

prefectural level, Socialist candidates polled more votes than in 1947. . . . Only seventeen months following their disastrous defeat, the Socialists regained a posture of some strength. They steadily increased their Diet membership until a plateau was reached in 1958–1960.

2. *Trust-Busting the Japanese Zaibatsu*

INITIAL MOVES TO DISSOLVE

THE ZAIBATSU: 1945–1947

❁ AS THE END of the war approached, the business leaders of Japan—the key figures in the huge zaibatsu—began preparations for recovery after defeat. The war itself had not seriously limited the power of the zaibatsu as a central institution of militarism. Rather, as the Japanese military was smashed by the overwhelming power of the Allied forces, it declined in influence in Japan and left the zaibatsu and the bureaucracy in control. Business took steps to ensure its continuity as the principal elite in Japan. Records were destroyed, personnel were shifted to protect those involved in the war and to help transfer exclusive blame to the military. Economically, at the cost of inflation to the rest of the country, the zaibatsu were paid indemnities to cover their wartime losses. Further, they acquired large stocks of equipment for later disposal.

On September 6, 1945, President Truman approved a document on “Initial Post-Surrender Policy for Japan.” In the section pertaining to economics, part of which is given below, the zaibatsu saw that their fears and defensive preparations were not in vain. This statement, suggesting a harsh economic policy, reflected the initial U.S. attitudes after the war and is typical of many that saw the zaibatsu as the source of Japanese militarism and their destruction as the occupation’s top priority.

*Basic Initial Post-Surrender Directive**

PART IV—ECONOMIC

I. ECONOMIC DEMILITARIZATION

The existing economic basis of Japanese military strength must be destroyed and not be permitted to revive.

Therefore, a program will be enforced containing the following elements, among others: the immediate cessation and future prohibition of production of all goods designed for the equipment, maintenance, or use of any military force or establishment; the imposition of a ban upon any specialized facilities for the production or repair of implements of war, including naval vessels and all forms of aircraft; the institution of a system of inspection and control over selected elements in Japanese economic activity to prevent concealed or disguised military preparation; the elimination in Japan of those selected industries or branches of production whose chief value to Japan is in preparing for war; the prohibition of specialized research and instruction directed to the development of war-making power; and the limitation of the size and character of Japan's heavy industries to its future peaceful requirements, and restriction of Japanese merchant shipping to the extent required to accomplish the objectives of demilitarization.

The eventual disposition of those existing production facilities within Japan which are to be eliminated in accord with this program, as between conversion to other uses, transfer abroad, and scrapping will be determined after inventory. Pending decision, facilities readily convertible for civilian production should not be destroyed, except in emergency situations.

2. PROMOTION OF DEMOCRATIC FORCES

Encouragement shall be given and favor shown to the development of organizations in labor, industry, and agriculture, orga-

* "Basic Initial Post-Surrender Directive to Supreme Commander for the Allied Powers for the Occupation and Control of Japan," *Political Reorientation of Japan, September 1945 to September 1948* (Washington, D.C.: U.S. Government Printing Office, 1949), pp. 78-79.

nized on a democratic basis. Policies shall be favored which permit a wide distribution of income and of the ownership of the means of production and trade.

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

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

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

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

❀ THE ZAIBATSU LEADERS, realizing that the occupation was resolved to end their monopoly of Japanese economic life, decided to take the initiative in devising the plans for their own "dismemberment." Not surprisingly, the Yasuda Plan (submitted by the Yasuda zaibatsu) was hardly a complete dismemberment. Even so, the zaibatsu and the Japanese government were not hasty about implementing even limited reforms, and only the great power of MacArthur's position forced them through.

Despite much foot-dragging, the Yasuda Plan was put into effect in 1946, and the purge of business personnel which began then reinforced it. The significance of the Yasuda Plan is that although put forward as a zaibatsu proposal, it resulted in the formal dissolution of the largest zaibatsu. Further legislation, formulated in 1947, was necessary to prevent the zaibatsu from re-forming.

*The Yasuda Plan**

OFFICIAL JAPANESE PROPOSAL FOR HOLDING COMPANY
DISSOLUTION INCORPORATING THE YASUDA PLAN,
NOVEMBER 4, 1945

The firms of Mitsui Honsha, Yasuda Hozensha, Sumitomo Honsha, and Kabushiki Kaisha Mitsubishi Honsha, hereinafter referred to as the "holding companies," have been holding conversations with the minister of finance with a view to voluntary dissolution in accordance with the desires of the Supreme Commander for the Allied Powers.

The following plan is proposed for your approval to govern the dissolution of these firms and such other firms of similar character as may volunteer for dissolution:

1. a. The holding companies will transfer to a Holding Company Liquidation Commission all securities owned by them and all other evidences of ownership or control of any interest in any firm, corporation, or other enterprise.

b. The holding companies will cease to exercise direction or control, either directly or indirectly, of all financial, industrial, commercial, or noncommercial enterprises whose securities they own or of which they hold any other evidences of ownership or control.

c. The directors and auditors of the holding companies will resign all offices held by them in such holding companies immediately after the transfer of the securities and other evidences of ownership . . . and cease forthwith to exercise any influence, either directly or indirectly, in the management or policies of the holding companies affected by this dissolution.

d. All members of the Mitsui, Yasuda, Sumitomo, and Iwasaki families will immediately resign all offices held by them in any financial, commercial, noncommercial, or industrial enterprises and cease forthwith to exercise any influence, either directly

* T. A. Bisson, *Zaibatsu Dissolution in Japan* (Berkeley and Los Angeles: University of California Press, 1954), pp. 241-244.

or indirectly, in the management or policies of the enterprises affected by this dissolution.

2. The Imperial Japanese government will establish a Holding Company Liquidation Commission whose functions, among others, shall be:

a. To proceed with the liquidation of all property transferred to it by the holding companies as rapidly as feasible.

b. To issue receipts to the holding companies in exchange for such transferred property. Such receipts will be nonnegotiable, nontransferable, and ineligible for use as collateral.

c. Pending the final disposition of the transferred property, to exercise the voting rights incident thereto, but only to the extent necessary to insure proper methods of accounting and reporting and to accomplish changes in management, corporate practices, and such other changes as are specifically desired by the Supreme Commander for the Allied powers.

d. To redeem such receipts, upon the final liquidation of the transferred property, by delivery to the holders thereof, bonds of the Imperial Japanese government. . . .

3. When the securities, or other property transferred to the Holding Company Liquidation Commission, are offered for sale, preference to purchase will be given to employees of the companies involved, and in case of corporate shares the number of such shares that may be purchased by any single purchaser will be limited in order to insure maximum democratization of ownership.

4. Neither the holding companies nor any member of the Mitsui, Yasuda, Sumitomo, or Iwasaki families will purchase or otherwise acquire title or ownership of, or any interest in, any of the transferred property when it is offered for sale by the Holding Company Liquidation Commission. . . .

DIRECTIVE ACCEPTING JAPANESE PROPOSAL UNDER TITLE
OF "DISSOLUTION OF HOLDING COMPANIES,"
SCAPIN 244, NOVEMBER 6, 1945

. . . 2. The plan proposed therein is approved in general and the Imperial Japanese government will immediately proceed to effectuate it. No disposition of any property transferred to the Holding Company Liquidation Commission will be made without the prior approval of the Supreme Commander. You will submit the legisla-

tion through which the Holding Company Liquidation Commission will be created to the Supreme Commander for approval. It should be clearly understood that full freedom of action is retained by the Supreme Commander for the Allied Powers to elaborate or modify the proposed plan at any time and to supervise and review its execution. . . .

5. It is the intention of the Supreme Commander to dissolve the private industrial, commercial, financial, and agricultural combines in Japan, and to eliminate undesirable interlocking directorates and undesirable intercorporate security ownership so as to:

a. Permit a wider distribution of income and of ownership of the means of production and trade.

b. Encourage the development within Japan of economic ways and institutions of a type that will contribute to the growth of peaceful and democratic forces. . . .

❁ ALTHOUGH THE Yasuda Plan to dissolve the four largest zaibatsu was accepted by MacArthur, the Japanese government continued quietly to obstruct and oppose the occupation authorities in economic policies. It was recognized that the Yasuda Plan was acceptable to the large zaibatsu because it offered the possibility that a thorough dissolution of combines would not reach below the very top levels of corporate ownership and would thus be relatively ineffective. Far more sweeping plans were then formulated by SCAP for massive removals of Japanese industrial plants. This approach is exemplified by the stiff measures proposed by American oil magnate Edwin Pauley, whose letter excerpted below is a brief summary of extensive plans for reparations known as the Pauley report. The full report is sweeping in its scope, listing specific pieces of Japan's industry to be given to countries in the Far East that Japan had ravaged during the Second World War.

*EDWIN PAULEY**
Letter to General Douglas MacArthur
and President Truman

TOKYO, JAPAN, December 6, 1945.

General of the Army Douglas MacArthur
Supreme Commander for the Allied Powers

Dear General: 1. On the basis of all the material available, including the Japanese figures assembled for me by the Economic and Scientific Section of your headquarters, I have now been able to come to some decisions on interim reparations policy and interim removals from Japan on reparations account.

2. My decisions fall within the following very simple framework:

(1) In preparation for war, in aggression in China, and in war against the United Nations, Japan built up the most diversified and overexpanded industrial economy in Asia.

(2) In spite of extensive destruction, especially in the closing phases of the war, Japan retains more industrial capacity than she needs or has ever used for her civilian economy.

(3) The removal of the surplus, especially to neighboring Asiatic countries, will help to raise their industrial standards and all living standards without depressing the standards of Japan, since only excess capacities are at the moment in question.

(4) Interim removals will, in most cases, be below the total quantities that may eventually be allocated to reparations.

(5) A program of interim removals should be announced to other claimant nations immediately, and the successive actions of seizure, inventory, packing, and shipment should follow in the shortest possible time, in order to make both the framework of policy and the course of action uncompromisingly clear.

* Edwin Pauley, Letter to General Douglas MacArthur and President Truman, *Foreign Relations of the United States, 1945: The Far East*, vol. VI, 1945 (Washington, D.C.: U.S. Government Printing Office).

3. Accordingly, I am recommending to our government that plants and equipment be made available as soon as possible under a program of interim deliveries as follows:

(1) Half of the capacity for the manufacture of machine tools. I believe that this could most conveniently be done by seizing the twenty-seven most important machine-tool manufacturing plants, which produce almost exactly half of Japan's total. The list of these plants, which you may wish to examine before making your own decision on plants to be seized, is attached to this letter on a separate sheet.

(2) All tools and equipment located as follows:

a. In army and navy arsenals, except for equipment useful solely for making arms, ammunition, and implements of war, which will be destroyed. It is estimated that these seizures should bring in not less than 70,000 machine tools, as well as other kinds of equipment.

b. In the entire aircraft industry of Japan. It is estimated that this should bring in 220,000 machine tools.

c. In all plants manufacturing ball and roller bearings.

d. In all plants manufacturing aircraft engines.

(3) All equipment and accessories in twenty shipyards, to the extent that it is not needed for the repair of shipping essential to the occupation. . . .

(4) All steel making capacity in excess of 2,500,000 tons per year. Japan's admitted present steel capacity is in excess of 11 million tons, as compared with 1930, when Japan produced 2,300,000 tons of ingot and consumed only 1,700,000 tons of finished steel.

(5) A recommendation on pig iron will be sent to you later.

(6) All facilities for the production of magnesium, for the preparation of alumina and reduction to aluminum, other than those required for processing scrap, and all machinery and equipment used exclusively for finishing magnesium and aluminum such as strip mills, rolling mills, and extrusion presses.

(7) Half of the thermal (coal) electric generating plants of Japan. In selecting the half of the plants of this character which are to be left, I suggest that the thermal electric generating plants left to Japan should be selected primarily for their value as standby plants to supplement hydroelectric energy in areas of high consumption.

(8) All contact process sulfuric acid plants, except those necessary to recover waste gases from zinc, lead, copper, and other heavy metal smelters.

(9) The most modern large Solvay process soda-ash plant in Japan. (According to Japanese information made available by the Economic and Scientific Section, there are four of these from which to choose.)

(10) Twenty of the most modern large plants for the production of caustic soda and chlorine, either in diaphragm or in mercury cells. (According to the Japanese information relayed to me by your Headquarters, there are forty-one plants under this classification.) . . .

5. I am sure that you will agree with me that, in the interest of disarming and demilitarizing Japan, as well as in order to avoid unnecessarily dislocating the Japanese economy when later removals become necessary—a situation which could easily be exploited to make Japanese workers feel that we are destroying peaceful industry—the sooner the reconversion program is geared into what may reasonably be anticipated as definitive reparations policy, the better will be our chances of successfully attaining all our objectives.

6. Under the policy now being pursued by the Japanese, I am inclined to think that the giant corporations will take over the country in spite of our program of breaking up the zaibatsu, and that it will be next to impossible to pry loose those machine tools which should be removed as a disarmament measure. If this happens, a most important sector of the Japanese war potential will remain functioning, integrated, and in the hands of those who ran it during the war. . . .

❁ NOT UNTIL JANUARY 1947 was an economic purge promulgated eliminating certain individuals from their jobs and positions of influence. The integral role of personal ties in the zaibatsu complexes meant that economic dissolution was not enough; the personnel had to change as well. The delay in implementing the economic purge, however, as well as the

small number of people actually purged, reduced its potential impact. Below Eleanor Hadley surveys the opening year of the purge.

*ELEANOR M. HADLEY**

Combine Dissolution: Severing Personal Ties

A study of ownership holdings . . . indicates how inadequately ownership alone tells the story of Japanese combine structures. In some of the core subsidiaries the Mitsui, Mitsubishi, and Sumitomo top-holding companies held no more than seven, thirteen, and seventeen percent, and the combine itself held no more than seventeen, thirty-six, and twenty-two percent ownership, yet these were described as "almost perfectly" under top-holding company control. To have "perfect" or "almost perfect" control of subsidiaries with low ownership holdings indicates the presence of other controls with unmistakable clearness. Among the most important of these other means of control were the officers.

The controls exercised over the officers were both traditional and modern. The officers were expected to demonstrate a feudal-like loyalty to the controlling families. However, to ensure that such loyalty was always in force, the families through their top-holding companies: directly or indirectly appointed all officers of the core companies; bound such hand-picked officers through contractual agreements to take virtually no action on their own; and provided numerous interlocks between the top-holding company and the core subsidiaries, and among the core companies. The interlocks with the top-holding company served the dual function of simplifying liaison and providing on the scene watchfulness to ensure that no officer would lose sight of the fact that he was but a servant of the families. Inasmuch as the goal of combine dissolution was to make the member firms of the combine businesses in their own right, businesses that would decide on their own questions of output, product lines, prices, technology, and investment, the need to eliminate the integration by officers who had spent a

* Eleanor M. Hadley, *Antitrust in Japan* (Princeton, N.J.: Princeton University Press, 1970), pp. 77-80, 82, 85-88, 92-94, 100, 102.

lifetime in obeisance to the larger whole appeared vitally important. In the Basic Directive the JCS [Joint Chiefs of Staff] had ordered MacArthur to remove key business figures, because it believed them to be active exponents of "militant nationalism and aggression," which it was the objective of the occupation to eliminate, not because such persons were a vital part of the combine structures, likewise an objective of the occupation to eliminate. . . .

The zaibatsu organizations combined the modern holding company with feudal loyalty. The families at the top were the superiors to whom staff of the entire organization owed fealty. The spirit of subordination of staff to superiors, and ultimately to the families themselves, began on the day the individual joined the combine. The device of company "loyalty oaths" was used to heighten awareness of this quality. Earlier the writer observed,

. . . each employee upon assignment to his subsidiary in the case of designated companies, or upon directly entering the company in the case of nondesignated subsidiaries, swore an oath of loyalty and secrecy to the company, much as in this country one swears an oath of loyalty to the Constitution of the United States on entering government service. The oaths to the business companies committed the employee to complete obedience to the instructions of all senior officials, devotion to the company, a policy of secrecy concerning business information "large or small, trivial or important," observance of all company rules, and the pledge never to act independently on his own judgment. The oaths were of a standard form. The text of the type of oath in common use prior to the Allied occupation is translated below; it is followed by a translation of the new "democratic" form. In English the two forms reveal less difference than they show in Japanese, because the older oaths were written in extremely formal, literary Japanese, whereas the new ones are written in a style nearer to the colloquial, though employing, of course, honorific and humble forms. Thus, for example, in the new form the word "company" is still prefixed with an honorific (the honorable company), the word "I" . . . [appears in its humble form]. The literary style of the older form made that form a more solemn pledge, but it is evident that this would only be a matter of degree. The text of the older type oath is the form used by a subsidiary of Mitsubishi Mining, Southern Sakhalin Colliery and Railroad Company; the new form, that of Mitsubishi Mining itself.

Oath of the Southern Sakhalin Colliery and Railroad Company:

1. I shall never violate the orders of the president or the instructions of my senior officers.

2. I shall sincerely and assiduously perform my duties, never bringing loss to the company.
3. I shall never divulge to a third party any of the affairs of the company large or small, trivial or important.
4. I shall keenly bear in mind never to violate any of the rules of the company.
5. With respect to any business I transact I shall always follow the instructions of my senior official, never undertaking any transactions on my own judgment.

I accept the foregoing oath.

Year _____ Month _____ Day _____

Permanent Residence _____

Family Relationship (*i.e.* relationship to head of the house)

Name _____

Date of birth _____

Southern Sakhalin Colliery and Railroad Company.

Employee Oath of Mitsubishi Mining:

Having come into the employ of this company, I pledge this oath.

1. I shall follow the rules of the company and the instructions of the chief under whom I work.
2. I shall at all times strive toward an increase in the business of the company and shall diligently attend to my duties.
3. I shall never divulge secrets of which I am informed in connection with my duties.

Year _____ Month _____ Day _____

[Space for signature and seal]

Mitsubishi Mining Company.

The zaibatsu families conceived staff loyalty in personal terms. Loyalty was not to be to the staff person's conception of the business interests of the subsidiary in which he worked, but personally to the families themselves. Not only did such loyalty preclude an officer responding to a more attractive offer from the outside—once a Mitsui man always a Mitsui man—but it required demonstrated personal fealty to the families. It could be said of all the zaibatsu organizations that the ultimate test of advance up the ladder to the most coveted positions of all, the presidency of the core subsidiaries and membership on the board of the top-holding company, rested on business ability only where it was conjoined to unquestioning loyalty to the families at the top. . . .

INTERLOCKING OFFICERSHIPS

To ensure unity of action among this hand-picked officership group, all of the combines relied on interlocking directorships. . . .

. . . It is evident that if such integration was to be eliminated, several steps must be taken. There would have to be exclusion of those symbols of feudal-like loyalty, the zaibatsu family members. There would have to be removal of key officers of the major subsidiaries from positions within the combines, officers who had spent their entire professional experience being trained to operate as a combine team. There would need to be prohibition of officer-interlocks among such companies. Headquarters spent almost three years taking these steps, by which time the objectives of the occupation had changed.

In the Yasuda Plan, which was put forward in early November 1945, zaibatsu family members offered to resign all positions in business, but the ordinance that made this offer legally binding, Imperial Ordinance 233, took several months to achieve, and by April 1946 the Japanese government was no longer feeling so overwhelmed by the catastrophe of August 1945. The ordinance did not include the offer by the family members to "resign all offices." It simply stated that the HCLC [Holding Company Liquidation Commission] would direct the affairs of the holding companies designated for dissolution, thereby superseding the families. Nothing was said about restricting family participation in companies not among the designated holding companies.

To correct the deficiency of the HCLC Ordinance, SCAP in July 1946 instructed the Japanese government to eliminate the influence of zaibatsu family members and their appointees from positions of business responsibility and cease appointment of interlocking officers. Five months later, in December 1946, the Japanese government amended Imperial Ordinance 233 to provide for exclusion of zaibatsu family members from business positions. . . . Three more months were to pass before the "authorizing" authority of the December action was given meaning by naming fifty-six persons as coming within the meaning of the December amendment. . . . Provision for the elimination of appointees took considerably longer; it was not until January 1948 that specific provision was made for their elimination.

1946, at the time of the political purge, criticism would probably have been minor, but it did not, largely because of Japanese government obstruction and procrastination. By the second year the Cold War was emerging, and there were those who in their new concern with the threat of communism believed it expedient to forget the reform aspects of the occupation, even though these were the *raison d'être* of the occupation and even though in the longer run they provided the best defense against communist inroads. Most unfortunately of all, there was an ugliness creeping into the differences of view, an ugliness which Senator Joseph McCarthy was later to make synonymous with his name. Critics of the economic purge tended to impugn the motives of those who emphasized the integrating of combine officers. Thus at times it could happen that staff carrying out the orders of the JCS could for this reason find themselves coming to be regarded in the eyes of their own government as doubtful security risks. . . .

There is no easy answer as to what the consequences of the purge and related measures were, for history cannot be rerun so that we can know "what would have been if. . . ." Given the GNP record of the economy, it is clear, however, that the economy of Japan was far from being seriously damaged. In fact, some observers of the postwar scene assert that an element in the truly phenomenal growth of the economy has been the new managerial blood which the purges and reorganizations (financial and structural) brought about in the new business environment in which corporate officers have been able to be officers in fact rather than in name only.

The legal prohibitions restricting zaibatsu family members from business positions and the removals brought about by the economic purge and the Zaibatsu Appointees Law were in effect somewhat less than four years. While some depurging occurred in 1950, the principal part took place in 1951. In a May 3, 1951, memorandum to the Japanese government on the fourth anniversary of the postwar constitution, General Ridgway authorized the Japanese government "to review existing ordinances issued in implementation of directives from this headquarters, for the purpose of evolving through established procedures such modifications as past experience and the present situation render necessary and desirable." The Japanese government acted with vigor under its new independence. Professor Bisson states that by the end of

October 1951, "only eighty . . . economic purgees were still under designation." Yasuba Yasukichi's figures are slightly different; he reports that by May 1951 "all but convicted war criminals were released." Zaibatsu family members' designations were canceled July 11, 1951, the day the Holding Company Liquidation Commission was dissolved.

❁ By 1947, occupation reforms had still failed to extensively democratize Japan's economy—in large part because of delays in executing the economic purge—and the task was increasingly complicated by other factors. The delays in attacking the concentrations of ownership meant that business leaders were able to consolidate their position. Moreover, dissolution orders had never been sufficiently extensive. The changes in American-Russian relations also had immediate effects in Japan, as did the highly negative reaction of visiting American businessmen to the proposals. Many viewed with alarm the American government's support for policies abroad that would harm their interests if ever attempted at home. Some stressed the economic cost to the United States of running the occupation. Growing antagonism toward occupation policies led to a reorientation of SCAP officials' outlook. Instead of diminishing the economic capacity of Japan, the goal was now to make Japan a partner, and the earlier draconian approach on reparations to Allied nations was challenged.

T. A. BISSON*

The Struggle on the Economic Front

. . . [T]he occupation authorities were well aware of the necessity for far-reaching changes in the Japanese economic structure. But while they were drafting long-range reform programs, they were

* T. A. Bisson, *Prospects for Democracy in Japan* (New York: Macmillan, 1949), pp. 95-99.

also confronted with a current economic crisis that became steadily more acute as time went on, and it soon became apparent that the old guard was waging its shrewdest battle against the occupation on the economic front.

By the time the Katayama cabinet took office on June 1, 1947, Japanese industrial production was lagging far behind capacity, budget deficits were increasing, and the volume of currency in circulation was following the dizzy upward path of an inflationary spiral that had already reached ominous proportions. Price increases had far outstripped the rise in wage levels, and, with the majority of the Japanese people already living at a bare subsistence level, this decline in real wages had given rise to a continuous succession of bitter labor disputes.

Some critics of the occupation contended that this crisis was primarily due to the unsettling effects of economic reforms and purges, the uncertainties attending reparations policy, the cumbersome restrictions imposed on Japanese foreign trade, and the large requisitions of Japanese materials by the occupation forces.

In making these charges, however, they neglected to mention several pertinent points. If the Japanese economy was to be left under the control of the old business leaders, and if Japanese economic recovery was to depend on their activity, then the reforms and purges were obviously a mistake. But the official policy of the U.S. government, supported by the Far Eastern Commission, was to destroy the monopolistic powers of the old business combines. As far as reparations were concerned, virtually no removals of Japanese industrial plants had actually occurred, and here again it was the old business groups that were most disturbed by the prospect of such removals. With respect to foreign trade, it was extremely doubtful whether Japan, by its own free efforts, could have imported foodstuffs and raw materials in the amounts that had been supplied by the occupation.

Of the four criticisms leveled at the occupation, the last had the most substance. The occupation had unquestionably made heavy drafts on Japanese materials and labor for construction projects, without enforcing adequate controls. Though expected to foot the bill, the Japanese government made little if any attempt to keep down prices of materials or labor costs, and both contractors and labor bosses reaped large profits. These construction projects thus served to intensify the inflation, whereas under better control they

might have provided a stimulus to legitimate production that would have at least partly offset their inflationary effects.

In reality, however, the economic crisis in Japan reflected the operation of a more broadly determining factor than any of those noted above. Stated in its simplest terms, this was the failure of the occupation to achieve a sufficiently rapid and thorough destruction of zaibatsu power, with the result that the leaders of these great combines were left in a position where they could effectively sabotage efforts to expand production and curb inflation.

The occupation authorities had instituted measures that were potentially dangerous to the position of the old ruling oligarchy, but they had been slow in actually limiting its powers and destroying its influence. For the first twenty-one months of the occupation, no real shift in governmental authority was perceptible. The zaibatsu dominated the business life of the country, while the economic purge was delayed. Until the Katayama cabinet took office, Japan's old-line bureaucrats and industrialists virtually monopolized the operational control of both the government and the economy. And it was during this period that the economic crisis developed. In fact that crisis had its real beginnings in the last two weeks of August 1945, when nearly fourteen billion yen were suddenly pumped into circulation, and the army and navy ministries transferred large stocks of commodities to zaibatsu firms. . . .

A major obstacle to the development of a healthy economy in postwar Japan, more serious than the occupation authorities could have realized, had thus been created even before they entered the country. But on the other hand, the broad facts of Japan's economic situation and the general lines of the reform measures required were both clear. Japan's industrial plant had suffered heavy damage, and the entire economy was in short supply. To obtain production of essential basic materials and consumer goods, strict allocations of materials to essential industries were obviously necessary. Prudent fiscal policies were also needed to channel available funds into essential production, to limit government expenditures, and to keep the use of printing press money at a minimum. Rice and other food collections had to be strictly administered to provide rations for the urban population and to keep food imports as low as possible. By applying a program along these lines, the occupation authorities could stimulate Japanese

economic recovery, limit the drain on American resources, and at the same time satisfy the legitimate needs of the Japanese people.

Such a program, however, did not suit the requirements of Japan's business leaders, and they had the power to prevent its application. As the occupation began, the zaibatsu concerns had control of Japan's industrial plant and the bulk of her commodity stocks. The value of their tangible assets would appreciate with the advance of inflation and thus cushion the shock of any demands that the occupation authorities might lay upon them. On all economic matters they controlled the application of government policy, no matter how that policy might be influenced by SCAP. Their power included not only operational control of fiscal measures, but also the ability to block any program looking toward the controlled allocation of materials. On this vital front they were doubly protected. Available goods were largely in their hands, while the Commerce and Industry Ministry and the semiofficial allocations agencies, such as the control associations and special distribution control companies, were headed by their representatives.

From these vantage points, they even fought to secure government indemnities for the losses suffered in destruction and damage to their munitions plants. Such indemnities, calculated on the basis of wartime Diet enactments, totaled upwards of eighty billion yen, and their payment would have bankrupted the treasury and accelerated the march of inflation. The zaibatsu firms had made vast profits during the war, and it was obvious that by seeking indemnities they also hoped to escape the burden of paying for a war that they had lost by shifting the burden to the shoulders of the Japanese people.

Zaibatsu spokesmen nevertheless boldly pressed the issue in statements directed not only to the occupation but also to the public. In mid-November 1945, for example, Kiyoshi Goko, chairman of the board of directors of Mitsubishi Heavy Industries, made the following declaration:

The main reason for the slowness in reconversion of war plants to civilian production is that the industrialists are reluctant to resume operation unless they are sure of operating on a paying basis. There are also some industrialists who are withholding resumption of operations because they are uncertain as to how much they will get as indemnities for their war plants. Total

suspension of indemnities would bring about a general breakdown of industries with a resultant decline in production and rise in the prices of commodities.

Against such threats, Supreme Headquarters could make little effective response, despite the overriding authority that it possessed. The fact was that real control of the Japanese economy did not rest with the occupation authorities. It rested with the old Japanese business leaders, working through the government and its semiofficial "control" agencies and associations. These men favored a laissez-faire policy that permitted, or even encouraged, the development of inflation. They were prepared to hoard their materials, operate in the black market, let the economy stagnate, and wait for the end of the occupation. Unless the occupation authorities could place new men in control of government and industry, they faced a hopeless task in seeking to reverse this economic trend.

*ELEANOR M. HADLEY**

The Pentagon and Shifts in Occupation Policies

Not only by late 1947 had the continuation of the wartime alliance with the Soviet Union gone sour, but events in China were raising questions as to the soundness of the U.S.'s postwar policy of basing its Far Eastern policy on a friendly China. The Communist takeover of China did not occur until 1949 (it is to be noted that unlike the situation in Eastern Europe Communist control in China was accomplished by indigenous forces, not with Soviet armies). However, the military performance of the Kuomintang in 1947 and 1948 did not breed a sense of confidence in its ability to overcome the Communist forces. In fact, Mao's success in 1949 betrayed in a sense the whole meaning of the Pacific War. . . .

The product of these developments was that the Pentagon began to think quite differently about Japan. In fact, by the end of the

* Eleanor M. Hadley, *Antitrust in Japan* (Princeton, N.J.: Princeton University Press, 1970), pp. 132-133.