate excessive concentrations of economic power which exist on the effective date of this law or which shall have been in existence at any time between 1 August 1945 and the effective date of this law, and shall eliminate such excessive concentrations of economic power in the interest of public welfare. For this purpose, an excessive concentration of economic power shall be defined as any private enterprise conducted for profit, or combination of such enterprises, which, by reason of its 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. The HCIC shall designate excessive concentrations of economic power in accordance with the foregoing definition and in accordance with standards to be adopted under the provisions of Article 6.

Article 4. The designation by the provisions of the preceding Article shall be made on or prior to 30 September 1948.

Article 5. When the HCIC has made designation provided for by Article 3, it shall transmit such designation in writing to the interested persons. The cancellation of the designation of the same Article shall be transmitted in writing to the interested persons.

The transmission of designation of the preceding paragraph may be made by means of public notification.

Article 6. The HCIC shall decide and make public the specific standards for determining what shall constitute excessive concentrations of economic power upon consideration of the following factors and other necessary matters.

1. Percentage of amount of production or other economic activity of any enterprise in Japan proper to the total amount of production or other economic activity of Japan proper in the respective field of activity.
2. Comparison of present production capacity in Japan proper with maximum production capacity in Japan proper on or prior to 30 June 1937 of any enterprise.
3. Comparison of percentage of present production capacity or amount of other economic activity in Japan proper of any enterprise to the total production capacity or total amount of other economic activity of Japan proper in the respective field of activity with such maximum percentage on or prior to 30 June 1937.
4. Relationship of control over other enterprises.
5. The number, location and other geographic conditions of plants operated by any enterprise.

Enclosure No. 1 to
Tokyo's No. 126,
February 27, 1948.

- 3 -

6. Whether plants are inter-related in productive processes and extent of such inter-relation, use of raw materials, products produced or in markets for products.
7. Control of raw materials by any enterprise.
8. History of expansion of business activity by means of merger of independent enterprise or other means.
9. Comparison of the efficiency of production of any enterprise with the efficiency of its separated parts or combination of separate parts.
10. Participation of any enterprise in or the existence of any arrangement or relationship including exclusive sales or purchasing or other similar arrangements of a monopolistic or restrictive character, or which provides for special privileges in the purchase or sale of materials, restrictions upon production or distribution, fixing prices, restrictions upon business or sales areas, or the exclusive exchange of patents or technical information.
11. Control over substantial business activity operated by individuals or members of family.

In deciding "efficiency of production" of Clause 9 of the preceding paragraph, considerations shall be given whether quantity of output or unit costs will be affected by changing the organizational structure of the enterprise.

Article 7. The HCLC shall take such action in regard to the elimination of excessive concentrations of economic power designated by the provisions of Article 3, as are necessary to accomplish the purpose of this law.

The HCLC shall have the power mentioned below within necessary extent in taking such action as provided in the preceding paragraph.

1. To determine the principles, plans and procedures for the elimination of excessive concentrations of economic power designated by the provisions of Article 3.
2. To collect, compile and investigate various information; to require the compilation and submission of information; to order the keeping of records; to require production of report and views; to order persons possessing accounting books, documents and other matter to submit the same, and to detain any submitted matters.
3. To summon and question persons connected or witnesses and to summon experts and cause them to give expert testimony.
4. To make any spot inspection of any place of business or other necessary places and examine conditions of business operation and property, accounting books and other matters.

Enclosure No. 1 to
Tokyo's No. 126,
February 27, 1948.

- 4 -

5. To order transfer or delivery of property; to require delegation by proxy the right to execute the voting rights of stocks and other securities; or to order acquisition of securities by money received in equivalent to the transferred properties or to deliver securities in equivalent to the transferred properties and to restrict voluntary transfer of such securities, in case properties belong to individuals or members of family.

6. To order the juridical person or other organizations to dissolve and to order to terminate any arrangement of monopolistic or restrictive characteristics such as cartels, syndicates, combines, combinations, trusts, or exclusive sales or purchasing; and to prohibit such actions as to perpetuate excessive concentrations of economic power.

7. To require the submission of plans for reorganization of enterprise, the disposal of assets and other necessary measures to eliminate excessive concentrations of economic power designated by the provisions of Article 3; to approve such plans; and to prepare plans of reorganization in case plans of reorganization are not submitted or the submitted plans of reorganization are not appropriate.

8. To appoint receivers with all legal and other powers to execute plans of reorganization; and to supervise the execution of plans of reorganization, disposal of assets, dissolution or liquidation of juridical person or other organizations, or other necessary measures for eliminating excessive concentrations of economic power.

9. To prohibit unauthorized transfer of property or other activities prior to the approval of the HCLC.

10. To take such other measures as it may deem necessary to eliminate excessive concentrations of economic power designated by the provisions of Article 3 and consistent with the provisions of this law.

11. To issue necessary order to carry out the matters mentioned in the preceding clauses, and to decide and notify to public any rules necessary to execute the same.

In case the HCLC orders any juridical person or other organization to dissolve in accordance with the provisions of Clause 6 of the preceding paragraph, the respective juridical person or other organization is to be dissolved by such order notwithstanding the provisions of any other laws, ordinances or contracts.

A person who conducts spot inspection by the provisions of Clause 4 of Paragraph 2, he shall be required to carry with him a specific warrant.

Enclosure No. 1 to
Tokyo's No. 126,
February 27, 1948.

- 5 -

Article 8. In case HCLC approves or directs any plans of reorganization, disposal of assets or such other necessary measures as eliminating excessive concentrations of economic power designated by the provisions of Article 3, directs measures provided in Clauses 5 or 6 of the second paragraph of the preceding Article or, if it is deemed necessary, directs any other measures, orders of such approval or direction shall be transmitted, in writing, to all interested persons and the FTC.

The proposed order by the provisions of the preceding paragraph (except in the case of voluntary plans of reorganization to be approved) shall be accompanied by written findings of fact. The written findings shall disclose in detail the economic, manufacturing, and other data upon which the order is based, or such information shall be transmitted with the order in memorandum form in addition to the findings.

The provisions of Article 5, paragraph 2, shall be applied mutatis mutandis to the transmission of order of the first paragraph.

Article 9. The HCLC shall hold a hearing with interested persons at a date not earlier than fifteen days after the date on which proposed order was transmitted.

At the hearing of the preceding paragraph, all interested persons may make objections or recommendations to such proposed order.

The HCLC may decide and notify the public rules for procedure for hearing provided in the first paragraph.

Article 10. In case the FTC deems there exists any conflict with the provisions of the Law No. 54 of 1947 relating to Prohibition of Private Monopoly and Methods of Preserving Fair Trade (hereinafter referred to as Anti-Trust Law) in the proposed order, it shall indicate such conflict to the HCLC.

Article 11. The HCLC may make necessary changes in its proposed order on the basis of objections or recommendations of the provisions of Article 9, Paragraph 2, or the indications by the provisions of the preceding article.

In case the HCLC decided order, the final order shall be transmitted, in writing, to all interested persons.

The provisions of Paragraph 2 of Article 5 shall be applied mutatis mutandis to the transmission of the final order of the preceding paragraph.

Article 12. The HCLC shall not approve a plan of reorganization unless it shall accord fair and equitable treatment of creditors, security holders and shareholders (including partner; hereinafter the same).

A plan of reorganization may provide the modification of the right of creditors, security holders or shareholders without approval of the same, such persons, however, shall have the right to raise objection at the hearing.

Enclosure No. 1
to Tokyo's No. 126,
February 27, 1948.

- 6 -

Article 13. If any findings of fact shall not be supported by substantial evidence, or if the HCLC shall have neglected to consider substantial evidence, an appeal may be raised to the Prime Minister by interested persons within thirty days after the transmission or public notice of the final order, providing, however, no such appeal shall be made unless such omission of evidence shall have been wilfully withheld from the HCLC.

Article 14. Within thirty days after such appeal as provided in the preceding article is taken, the Prime Minister shall determine whether each omission is such a substantial character as to render the order arbitrary.

In case the Prime Minister deems such omission of evidence is of such a substantial character as to render the order arbitrary, the order shall be returned to the HCLC for proper modification by applying mutatis mutandis the procedures provided in Articles 8 - 11 to the extent necessary to correct omission.

Article 15. The enforcement of the final order shall be suspended during the period an appeal may be taken as provided in Article 13 and until a decision shall have been made in case an appeal was made in accordance with the provisions of the same article.

Article 16. The excessive concentration of economic power, whether or not based upon provisions of either laws and ordinances, or whether its creation shall have been voluntary or involuntary, may be eliminated in accordance with the provisions of this law.

Article 17. The State, local public organizations, Kodans (Including Tokubetsu Chotatsu Cho) and labor unions shall not be designated by the provisions of Article 3.

This law shall not be administered to contravene official rationing regulations.

All exceptions provided in the preceding paragraph shall be specified in separate order.

Article 18. With regard to the excessive concentration of the economic power designated by the provisions of Article 3, the HCLC shall not be precluded from taking necessary action to prohibit the perpetuation of such excessive concentration of economic power in any other form in the event its organization shall have caused to exist, been dissolved or liquidated, or shall be in the process of dissolution or liquidation, or shall have been changed.

Article 19. The matters concerning the enforcement of the final order issued by the HCLC shall be charged by the FTC.

Petition for modification of the final order of the HCLC may be made to the FTC.

The final order of the HCLC shall not be modified upon the petition for modification provided in the preceding paragraph without the prior approval of the HCLC before the date on which the functions of the HCLC shall be transferred to the FTC by the provisions of Article 26.

Enclosure No. 1
to Tokyo's No. 126,
February 27, 1948.

- 7 -

Article 20. The HCLC may delegate to FTC, in part, its function to be performed by the provisions of this law.

The HCLC may assign the business concerning the carrying out of functions to be performed by the provisions of this law to other government agencies to the extent necessary in carrying out such functions.

Article 21. Any person, coming under any one of the following items, shall be punished by a penal servitude for not more than three (3) years or by a fine not more than one hundred thousand (100,000) yen.

1. One who has violated the orders or requires issued by the provisions of Article 7, Paragraph 2, Clause 5 or who has violated the restrictions provided in the same Clause.
2. One who has violated the orders to terminate any arrangement issued or the prohibition imposed by the provisions of Article 7, Paragraph 2, Clause 6.
3. One who has violated the prohibition by the provisions of Article 7, Paragraph 2, Clause 9.

Any person guilty of any of the offences prescribed in the preceding paragraph may, according to circumstances, be punished by both penal servitude and a fine.

Article 22. Any person who has refused, obstructed, or evaded such inspection as provided in Article 7, Paragraph 2, Clause 4 shall be punished by a penal servitude for not more than six (6) months or by a fine not more than one thousand (1,000) yen.

Article 23. When a representative of a juridical person or an agent, an employee, or any other person in the service of a juridical person or of an individual has committed a violation as provided for by Article 21, Paragraph 1 or the preceding Article with respect to the business or property of said juridical person or individual, not only shall the offender be punished but said juridical person or said individual shall also be punished by such fine as provided for by the respective Articles.

Article 24. Any person who has refused requires to submit such plans as provided for by Article 7, Paragraph 2, Clause 7 shall be liable to a non-criminal fine for not more than ten thousand (10,000) yen.

Article 25. Any person, coming under any one of the following items, shall be liable to a non-criminal fine for not more than one thousand (1,000) yen.

1. One who has refused requires by the provisions of Article 7, Paragraph 2, Clause 2, or who, in violation of orders issued by the same Clause, has failed to compile information, to submit information, report, view, accounting books or documents etc., or to keep records, or who has submitted false information, report or view.

Enclosure No. 1
to Tokyo's No. 126
February 28, 1948.

- 8 -

2. One who has violated the order to appear by the provisions of Article 7, Paragraph 2, Clause 3, who has failed to give testimony to the question made by the same Clause or gave false testimony, or who has failed to give expert testimony or gave false expert testimony for the order to give expert testimony by the provisions of the same Clause.

Article 26. The functions, powers, records, and such personnel as are necessary to secure the accomplishment of the aims of this law, of the HCLC, shall be transferred to the FTC in accordance with the provisions of separate law to be issued on or after 1 September 1948 and on or prior to 31 December 1948.

Article 27. The provisions of the Anti-Trust Law and the functions of the FTC based upon the provisions of the same law, shall not be modified by the provisions of this law and the functions of the HCLC.

Supplementary Provisions:

This law shall enter into force on and after the date of its promulgation.

Enclosure No. 2 to Despatch No. 126 dated February 27, 1948 from the Office of the United States Political Adviser at Tokyo, on the subject of: "Documents on Economic Deconcentration, Japan."

HOLDING COMPANY LIQUIDATION COMMISSION

Standards for Excessive Concentrations in Industrial Fields

A. General Principles for Implementation of Deconcentration Law.

In establishing a reasonable degree of competition and freedom of enterprise in industrial activities in Japan, the following general principles will be applied:

1. To halt all companies subject to dissolution and/or reorganization designated and dissolved or reorganized promptly so as to eliminate any hindrance in production which may be derived from uncertainty.
2. To employ reorganization standards not as rigid formulae but as reasonably flexible guides for democratic reorganization of companies so that the practical aspects of each company and each industry may be taken into appropriate consideration.
3. To weigh carefully in each instance the effect of dissolution and/or reorganization upon the quantity and efficiency of production, the financial soundness of the resulting enterprises, and the degree of economic concentration and to avoid reorganization and/or dissolution which drastically curtails production.
4. To remove companies from restriction and designation controls as soon as deconcentration has been completed.
5. To establish no definite size to which any company is required to limit its operations.
6. To take no actions which would place obstacles in the way of efficiency advantages which may be obtained from large-scale production.

B. Excessive Concentrations: Any private enterprise conducted for profit, or combination of such enterprises, will be considered an excessive concentration if it meets any of the following criteria. Each company designated under the Deconcentration Law must furnish a statement explaining carefully the extent to which it meets the following criteria:

1. Produces or has capacity to produce a sufficient portion of the total supply of a commodity or service that a substantial price increase or hardship to potential buyers or to the general public would result if such supply were withdrawn from an uncontrolled market.

Enclosure No. 2
Tokyo's No. 126
February 27, 1948.

- 2 -

Standards for Excessive Concentration in Industrial Fields.

2. Distribute sufficient supply of commodity or commodities that a substantial price increase or hardship to potential buyers or to the general public would result if it withheld such supply from the market.
3. Has sufficient influence and power in its field of operations that it could take action which would make it very difficult for another entrepreneur to enter the same field of activity with reasonable opportunity to compete successfully.
4. Acquired other organizations, operating units or concerns or any part thereof and enjoyed special monopolistic privileges and dominating controls as a result of war mobilization policy since 1937.
5. Has sufficient cumulative influence and power through its activities in unrelated fields of operations to restrict competition or impair opportunity for others to engage in business independently.

C. Reorganization Standards. Any designated excessive industrial concentration will be required, insofar as technical conditions justify, to deconcentrate to the point where it is no longer excessive by reorganizing along the lines of the following standards where they are applicable. However, in no case will deconcentration be required to a degree which will cause a drastic reduction in operating efficiency. For purposes of review and determination, relevant data indicated below will be submitted by the designated enterprise to the Holding Company Liquidation Commission.

1. Company History: Detailed statement must be made to reveal in what respects the present company organization resulted from governmental forced sales, mergers, use of patents, governmental support, efficiency in production, etc. Technological significance of each such factor should be explained.

Standard: If competent operating parts of company have had previous experience as independent companies, and particularly if such operating parts were jointed together through wartime merger, one basis has been established for determining the form of reorganization.

2. Geographic Location: A map must be presented showing the location of each plant, subsidiary or affiliate, and an explanation must be given showing the reasons for such locations having been chosen, the relationship between these locations and sources of material and labor and power, as well as the markets for its products.

Standard: Since this geographic location makes efficiency of centralized management more difficult and causes plants to operate under different economic conditions, such separation establishes a basis for company reorganization. In employing such principle, attention should be given to see that separation on geographic basis would not adversely affect marketing of products or obtaining of raw materials.

Enclosure No. 2
Tokyo's No. 126
February 28, 1948.

- 3 -

Standards for Excessive Concentrations in Industrial Fields.

3. Central Office Functions: A careful analysis must be presented showing in what respects the central office contributes to greater efficiency, lower costs, and higher quality of goods produced in the individual operating units of the company. Likewise such a statement must show that the central office performs necessary functions distinctly better than they could be performed by individual operating units or by smaller groups of operating units if there were freedom of competition for goods, credits, services, and facilities. In addition, this analysis must indicate whether the central office performs any functions of allocating materials, determining output, establishing prices, subsidizing individual plants, etc.

Standard: The central office should be eliminated unless it can be shown conclusively that quality and efficiency of production would be affected drastically because of technical aspects of production itself or because of unavoidable resulting financial unsoundness of the reorganized companies. In instances in which central office maintains essential technical advisers, attention must be given to the extent to which technical experts can be allocated to separate companies which might be developed from the combinations.

4. Unrelated Activities: A list must be made of all operating units whose activities are unrelated either in the productive process or in the nature of the product produced. Minor degrees of relationship should be treated as non-relationship.

Standard: Plants whose productive activities are unrelated should be separated unless it can be shown conclusively that such separation would have a significant effect on costs of operation or upon financial soundness through eliminating the advantages of large scale purchasing and scientific marketing.

5. Horizontal and Vertical Combinations: A horizontal combination is a grouping of plants separated physically, independent in productive process and operating at the same or similar stage of the productive process. For instance, a combination of mines, or a combination of furnaces, or a combination of factories, each of which produces commodities to the same or approximately same degree of final form are all illustrations of horizontal combinations. In contrast, a combination of mines, furnaces, factories etc., each handling a different part of one productive process, is a vertical combination. It is possible to have both a horizontal grouping and a vertical grouping under the control of the same central office. An illustration of this would be where the same company owned or controlled several mines, several blast furnaces, several rolling mills, etc. In such latter case, there would be a horizontal combination at each state of a vertical operation. The

Enclosure No. 2, Tokyo's No. 126
February 26, 1948

- 4 -

Standards for Excessive Concentrations in Industrial Fields.

plants at one stage would receive materials or semi-finished goods from plants and mines at an earlier stage of the productive process with all of the plants, mines etc., being in the same combination. A graphic presentation must be made to show the relationship of the various operating units within the company.

Standard: If the combination controls a significant portion of the output of the industry, parts of horizontal combinations of related activities should be separated unless it can be shown that some degree of such combination contributes significantly to productive efficiency or financial soundness. Parts of vertical combinations should be separated unless it can be shown conclusively that the total cost of the product at the final stage, controlled by the combination, would be increased by such separation or that output would be drastically affected by such separation.

Vertical combinations should be allowed to continue, if the other principles in this paragraph are met, provided that no combination should own or control capacity at any other stage of the combination which is as much as 10 percent greater than the capacity of the stage immediately following it. For instance, a combination would not be allowed to retain an ore mine whose output was or would be greater than 110 percent of the amount of such ore needed by the furnaces or mills owned by that combination. Although some flexibility should be allowed in application of such percentages, a company should be prevented from controlling a supply or a portion of supply sufficiently in excess of its own productive needs that it would have influence on the cost and supply of competitors.

6. Joint Costs: Since certain costs result in or contribute to the production of more than one product, these costs are termed joint costs. For instance, the cost of a machine which turns out a product and at the same time turns out a usable by-product or usable waste material, is attributable to both products. With the exception of joint costs of management, most joint costs arise from the production of related products. If more than one product is produced by a company, a showing must be made of the joint cost conditions.

Standard: Production of related or unrelated products under conditions of joint costs should be allowed, except the joint management cost should not be taken into consideration in this respect. This principle applies whenever efficiency advantages can be shown and whenever such combination does not result in the companies having dominant control of either commodity so far as the industry is concerned, since joint costs exist primarily in productive operations at one factory site. This joint cost principle rarely justifies combination under one ownership of several plants. However, the principle does assist in justifying the continued production of different commodities in the same plant or at the same plant site.

Enclosure No. 2, Tokyo's No. 126
February 27, 1948

- 5 -

Standards for Excessive Concentrations in Industrial Fields.

7. Substitutes: A showing must be made concerning the availability or non-availability of substitutes in sufficient quantity to satisfy the demand of a significant portion of the users of the product and at a price within a relatively close range of the price of that product.

Standard: If a substitute is available under the condition indicated, ownership of plants producing such substitutes should be separated from ownership of plants producing the main products. Also, the greater the availability and supply of an adequate substitute the less concentrated disadvantage arises from centralized control in the production and sale of the main product. This principle can be employed to assist in decisions as to the degree to which combinations should be broken into separate companies.

8. Brands and Company Names: All brands used by the company must be listed and an analysis prepared regarding the value of such brands in marketing. Likewise, a statement must be furnished indicating the marketing or other value of the company name. Such showing must include brief history of the development and advantages obtained from the use of such brands and company names.

Standard: Brands and company names with monopolistic advantages should be eliminated entirely from use by any company. In the reorganization of well known monopolistic combinations, the established company name or names must be eliminated. If the company has several brands with approximately equal present and potential value, the brands may be allocated to separate competing companies developed out of the reorganization. If the brand name has marketing value but does not have a monopolistic history or established advantages, such brand may be allocated to other company or other companies which developed out of the organization allowed to file for new brand names.

9. Patents: All patents owned or controlled by the company must be listed, if any such patents are significant in the production of the product or products produced or if such control or ownership of patents hinders the opportunity for competitors to enter the field.

Standard: All separate companies resulting from reorganization should be permitted all the patent rights owned or controlled by the company.

10. Capacity: An accurate presentation must be made to show what percentage of the industry capacity is owned or controlled by the company, whether other companies have capacity which could readily be converted to the production of the same or similar products, and whether either the industry's capacity or the company's capacity is expected to be substantially changed as the result of reparations. Likewise, this presentation must reveal what per-

Enclosure No. 2, Tokyo's No. 126
February 27, 1948

- 6 -

Standards for Excessive Concentrations in Industrial Fields.

centage each operating unit of the company has of the total capacity of the company. If the company operates in more than one industry the above indicated information is required regarding capacity in each such industry.

Standard: Unless a company has its capacity concentrated in a single plant, no company may be allowed a sufficient portion of the industry's capacity to permit it to be in a position to dominate the domestic or foreign market for the produce or products of the industry. No precise percentage of the industry's capacity should be considered to be the maximum allowed any one company. In general, in separating a company into several companies, effort should be made to avoid having one of the separate parts have substantially more of the industry's capacity than any other of the separated parts.

11. Inter-company Stock Ownership: A list must be made of all shares and other securities held in other companies.

Standard: Securities or shares may not be held in other concerns including concerns not a part of an excessive concentration.

12. Financial Structure:

- a. A Special Accounting Company which is a holding Company only shall submit no plan of reorganization but shall submit a plan of dissolution and liquidation.
- b. Special accounting company whose principal business was in a foreign country shall submit no plan of reorganization but shall submit a plan of dissolution and liquidation. In regard to any companies with operating assets in Japan, provisions of points a and b, above, do not prevent formation of a new company or companies to take over such operating assets as are located in Japan.
- c. No companies except those indicated in points a and b, above, may dissolve and liquidate unless it can be shown conclusively that it would be financially unsound for them to continue operations.
- d. Dissolution and liquidation of companies, as well as any disposition of assets of companies, must be effected in such a manner as not to assist in creation of monopolies or market dominance by another company or companies.
- e. In instances in which only part of the assets of a company are to be disposed of, or where a second company or companies are set up with part of such assets, the remaining company shall be able to operate independently and must be economically sound.

Enclosure No. 2, Tokyo's No. 126
February 27, 1948

- 7 -

Standards for Excessive Concentrations in Industrial Fields.

- f. All companies must revise their capital structure so that their capital will not be less than the value of their fixed assets, plus an amount equal to their normally required working capital.
- g. All new capital stock shall be fully paid stock.
- h. In general, issuance of non-voting stock will not be approved except for issuance to financial institutions who are stockholders or creditors. As for financial institutions, if they are creditors of old claims which do not bear special loss, debentures shall be given preference and allotment of new stocks shall not be made. Likewise, non-voting stock shall not exceed 25 percent of the capital structure of a company and adequate reasons must be given in each case where any non-voting shares are to be issued. All non-voting shares shall be preference shares with preferred dividend payments and preferred rights in liquidation.
- i. When the disposition of the special loss does not affect creditors' claims, new capital shall be disposed of by offering it in the following order:
 - (1) Individuals and financial institutions, who are share holders, up to the limit of their present ratio of holdings to the total stock of the company, except that financial institutions are limited according to provisions of the law relating to the Prohibition of Private Monopoly and Preservation of Fair Trade.
 - (2) Employees of company.
 - (3) Local residents.
 - (4) General public.
- j. When the disposition of the special loss affects creditors' claims, new capital shall be disposed of in the same manner as in point i, above, except that old creditors whose claims have been affected shall receive priority treatment up to the extent of full payment.
- k. Companies which are not financial institutions will not receive allotment of shares in new companies. However, if new stocks are offered, as provided for in i and j, above, creditors and stockholders may request a premium to the extent that shares will sell above their par value. The amount of such premium shall be an appropriate one and such right shall not extend for an offering period in excess of sixty days. As regards old creditors, the amount of such premium shall not exceed the total amount of liabilities affected.

Enclosure No. 2, Tokyo's No. 126
February 26, 1948

- 8 -

Standards for Excessive Concentrations in Industrial Fields.

- l. In addition to the premium method outlined in k, above, old stockholders who are companies other than financial institutions and old stockholders or old creditors who are financial institutions may receive return through the sale of rights to new shares. Financial institutions may receive return in such manner as regards stocks in excess of the limit allowed by the law relating to the Prohibition of Private Monopoly and Preservation of Fair Trade.
- m. All mergers or transfers of business in whole or in part shall be governed by principles established in the law relating to the Prohibition of Private Monopoly and Preservation of Fair Trade. With respect to all mergers, equitable treatment must be given all interested parties.
- n. In case of second companies, payment of asset values shall be in shares which will be disposed of by the old or reorganized company. If a merger of the new and old account results in an insolvent concern, a second company or companies shall be formed. If in merging the new and old accounts a solvent concern results which does not conflict in any way with other principles herein, the continuation of such companies may be approved.
- o. In the appointing of officers of continuing companies or second companies, or of liquidators of dissolving companies, creditors of such companies shall be given equitable consideration.

Enclosure No. 2, Tokyo's No. 126
February 26, 1948

- 8 -

Standards for Excessive Concentrations in Industrial Fields.

- l. In addition to the premium method outlined in k, above, old stockholders who are companies other than financial institutions and old stockholders or old creditors who are financial institutions may receive return through the sale of rights to new shares. Financial institutions may receive return in such manner as regards stocks in excess of the limit allowed by the law relating to the Prohibition of Private Monopoly and Preservation of Fair Trade.
- m. All mergers or transfers of business in whole or in part shall be governed by principles established in the law relating to the Prohibition of Private Monopoly and Preservation of Fair Trade. With respect to all mergers, equitable treatment must be given all interested parties.
- n. In case of second companies, payment of asset values shall be in shares which will be disposed of by the old or reorganized company. If a merger of the new and old account results in an insolvent concern, a second company or companies shall be formed. If in merging the new and old accounts a solvent concern results which does not conflict in any way with other principles herein, the continuation of such companies may be approved.
- o. In the appointing of officers of continuing companies or second companies, or of liquidators of dissolving companies, creditors of such companies shall be given equitable consideration.