

From 1947 on, policy-making for Japan was increasingly taken over by the army, particularly by Under Secretary of War Petersen and his successor Under Secretary Draper. They sent a number of missions of business men to Japan and used the reports of these missions as the basis for changing the radical policies in force in Japan. However, they met and are meeting with resistance on many levels in Tokyo. An effort by Petersen to dispatch five leading American executives to Tokyo to serve as a sort of economic cabinet failed when in early 1947, General MacArthur refused to accept them except as part of his army organization. Since it was obvious that the executives would not and could not work under these conditions, Petersen dropped his plan.

REPARATIONS

The basic reparations policy toward Japan is contained in the Potsdam Declaration: "Japan shall be permitted to maintain such industries as will assist her economy and permit the execution of just reparations in kind, but not those which would enable her to rearm for war." Before reparations in kind were removed from Japan, the experience of the Russians in Germany had demonstrated the almost complete futility of this approach. In an off-the-record press conference after his return from the 1947 Moscow Conference, Secretary Marshall estimated that 90 percent of the reparations removed from Germany by the Russians represented a complete loss. Bomb damage, obsolescence and the

virtual impossibility of integrating Japanese plants with other industrial installations in the rest of the Far East would make Japanese reparations in kind almost worthless. Former Under Secretary Petersen once remarked that what the Chinese wanted was not Japanese machinery, but the crates in which it would be packed.

The first reparations mission to Japan was headed by Reparations Commissioner Edwin Pauley. Pauley was accompanied by Owen Lattimore as technical adviser. Pauley's report was largely written by Lattimore and his recommendations follow those in "Solution in Asia." The Pauley report recommended the removal of 95 percent of Japanese pig iron capacity, 88 percent of its steel ingot capacity, the reduction of thermal power plants by 50 percent, restriction of the chemical industry to manufacturing fertilizer, and the complete removal of the aluminium, magnesium, synthetic oil, nickel smelting and synthetic rubber industries. Pauley's recommendations were made public on Nov. 28, 1946.

The Pauley recommendations were demonstrably unworkable and Secretary Petersen sent Clifford S. Strike, President of the engineering firm of F.H. McGraw and Co., to Japan at the head of another reparations mission. Its first report in Feb. 1946 substantially modified the removals suggested by Pauley. Thirty Strike Mission engineers remained in Japan, and

Strike

Strike was authorized to form an organization known as Overseas Consultants. Utilizing the best American engineering talent available, Overseas Consultants made a tremendously detailed survey of Japanese industry.

They concluded: 1) That practically no reparations could be taken from Japan if the country was ever to be self-supporting. 2) The reparations would be virtually useless to other Far Eastern countries. 3) That the existing plants if left in Japan could, however, make a great contribution to the overall recovery of the Far East. Overseas Consultants, furthermore, concluded that even if virtually no reparations were taken from Japan, its merchant fleet rebuilt, and its steel capacity increased to above the prewar level, the country would have only a bare chance of becoming self-supporting by 1953. The Overseas Consultants report was published in March 1948.

In April, Under Secretary Draper took another mission (now called the Johnston Mission) to Japan. This mission cut even the small reparations recommended by Overseas Consultants. Its conclusions are now supposed to be a subject of an American proposal before the Far Eastern Commission.

Herbert Hoover, who visited Japan in May 1946, anticipated the conclusions reached by Overseas Consultants and the Johnston Mission in a letter to Secretary of War Patterson dated May 7, 1947. Hoover remarked:

"I am convinced that there must be revolutionary change in the whole concept of "levels of industry", "plant removal" for reparations, and destruction of peace industry plants, if the Japanese people are to produce enough exports with which to pay for their food and other necessary imports, or become a stable and peaceable state. That drastic change is necessary must be evident by now from the fact that the American taxpayer is called upon to furnish upwards of \$400,000,000 in the next fiscal year to keep the people barely alive; and unless there are revolutionary changes, it will continue indefinitely."

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DECONCENTRATION

The first step toward effectuating the recommendations of the Post-Surrender Directive regarding the breaking up of Japanese business was the appointment of Gorwin Edwards to head a mission to Japan. Edwards is now the director of the Bureau of Industrial Economics of the Federal Trade Commission. His mission presented a voluminous report in March 1946 (State Department document No. 2628).

This report was given to State Department economists under the direction of Edwin Martin, Director of economic affairs in occupied areas. On May 12, 1947, it was submitted to the Far Eastern Commission as an American policy directive called FEC 230. It was also sent to General MacArthur with the notation that it incorporated "measures which already have been or are being implemented... with the approval of SCAP." FEC 230 was classified as confidential and therefore withheld from the American public.

On the innocent-sounding clause in the Sept. 6 policy statement recommending a "wise distribution" of income and ownership, State Department economists had reared FEC 230. FEC 230 commanded the immediate dissolution of excessive private concentrations of economic power." It defined these concentrations as: "Any private enterprise or combination operated for profit is an excessive concentration of economic power if its asset value is very large; or if its working force... is very large; or if, though somewhat smaller in assets or working force, it is engaged in business in various unrelated fields, or if it controls

substantial number of other corporate enterprises; or if it produces, sells, or distributes a large proportion of the total supply of the products of a major industry..."

Creditors, stockholders, managers or any individuals who have "exercised controlling power" in any excessive concentrations would have: 1) All their holdings taken away, 2) Be ejected from all positions of responsibility and, 3) Be forbidden to purchase new holdings or acquire new positions during the next ten years. FEC 230 carefully stated that no effort would be made to obtain a fair price for their holdings: "The overriding objective should be to dispose of all the holdings in question as rapidly as possible to desirable purchasers; the objective should be achieved even if it requires that holdings be disposed of at a fraction of their real value."

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

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

A copy of FEC 230 was obtained in Tokyo in September 1947 by

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James L. Kauffman, a New York lawyer with long experience in Japan. Kauffman wrote a private report on FEC 230 and similar measures which were being imposed on Japan by the occupation authorities. After his return to the United States, a copy of this report was taken to Washington by John D. Biggers, president of the Libbey-Owens-Ford Glass Company. Biggers showed Kauffman's report to Secretary Forrestal, Secretary Harriman and representative of the State Department. Forrestal was impressed and seriously concerned and indicated that he would check with Under Secretary Draper, who was then in Japan. Draper later confirmed Kauffman's report of the measures being taken in Japan. (The measures included an anti-trust law that went considerably beyond American legislation). In its issue of December 1, Newsweek published pertinent excerpts from the document and thus made it public for the first time. Senator Knowland of California denounced it on the floor of the Senate several times. FEC 230 was finally withdrawn for "redrafting" and now rests in limbo. Nevertheless, many of its provisions are still being enforced.

Meanwhile, Welsh's Anti-Trust and Cartels Division in Tokyo had gone ahead with drafting an economic deconcentration law based on FEC 230. Changes in the bill were ordered by Draper as it was pending before the Diet. On December 10, in its last session before adjournment, the Diet passed the law, but only after observers from the Government Section of SCAP were sent to the Diet Building to insist upon its passage by methods which were described as "extraordinary pressure."

Welsh had also drawn up a set of standards governing the application of the law. Their objective was to reduce Japanese business wherever possible to a single plant standard. These standards were communicated to the Japanese government but were later modified, presumably on Washington's orders. A Deconcentration Review Board with limited powers composed of five American executives was sent to Tokyo to supervise the working of the deconcentration law. Welsh's agency remains as the executive agency.

The members of the Johnston Mission reacted strongly against Welsh's ideas. Paul Hoffman, a member of the mission, pointed out to Welsh that the reorganization of a big corporation, as he knew from experience, was a difficult and complicated undertaking and some of the Japanese companies scheduled for deconcentration were among the biggest in the world. Hoffman thought that Welsh's staff would be lucky if they managed to reorganize two or three companies instead of the 325 scheduled (later reduced to 131).

Two examples will show the effect of the deconcentration law on American business interests in Japan:

1. The Nippon Sheet Glass Company in which Libbey-Owens Ford owns a 27 percent interest was ordered to split into two companies to provide competition. This would mean operating two furnaces in different locations while the company has only enough fuel to operate one, and a glass furnace cannot be operated part time.
2. As late as April 1948, the International Standard Electric Corporation was forced to protest to General MacArthur directly to

halt the sale of holdings by the Nippon Electric Company, Ltd., in the Nippon Communications Industrial Company, Ltd., International Standard owned the largest single block of stock in Nippon Electric. Nippon Electric's share in Nippon Communication represented an original investment of \$1,000,000 and was to be sold largely to employees of the Nippon Communication for about \$15,000.

THE PURGE

Instructions in the Post-Surrender Directive were first implemented by forbidding some 200,000 Japanese army and navy officers from holding positions of private or public responsibility and cutting off their pensions. This categorical purge included such officers as the late Admirals Yonai and Suzuki whose vital role in overcoming military opposition to the 1945 surrender was recognized by the occupation. The occupation thus lost the services of Japanese of the highest character.

During 1946, the purge was extended to politicians and to some industrialists and publishers. The Japanese soon began to use it as a political weapon - one group presenting trumped up charges against another. Officers in the Government Section of the occupation were cultivated by Japanese in order to influence decisions on the purge. This has deeply involved the occupation in Japanese partisan politics to the detriment of its prestige.

General MacArthur states that a directive from Washington

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directing the purge of business men had been sent him in 1946, but that he had pigeonholed it until the pressure became too heavy. It is impossible to check the existence of this directive in the State Department. In any case, on Jan. 4, 1947, one Cabinet and Home Ministry and four Imperial ordinances were promulgated greatly widening the purge and extending it to about 8,000 top executives in all Japanese business. Nearly every executive in every company came under this purge by occupational categories. For example, in the case of newspapers, there were listed all chairmen, vice chairmen, presidents, vice presidents, directors, auditors, chiefs of compilation bureaus, editors in chief, chiefs of research bureaus, managing editors, chiefs of editorial staffs and news editors.

The result was a sweep of Japanese business talent which has seriously affected the efficiency of what is left of Japanese corporations. The way was open for Communists and other radicals to infiltrate into Japanese business organizations, especially newspapers. The dossier in the G-2 Section of SCAP notes that Yoshio Shiga, the number three Japanese Communist, was frequently consulted by the Government Section regarding the purge. American Communists received positions in the Government Section.

Purgees' relatives to the third degree were also banned from holding positions of responsibility for ten years. The purge

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committees operated in secret without any rules of evidence. The purge was supposed to be run by the Japanese, but on numerous occasions the Government Section has overruled the Japanese and ordered the purge of those it deemed objectionable. The most notorious case of this kind was the purging in May 1947 of Tanzan Ishibashi after he had served as Finance Minister in the Yoshida cabinet with SCAP's approval for about a year. In this case, the Government Section overruled the Japanese Central Screening Committee which had twice exonerated Ishibashi.

The purge has produced a dangerous psychological reaction. The conservative and business classes who looked upon themselves as the natural supporters of United States policy have been alienated to a considerable extent and even driven to consider Communism as an alternative. In a significant and foreboding statement on his purge, Ishibashi recently wrote: "Many Japanese are coming to entertain great doubt as to American democracy, the reaction therefrom already leading some of the more intelligent classes to turn to Communism. Among those well acquainted with what is happening, suspicion is being entertained as to whether or not General Headquarters is following such undemocratic policies for the purpose of forcing Japan to embrace Communism."

LABOR AND COMMUNISM

Deconcentration and the purge (plus various other kinds of economic "planning" too extensive to discuss here) were designed

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break capitalism in Japan. What was to replace it? Again, whether by accident or design the theorists in Washington and Tokyo produced a solution of which the Communists could take the maximum advantage. This solution was the introduction of the most advanced kind of labor laws and the wide-spread unionization of labor - all this in a country where labor relations had been based on a highly developed and socially responsible paternalism including unemployment insurance and arbitration of disputes, and where neither workers nor employers had any idea of Western concepts of labor relations.

The Labor Standard Law promulgated on April 5, 1947, forced on an impoverished Japan labor standards even higher than those enjoyed in the United States. For example, a labor contract with one company provided for a closed shop, a short work week, dismissal rights, cost of living bonuses, union share in the profits and union approval of changes among company directors, inspectors and advisers. In some unions, full time union officials were paid by the company, and union headquarters and secretarial staff provided by the company.

All through 1946, unions called a long series of strikes of every kind - sit down, slowdown, walkout, etc. In many instances, unions served plants, operated them and sold the products. The unions termed this "production management." Newspapers were likewise seized by the unions and turned into Communist organs. The labor division of SCAP had forced the repeal of laws by which, for example, strikers would be ousted from seized plants.

Cowed employers did not even dare protest to SCAP against these seizures.

General MacArthur felt that his hands were tied. It was his own labor division which had sponsored this union activity. The Post-Surrender Directive instructed him that he could "prevent or prohibit strikes or other work stoppages only when you consider that these would interfere with military operations or directly endanger the security of the occupying forces." Furthermore, the Directive instructed MacArthur that if changing the "feudal and authoritarian tendencies" of the Japanese government involved the "use of force by the Japanese people" he could "interfere only where necessary to ensure the security of your forces." The unions could also cite a far reaching declaration by the Far Eastern Commission establishing union rights.

In this situation, the Communists moved quickly into key unions, particularly in transportation and communications, and the Japanese CIO is now largely Communist-dominated. In January 1947, the Communists working through the unions moved to a showdown with the occupation by proclaiming a general strike. According to G-2 files, the committee heading this strike was actively encouraged by General Derevyanko, then head of the Russian Mission in Japan. General MacArthur decided that the threat of a general strike allowed him to intervene, despite the provisions of the Post-Surrender Directive. The strike was called off after MacArthur issued a written order forbidding it.

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How did the Communists establish themselves so rapidly in Japan? The chief factor was the release of their leaders from jail by the American authorities acting on directive SCAPIN 93, Oct. 4, 1945. SCAPIN 93 was based on the Post-Surrender Directive. At about the same time, the Japanese Communists in Chinese Communist territory in Yanan were given the opportunity to return to Japan. This action was taken under the basic reparation directive SCAPIN 927 which in turn was based on the Potsdam Declaration. Under this directive, Sanzo Nosaka, the number two Communist and the link between the Russians and the Japanese Communists, was returned to Japan.

In answer to a direct query in August, 1948, SCAP stated that Nosaka was returned to Japan in the normal manner under SCAPIN 927. However, according to Kyuichi Tokuda, the present head of the Japanese Communist Party, Nosaka was specially flown from Korea to Tokyo in a plane of the Troop Carrier Command. Other sources state that orders for the flight originated with John Emmerson of the State Department, at that time assistant to George Atcheson. Emerson is further reported to have suggested that Nosaka be made Premier of the new Japanese government which was being formed at the time.

Emmerson and other occupation officials personally aided the release from jail of Japanese Communists and received them in their offices with every show of cordiality. These actions probably played a considerable part in fostering the wide-spread Japanese delusion that the U.S. actually wanted Japan to go Communist.

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調五 資料 二一四 一 一〇
昭和二十四年四月二十二日

米國の対日施策に対する謝南光氏所論(全訳)

取扱注意

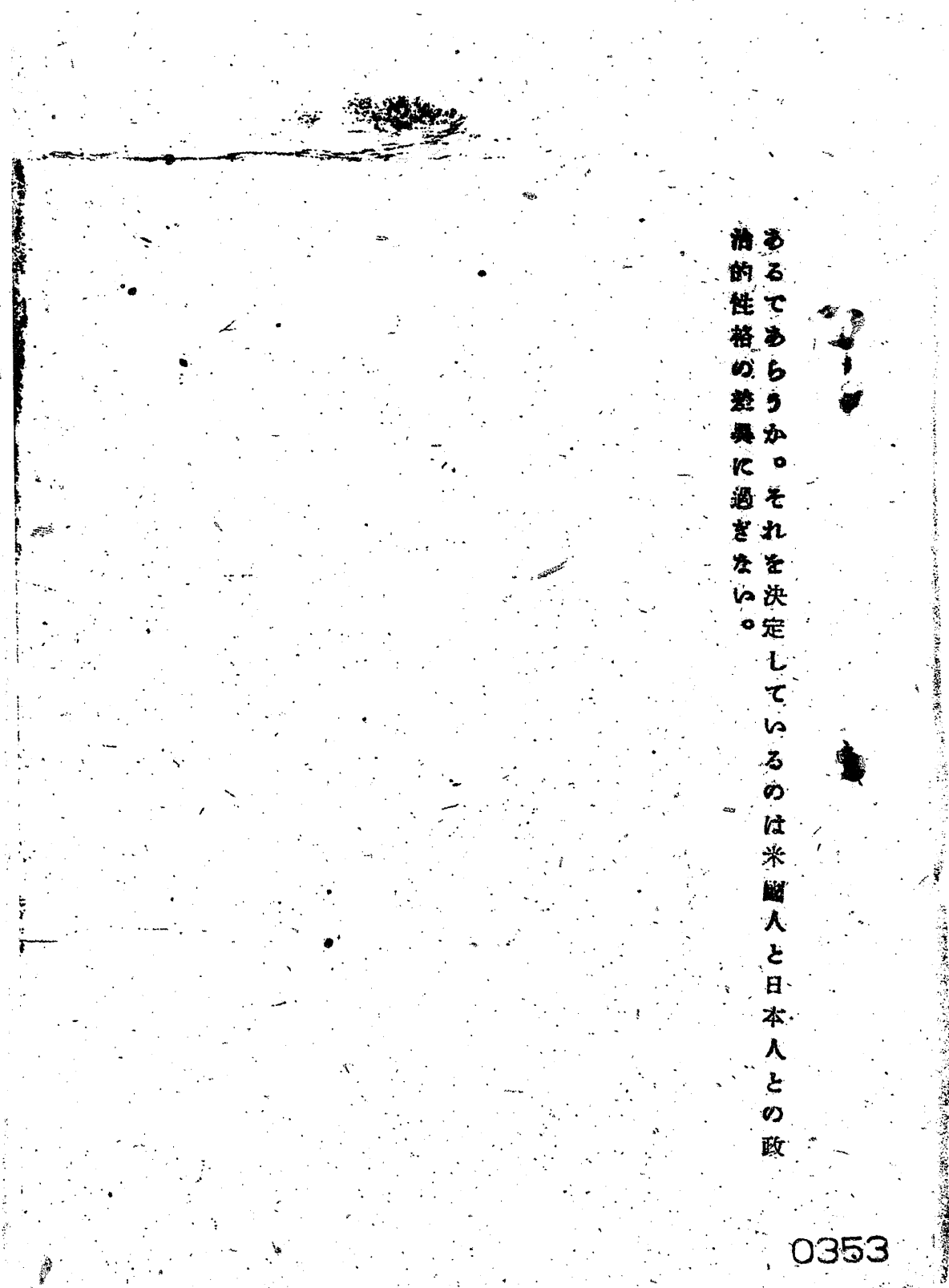
調査局 第五課

謝南光氏は最近まで駐日中華民国代表團政治組副組長として活躍して来たが、日本人間には廣くその名を知られて来た。本年初め、謝氏の目下上海に在るが、同氏が今同公然と米國の對日政策攻撃の論説を公表したことは、同氏が國民黨員であり國民政府官吏として最近まで中國代表團員として日本占領政策に關係していた關係上、我々をして奇異の感を抱かせるものがある。左に同氏の所論を参考までに全訳した。

調査局 第五課

(5) 財閥解体と財界人追放を緩和し、独占禁止法を緩和して、財閥を財界と政界とに復帰せしめ再び日本の政治経済を支配させる。米國の対日援助政策は論ずべき範圍が極めて廣く、ここでは全面的には検討しないが、右に記した(3)(4)の二項目の政策については全上のみ簡単な解説を試み、米國の対日援助政策の真相を明らかにして

一 總司令部の外資に關する新指令
 十二月十四日外資の対日投資に關する新指令を發した。その要
 九 左の如くである。
 一 一九四九年一月十四日による
 (1) 日本の新興に貢獻し、一方一定の制限をうけることを容認
 するすべし。外國資本の投資と事業經營上必要な資産の取得と
 を許す。
 (2) 今後入國する商社はすべて總司令部から許可証の發行をうけ、
 日本において商業活動をなすことを許す。此の種の商社は總司
 令部及び日本政府の一般法に從わねばならない。既に日本に
 (3) 戦後日本に來た実業家は、一九四五年九月以後に既に日本に
 在任していたもの外、日本人と同様の地位を與える。財産取引
 以外の事項に關しては日本人及び日本商社と同等無差別の待遇
 (4) をうける。
 (5) 戦前日本で所有していた利権を回復する資格のある外國商社は
 日本において再び戦前と同様の企業を行うときは、再び許可の
 (6) 申請をなすことを要しない。
 (7) 日本に居留する実業者は日本人と同様に住居に必要な財産を賃
 借することか出来る。
 (8) 外國商社あるいは外國実業家が日本の株式、日本商社の配当金
 外國代金、日本特許権、同附帯権利を取得しようとする場合は



あるてあらうか。それを決定しているのは米國人と日本人との政
治的性格の差異に過ぎない。

調査書

カニ海士

文部省

別紙は、グレンジャー元駐日大使等をメンバーとする「米國の日本政策」の意見書で、一九四九年初に書かれたものと思われる。司令部の日本管理政策を批判し、その改善案を提出している。我々の正にしたい所を衝いており、興味深い。
その内容は左の各項にわたつてゐる。

全般的結論

管理

經濟恢復

外資導入

原料資源

占領軍の任務

天皇の地位

政治問題

なお、本意見書は米國でも公表されてゐる上りであるから、取扱いに注意せられたい。

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JAPANESE POLICY
AMERICAN COUNCIL ON JAPAN

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It is always difficult for a victor to think and act clearly toward a vanquished foe. There is the legacy of bitterness left by any war, and in the case of Japan, to this has been added the memory of the atrocities committed by the Japanese army, as well as everything expressed by the words "Pearl Harbor". It is always more difficult to win the peace than to win the war, although winning the peace should be the true objective of the war. Therefore, in his own interest, the victor must impose on himself enough political wisdom and restraint to override the passions aroused by the war.

It is thus in the hope of making some contribution toward a policy that will win the peace and at the same time lift the burden of supporting Japan from the American taxpayer that this paper has been prepared. It is deliberately critical since its purpose is to stimulate discussion, not of the phases where the occupation has succeeded, but of these phases that are unsuccessful or at least controversial. Neither the problem of a peace treaty nor of the difficulties posed by the Far Eastern Commission are dealt with since the United States has the power to settle by interim directives most of the problems herein discussed.

OVERALL CONCLUSION

The conquest of Japan may have been unique in modern history. The mind of the nation was wrenched open by the surrender. It is very important to realize that it was not the physical blows of the war—the bombing and Japanese land, air and sea defeats—that did this. It was the Emperor's order to surrender that crumpled the Japanese will to fight and that destroyed all the ideas and ideals associated with Bushido, the tradition of never surrendering, Japanese superiority over all other nations, etc..

The Japanese are an extremely practical race, and unlike the Germans, self-pity has little place in their mental makeup. They concluded they had been beaten because the American system was better than the Japanese system. They, therefore, resolved to change the Japanese system. The militarists and all they stood for were utterly discredited. The Japanese turned to the American occupation for guidance with minds more open than possibly at any time since the beginning of the Tokugawa Shogunate.

That was the atmosphere and the opportunity General MacArthur found when he entered Japan in 1945. What do we find in 1949? The information received by the contributors of this paper leads to the unavoidable conclusion that the great opportunity has been missed. Why? Because instead of giving the Japanese guidance in working their own passage toward a new and better system, the

occupation

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occupation has tried to impose on them in minute detail a system they only dimly comprehend. Because in doing this—and this is the way the Japanese often put it—the occupation has seemed to them to show the very faults for which they condemned their own militarists: bureaucratic, inefficient, dictatorial, vindictive and at times corrupt. Because in their personal relations with the Japanese, occupation personnel do not—and under the circumstances probably cannot—practice the democratic virtues they preach.

Because, above all, instead of being compelled, as they expected, to work unceasingly to make up for the destruction they caused during the war, the Japanese instead have had forced upon them reforms they don't understand but which they feel have contributed largely to the economic and moral stagnation of their country.

The result has been deep disillusionment with the occupation, particularly among those classes best fitted by education and background for understanding the West. It is impossible to say whether the opportunity that existed at the end of the war has entirely passed. The consensus is that it has not. But unless it is seized quickly, the Japanese mind will either revert to some traditional pattern or turn to the only alternative to Western democracy in the world today—Communism.

CONTROLS

The most insistent criticism of the occupation from both Americans and Japanese is that Japan's economy, politics, newspapers, education and nearly every other activity is supervised down to the minutest details by S.C.A.P. A well-informed Japanese writes: "The organization of the G.H.Q. has been very much enlarged with tens of sections, with tens of divisions and branches in each and hundreds of civilians and experts. These personnel are all 'hommes de bonnes volontes', eager and jealous to create a new Japan, and model of American efficiency. They thoroughly investigate and study all the Japanese questions with surprising rapidity and accuracy using scientific analysis and statistical charts. Each of those experts of course find something, if not everything, wrong with the Japanese practice in each field of their concern, and different advises and suggestions are given to the proper Japanese Authorities or through the press to the public.

"The Finance Division orders the balance of budget at all cost to cope with the rampant inflation; the Industrial Division urge increased production of coal and other raw materials at all cost; agriculture experts lay down a vast plan for redistribution of farm land, for reforestation, and for soil conservation; education experts, a huge plan for school rehabilitation and

reforms.

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reforms, for better pay for teachers; Judicial experts, complete reorganization of Japanese tribunals with increased salary for judges; Labor experts, the most advanced Labor legislation with creation of a large administration for Labor protection; Public Health experts, . . . etc., etc..

"Frequent scenes in a Cabinet meeting or in the Diet is this: A minister in the Cabinet or a party leader in the Diet stress that his plan or his bill ^{has} been suggested or approved by the 'higher authority' and that 'it is categorically imperative for the Japanese government to collaborate to the fullest extent with the occupation authorities'. All other members are afraid to contradict and keep mum or one of them rush to whom he thinks competent person in the G.H.Q. (often not the same person who first suggested), explain his idea, get a nod and come back to say: "My amendment is exactly what General MacArthur wants and it is your duty to vote for it."

American businessmen in Japan find the same minute regulations. One businessman's report points out: "Approval and enthusiastic support for any constructive project is relatively easy to obtain from responsible Japanese. However, the approval of occupation authorities is another matter."

A great part of the failure of the occupation can be ascribed to this extraordinarily detailed supervision. The Japanese discovered at firsthand that American bureaucrats are little, if any,

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better than their own. Some American officials can be, and are bribed. Few S.C.A.P. officials have had any previous experience in Japan or knowledge about Japanese methods. They therefore try to impose American methods that are unworkable under Japanese conditions. Furthermore, S.C.A.P. for many reasons has been unable to attract American executives of high caliber.

The Japanese argue: How can we possibly develop democratically if every decision is either taken by S.C.A.P. or subject to S.C.A.P. approval? Instead, the Japanese not only take all their problems to S.C.A.P. but are able to place on it the blame for their own lethargy, inertia and failures. All legislation is cleared through S.C.A.P., and every political move of importance is referred to it. S.C.A.P. officials thus become deeply involved, and the use and mis-use of their authority has come to be an accepted part of Japanese politics.

General MacArthur has lately been reported making an effort to reduce this Japanese dependence on occupation whim, particularly by curtailing the authority of the Government Section. Premier Yoshida has fostered this tendency, by appealing successfully to General MacArthur over the heads of Government Section officials.

Recommendations: S.C.A.P. in its present form should be entirely abolished and a new system of top level controls worked out, by which the Japanese will have as much authority as is consistent with the achievement of the basic aims of the occupation. Every

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effort should then be made to attract top caliber Americans to serve with the new control board, and the Japanese should thereafter be held strictly responsible for the achievement of reasonable goals established in cooperation with the occupation.

RECOVERY

"Things are bad and getting worse—a crash is inevitable."

Nearly every Japanese at present will make this statement to American observers. Yet, under questioning, they will paint a picture of slow but steady improvement during the past year. Production has risen, although not so quickly as in Western Germany. Changes in the extreme plan for deconcentrating Japanese industry have clarified the picture for large companies. Living costs have increased by 59% since August 1947, but most wages, except for government employees, have kept pace. The release of blocked accounts has helped balance family budget deficits, although many are still selling goods or clothing in order to exist. There has been no serious food crisis since November 1947, and clothing has become easier to obtain. House construction has improved, although too much material and labor is still diverted into dance halls, clubs, theaters and resort hotels. Foreign trade has shown a large increase.

The other side of this picture is that Japanese recovery has nonetheless been so slow and inflation has increased so tremendously that the psychology of the public in general and businessmen in particular remains defeatist. Taxation, particularly the capital levy, has forced great numbers of middle and lower class people to sell their possessions, including their homes. For the first time

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since the end of the war, rice has piled up unsold in the stores. A rampant black market undermines legitimate activity. Capital has practically disappeared, and nearly all companies depend on government loans for current financing. The lack of an exchange rate for the yen hampers the expansion of foreign trade. The unsettled reparations question gives an element of uncertainty to all future planning. Labor laws and strikes have greatly reduced the productivity of labor. The occupation continues to absorb about one third of all Japanese production.

It is impossible to apportion the blame for these conditions between S.C.A.P. and the Japanese, because of the tight controls exercised over every economic activity by S.C.A.P. and the opportunity this gives the Japanese for putting the onus for everything on S.C.A.P. This extends to the recovery program that has been worked out for Japan in a "Blue Book" called "Plan for a Self-Supporting Japanese Economy." The aim of this plan is to make Japan self-sufficient by 1952, in line with the recommendations of the reports made by Overseas Consultants and the so-called Johnston Mission. The plan calls for an expenditure of \$165,000,000 for the fiscal year 1949-50. The Japanese were not consulted in the drawing up of this plan.

The recovery program is hampered by the extreme suspicion and distrust with which S.C.A.P. officials view all Japanese and most American businessmen. S.C.A.P. is loath to accept any project no matter how good which it does not originate. There is also an understandable but

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unfortunate emphasis on projects which will bring a return in dollars during the current fiscal year. This no doubt is inspired partly by a desire to make a good showing before the congressional appropriations committees. However, the achievement of self-sufficiency by 1952 is being jeopardized by this attitude and in the long run will cost the American taxpayer more money than if smaller returns were accepted during the immediate future.

Recommendations: Direction of the Japanese economy should be returned to the Japanese as quickly as possible and as completely as is consistent with the basic aims of the occupation. An exchange rate should be set for the yen, but if a currency reform similar to that in Germany is contemplated, it should be evolved and put in force by the Japanese alone so that the resentment of the millions who will be adversely affected will not be directed against the U.S.. The Japanese should also be given latitude in changing labor laws and taking other measures to increase productivity.

Occupation costs should be drastically reduced and no longer made a charge on the Japanese government, thus ending the fiction that the Japanese are paying these costs whereas they actually eventually are paid by the U.S. taxpayer. The recovery program should be coordinated with Japanese plans. The funds due to be appropriated will not, however, in any case be sufficient to assure Japanese self-sufficiency by 1952. The gap must be filled by private investment.

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INVESTMENTS

Under the 1942 laws called the "Enemy Properties Supervision Laws", enemy properties in Japan were taken over by the government or sold to Japanese, while bonds held by foreigners were declared invalid. Compensation for these properties and these bonds was paid into accounts held for the foreign holders in Japanese banks. During the war, foreign companies and Japanese companies in which foreigners had interests suffered damage of 3,000,000,000 yen, calculated on a preinflation basis. At the same time, most American companies wrote off their Japanese investments in order to reduce income taxes. On Sep. 22, 1946, directives were issued by S.C.A.P. to the Japanese government concerning the restoration of allied property, and in conformity with these directives, the Japanese set up various rules under which property could be restored. However, a request by the Japanese Finance Ministry in 1947 that American and British holders of bonds issued by Japanese electrical companies be compensated by being given mortgages on existing electrical installations has never been acted on by S.C.A.P. A number of American companies have considered repossessing their Japanese properties, and a number of others are at present in consultation with Japanese firms. However, some of the most important companies have decided against repossessing their Japanese properties at this time, and progress on new projects has been slow. So far, there has been little sign of the flow of private capital needed to supplement government funds if Japan is to become self-sufficient.

The reasons for this lack of interest in investing in Japan are inherent in the economic conditions reviewed in previous sections of this report. Furthermore, American corporations will not consider repossessing their Japanese properties until American laws and regulations have been enacted fixing their tax liability in such cases. Nor will most American companies seriously consider Japanese investment until certain Japanese laws have been repealed or amended. To mention only a few—the tax laws which make it almost prohibitive for foreign interests to carry on business, must be liberalized—the anti-monopoly law, which is too broad, must be amended to conform to our own Sherman and Clayton Act—the patent law, which fails to afford adequate protection, must be revised, and the deconcentration law, which is an extension of the anti-trust law, must be repealed.

Recommendations: Action should be taken in Washington to clarify the tax laws so as to make investment in Japan attractive. The Japanese, under proper supervision, should be allowed to make such compensation as is practical for foreign property damaged or otherwise lost during the war. Again, under proper supervision, the Japanese should be allowed to alter their laws so as to make foreign investment attractive.

Even these measures will probably not assure a sufficient flow of capital to Japan. In addition, American legislation should be enacted to allow the United States to guarantee the principal and interest

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interest in dollars of loans made to Japanese industry when in each case payment is adequately secured, and the loan has been approved by an appropriate government agency. To induce investments in equities, provision should be made to permit limited conversion of earnings into dollars. The U.S. Government, if called to make good on its guarantee, would be subrogated to the rights and remedies of the bondholders, and to the extent yen is converted into dollars, would become the owner of Japanese currency.

RAW MATERIALS

One of the chief obstacles in the way of increased Japanese production is lack of raw materials. The occupation has naturally stressed stepping up exports as the chief method of paying for raw material imports. It has made far less progress in developing Japan's own raw materials and fostering the exploitation of sources in non-dollar areas of the Pacific.

Coal, which is as basic to the Japanese economy as it is to any other, is a good example. At the end of the war, Korean laborers were necessarily released from Japanese coal mines. Japanese labor at the same time was unionized and given advanced working conditions and short hours. Little effort has been made to rehabilitate the run-down mines or install modern machinery, although funds in yen were made available in the summer of 1947 by the Japanese, while the Export-Import Bank has indicated it would give favorable consideration to a loan for this purpose.

S.C.A.P. has suffered from an almost complete lack of coal experts and has only recently shown enough interest to consider authorizing a very preliminary study of the problem. The present stress has been put on getting maximum production, regardless of the fact that working many Japanese mines in their present condition endangers future output. Furthermore, experts say that production has been increased only on paper. Actually, the coal produced has been of such a steadily deteriorating quality that, measured in terms of energy output, production has declined, not increased.

Recommendations:

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Recommendations: American recovery funds, both Governmental and private, should first be directed toward a rehabilitation of Japanese coal mines, even though immediate production is sacrificed. Arrangements should also be made to develop other Pacific raw material sources. For example, coal mines of high quality and large reserves are open for development in Dutch Borneo. The Hainan iron ore reserves amount to 80,000,000 tons and can be mined by open strip operations. South Malaya has undeveloped deposits of bauxite. The closed phosphate rock deposits in Arguar Island should be reopened. Southern Korea has neglected metals and other natural resources now being surveyed by E.C.A.

ARMY

The army of occupation has accomplished its mission of demobilizing and disarming the Japanese forces. However, it still performs many functions such as helping the Japanese collect taxes and the rice harvest. In some cases—for example, recent Communist inspired Korean rioting—only the Army's presence has enabled the Japanese to maintain civil order. With the perpetual disarmament of Japan set forth in the new constitution, the U.S. Army is looked upon by the Japanese as their only defense against aggression.

In the performance of its present essentially civilian functions, the Army is spread all over Japan. It does not have enough men adequately to guard the thousands of tunnels and bridges through and over which its communications run. It is encumbered by about 26,000 dependents. An estimated \$600,000,000 has been spent on housing for these dependents, and as pointed out previously, this has been a heavy drain on the Japanese economy. The highest officers fear that, if hostilities should develop in the immediate future, the Army in Japan might become a whole series of Bataan. Whether the Army could even cope with organized civilian resistance from the Japanese is doubtful in view of the opportunities for sabotage and the fact that it is dependent upon Japanese labor for operating much of its transport and in other vital ways.

Recommendations: The Army should be divorced as rapidly as possible from the economic and governmental aspects of the occupation. It should

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then be reorganized as soon as possible into combat units designed to repel possible invasion and to strike anywhere in Japan in case invasion succeeds. The number of dependents should be reduced as quickly as is consistent with the maintenance of morale.

The Japanese should be permitted a well-armed and well-trained constabulary of at least 150,000 men with a system of control and command such that it could be entrusted with guarding tunnels, bridges and similar installations. Only as a last resort should Japan be permitted otherwise to revive its armed forces, even under a most rigid American supervision. Language and other difficulties would make the Japanese army far harder to control than, say, a German army, and its revival might compromise the genuine revulsion toward war that has occurred in Japan.

THE EMPEROR'S POSITION

Emperor Hirohito is a man of moral and personal integrity, considerable personal courage, small intellectual gifts and sometimes irresolute character. His narrow interpretation of his constitutional prerogatives and the knowledge that he was a prisoner of the militarists led to his acquiescence in the attack on the United States. On the other hand, it was only by his personal intervention, arranged by Premier Suzuki and his associates, that made the surrender possible. The imperial authority is the chief and almost the only authority that holds Japanese society together at the present time. Without it Japan could be governed only by force majeure.

The occupation problem was to prevent an emperor from ever again being used as a channel of authority by a group such as the former militarists. The occupation approach was to make him a constitutional monarch. This coincided with Hirohito's own desires and those of his palace advisors. However, this approach has been compromised by occupation misunderstanding of the emperor's so-called divinity. He is not regarded as divine in the Western sense of the word. He is Kami, which means that he is the symbolic link between living Japanese and the spirits of all dead Japanese, plus the several million Japanese gods. The occupation idea that his "divinity" would wither away if only he were obliged to show himself in public and become democratic was thus based on a fallacy. The proof is that never has the Japanese feeling for the Emperor been more mystic or more deeply rooted than it is today.

Recommendations: