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THE GOOD OCCUPATION

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The Good Occupation

By Yoshiro Miwa & J. Mark Ramseyer*

Abstract: Many Americans picture the Allied (i.e., U.S.) Occupation of Japan (1945-52) as the quintessentially good occupation: elaborately planned in advance, idealistically administered until derailed by anti-Communist indeologues in its later years, it laid the foundation for Japan's post-War democracy and prosperity. In fact, the Americans -- especially those Americans celebrated as most "idealist" -- did not plan a Japanese recovery, and for the first several years did not work for one. Instead, they mostly just planned retribution: whom to hang, and which firms to shutter. Economic issues they entrusted to Japanese bureaucrats, and those bureaucrats merely manipulated the controls they had used to disastrous effect during the War. Coming from a New Deal background in Washington, the Americans enthusiastically urged them on.

Although the Japanese economy did grow, it did not grow because of the Occupation. It grew in spite of it. In early 1949, Japanese voters overwhelmingly rejected the political parties offering economic controls. In their stead, they elected center-right politicians offering a non-interventionist platform. These politicians then dismantled the controls, and (despite strong opposition from New Deal bureaucrats in the Occupation) imposed a largely non-interventionist framework. As a result of that choice -- and not as result of anything the Occupation did -- the Japanese economy grew.

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The Good Occupation

They left Japan in shambles. By the time they surrendered in 1945, Japan's military leaders had slashed industrial production to 1930 levels (Ando, 1987: 2-3). Not so the American occupiers. By the time they left in 1952, they had rebuilt the economy by 50 percent (id.: 3). By 1960 the economy had tripled again, and by 1970 tripled once more (id.).

For Japan's spectacular economic recovery, the American-run Allied Occupation had apparently set the stage. The Americans had occupied, and the economy had boomed. The Americans had ruled, and Japan had thrived. The occasional intellectual might bemoan the "bourgeois structures" the Americans had bequeathed, or Japan's complicity in American "imperialist ambitions." But at least by an economic metric and at least during the Occupation's early years, the Americans had apparently planned and run a beneficent Occupation. Idealists all (or mostly all, during those early years) they had planned and run the quintessentially "good Occupation."

In fact, the Americans had done nothing of the sort. When they arrived in August 1945, other than to crush the zaibatsu conglomerates and to impose draconian reparations they brought no economic plan. Rather than invent one, they simply helped incumbent bureaucrats keep the rigid controls they had used -- disastrously -- through the War. Coming from the Washington New Deal, many of them brought an instinctive aversion to competitive market policies. They first rehabilitated (and freed from prison) the Marxist leaders and intellectuals whom the militarists had feared. They then let those intellectuals hijack the state apparatus to ideological ends. Accustomed to universal manhood suffrage since 1925 (the first general election was in 1928), with a Socialist premier Japanese voters let them try.

By 1948, Japanese voters had had enough. Under these economic controls, miners did not mine. Firms did not produce. And farmers sold, if they sold at all, only on the black market. With inflation out of control and production stuck at desultory levels, conservatives bolted the Socialist coalition. They installed the quintessentially capitalist Shigeru Yoshida as prime minister, and Yoshida promptly shut down the planning apparatus.[1]

Japanese voters resoundingly ratified the change. Inflation stopped, and Washington politicians -- having fired many of their New Dealers at home as well -- forced their control-inclined agents in Tokyo to acquiesce. The economy rebounded, and after June 1950 (after it had already started to recover) enjoyed a procurement bonus from the Korean War.

Early Occupation bureaucrats also tried to impose on Japan several forthrightly vindictive economic programs. Given the growing opposition in Washington to such policies, they had to manipulate self-consciously the agency slack within their own

[1] On the (false) notion that the Japanese government continued to plan the economy through the 1960s and 70s, see Miwa & Ramseyer (2002, 2003, 2004a, 2005: ch. 6).

organization to do so. Under the pretext of zaibatsu dissolution, they tried to liquidate over 500 of the largest Japanese firms -- not firms owned by the "zaibatsu" families, not munitions firms, not even "exploitative" firms, just big firms. Under the pretext of reparations, they tried to ship overseas or demolish (they seemed not overly to care) over 500 of the biggest factories. Only after several years did Washington intervene to stop them.

Ultimately, the story of the Japanese Occupation is not a story about a "good Occupation." It is not a story about successful planning, and it is not a story about idealism -- at least not about its compassionate variants. Instead, it is a story about the potentially enormous agency slack in military occupations, in this case between MacArthur and the bureaucrats who nominally worked for him. It is a story about the potentially disastrous effect of that agency slack on the people subject to the occupations. And it is a story about the potential for mitigating that slack through local elections.

We first review the historiography of the Occupation (Part I). We then examine several aspects of the Occupation: public order under the Occupation (II.B.); U.S. planning for the Occupation (II.C.); the economic planning during the Occupation (II.D.); the inflation that occurred, the austerity program the U.S. imposed, and the Korean War that followed (II.E.); and the conflicting tides of "idealism" and Cold-War fears (III.). We close with some preliminary thoughts about "land reform" and the "Red Purge" (IV.). We recognize that this presents a formidably broad topic for an article this short. We proceed nonetheless in order to present a general framework for re-thinking the Occupation as a whole.

I. Occupation Historiography

A. The Debate:

1. Point. -- In the half century since its close, Douglas MacArthur's Occupation of Japan (called SCAP, for Supreme Commander for the Allied Powers) has begotten a thriving historiography. Like the French and American revolutions before it, it has offered histories for scholars of every -- well, nearly every -- stripe. To Edwin O. Reischauer (1957: 224), Harvard historian and Kennedy's ambassador to Japan, MacArthur was the right man in the right place: "one of the great names in Japanese history, surpassed by few in Japan's long annals." Indeed, writes Reischauer, "[f]ew men who have found themselves in history's spotlight have better fitted the roles which destiny has given them than General MacArthur [as the] benevolent but absolute master of fate of eighty million people." Showing "all the virtues that the Japanese admire" (here Reischauer lists "strength of will," "dignity," "firmness," "austerity," "capacity for hard work"), he "became to the Japanese the symbol of perfection, the inspired leader, the knight in shining armor" (Reischauer, 1957: 224-25).

If MacArthur was the right leader, for Reischauer (1957: 228-29) he had the right staff besides. "General MacArthur's staff of experts in Tokyo and on the Military Government teams throughout Japan turned in a performance which was uniformly good and sometimes brilliant," effuses Reischauer. "Most showed sincere enthusiasm for the great experiment upon which they were embarked," and that "enthusiasm and fundamental optimism carried them" through as necessary. "It is hard to imagine," he concludes, "a conquering army that could have undertaken the physical and spiritual rehabilitation of the erstwhile enemy with greater good will and deeper sincerity."

2. Counter-point. -- Scholars since have been less kind. During the earliest years of the Occupation, Marxists had run the Japanese government while sympathetic New Dealers had stacked the Occupation. By 1950, the conservatives ran Japan and Washington had reined in its New-Deal bureaucrats. Themselves overwhelmingly Marxist (we gloss over the many differences among them), Japanese intellectuals never forgave the Occupation this "reverse course."

Neither have most American intellectuals. By the 1970s American scholars in the field had adopted a "New Left" approach, and coupled a positive assessment of the Occupation's early years with a far more negative one of its "reverse course." For these scholars, Reischauer's earlier hagiography offered an easy target. "Conservative School" scholars like him so dominated the field, complained they, that those who criticized the Occupation found themselves "hauled before witch-hunting investigative committees, pushed out of their jobs, and denied outlets for publication."[2]

Of these New Left historians, John W. Dower has long been most prominent. Easily he has also been the most celebrated. For his work on the War and Occupation, he has won not just an endowed chair at MIT but the Pulitzer Prize, the National Book Award, the Bancroft Prize in American History, and the Fairbank Prize in Asian History. To Dower (1975b: 486), the Occupation begat a "bourgeois-democratic 'revolution'" that one could properly understand only through "the dialectic between domestic configurations and the structure of post-surrender Japan's global involvement." Within that global order, "the great legacy" of the Occupation has been the Japanese "acquiescence to the American imperium" (1975b.: 487). Within that global imperium, one can properly understand the Occupation only through the "problems of capitalism, imperialism, ideology and class" (id.: 490). And those problems one can properly understand only by considering "the role of ... the petroleum cartels, key banks ..., investment firms ...; the Rockefeller interests, agricultural and textile lobbies; etc." (id.: 491 n.3).

B. Advance Planning *for* the Occupation:

Even to critics of the Occupation like Dower, the Americans had planned the Occupation in advance. Fundamentally, the critics laud the early years of the Occupation. It is its later years they detest.

"Planning for the Occupation of Japan actually began in the immediate aftermath of Pearl Harbor," writes Dower (2002; see 2003d). "Due in good part to the impressive activities of a small State Department group led by High Borton and George Blakeslee," he explains (Dower, 1993: 165), "planning for postsurrender Japan at the lower levels of the bureaucracy was in fact well advanced when the war ended."

Nor is Dower alone. The State Department "had begun planning for the Occupation as early as 1942," explains one standard history (McClain, 2002: 524), "even while American forces in the Pacific still were on the retreat." The planning involved more than State. In fact, it involved a shifting series of experts in and out of government (Schonberger, 1989: ch. 1). In the words of historian Marlene J. Mayo (1984: 3), it

[2] Schonberger (1989: 4). Their principal example seems to have been T.S. Bisson, denied a post at U.C. Berkeley (Schonberger, 1989: ch. 3). We discuss Bisson at Section II.B.3., infra.

"developed over several years and involved many individuals and committees throughout the wartime bureaucracy ...."

C. The Planned Economy *during* the Occupation:

1. The American planners. -- To the Occupation's early years, claim many historians (e.g., Dower, 2003a), Americans brought an "idealistic vision of 'economic democracy.'" They brought "a vision of economic democratization in which the state is assigned an important role" (Dower, 2003b). Consistent both "with the lessons of successful wartime planning, and with the history of developing economies more generally," they gave government "a major role in setting priorities and guiding reconstruction" (Dower, 2003a).

These "idealist" Occupation bureaucrats imposed a planned economy, and to most American (and virtually all Japanese) historians the economic planning worked.[3] The planners planned, and the economy grew. Effuses Dower (2003c), the Occupation's success owed itself precisely to the planner's zeal: "What made the Occupation of Japan a success was two years or so of genuine reformist idealism before U.S. policy became consumed by the Cold War .... One might say that the last great exercise of New Deal idealism was carried out by Americans in defeated Japan."

2. The Japanese planners. -- Rather than implement their plans directly, Occupation planners worked through the Japanese government. More specifically, they implemented their plans through (and entrusted even the details of plan design to) the Japanese planners who had run the economy during the War. Those planners, in turn, operated what they called a "priority production system" (PPS; keisha seisan seido) masterminded by Marxist economist Hiromi Arisawa.[4] Through that system, they routed crucial economic resources (like coal) to critical sectors (like steel). By doing so, explains Harvard historian Andrew Gordon (2003: 240), they were able "to revive production and feed steel back to the coal industry, which in turn could rebuild the mining infrastructure and raise productivity."

Although Liberal Party leader Shigeru Yoshida (Prime Minister from May 1946 through May 1947) fought economic planning, his Japan Socialist Party (JSP) successor did not. Upon taking power, Socialist Prime Minister Tetsu Katayama promptly implemented PPS with full force. He "greatly strengthened and institutionalized [the] tendency toward planning," explains political scientist Laura Hein (1990: 119). In time, writes sociologist Bai Gao (1997: 154), the economic planning office would become "the most powerful economic bureaucracy in Japanese history."

3. The academic assessment. -- Among American scholars Gordon offers one of the more nuanced assessments of PPS, but even he pronounces it a success. The system

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[3] A notable dissent appears in Flath (2000: 82), who correctly notes its disastrous consequences.

[4] For a summary of Arisawa's approach to planning, see Gao (1997: 143). Note that on economic controls, the war-time fascists and the modern left urged largely similar policies. In the Japanese context, both the militarists and the Socialists urged analogous stands, stands that radically differed from those of the fundamentally non-interventionist conservative politicians like Yoshida.

Most of the Marxist intellectuals associated with Arisawa were not affiliated with the Japan Communist Party (JCP), but were instead affiliated (if anything) with the Japan Socialist Party (JSP).

was "more carefully focused" than earlier plans (1998: 6), writes he, and "funneled capital and materials to the coal and steel industries ...." By 1948 it "enjoyed some success," and the "crisis of shriveling production and soaring inflation had been averted ...."

Other scholars have been less modest. "There can be no question that priority production achieved results," declares political scientist Chalmers Johnson (1982: 185). According to Gao (1997: 169), "[i]mplementation of the priority production program was largely successful in promoting productivity in key industries." Indeed, asserts the late Princeton historian Marius Jansen (2000: 692), the "[e]conomic planning was essential in the context of postsurrender Japan." The shortage of foreign exchange and the need to allocate scarce resources prudently "combined to make it possible and indeed necessary to shape the direction of the economy ... ."

D. The Reverse Course:

1. Dodge and inflation. Then, everything changed. Between 1947 and 1949, write most historians, the Occupation dramatically shifted course. In the by-elections of 1946, Republicans captured both the House and the Senate. Stridently, they pressured Truman to restrain his New Deal economic planners in Tokyo. He did, and despite the Democratic resurgence in 1948 sent Detroit banker Joseph Dodge to Tokyo in February 1949 to put the Japanese economy in order.

To most scholars, the Japanese economy presented little disorder for Dodge to fix. PPS had worked, after all, and at worst had created some inflation. Nonetheless, Dodge mandated draconian austerity. In the process, write most scholars, he did stop inflation.[5] Unfortunately, for the inflation he imposed a “cure” far worse than the “disease”: in the course of ending inflation, he jeopardized the very economy itself.

Again, Dower is typical. Dodge "succeeded in reining in inflation," writes he (1999: 541), "but at costs that Japanese across the political spectrum found increasingly unpalatable. ... Bankruptcies increased among smaller enterprises, and the media began devoting attention to suicides among small businessmen."

"The 'Dodge line' program indeed halted inflation, but industry found itself starved for capital," explains Gordon (2003: 241; see also Borden, 1984: 61-622). By early 1950, "Japan appeared on the brink not of recovery but of a deepening depression." For Dower (1972: 113-14), the suffering that Dodge imposed on Japanese workers epitomized “the U.S. support for the emergence of a dependable, capitalist ruling class in Japan.” "[B]eginning in 1948 Shigeru Yoshida, with increasing U.S. support, began to fashion the 'tripod' of big business, bureaucracy, and conservative party which has controlled Japan to the present day." Together, his policies constituted the "active ... encouragement of concentration, economic dualism, and gross disparities of wealth" (Dower, 1975b: 487, 486; ital. in orig.). Together, they produced in Japan nothing less than a "bourgeois-democratic 'revolution.'"[6]

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[5] Again, Flath (2000: 84; see also Sims, 2001: 262) is one of the few to note -- correctly -- that the inflation had stopped before Dodge arrived.

[6] Even scholars more sympathetic to the later Occupation than Dower credit Dodge with stopping inflation. See Reischauer (1957: 321-22); Fairbank, Reischauer & Craig (1967: 822); Allison (1997: 77); Tipton (2002: 157).

2. Depression and the Korean War. -- Through Dodge Washington bet the Japanese economy and lost, conclude most historians -- or would have lost but for the Korean War. Once the war began in mid-1950, Washington started to order massive amounts of supplies from Japanese firms. But for the war, claims Dower (1999: 541), "Dodge's policies [might well] have culminated in a bona fide depression."

Again, other scholars concur. The war came "just as it appeared SCAP's medication might kill the patient," writes Gordon (2003: 241). It was "a blood transfusion that enabled the Japanese to survive," Gao explains (1997: 194). Declares Schonberger (1989: 225): "Only the unexpected outbreak of the Korean War rescued the American position in Japan from the political and economic morass left in the wake of the Dodge Plan."

II. The Good Occupation

A. Introduction:

This account has almost no basis in fact. Largely, MacArthur began the Occupation without plans. His staff entrusted the economy to sitting Japanese bureaucrats, and those bureaucrats enforced a planned economy. In doing so, they failed miserably. Only because Japanese voters forced their government to dismantle those controls did the economy survive. That Japanese government -- not Dodge -- stopped inflation, and that government -- not the Korean War -- created the structure behind the economic recovery. Rather than Japanese welfare, the celebrated "idealists" of the early Occupation cared primarily about retribution.

Implicitly, many readers assume that the Occupation was a relatively peaceful affair. We begin, therefore, by examining public order during the Occupation (Section B.). We then turn to the economic planning and idealism (Sections II. C.-E., III.).

B. Was the Occupation Peaceful?

1. Introduction. -- We picture the Occupation of Japan a quiet affair. For all his criticism of later SCAP policy, even Dower (2003e; see also 2002, 2003d) claims "there was not a single incident of terrorism against the U.S. forces there after World War II." In fact, continues he (2003a), there "were no anti-American protests following Japan's defeat. Not a single incident of terrorism or violence against the occupying forces took place."

No anti-American protests right after the defeat, perhaps, and very few (not none) violent incidents against the Occupation itself. But over the course of the Occupation's seven years there were anti-American protests a plenty. There was also plenty of terrorism and violence against Japanese businesses and the government through which SCAP implemented its policies.[7]

2. Released prisoners and E.H. Norman. -- Overwhelmingly, this violence came from the left. Generally, it came either from the Communists or from the other groups

[7] Reischauer (1957: 217) characterizes the early post-war years as a time of "rampant lawlessness." As his apotheosis of MacArthur illustrates, however, his discussion of the Occupation is hard to take seriously. Among other things, he reports that because of a shortage of soap, "Japanese went dirty for the first time in history" (id.: 215). Similarly, he claims that if Japan "had been occupied by the Soviet Union, Japanese capabilities for national planning and collective endeavor could undoubtedly have made her a model Communist state" (Craig, et al., 1965: 812).

that vied with the Japan Communist Party (JCP) for power. Because MacArthur's staff had rushed to free about 2,500 "political prisoners," many of the leaders of these groups had just come from prison. Given the violence of the fringe left, they had not all been serving time for "thought crimes." Some had been serving time for that violence itself.[8] Once they returned from prison, the politically motivated violence reappeared with a vengeance.

A crucial player behind their release was one E. Herbert Norman. Upon taking office at SCAP, Norman quickly went to visit imprisoned JCP leaders Kyuichi Tokuda and Yoshio Shiga. As would become clear over the next several years, the early Occupation included many with close ties to the fringe left. Among them, few would become more prominent than Norman.

A Japanese-born Canadian diplomat and historian, through his suicide in 1957 Norman became among scholars of Japanese history a cause celebre. Seconded from the Canadian foreign service, he had arrived at SCAP in 1945 as Chief of the Research & Analysis Section of the Chief Counterintelligence Office (Taylor, 1977: 126). In that capacity, he soon raised the suspicions of the famously conservative chief of intelligence, Gen. Charles Willoughby. Although he returned to the Canadian foreign service in 1946, suspicions that he maintained Soviet ties lingered. Under American pressure, the Canadian government investigated him in the early 1950s. When the U.S. Senate threatened to reopen the inquiry a few years later, he threw himself from a Cairo rooftop.

In death, Norman acquired iconic stature. Norman had initially published his Ph.D. dissertation through a Communist front, but during the mid-1970s Dower arranged its re-publication from a commercial press.[9] A decade later, historian Roger Bowen published both a biography of Norman (Bowen, 1986) and a conference volume on his career (Bowen, 1984). The National Film Board of Canada produced a fawning documentary (National, 1998). Several scholars added adulatory essays to his Ph.D. dissertation and arranged its re-re-publication from the University of British Columbia Press (Norman, 2000). And the Canadian government commissioned an inquiry into Norman that in 1991 (Lyon, 1991) declared triumphantly: "Not one iota of evidence suggests that" he was a spy.

That the government would commission a study of a long-dead diplomat and historian of early-modern Japan reflects the emotions Norman continues to raise. So, though, does the fact that the commission made the declaration it did. No doubt the emotions reflect a continuing hostility toward Joseph McCarthy.[10] Probably they reflect loyalty toward a fellow fringe-left scholar. Perhaps they even reflect Canadian embarrassment at having hired and then -- through the future Prime Minister -- protected a Communist in prominent and sensitive positions.[11]

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[8] Two of the released Communist leaders, for example, had been serving long sentences for torturing to death a police informant. See generally Beckmann & Okubo (1969: 244-45).

[9] Dower (1975a). Norman's dissertation had initially been published by the Institute of Pacific Relations, discussed in note 45, infra.

[10] This is also the hostility, of course, behind the implicit taboo on exactly the type of observations we are making here. See Romerstein & Breindel (2000: xiii).

[11] A measure of the emotions raised by the Norman controversy appears in the government report itself, which devotes 10 of its 40 pages to an ad hominum attack on James Barros, the political scientist who wrote the book-length study of Norman. Primarily, the attack seems designed to paint Barros as a right-wing quack (Lyon, 1991: 249-59). Facing accusations that Norman worked for the Soviet Union, most writers respond : (a) that the evidence against

Because a Communist Norman was. Even Dower concludes that "he was probably at least briefly a Communist Party member" in the 1930s (Dower, 2000: 252; see Lyon, 1991: 229; Taylor, 1977: 117). Over the last several decades, members of the 1930s Cambridge underground have described how he first joined their Communist cell, and then left to work undercover recruiting Indian students to the communist movement (e.g., Kiernan, 1987: 3). For the next two decades, he then lied about that membership -- as again even Dower (2000: 252) admits.

Not one iota of evidence? By the late 1990s, two Soviet agents had independently identified Norman as a fellow spy.[12] He had initially aroused Willoughby's suspicions when he (whose assignment had nothing to do with Hungary) moved quickly to acquire all documents left by the Hungarian legation in Tokyo as it evacuated its embassy (Barros, 1986: 38). And after a book-length inquiry into the subject, political scientist James Barros (1986: 142) concludes that Norman probably worked first for the GRU (Soviet military intelligence), and later for the KGB. "It can," he adds, "be said with reasonable certainty that, regardless of who ran Norman, he was enmeshed in Russian intelligence work."

Although most historians adamantly disagree with Barros, for our purposes whether Norman worked for the Soviets matters less than what he believed. Regardless of whether Moscow ordered him to push policies that promoted Soviet interests in the Pacific and Communist interests in Japan, Norman would have pushed them on his own. This was, after all, 1945. The U.S.S.R. was still an ally. It had fought the Nazis at enormous cost. It had kept secret the worst of Stalin's atrocities. And within that world, Norman shared with many intellectuals an enthusiasm for the Soviet collectivist experiment. With them, he shared as well a passion for helping make that experiment work.

Norman's policy preferenes matter because he potentially played a crucial (albeit hidden) role in the Occupation. He did not just engineer the release of Communist leaders from prison. With the help of John Stewart Service he facilitated the return of Sanzo Nosaka (Stalin's choice to head the JCP; T. Cohen, 114) from the Communist stronghold in Yanan (Barros, 19: 39-40). Service, in turn, had himself been indicted on

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him is either circumstantial or hearsay (true enough), (b) that he was a brilliant scholar (possibly true, but also irrelevant), and (c) that he was compassionate and caring (but why should not some Soviet agents have been compassionate?). The fact remains that there is serious evidence that Norman may have spied for the Soviets. Although the evidence is not conclusive, neither is any evidence that he did not spy.

Norman's patron in the Canadian government was Lester Pearson (later Prime Minister). On the various issues raised by Pearson's activities, see Barros (1986: chs. 7, 9-10); Costello (1988: 575) (Norman committed suicide to protect Pearson); and Pincher (1984: 417-18). Elizabeth Bentley's Senate testimony implicating Pearson in Soviet espionage is reproduced in Barros (1986: App. A).

[12] Anthony Blunt: "Herb was one of us," "he was relevant to the 'game,'" "definitely in the game". Anatoly Golitsyn: Norman was a "long-term communist and KGB agent." See Barros (1986: 120, 138); Lyon (1991: 244); West (1982: ch. 5 & 76); Pincher (1981: 139); Costello (1988: 578). Defectors do not always tell the truth, of course. Some -- like Elizabeth Bently -- have given accounts that later evidence has largely confirmed (see Section III.C.1., infra). Others like Golitsyn are more problematic. According to Cold-War historian John Haynes (private correspondence), "Golitsyn, while a genuine defector, over time kept remembering more and more about areas of Soviet espionage that based on his history in the agency he likely knew little about."

espionage-related charges in the U.S., but the government had transferred him to Tokyo after deciding that it could not introduce the evidence against him in court.[13]

According both to his supporters (Dower, 2000: 256; Ferns, 1983: 212; Lyon, 1991: 225; Taylor, 1977: 129) and to his critics (Barros, 1986: 42, 125), Norman had MacArthur's trust. "Our most valuable man" (Lyon, 1991: 225), MacArthur once called him. He met regularly with MacArthur in private, listened to him, advised him, and served as his general confidant. Obviously, both his supporters and critics have an incentive to exaggerate his impact on policy. The possibility that a Soviet spy might have served as MacArthur's confidant, however, obviously makes it harder to assess the Occupation.

3. Strikes. -- Strikes plagued the Occupation from the start. Just during 1946, their number climbed from 27 strikes involving 6,000 workers in January, to 104 involving nearly 189,000 workers in October (Moore, 1997: 14). With their leaders out of prison and back in action, the left was rapidly organizing the workforce. By June 1946 it had recruited 3.7 million members into 12,000 unions. By June 1948 it had recruited 6.7 million to 34,000 unions (Tamaki, 1976: 53; Okochi, 1966: 548). The strikes continued to involve 200,000 (in 1946) to 2.3 million (in 1948) workers a year through 1952 (Okochi, 1966: 552).

The fringe left did not just encourage unions and strikes; it also tried to destroy the conservative Yoshida government. Toward that end, in early 1947 it masterminded a nation-wide general strike. The time seemed ripe. The previous fall, South Korean workers had conducted a massive general strike (albeit one that left 6,500 people dead). The French Communist Party had captured first place in the general election. Toward their own strike, the Japanese leaders could claim the support of 6 million workers (T. Cohen, 1987: ch. 15).

For weeks, the Occupation gave only ambiguous signals, but on the eve of the strike itself MacArthur finally intervened: the strike, he announced, could not proceed. One might have thought it an easy case. After all, general strikes miss the point of democracy. Voters cannot maintain a functioning electoral system if labor unions can veto their choices through a general strike. For that obvious reason U.S. courts ban the tactic, and Japanese courts hold it illegal as well.[14]

Even on so basic a principle, however, MacArthur faced a divided staff. While labor specialist Theodore Cohen thought SCAP should stop the strike, others like economic analyst T.A. Bisson did not. Bisson worked in the Government Section, and would later claim to have promoted the Occupation's "deconcentration" program (see

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[13] Contrary to most accounts, Service most certainly had not been “cleared” or “acquitted” of those espionage charges. He had initially been arrested in June 1945 on charges relating to the leaking of classified information to the journal Amerasia. Connected to the journal were a variety of Soviet and Communist Chinese spies, as discussed in note 45, infra; see also Romerstein & Breindel (2000: 169); Haynes & Klehr (1999: 375). The charges against him were dropped (a) partly because much of the prosecution’s evidence came from illegal wire taps and a warrantless search (West, 1999: 282-83), and (b) partly because Lauchlin Currie (himself a Soviet agent figuring prominently in recently released decoded Soviet cables) personally intervened in the case to obtain the cooperation of the future Supreme Court Justice Tom Clark, who was then maneuvering to become Attorney General (Romerstein & Breindel, 2000: 168; Klehr & Radosh, 1996: chs. 5, 6). In what many believe to have been an attempt to cover-up the infiltration of the State Department by Soviet spies, Service was not fired but instead sent to Tokyo (Klehr & Radosh, 1996: 135). His co-defendant Andrew Roth would turn up in Tokyo as well.

[14] See Koku v. Toyama, 460 Hanrei jiho 10 (Sup. Ct. Oct. 26, 1966).

Sec. III.B., infra;see Haley, 2001: 19-21, 40 & n.154). According to historian Howard Schonberger (1985: 102), he also argued "in favor of permitting the general strike."

Bisson also passed documents to GRU spies. Hauled before Senate hearings and fired from an untenured post in Berkeley in 1953, he has like Norman played the martyr in academic hagiography. Indeed, as a "Progressive" scholar who stood by his principles at all costs, he earns an entire chapter in Schonberger's (1985: ch. 3) Occupation history. But if Norman possibly worked for the Soviets, Bisson leaves no doubt. Instead, decoded wartime Soviet cables released in the 1990s (known as the "Venona files") forthrightly report his passing war-related documents to Soviet military intelligence.[15]

Despite his apparently fractured staff, MacArthur did intervene, and did ban the general strike. The elections followed in April, and a majority of the voters chose one of the conservative (Progressive or Liberal) parties. Although nearly 18 percent also voted Socialist, given the sub-4 percent showing for the JCP Bisson blamed MacArthur. By intervening, wrote he (Bisson, 1949: 51), MacArthur had prevented "a sweeping democratic victory at the polls." Scholars since have followed Bisson's line. By banning the general strike, declares Dower (1999: 270), he signaled "the beginning of the end of the possibility that labor might be an equal partner in the sharing of 'democratic' power."

4. Plant takeovers. -- Militant workers also commandeered plants and ran them on their own. Over the course of 1946, 140,000 workers in 170 unions used the tactic. In January 1946 they took over 13 factories. In May they took over 56, and the number of commandeered factories stayed above 20 a month for the rest of the year (Tamaki, 1975: 55; Moore, 1997: 14).

For Dower (1999: 257), the takeovers represented "the emergence of a truly radical anticapitalist ethos at the grass-roots level." For Gordon (1998: 8), they symbolized the "revolutionary" challenge to "fundamental notions of private property and managerial authority." For some Japanese scholars, they constituted incipient workers' soviets (Yamamoto, 1977: 74). And for Dower's student Joe Moore (1978: 209, 266), they "promised a fundamental, democratic reconstruction of Japanese society" and the "democratization of the social relations of production."

Not surprisingly, factory owners thought otherwise. Indeed, they thought the tactic theft. After all, if workers had wanted the company, they could have pooled their money and bought it. Had they been willing to pay, they could have obtained the stock like anyone else.

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[15] One report from a GRU agent in New York to Moscow in 1943 reads (Venona cable of June 16, 1943, available at www.nsc.gov; see also June 17, 1943 and June 24, 1943):

> MARQUIS[MARKIZ][i] [Joseph Bernstein] has established friendly relations with T.A. BISSON, (in future "ARTHUR[ARTUR]") who has recently left BEW [ii] [Board of Economic Warfare]; he is now working in the Institute of Pacific Relations and in the editorial offices of MARQUIS' periodical [*Amerasia*]. . . ARTHUR passed to MARQUIS, so that as his colleague in the editorial office he might get acquainted with them, copies of four documents: (a) his own report for BEW with his views on working out a plan for shipment of American troops to China; (b) a report by the Chinese embassy in WASHINGTON to its government in China . . . . (c) a brief BEW report of April 1943 on a general evaluation of the forces of the sides on the Soviet-German front . . . . (d) a report by the American consul in Vladivostok . . . .

See generally Benson (2001: 43); Haley (2001: 19-20); Romerstein & Breindel (2000: 169).

Nor was the Japanese government pleased. If workers could expropriate assets that investors contributed, investors would not invest. If investors did not invest, firms would have no products to sell, consumers would have no goods to buy, and laborers would have no place to work. The government called the takeovers a crime, and the courts eventually agreed.[16]

When government leaders contacted SCAP, however, the Occupation refused to help. Labor bureaucrat Cohen (1987: 219) thought the takeovers "ingenious" and reports that his colleagues found them "bemusing." Even in the West, he told his superior (1987: 222), the "limits" to "ownership rights" were still "ill-defined." To the Japanese government leaders, SCAP explained that helping to enforce the law against plant takeovers "would contravene Washington official policy" (T. Cohen, 1987: 223). On this issue, the Japanese leaders had no choice but to struggle forward on their own.

5. Sabotage and violence. -- Year-in year-out throughout the Occupation, sabotage plagued the public. Sabotage was particularly common at the national railroad. There, it took a bloody turn. In June 1949, the company president was found dead on the tracks, apparently murdered. The police suspected union organizers, but never successfully proved the crime.

The next month, saboteurs slammed an unmanned train into a suburban Tokyo station, and killed six people. The police fingered ten radical union members, and the courts convicted one.[17] In August, saboteurs derailed a train carrying 400 people. This time, they killed three. The police again suspected union members, and several confessed.[18]

Stalin, however, wanted more. Through the Cominform journal in January 1950 (then reprinted in Pravda), he ordered the JCP to take a more violently revolutionary tack (Sengo, 1985: 99, 305). After some internal debate over whether to comply, party leaders began organizing terrorist attacks on police stations and public facilities. Having shifted criminal violence from the militant fringe to the party's central platform, they went underground and orchestrated bombings across the country (Sengo, 1985: 49; Keisatsu, 1982: 376-79).

Mass demonstrations followed. On May Day 1949, fringe-left groups drew a crowd of 3,000. A demonstrator died in the ensuing melee, and to commemorate his death the groups organized another rally for May Day 1950. This time, they drew 15,000 demonstrators, and when several SCAP soldiers tried to arrest a demonstrator they found themselves beaten by a 300-strong mob (Sengo, 1985: 88; Keisatsu, 1982: 247-50).

In 1952, the May Day riots turned worse still. Armed this time with bats and bamboo spears, the mob numbered 400,000 in Tokyo alone. When 5,000 left the prescribed path, they met police. In the riot that followed, they burned thirteen American military vehicles, and trashed another 29. The police responded with tear gas. When the air cleared, one person lay dead and 400 injured (Keisatsu, 1982: 362-67).

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[16] E.g., Koku v. Kitao, 6 Saiko saibansho keiji hanrei shu 288 (Sup. Ct. Feb. 22, 1952); Koku v. Otaka, 4 Saiko saibansho keiji hanrei shu 2257 (Sup. Ct. Nov. 15, 1950); Koku v. Tsuyuki, 55 Keiji saiban shiryo 51 (Kofu D. Ct. June 20, 1948).

[17] Koku v. Iida, 52 Hanrei jiho 1 (Sup. Ct. June 26, 1955).

[18] Nonetheless, prosecutors were unable to find enough collaborating evidence, and the courts eventually dismissed the charges. Koku v. Suzuki, 346 Hanrei jiho 6 (Sup. Ct. Sept. 12, 1963).

C. Was Occupation Economic Policy Planned?

1. Introduction. -- Wartime Americans did plan several things; they just did not plan what most right-thinking Americans would like to imagine they planned. They planned whether to hang the emperor. They planned whom else to hang. They planned how many islands to leave Japan. They planned which industries to shut down. They planned which firms to liquidate. But on the economy, American planners planned little else.

2. MacArthur's mandate. -- At the outset, Truman's staff in Washington claimed not to care whether MacArthur rebuilt the Japanese economy. According to their November 1945 "Basic Post-Surrender Directive," as his "ultimate objective" they wanted him (Basic, 1945: 429):

> to foster conditions which will give the greatest possible assurance that Japan will not again become a menace to the peace and security of the world and will permit her eventual admission as a responsible and peaceful member of the family of nations.

His "ultimate objective," in short, was not to rehabilitate; it was to prevent. It was not positive; it was negative: to ensure that Japan would not again threaten the rest of the world.

Still, readers might properly ask whether economic recovery would not help Japan rejoin the "family of nations"? Might Truman's staff have wanted MacArthur, in other words, to facilitate that recovery in order to reintegrate Japan? If they did want that, they did not mention it in the details that followed. Instead, they ordered him (a) to establish military control over the country; (b) to purge militarists from government and business; (c) to dissolve the military; (d) to punish war criminals; (e) to repatriate prisoners of war; (f) to censor militaristic expression; and (g) to preserve Japanese archives and to reopen schools in censored form.

Only in the Basic Directive's third level of detail did Truman's staff even discuss much about the economy. There, they listed the economic goals they expected MacArthur to pursue, and "rebuild" was not one of them. Instead, they ordered him (Basic, 1945: 433):

> a. To eliminate existing specialized facilities for the production of arms, munitions, or implements of war of any kind.
>
> b. To destroy the economic ability of Japan to create or support any armaments dangerous to international peace.
>
> c. To execute such program of reparations and restitution as may be decided upon by the appropriate Allied authorities.
>
> d. To encourage the development within Japan of economic ways and institutions of a type that will contribute to the growth of peaceful and democratic forces in Japan.
>
> e. To supervise and guide the operations of Japanese economic arrangements and operations to assure that they conform to the general purposes of the occupation, and make possible the eventual readmission of Japan to the ranks of peaceful trading nations.

Again, readers sympathetic to the early Occupation might ask whether the goals are not ambiguous. Goal (b) is brutal by any measure, as any even moderately prosperous country will have the "economic ability" to "create or support" a munitions industry. But goal (d)? Might Truman's staff have thought economic recovery would "contribute to the growth of peaceful and democratic forces"?

Here too the details eliminate the ambiguity. In further instructions, Truman's staff (Basic, 1945: 434) order MacArthur to implement "the reduction or elimination of certain branches of Japanese production, such as iron, steel, chemicals, non-ferrous metals, aluminum, magnesium, synthetic rubber, synthetic oil, machine tools, radio and electrical equipment, automotive vehicles, merchant ships, heavy machines, and important parts thereof." Further, they instruct him to "insure that all laboratories, research institutes, and similar technological organizations are closed immediately except those you deem necessary to the purposes of the occupation."

Make no mistake. Under orders from Washington, MacArthur was to cripple or shut down the steel, chemicals, machine tools, light metals, electrical equipment, and automobile industries. He was to close all research laboratories. Destruction was central to the tasks Washington assigned him. Recovery was not even among them.

3. Mandated indifference. -- MacArthur had no plans to rebuild the economy, but officially he did not care. Truman's staff had ordered him not to care. He had his instructions (Basic, 1945: 433-34):

> You will not assume any responsibility for the economic rehabilitation of Japan or the strengthening of the Japanese economy. You will make it clear to the Japanese people that:
>
> a. You assume no obligations to maintain, or have maintained, any particular standard of living in Japan, and
>
> b. That the standard of living will depend upon the thoroughness with which Japan rids itself of all militaristic ambitions . . . and cooperates with the occupying forces and the governments they represent.

Instead, economic recovery was the province of the Japanese government (Basic, 1945: 435):

> The Japanese authorities are expected to develop and effectively carry out programs of working activity that will enable them out of their own resources and labor to ... avoid acute economic distress.

The Americans brought no plan to rebuild the Japanese economy. They did not think it their job.

D. Did the Economic Planning Work?

1. Introduction. -- To claim not to care whether people have enough to eat is one thing. To govern them successfully while they starve is another, and few governments can rule while feigning total indifference. By necessity, SCAP soon found itself facing a crisis.

The economy lay in shambles. Over the course of the preceding decade, the military had forcibly converted factories from civilian production (for which their owners had designed them) to military use (for which they had not). Come 1944 and 1945, U.S. bombers had hit the efficient and inefficient alike, and leveled half the housing stock in

most major cities. From its colonies, 3.2 million Japanese now returned home. From its military outposts came another 3.3 million (Kawai, 1960: 21). Yet industrial production stood at a quarter of the annual production in 1931-33, and with scant fertilizer available the 1945 rice harvest reached barely two-thirds of the annual yields in 1933-35 (Okura sho, 1948: 551, 557).

Facing the prospect of social chaos, SCAP and the Japanese government set out to jump start this economy. Controls came naturally to both. SCAP civilians included not just obvious central planners like Bisson and Norman but a much larger cohort of committed New Dealers. Given that the fascists had promoted economic planning too, the Japanese bureaucrats had also used controls in the 1930s and early 40s. And in their economics departments, Japanese universities almost exclusively housed Marxist scholars.

2. The personnel. -- (a) SCAP New Dealers. As an organization, SCAP itself took no position on economic planning. Like most large bureaucracies, on most issues it instead had many positions. Maneuvering as he was for the Republican Presidential nomination, MacArthur himself did not push planning. Neither, however, did he understand economics well enough and monitor his staff closely enough to oppose it consistently. Many of the mid-tier military men in the Occupation apparently shared his sympathies, but into his civilian bureaucracy they had hired scores of planning-oriented New Dealers.[19]

Even Washington did not take a consistent line. Truman himself did not try to plan or control the U.S. economy. Yet he gave the Japanese government that option. In November 1945, the Joint Chiefs of Staff told the Japanese government that they would allow it "to establish and administer any controls over economic activities that are appropriate or necessary."[20] Even as late as 1948, they ordered MacArthur to tell the Japanese government to "[e]stablish an effective program to achieve wage stability," and to "[s]trengthen and, if necessary, expand the coverage of existing price control programs."[21]

(b) Japanese bureaucrats. The bureaucrats in the Japanese government were men of controls. Although SCAP hanged the military leaders, it largely left the mid-level bureaucrats alone. Finding support among SCAP New-Dealers for their command-and-control instincts, they forthrightly kept their controls in place.[22] Over the late 1930s and

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[19] According to Lattimore (1949: 106; discussed in Section III.C.2.(c), infra), the New Dealers were in Tokyo because, back in Washington, "Truman, in his first pathetic attempt to appease the Republicans in the name of 'unity,' was junking New Dealers as fast as they could be nudged out of the way by the cold-shoulder treatment."

[20] JCS-1380/15, in Government Section (1950: 435).

[21] Okura sho (1982: 739; Telegram W81014, from Draper to MacArthur, Dec. 11, 1948).

[22] The wartime controls (Yushutsu nyu hin to ni kansuru rinji sochi ni kansuru horitsu [Law Regarding the Temporary Measures Regarding Import and Export Items], Law No. 92 of Sept. 1937; Kokka sodoin ho [National Mobilization Act], Law No. 55 of 1938 and Law No. 19 of Dec. 1941) remained in place until October 1946, when a new regulatory statute took effect (Rinji busshi jukyu chosei ho [Temporary Law to Adjust the Supply of and Demand for Goods and Capital], Law No. 32 of 1946). That new statute remained a control statute, and the regulations under the wartime statutes continued in place under the new statutes until gradually replaced. Lest their be any doubt, the government passed a variety of regulations in early 1946 controlling price as well (E.g., Bukka tosei rei [Price Control Order], Choku rei No. 118 of Mar. 1946).

early 40s, they had pushed reluctant firms to produce for the War with ever-more-rigid centralized controls. As Miwa (2004: 19-20) put it, they had imposed "extremely strict government economic controls, with government control of the overall economy reinforced step by step."

During the War, the bureaucrats had implemented many of their controls through industry-specific "control associations." Given their military role, in mid-1946 SCAP ordered them dissolved (T. Cohen, 1949: 431). Many, however, promptly regrouped. The association in the coal industry did not even wait for SCAP to dissolve it. Instead, anticipating the SCAP decree, it dissolved in May 1946 on its own. The next day, it duly re-emerged as the Coal Mining Association (Miwa & Ramseyer, 2004b: 66).

(c) Marxist intellectuals. Central to many of the post-War economic plans were a group of prominent Marxist academics. Numbering perhaps two or three dozen, they formed a shifting group of men loosely organized around Hiromi Arisawa. Like Arisawa, several had suffered under the wartime police for their "subversive" ideas. Through the next two decades, their names would appear and reappear on a variety of prominent national committees, reports, and plans.

In early 1946, these intellectuals issued a report on the approach they would take. In it, planning figured prominently (Gaimu sho, 1946: 82). "Fair and free competition is not the only route to ... the democratization of the Japanese economy," they explained. Instead, "is it not necessary that financial institutions and basic industries be publicly owned, that the economy be planned, and that there be considerable national controls?"

(d) ESB and ESS. Crucial to the implementation of these controls lay the informal alliance between SCAP's Economic & Scientific Section (ESS) and the Japanese government's Economic Stabilization Board (ESB; Keizai antei honbu). Within SCAP, ESS contained some of the more determined New Deal civilians. Those New Dealers had originally pushed the Japanese government to form ESB, the Cabinet had complied in March 1946, SCAP had approved the new organization in May, and the ESB had begun operations in August (Miwa & Ramseyer, 2004b: 63-65).

Although the government initially created ESB under a one-year term, in May 1947 it extended that term and strengthened it.[23] Again, it did so under pressure from ESS. Formally, the pressure came as a letter from MacArthur to Yoshida (General, 1947; letter of 3/22/47). Yoshida had long opposed economic controls, but the letter declared it "the responsibility of the Japanese Government to maintain a firm control over wages and prices and to initiate and maintain a strict rationing program for essential commodities ...." Toward that end, it ordered the government "through the Economic Stabilization Board which was created for this purpose, [to] take early and vigorous steps to develop and implement the integrated series of economic and financial controls which the current situation demands."

That a Republican Presidential hopeful would sign such a letter illustrates the agency slack at SCAP. In fact, MacArthur had not written the letter at all; long-time

[23] Choku rei No. 193 of 1947.

Norman friend and Marxist economist Shigeto Tsuru had.[24] In time, Tsuru would make a name for himself as a scholar and eventually university president. Back in the 1930s he had overlapped with Norman at Harvard, and had studied there until the outbreak of the War forced him to return to Japan.

After the War, Tsuru allied himself with the New Dealers in SCAP. Together, they plotted to expand ESB's power over the economy. As Tsuru later recalled, one day ESS chief William F. Marquat called in sick. Marquat opposed strong controls but his stand-in, statistics section chief Ross, did not. With Marquat out, Ross and Tsuru discussed what to do. Ross suggested that Tsuru simply draft whatever letter he wanted. Tsuru did, Ross took it to MacArthur for his signature, and MacArthur sent it to Yoshida (Hayashi, 1994: 20).

The New Dealers at SCAP wanted ESB because of the way it helped both them and their Japanese colleagues circumvent their more conservative superiors. In ESB, ESS had a counterpart with which it could deal directly. In effect, by working together the control-oriented bureaucrats at ESS and ESB could cut out the more market-oriented men for whom they nominally worked. As a result, wrote economic historian Takafusa Nakamura (1986: 187), the economic plans of the early Occupation constituted "the joint creation of the young economists in SCAP and the bureaucrats at Japan's Economic Stabilization Board. Those plans reflected a policy-omnipotence, a confidence that one could run an economy effectively through economic control."

To facilitate their collusion, SCAP New Dealers created in the renewed ESB a post expressly for Tsuru. Over the Board as a whole they placed a coordinating committee, and for Tsuru they created the position of deputy chair. "At this point, you know how things work at SCAP," Tsuru remembered their explaining. "So you should go to the ESB. That's why we created the Consolidated Coordinating Committee in the first place." The committee itself never did much, Tsuru adds, but the vice chairmanship brought him a direct telephone line to SCAP and involved him in the negotiations over a wide variety of policies (Hayashi, 1994: 22).

3. The economic planning. -- (a) Introduction. -- Economic controls do not work. They should not work in theory, and as Eastern Europe demonstrated in spades they do not work in practice. In Japan in the late 1940s they did not work either. In our companion study in Japanese we examine the effectiveness of PPS in greater detail (Miwa & Ramseyer, 2004b). Here, we summarize those results and offer illustrative evidence.

By most accounts, PPS ran from the last quarter of fiscal 1946 (Jan.-Mar., 1947) through late calendar 1948.[25] Not until Katayama formed a Socialist-coalition cabinet in the spring of 1947, though, did it flourish. His JSP captured 26.2 percent of the popular vote that April, and 143 of the 466 seats (Table 1). With the support of the Progressive and Cooperative Parties, he then assembled a cabinet.

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[24] Norman's early run-in with FBI agents came in 1942 when he lied to them in an effort to obtain some of Tsuru's documents and books from his Cambridge, Mass., apartment (Tsuru had been sent back to Japan). See Barros (1986: 27-31); Bowen (1984: 54); Dower (1975: 99); Ferns (1983: 218-20).

[25] The statutory and regulatory provisions behind the program are complex, and we detail them in Miwa & Ramseyer (2004b). On Dec. 27, 1946, the Cabinet passed a plan for the production for the next quarter, and decided to organize a special fund for allocating capital preferentially to crucial industries. As this was not formally known as PPS, some ambiguity in the exact timing of the program is unavoidable. See Tsusho (1976: 456).

[Insert Table 1 about here.]

By late 1948, PPS had lost momentum. Katayama himself had stayed in power only through the winter of 1948. Faced with chronic labor problems and defections within his party, he lost control in February, and power passed in March to Democratic Party (formerly the Progressive Party) head Hitoshi Ashida. Plagued by a bribery scandal (Keisatsu, 1982: 202-09), Ashida did not last long as premier. Yoshida pulled his Liberal Party from Ashida's coalition in July, and assembled his own coalition government that October. Once in office, he began to dismantle Katayama's controls. He accelerated that de-control after winning the January 1949 election, and by September 1949 had eliminated PPS entirely.

(b) The JSP agenda. Long before its electoral victory, the JSP had planned to nationalize key industries. It had made "the realization of a socialist planned economy" key to its fall 1945 platform. Toward that end, it had declared it would work to "nationalize the steel industry, the coal industry, the artificial fertilizer industry, the electrical power industry, and other basic industries." Indeed, it continued, it would "nationalize the banking, trust, and insurance industries" as well (Nihon shakai to, 1966: 7, 71, 84).

Then, in 1947 the Socialists actually took control. In his memoirs, SCAP Labor Division Chief Theodore Cohen remembered them well. When Katayama assembled his cabinet, he recalls, they were ecstatic (T. Cohen, 1987: 316). "Only two years before, their leaders -- agitators, lawyers, journalists, scholars, trade union organizers -- whether in prison or out, had been in political oblivion. Now they found themselves vaulted suddenly to the helm of state."

The election, declared the Socialists, had given them a mandate to shift "the basis of our national structure from capitalism to socialism" (quoted in T. Cohen, 1987: 315). Socialism was but the "logical extension of democracy" (id.: 316). Already in 1946 they had introduced legislation to nationalize the coal industry. Now the time had come to proceed apace (Nihon shakai to, 1966: 7, 71, 84). At the heart of their basic program lay economic controls, and at the heart of the controls lay PPS.

(c) PPS design. Introduction. For both the planners themselves and the later historians, coal was key to PPS. As the energy source for perhaps half the industrial production, coal was central to the Japanese recovery (Nihon sekitan, 1957: 29 [excluding imported coal]; Tsusho sangyo sho, 1992: 73 tab. 3-2-1). To recover, the Japanese economy badly needed coal.

When the War ended, coal production shut down as well. In the early months of 1945, Japanese mines still produced at mid-1930s levels. By December they extracted only a quarter of the 1935-37 monthly average, and by June of 1946 still extracted less than half (Okura sho, 1948: 559). To recover, Japan badly needed more coal.

Prices. To increase that coal production, PPS could have let prices rise, of course. Had it merely left coal alone, demand would have raised prices. Those higher market prices would then have induced mines to dig what users could cost-effectively use. Let mines earn a market return on the coal they dig, and they will dig coal. That tactic,

however, the government refused to use. Instead, it tried to increase production while keeping prices low.

In effect, the government wanted firms to mine coal for prices below what it cost to mine it. On Figure 1, we plot authorized PPS prices against production costs. Consistently, prices fell short of costs. To be sure, we take the production costs from the mining industry association, and it had every incentive to exaggerate them (Hokkaido, 1958: 876, 915). Even if accurate, moreover, the figures give average rather than marginal costs. Notwithstanding, the Figure suggests a basic point: under the authorized price regime, firms had little incentive to extract their coal.

[Insert Figure 1 about here.]

Not only did PPS not use prices to increase production, it barely regulated production at all. Instead, it primarily regulated distribution. There, however, it imposed draconian controls. It required mines to sell their output to a single government-controlled firm. It set the price that firm would pay. It specified the routes through which user-firms could buy their coal. And it banned all other transactions in coal.[26]

Subsidies. Although the government did promise to compensate firms for the gap between the authorized price and production costs, it did not compensate. Instead, it paid less and paid late. Rather than compensate full losses it paid only part, and rather than pay promptly it delayed. Given the hyper-inflation, that delay cut the actual scope of the compensation further still. From April through July 5, 1947, mining firms claimed losses of 394 million yen. Of this amount, the government eventually compensated 82.5 percent (325 million). Of that 82.5 percent, it did not pay 69 percent (223 million yen) until late March 1948 (Hokkaido, 1958: 890).

In the interim the government loaned firms their expected compensation payment (fukkin yushi; Hokkaido, 1958: 862, 890 & tab. 340), but these loans would not have induced the firms to mine more. The question is obviously over-determined. Firms will not dig coal if production costs exceed the sales price, and they will not dig even if the buyer loans the sales price in advance.

Even if the sales price had been right, the firms would have used the loans to dig coal only if that earned them the highest returns. Whether subsidized or no, loans are fungible. If non-mining projects pay higher returns than mining, firms will shift the loans toward those other projects. If the law requires that they apply the loans to the mines, they will shift their other funds out of mining and into those higher-paying projects. If other firms have more promising projects in other industries, they will re-lend the funds to those other firms. And if the law prohibits such re-lending, they will move the funds through trade credit.

The government promised the mining industry a variety of other subsidies as well. If the mine and the union promised to try to meet production goals it would deliver a bowl of barley-rice per worker per day. It promised some clothing, cigarettes, sake, DDT, and soap (Asahi shimbun, Dec. 28, 1946). Note that unless it effectively linked these supplies to output increases, however, it would not have changed the firms' marginal cost of digging coal. Absent changed marginal costs, the firms would not have dug.

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[26] Haitan kodan ho [Coal Distribution Public Corporation Act], Law No. 56 of Apr. 1947. We detail the regulatory framework in Miwa & Ramseyer (2004b: 30-31).

(d) Assessment. Industry structure. The JSP's planners set themselves a Herculean task. Through PPS they purported to control the distribution of (among other items) coal. Yet as of 1948, 628 working mines produced the coal. Of these mines, 489 produced less than 50,000 tons a year. Three mines produced more than 1 million tons, and another ten produced 500,000 to 1 million tons. Together, though, these thirteen biggest mines produced barely 30 percent of the national total (Nihon sekitan, 1957: 10-11).

But if the coal industry seems too dispersed for anyone to have controlled effectively, other industries under PPS were even more so. Most extreme, rice was produced by some 6 million. It was consumed by tens of millions (Kase, 2002: 416-17). Nonetheless, the government tried to control this industry too.

Shortages. In many sectors, PPS did not as much cause rationing as shortages. To buy PPS-controlled goods on the official market, a would-be buyer needed government coupons. Through those coupons, he obtained the right to buy a specified amount at the specified price. Yet if the coupon gave him the right to buy, it did not give him the ability to buy -- for it did not mean he could find anyone willing to sell.

In most industries, the government set the official price substantially below the market-clearing price. By definition, of course, the market price is the price at which producers are willing to supply the amount consumers are willing to buy. Set the official price below that market price, and shortages necessarily ensue. At the official PPS price, in many sectors buyers simply could not locate many suppliers willing to sell.

As a result, the PPS coupon right was often an empty right. Dower (1999: 99-101) recounts the story of Judge Yoshitada Yamaguchi who died in October 1947 rather than buy food on the black market. Unable to find enough to eat through legal channels, he simply starved. Dower (id.) then castigates the "industrialists, politicians, and former military officers [who] made killings on the black market." What he does not explain, of course, is that the only reason they had black markets on which to make their "killings" -- and the only reason Yamaguchi could find so little food legally -- lay in the stringent economic controls the JSP and ESS imposed.

A single anecdote to be sure, the tale of Judge Yamaguchi captures a broader phenomenon under PPS and the JSP-ESS controls: rampant shortages. A firm that wanted steel, for instance, could expect a half-year delay. During the fourth quarter of fiscal 1947 (Jan.-Mar. 1948), would-be buyers held unfilled orders for 308,000 tons. Of those orders, suppliers were willing to supply only 120,000 tons (Shiba, 1948: 171).

Black market. Rather than sell at official (low) prices legally, producers sold at market (high) prices illegally. As inspectors fanned out across the country, they reported 60,000 economic crimes a month (T. Cohen, 1987: 313). For this massive policing effort, the Socialists counted on the U.S. military. Reports Cohen (id.), "Eighth Army Military Government teams in the field were deployed all over the country to check the price of fresh fish." The scope of the putative policing, of course, mostly just reflects the enormity of the problem. Under the JSP-ESS controls, consumers and firms that needed controlled goods had little choice: buy them illegally. Buy them on the black market they did, and every time they did so they committed a crime.

In Table 2, we report the results of a 1948 inquiry into the channels by which large firms in several industries obtained their raw materials.[27] During 1947, cement producers bought 10-20 percent of their coal on the black market. Paper pulp firms obtained 11 percent through the black market. Bicycle makers bought 45 percent of their coke on the black market, and cotton weaving factories obtained half their coke there.

[Insert Table 2 about here.]

The controls caused a variety of peripheral crimes as well. Coal buyers, for example, regularly encountered significant theft en route. According to the government-controlled coal distribution firm, it usually found a 10 percent shortage on shipped orders. By its estimate, shippers routinely exaggerated the amount they sent by 5 percent (Shiba, 1948: 154-55). "Under SCAP," wrote Fortune magazine in April 1949 (1949: 71), "Japanese morality has unquestionably changed for the worse, as the countless unnecessary controls have forced the Japanese ... into disregard of laws. For without black-market transactions people go hungry and cold ...."

Production. If the pretext behind PPS was to increase production, it was a goal the program did not meet. Under PPS, firms produced only 73 percent of the pig iron planned in fiscal 1947. They produced 86 percent of the steel planned, 72 percent of the ammonium sulfate, 92 percent of the soda ash, 67 percent of the cement, and 69 percent of the cotton thread (Tsusho, 1992: 85).

In Figure 2, we plot the official monthly target of 2.5 million metric tons of coal against the actual amounts produced. Although PPS took effect in January 1947, firms mined slightly more than 2 million tons a month through most of the year. Not until December did they finally break 2.5 million tons (Toyo, 1950b: 247-48).[28] Obviously, the fact that production fell below the nominal target is not decisive; the government might have set the target impossibly high.[29] The point instead is that production stayed flat during most of calendar 1947 -- the very period of PPS. As Fortune put it (1949: 208):

> The plain fact stands that the U.S., with everything in its favor, has had a clear field in which to operate, and on that field has spent more than $1 billion in fumbling attempts to revive the Japanese economy. The result: an economy without oil, chemicals, raw materials, shifts, without fresh capital, without incentives, harassed by bureaucrats who not only do not understand modern capitalism but are suspicious of it, rotting plants managed by men without executive experience, an economy half-dead, sucking in more and more American tax dollars to be wasted in unfocused experimentation.

[Include Figure 2 about here.]

Only after the government abandoned the JSP's policies did production boom. After Katayama's cabinet collapsed in February 1948, Ashida continued some but not all

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[27] The ESB commissioned the survey in early 1948 at 41 large factories.

[28] Although production did continue to climb thereafter, the increases primarily reflected the increase in mining personnel. In November, 1946 production per worker stood at a monthly 5.8 metric tons. It remained below that range until October 1947, and even in December 1947 remained at 5.9 tons (Toyo keizai, 1950b: 251).

[29] That said, the 30 million metric ton target was set as a supremely important and eminently reachable goal. Subsequent discussions of PPS have routinely taken it for granted that production did meet the targets set under PPS. See generally Miwa & Ramseyer (2004b: 2, 9-10).

of Katayama's controls (the JSP remained in his coalition, but many of the strongest advocates of control left with Katayama). Under the Ashida cabinet, production remained stuck at 2.5 to 2.9 million monthly tons (Toyo, 1950b: 247-48).

Urging the government to abandon these controls (Hokkaido, 1958: 788), in July Yoshida took his Liberal Party and bolted the coalition. Once he had assembled a strongly non-interventionist cabinet in October, coal production proceeded apace. He pulled the controls from the lowest grade coal in 1948, and the output immediately hit 3 million tons. In March 1949 it broke 3.5 million tons (Toyo, 1950b: 247-48). By July of 1950, Yoshida had dropped all controls over the coal industry, and production for the year hit 38 million tons. By 1955 it soared to 42 million tons (Ando, 1979: 13).

If scholars miss the effect of a non-interventionist framework on post-war growth, perhaps they miss it because they take the stories of Japanese industrial policy at face value. According to those tales, the Japanese economy grew during the 1950s-70s because the government intervened. In fact, however, the stories are false. As we show in detail elsewhere, the government never controlled Japanese economic growth (Miwa & Ramseyer, 2002b, 2003b, 2004a).

E. Did Dodge Stop Inflation? Did He Wreck the Economy?

1. Inflation. -- Although historians routinely claim that Detroit banker Joseph Dodge (a) stopped inflation, but (b) stopped it by plunging Japan into a depression averted only by the Korean War, basic chronology suggests otherwise. Consider the claim that he halted inflation. On Figure 3, we plot monthly black-market price changes (in percent) from October 1946 to January 1951. The message: by July 1948, monthly inflation had dropped close to 0. Although Dodge did not come until March 1949, inflation stopped almost immediately after Katayama's JSP-coalition cabinet collapsed in February 1948.[30]

[Insert Figure 3 about here.]

The Japanese government stopped the inflation by lifting economic controls. After Katayama's cabinet collapsed in February, Ashida assembled its replacement, and began de-control. Yoshida replaced Ashida in October, accelerated the de-control, and swept the January 1949 elections (see Table 1).

Yoshida won these votes on a platform to jettison the controls. By winning the election overwhelmingly, he could claim a clear popular mandate. With over half of the Diet seats, he had the legislative clout as well. What he lacked until Dodge arrived in March was the power to stop the pressure for controls from ESS.

Through Dodge, Yoshida obtained that power to stare down ESS. Kiichi Miyazawa (eventually Prime Minister but a senior bureaucrat at the time) remembers Dodge lecturing Finance Minister (and also eventual Prime Minister) Ikeda on the need for austerity. Preaching to Ikeda about austerity was preaching to the choir, but Miyazawa (1965) interpreted the lecture as aimed in part at the SCAP bureaucrats in the room. "When Mr. Dodge came to Japan, I thought it was a great chance to get rid of the incompetents at ESS," he (1955: 6) recalled. "For whatever reason, I still clearly remember suggesting to Mr. Ikeda that we should throw in our lot with this Dodge."

[30] A point rightly noted by Flath (2000: 84) and Nakamura (1986).

With Dodge, Washington politicians finally moved to check the agency slack in Tokyo. Until he arrived, mid-level bureaucrats in SCAP had systematically obstructed the efforts of men like Yoshida to place the economy on a stable platform. In appointing Dodge, Washington finally acted. Sensibly, Fortune (1949: 67) interpreted his appointment as "a kind of confession." In effect, reasoned the magazine, his appointment was "the nearest thing to an admission of failure that the taxpayer is likely to get."

2. The Korean War. -- If Dodge did not end the inflation, neither did the Korean War save the economy from disaster -- for by mid-1950 there was no disaster from which to save it. Yoshida had dismantled the controls, and Dodge (by holding ESS at bay) had given him the latitude to do so. Where Katayama's Socialists and the bureaucrats at ESS and ESB had crippled the economy, Yoshida and Dodge had replaced their controls with straightforward, non-interventionist fiscal and economic policies. Together, they placed the economy on the stable basis entrepreneurs needed to engineer a recovery. Together, they began that recovery before the war even started.

Again, simple chronology tells the story. On Figure 4, we plot monthly mining and manufacturing output from 1948 through 1951. Dodge stayed in Japan from March (the first vertical line) to May of 1949, and for expositional simplicity we index April 1949 production at 100. Note that the Korean War began in June 1950 (the second vertical line).

[Insert Figure 4 about here.]

The Figure suggests two points relevant here. First, although production stagnated for several months after Dodge left in May 1949, it did not decline. Instead, it plateaued. Second, by early 1950 production again began to grow. By June 1950, it stood 20 percent above its level a year before. Although the Korean War then conferred a munitions boom, the boom merely continued (at roughly the same pace) the growth that had already begun.

III. The "Reverse Course"

A. Introduction:

Dower (2003c) speaks for many historians when he claims that "two years or so of genuine reformist idealism" characterized the early Occupation, and bemoans the "reverse course" that followed. "U.S. policy became consumed by the Cold War," he explains. During the earlier years, SCAP had tried to "democratize" all aspects of Japanese society. If only Cold-War zealots had not intervened, it might have succeeded.

"Idealism" is an odd way to characterize policies that would have slashed per capita incomes for years. But absent intervention by zealots "consumed" by the Cold War, such is what the "idealists" would have done. Dower's idealists did not plan merely to dispossess the owners of the zaibatsu conglomerates. They hoped to dissolve the 500 largest firms, and to ship 500 factories abroad besides.

The term "idealist" misleads, of course, for it suggests the person held the best interests of Japanese people at heart. Instead, in most histories of the period the term serves as code for those on the left. In the mid-1940s, left-leaning Americans hated Japan at least as passionately as the rest of the country, and probably more. The Japanese military had colonized China, allied itself with the Nazis, and repressed its own left-wing. To many observers on the left, it deserved whatever brutal measures they could offer it.

Johns Hopkins lecturer and eventual MacCarthy target Owen Lattimore (1945: 189; more on him in Section III.C.2.(c), infra), for example, suggested that the U.S. intern the Emperor and "all males eligible for the throne ... in China ... under the supervision of a United Nations commission." After all, he explained (1945: 49-50):

> The truth is that Japanese fascism is more deeply rooted than that of Germany. Nothing could be more quintessentially fascist than the Japanese phenomenon of a whole society of twentieth-century hands guided by medieval brains. ... The difference between the two countries can be summed up in one especially interesting contrast: even stupid Nazis know that they have been taught, indoctrinated; but many intelligent Japanese do not know that their minds have been shaped long ago ....

In power in Tokyo, these U.S. "idealists" destroyed what they could. "Headquarters is full of 'reformers' ... work[ing] on a blueprint for a new Japanese economy," reported one journalist with glee (Sims, 2001: 241). "There is wrecking aplenty [to be done, for] this is a feudal land, and no democracy can rise here until the old structure is demolished." Dower (1986) makes much of the brutal racism he thinks animated the Pacific War. As Lattimore's "especially interesting contrast" illustrates, however, racism was hardly a monopoly of the right. And as the discussion of "deconcentration" and "reparations" below shows, the men who pushed hardest for a brutal Occupation were not the military men like MacArthur or the Cold-War zealots in Washington. They were the "idealists" on the left like T.A. Bisson, Harry Dexter White, Edward Welsh, and Owen Lattimore.

B. Deconcentration:

1. Zaibatsu dissolution. -- By "zaibatsu," prewar Japanese journalists had referred to several large family-owned conglomerates. Of these, the best known had been the Mitsui, Mitsubishi (owned by the Iwasaki family), Sumitomo, and Yasuda. Firms in these conglomerates, the journalists had claimed, had excluded potential competitors and exploited consumers.

Among the most vocal U.S. critics of the zaibatsu had been T.A. Bisson.[31] "[A]t the center of each of the economic empires controlled by Mitsui, Mitsubishi, Sumitomo, and Yasuda," wrote Bisson (1945: vii), "is a great bank with deposits running into billions of yen. From these four banks, with their associated or subsidiary trust, insurance and holding companies, radiates the corporate network which owns the factories, the mines, the shipping firms, and the commercial enterprises of Japan." Indeed, he (id.) continued, "[e]ight Zaibatsu concerns, together with the Emperor ... and some 3,500 big landlords, have held the country and its people as their economic fief." Before the War, declared Bisson (1954: 3), "privileged groups had exercised despotic power in every phase of economic life." Together, they pushed the national economy to "the stage of a highly developed monopoly capitalism" (Bisson, 1935: 319).

In fact (as we explain elsewhere; Miwa & Ramseyer, 2002a), zaibatsu firms had done nothing of the sort. They simply had had the bad luck to thrive when muck-raking journalists in the early 1930s came looking for someone to blame for Japan's corner of

[31] Lattimore (1945: 186) made similar claims. "The Zaibatsu, or giant combines controlled by a few families ... have had immense power over the state, and have supplied a great part of the motor energy driving the military mechanism." He advocated nationalizing their assets.

the international depression. Among the many firms competing in the Japanese economy, these firms happened to be the most successful. As such, populists christened them "zaibatsu." Although routinely translated "financial clique," the term more idiomatically translates as "robber baron."

Nonetheless, through the efforts of men like Bisson, SCAP quickly targeted the zaibatsu families, and by 1947 had dispossessed them.[32] It first required them to sell their interests in their firms to a "Holding Company Liquidation Commission." It then compensated them with modest amounts payable 10 years in the future.

In truth, SCAP had already bankrupted many of the zaibatsu firms anyway. Like most companies that the military had forced to invest in the munitions industry, the zaibatsu firms held large claims against the government. For many, only those accounts payable kept them afloat.

In November 1945, SCAP ordered the Japanese government to renege on the 91.8 billion yen it owed these firms (Nihon keiei, 1985: 376). Although the government initially resisted, under additional pressure from the British and Soviet representatives it eventually acquiesced. When it did, most of the firms promptly became insolvent (e.g., Nihon keiei, 1985: 382).

By dissolving the relatively concentrated ownership of the zaibatsu firms, SCAP also slashed their productive efficiency. Like most Japanese firms, the zaibatsu companies had bought, produced, and sold in competitive markets. They had thrived only because they bought, produced, and sold more efficiently than their rivals. As Demsetz & Lehn (1985) showed, firms survive in such environments only if they maintain firm-specifically appropriate ownership patterns.

Through the zaibatsu dissolution program, SCAP destroyed that ownership equilibrium. In related work, we explore the impact that the dissolution had on firm performance. Significantly, we find that in 1952 ex-zaibatsu firms still under-performed their rivals. Only as they reconfigured their ownership over the next several years did their performance converge to that of the economy as a whole (Miwa & Ramseyer, 2003b).

2. The deconcentration fiasco. -- (a) Introduction. But SCAP bureaucrats wanted more. They wanted far more than simply to dispossess a few zaibatsu families. By liquidating virtually all large firms, they hoped fundamentally to "democratize" and "deconcentrate" the Japanese economy. When news of their plan leaked to Washington, senior officials intervened before they could dissolve more than a few firms. To most historians of the period, that intervention marks the onset of the "reverse course": by stopping the Occupation's "deconcentration" plans, Washington signaled the triumph of Cold-War hysteria over the idealism of SCAP's early years.[33]

Call it the "bomb the Fortune 500" plan. SCAP "idealists" wanted nothing less than to liquidate the 500 biggest Japanese firms. They did not care whether the firms had

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[32] The report itself acknowledged that its recommendations were a foregone conclusion ([Edwards], 1946: iii): the Edwards Mission's "assignment was to recommend ... standards, policies, and procedures for carrying out the basic objective of destroying the power of the great Japanese combines ...." As Haley (2001: 30) put it, Edwards "and the other members of the mission did not discover undue concentration in any industry, nor did they find any pattern of effective pricefixing or production controls."

[33] For an ingenuous summary of the debates, see Hadley (1970: chs. 6-9).

any ties to the zaibatsu families, whether they had profited from armaments, whether they paid their workers high wages or low, or even whether they were monopolists or competitive. If the firms were big, they wanted them destroyed.

(b) Edwards. The "deconcentration" plan did trace its roots to the dissolution of the actual zaibatsu conglomerates themselves. As U.S. leaders set out to liquidate the those conglomerates, they turned to Northwestern economist Corwin Edwards. Together with seven others, in early 1946 he went to Japan.

Although Edwards would spend a few years at the University of Chicago, his was not what one would call "Chicago-school" economics. Later, he would publish an essay called "Conglomerate Bigness as a Source of Power" (Edwards, 1955). In it, he would claim (1955: 333-34):

> An enterprise that is big in this sense obtains from its bigness a special kind of power, based upon the fact that it can spend money in large amounts. If such a concern finds itself matching expenditures or losses, dollar for dollar, with a substantially smaller firm, the length of its purse assures it of victory.

"Big is bad," as nakedly as anyone ever claimed.

Edwards arrived with his team in January 1946, and issued his report in March ([Edwards], 1946). In it, he went far beyond urging SCAP to dissolve family empires like the Mitsui and Mitsubishi. Instead, he asserted (Okura sho, 1982b: 339; ital. added):

> [T]he term zaibatsu should be interpreted to include any private enterprise ... 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 of others to engage in business independently, in any important segment of business .... In applying this standard, it should be presumed ... that any private enterprise ... belongs to the zaibatsu if it is very large in total assets; if, though somewhat smaller in assets, it is engaged in business in various unrelated fields; if it controls substantial financial institutions as well as substantial industrial or commercial ones ....

In short, Edwards urged SCAP to dissolve any firm successful enough to have grown to a publicly visible size.

(c) FEC-230. Once Edwards had filed his report, SCAP New Dealers skirted the upper echelons of Washington and Tokyo to transform it quickly into policy. On the basis of his report, they drafted a "Statement of U.S. Policy with Respect to Excessive Concentration of Economic Power in Japan." In the acronymic world of the U.S. military, they named it SFE-182 and SWNCC 302/2. By May 1947 they had re-christened it FEC-230 and proposed it to the multinational supervisory Far Eastern Commission (FEC; reproduced in Hadley, 1970: App. IX).

In FEC-230, SCAP bureaucrats declared that "[t]he over-all objective of Occupation policy in dealing with excessive concentrations of economic power" was "to destroy such concentrations as may now exist" (Sec. 1.a.). They paraphrased the paragraph above from Edwards (Sec. 2), and announced that "[a]bsolute size" was "grounds for defining a specified concentration as excessive." "Uncertainty as to whether any specified enterprise is covered," they added, "should be resolved in favor of coverage since it is intended that ownership of the bulk of Japanese large-scale industry

should be affected" (Sec. 2). All covered firms, they then declared, would "immediately be dissolved" (Sec. 3).

The drafters of FEC-230 proposed to couple expropriation with a purge: they would compensate dispossessed investors with nominal amounts payable ten years in the future and ban senior executives at the firms from the business world for a decade. More specifically, they first announced that investors "who have exercised controlling power" over large firms would be "divested of all corporate security holdings." They further declared that senior executives at those firms would be "ejected from all positions of business or government responsibility." And they banned either group "from purchasing corporate security holdings or from acquiring positions of business ... responsibility" for ten years (Sec. 5). If before the end of that decade either group seemed likely to make a "revival," they suggested "added measures appropriate to the circumstances" (Sec. 6.d.).

As compensation, the drafters of FEC-230 planned to pay investors amounts that were small enough to "prohibit their buying back a place of power" (Sec. 6). In disposing a firm of its assets, they would keep "sales to wealthy and economically powerful persons and corporations ... to a minimum," and encourage sales to "agricultural or consumer cooperatives and trade unions" (Sec. 8.b.). Whether these preferred buyers had the funds would not matter, because they would determine prices by "the purchaser's ability to pay, rather than the real value of the holding" (Sec. 6.a.). If a buyer did have the funds to pay market values, they intended to confiscate the bulk anyway: any amount above "book value" (and most successful firms are worth far more than book value) would be subject to a tax of "not less than 90 %" (Sec. 6.b.).

(d) Implementation. To implement FEC-230, the New Dealers again skirted their nominal supervisors. They marked the document confidential. They never formally obtained its authorization as a military decree. And they never obtained the approval of the FEC (T. Cohen, 1987: 359, 364).

The man who would enforce FEC-230 was one Edward Welsh (he apparently had Bisson's support as well; Haley, 2001: 40). Welsh held an Ohio State Ph.D. and had worked at the Office of Price Administration at the New Deal. He now headed the Antitrust & Cartel Division of ESS. As one participant in the Occupation remembered it, he made "deconcentration" a personal crusade (T. Cohen, 1987: ch. 19).

Toward that end, on July 3, 1947, Welsh ordered the two largest trading companies, Mitsui Bussan and Mitsubishi Shoji, dissolved immediately -- as in, that very day. Bussan's 7,000 employees scattered to 170 firms, and Shoji's 4,000 employees to 120. He did not dissolve them because they were zaibatsu firms, he explained. He dissolved them to deconcentrate the economy (Okura sho, 1982a: 279-94). "[B]ig and dominant corporations are undemocratic of themselves."[34]

By destroying the two firms, Welsh substantially handicapped Japanese trade. More than any other institution, the firms had played a crucial part in connecting Japanese and overseas markets. Notwithstanding the absence of any substantial barriers to rivals, during 1937-43 Bussan had handled 18.3 percent of all Japanese exports, and Shoji 10.3 percent (Mochikabu, 1951: 538-41). Whether for Japanese firms cultivating markets abroad or for foreign firms identifying Japanese buyers, the two firms had played

[34] Okura sho (1982a: 279-94). The quotation comes from 1974, and is reported in Haley (2001: 33).

crucial intermediary roles, amassed enormous know-how, and cultivated wide-ranging personal ties.

To implement the (still unapproved) FEC-230, SCAP bureaucrats ordered the Japanese government to draft a statute. The Cabinet duly produced a draft in September 1947. When Japanese legislators tried to discuss it, SCAP twice intervened to stop debate. Having no real choice, they passed the statute in December.[35]

Welsh moved quickly to implement the new law. He planned to liquidate about 500 firms, he initially explained. As a start, he designated 325. Together, the firms accounted for about two-thirds of all paid-in capital (Okura sho, 1982a: 517-19).

(e) Abandonment. An American plan to bomb the Fortune 500 (not munitions firms, not exploitative firms, not monopolist firms -- just whatever 500 firms happen to be biggest) sells magazines, and it sold Newsweek. In late 1947, the magazine obtained a copy of the plan from New York lawyer James Lee Kauffman. Before the War, Kauffman had practiced law in Tokyo and taught at the University of Tokyo Law Faculty. Eventually (and presumably for his role in scuttling FEC-230), he would earn an imperial citation (the Japanese equivalent of knighthood). In mid-1947, he went to Japan. Upon returning, he circulated a memorandum about FEC-230, and Newsweek scooped the story (Newsweek, 1947; T. Cohen, 1987: 366-67; Haley, 2001: 40-41).

As Kauffman saw it, SCAP intended FEC-230 as a way by which "the existing economy is to be destroyed and one radically different from ours is to be substituted" (Newsweek, 1947: 36). Because of schemes like FEC-230, he warned "[s]ome Japanese have already lost their enthusiasm for the Occupation." The "number is being constantly increased," he added (id., at 37) "by those who are beginning to doubt our good will and sincerity because of our economic policy. ... As the existing chaos and confusion continue and the Japanese people enter another hard winter with practically no heat, few warm clothes, and little food, the number of doubters will grow."

Even Under-Secretary of the Army William H. Draper, Jr., did not learn of FEC-230 until he visited Japan in September 1947. Upon returning to the U.S., he immediately warned the State Department that the plan "would make Japan a permanent ward of the United States." Facing growing opposition, the Truman administration withdrew the plan from the FEC. By March 1948 it had abandoned the plan entirely.[36]

As welcome as the retraction was for all but the hardest left-leaning Japanese, the chaos continued. Welsh continued to designate firms, and by early 1948 had named several hundred more (T. Cohen, 1987: 370). Once designated, the firms found themselves legally barred from a wide variety of transactions (Miwa & Ramseyer, 2004b: 89-91). For many, the designations did not disappear until July 1951.[37]

C. Reparations:

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[35] Miwa & Ramseyer (2004b: 85). Law No. 207 of 1947.

[36] Okura sho (1982a: 491, 511-17). The day after the deconcentration bill took effect in Japan, California Senator William Knowland criticized it in a speach in the Senate, and used it to discredit MacArthur's Presidential candidacy. See Flath (2000: 76-77).

[37] Seirei No. 247 of July 1, 1951. See Okura sho (1982a: 554-61 tab. 4-7).

1. Morgenthau-White. -- SCAP "idealists" worked to destroy Japan's industrial capacity not just through "deconcentration," but through reparations as well. That reparations-based strategy began with a plan by Treasury Secretary Hans Morgenthau and Assistant Secretary Harry Dexter White. Although discussions of the plan usually involve Germany, its drafters also intended it for Japan. Through reparations, argued Morgenthau and White, the U.S. should decimate what remained of German (and presumably Japanese) industrial capacity and return the country to agriculture. If preventing it from waging war made it "necessary to reduce Germany to the status of a fifth-rate power," declared White, so be it: "that should be done."[38]

How much White drafted the plan to implement Morgenthau's preferences remains unclear. Morgenthau trusted White closely, and if White took a vengeful line toward Germany and Japan, so did Morgenthau.[39] In the last months of the War, so did many ordinary Americans. As noted earlier (Section II.C.2.), Washington's original instructions to MacArthur were as vengeful as they come.

Yet Morgenthau trusted the wrong man. Stalin also wanted his neighbors on his eastern and western flanks decimated, and White was a Soviet agent. Along with Alger Hiss (Assistant to the Secretary of State) and Lauchlin Currie (Administrative Assistant to the President), White was among the most eminent Americans in the Soviet spy network. All three men appear prominently as Soviet spies in the recently released Venona trove of decoded Soviet cables.[40]

Whether White pushed the plan on his own initiative also remains unclear. Defector Elizabeth Bentley claimed not. Instead, asserted she, White promoted it under orders from Moscow.[41] Although reviled for many years, Bentley now appears to have been right. Where the Venona cables overlap with issues she discussed, they largely confirm her claims. Conclude Cold-War historians Haynes & Klehr (1999: 163): "The deciphered Venona cables show that Elizabeth Bentley had told the truth."[42] For our purposes, however, the dispute is largely beside the point. What matters is that a Soviet agent designed and promoted a reparations plan for Germany and Japan that broadly promoted Soviet interests.

2. Pauley. -- (a) The report. Although Roosevelt discarded the Morgenthau-White plan as too draconian, the early Occupation adopted a reparations plan for Japan almost as brutal anyway. Behind this new plan too lay Soviet interests. To design it, Truman appointed former-Democratic-Party treasurer Edwin Pauley. Pauley named ten others to accompany him, went to Tokyo in November 1945, and submitted their report

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[38] Quoted in Craig (2004: 163). On the application of the plan to Japan, see Takemae (2002: 212); T. Cohen (1987: 29-31).

[39] See generally Craig (2004: ch. 7); T. Cohen (1987: 27-29); Romerstein & Breindel (2000: 47-48).

[40] See Haynes & Klehr (1999: 346, 352, 369); Romerstein & Breindel (2000: 210-19). A fourth possible high-level Soviet agent was Harry Hopkins, though his role is more uncertain. See Mark (1998); Andrew & Mitrokhin (1999: 111-12).

[41] Craig (2004: 158). White began with the GRU, and then moved to the KGB's predecessor NKVD. See Romerstein & Breindel (2000: 30).

[42] See also Romerstein & Breindel (2000: 182) ("the FBI investigation confirmed significant parts of her story. Venona confirmed most of the rest.").

the following April (Pauley, 1946). Crucially, as one of the ten he picked Owen Lattimore.

The Pauley Mission members began their report by reassuring the reader that American bombers had hit little more than Japan's "direct war industry" and plants that had supported the "war economy" (Pauley, 1946: 3). Given that the carpet-bombing had incinerated half the homes in 66 cities (J. Cohen, 1949: 406), it is hard to imagine whom they thought they could fool. Nonetheless, they asserted that "the industrial plant and equipment still standing have a production potential far greater than anything which the rulers of Japan, throughout Japanese history, ever allowed the people of Japan to enjoy for their own peaceful use" (Pauley, 1946: 3). Lest they leave any reader in doubt about their willingness to dissemble, they added that the "removal of surplus Japanese industrial potential will also be a direct benefit to the Japanese people themselves" (id.: 4).

That the mission members cared more about decimating the tattered remains of Japanese industry than about compensating victims (even less about the good of "the Japanese people themselves") appears in their proposal to scrap factories not wanted abroad. Suppose, for example, that no recipient country claimed a designated plant. According to the mission, SCAP should not let Japanese firms keep it. Instead, SCAP should destroy it (e.g., Pauley, 1946: 14-15).

If the Morgenthau-White Plan would have left Germany "pastoral," the Pauley Mission would have created an equally pre-industrial Japan. SCAP should urge Japanese to produce foodstuffs, the Mission urged. It should facilitate the growth of the "silk, tea, and lumber" industries. And for exports, it should encourage Japan to make "cement, handicrafts, porcelain, and toys" (Pauley, 1946: 7).

To force Japan back to the pre-industrial stage, the Pauley Mission urged draconian steps. Inter alia, it recommended that SCAP: (a) in steel -- eliminate 5 million metric tons of blast-furnace capacity but keep 500,000 m.t.; eliminate 6 million m.t. of rolling-mill capacity but keep 1.5 million m.t.; and eliminate 3 million m.t. of electric furnace capacity and 6 million m.t. of open-hearth capacity (Pauley, 1946: 13-15); (b) in chemicals -- eliminate 240,000 m.t. capacity in nitric acid but keep 12,500 m.t.; eliminate 450,000-500,000 m.t. capacity in soda ash but keep 300,000 m.t.; eliminate 195,000 m.t. capacity in caustic soda but keep 44,000 m.t.; eliminate 175,000 m.t. capacity in chlorine but keep 40,000 m.t.; eliminate all capacity in tar distillates; eliminate all capacity in alcohol production for explosives or motor fuel; and eliminate all capacity in celluloid production (id.: 15-17); (c) in machine tools: eliminate 600,000 machine tools, but keep 175,000; and eliminate all ball-, roller-, and similar bearing production equipment (id.: 17-19); (d) in shipbuilding: eliminate 42 shipyards and keep 22 (id.: 24-25); (e) in aluminum and magnesium: destroy both industries entirely (id.: 29-31; and (f) in gold: "the bulk of gold and other precious metals now amassed in Japan should be shipped to the United States Mint in San Francisco" (id.: 43).

(b) The effect. Although SCAP did tag several hundred plants to ship abroad, it never sent them. MacArthur rightly worried that the Plan would delay recovery, and stalled. Under pressure from Pauley and others, he eventually did agree to a set of "advance interim removals." By this compromise, in early 1948 he shipped 19,000 machine tools to China, the Philippines, the Netherlands, and the U.K. (T. Cohen, 1987: 148-52).

MacArthur never shipped or destroyed much else. Instead, to undo the Pauley Report, he and the War Department organized a second mission. For it, they hired consulting engineer Clifford Strike. Strike came, and with his team recommended in early 1948 that the U.S. abandon the bulk of the reparations program. A few months later, yet a third mission (the Draper-Johnston Mission) arrived, and recommended still lower reparations (J. Cohen, 1949: 419-27).

Although the U.S. did eventually abandon the Pauley Plan, many firms remained unsure of their status for another three years. After all, the Occupation was nominally a joint Allied enterprise, and the U.S. could not set formal policy on its own. Several other countries insisted on reparations through the end. As a result, until the Occupation closed in 1952, 850 plants remained officially "designated" for removal under the reparations program. As such, their owners could neither remove equipment nor make major changes. Facing a non-trivial risk that SCAP might yet ship their plant overseas, moreover, they had little incentive to upgrade it. Observed Fortune magazine, "the possibility of reparations removals still haunts every factory bigger than a laundry. Why should a Japanese work like a beaver if his plant is to be dismantled and shipped abroad at some future date?"[43]

When SCAP finally released the designated plants in 1952, many owners retrieved an unimproved and often long-mothballed 1945-vintage (if not earlier) factory. Given the pace of technological change, many of these factories would have become long-since obsolete. Some would have suffered from the mothballing itself. One of the men Washington sent to Japan was chemical-industry executive Frederick Pope. Eyeing several factories that a SCAP bureaucrat had shuttered, Pope remarked (Newsweek, 1949: 45):

> [T]he decision of this man to close them down for one year, to put them in storage, as it were, was the most ridiculous idea that has been presented in the chemical industry. Anyone who knows anything at all about chemical plants knows that leaving a chemical plant stand idle for any length of time is completely impractical. Employes (sic), usually trained over a lifetime, scatter. The management scatters. Since chemicals are corrosives the plant goes to pieces.

(c) The politics. Perhaps all this misses the point, however, for (as suggested earlier) reparations were never about compensation. SCAP official Theodore Cohen (1987: 147) recalled:

> [I]t made no sense at all. Japanese industrial plants, individually designed to begin with, depended on supplementary fixed facilities: docks, rail spurs, a suitable power supply, and so forth. ... Often they were integrated with nearby factories that provided them with semiprocessed products to finish or vice versa.

Instead, as Pope (Newsweek, 1949: 45) put it:

> [T]he only excuse for reparations is revenge. As far as chemical plants are concerned, reparations are an impossibility .... You can't move a chemical plant, tear it down, and rebuild it as cheaply as you can build a new one. If you do

[43] Fortune (1949: 72). See generally T. Cohen (1987: 152-53); J. Cohen (1949: 422-27); Miwa (2004: 334 n. 92); Okura sho (1984: 275-80); Takemae (2002: 459-62); Tsusho (1954: 536).

> move one, you start with a secondhand plant -- there's nothing worse than a secondhand chemical plant.

Yet if reparations made no sense as compensation, they made perfect sense to Stalin. For all the reasons Cohen and Pope noted, the Pauley Plan would not have much helped the recipients. Because moving the plants would have wrecked havoc with Japanese production, however, it did threaten Japanese welfare. Because the U.S. subsidized the Japanese economy, it threatened U.S. welfare as well. And the fact that it would have crippled Japan was precisely the point. Stalin wanted weak neighbors. The Morgenthau-White Plan would have given him weak states on both his western and eastern flanks. The Pauley Plan at least would have given him a weak Japan on the east.

Among the Pauley eleven, Owen Lattimore figured prominently: of the group, only two handled multiple industries, and one who did was Lattimore (Newman, 1992: 145, 149). Lattimore mercilessly parroted the party line. Most famously, when asked about Stalin's show trials and purges he once replied: "That sounds to me like democracy" (id.: 40; he was not joking). Ruminating about agricultural production in China, he assured his readers (Lattimore, 1949: 129) that "wherever the Communists have taken over they have increased food production, controlled distribution, and stabilized prices, successfully breaking the old cycle of recurring shortages and famines." And the counter-revolutionaries that the Chinese Communists massacred?

> For every landlord or "bourgeois" killed, scores of peasants were slaughtered, tortured, or burned in their villages; untold numbers of peasant girls were sold into brothels and boys into bondage. In China, as in Pilsudski's Poland, in the Baltic States, and in Mannerheim's Finland, the White Terror was worse than the Red because in a peasant country revolution attempts to break the grip of a minority, while counterrevolution attempts to break the will of the majority.

(Lattimore, 1945: 93-94). Time and again, Lattimore swayed with the winds from Moscow.[44]

Lattimore also counted several Soviet spies among his closest friends and associates. At the Institute of Pacific Relations, he edited the official journal. At the Amerasia magazine, he served on the editorial board. As the Venona cables and FBI wiretap transcripts show, both institutions served as fronts for Soviet and Communist Chinese agents.[45]

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[44] Lattimore repeatedly claimed that only by destroying Japan's social order could the U.S. hold its military ambitions in check. In Lattimore (1943: 13), for example, he writes: "The Japanese had strong survivals of a feudal system of codified inequalities between social classes. The privileged people who benefited by the system refused to abolish it, because of the inconveniences it would have caused them. As an alternative, they launched into aggression in order to force other people to pay the price of keeping up the expensive and inefficient social system within Japan." And in Lattimore (1946: 89), he claims that the intention of the militarists "was and still is to preserve as much as they possibly could of Japan's 'Old order,' that complex of imperial privilege, cartelized industry, and underprivileged peasant agriculture, all regimented under authoritarian social controls."

[45] The FBI wiretaps were illegal -- which made much of the evidence against men like Service (discussed in Section II.B.2., supra) inadmissible in any espionage prosecution.

The IPR and Amerasia had their offices in the same building, and many people were associated with both. Among those associated with at least one of the two were Norman; Bisson; Joseph Bernstein (the GRU agent to whom Bisson passed government documents); Chi Ch'ao-ting and Henshen Chen (both spies for Mao; Chen was also part of the ring organized by the star Soviet spy in East Asia, Richard Sorge); Philip Jaffee (who tried to pass government documents to the Soviets); Andrew Roth, Mark Gayn, and John Stewart Service (who at least leaked government documents and may have tried to spy as well); and Guenther Stein (part of the Sorge spy ring). In addition, present at IPR conferences were Hotsumi Ozaki (the principal Japanese source for Sorge), and Michael Straight (a Soviet agent

More troubling still, Lattimore was one of Lauchlin Currie's "good friends" (Sandilands, 1990: 129; Currie's biographer's words). As administrative assistant to Roosevelt, Currie arranged for Lattimore to serve as political advisor to Chang Kai-shek in 1941. He arranged for Lattimore to accompany Henry Wallace (then vice president) to China in 1944. And he even tried (unsuccessfully) to convince Roosevelt to appoint Lattimore ambassador to China (Sandilands, 1990: 112, 124, 128-29).

As noted earlier, according to the Venona Soviet cables Currie was also a Soviet spy. The Lattimore who relentlessly followed the Soviet party line, who worked at a Soviet espionage front, and who routinely received prominent nominations from a Soviet spy in the White House -- this Lattimore helped draft a reparations policy that tracked an earlier plan co-designed by another Soviet spy, possibly on orders from Moscow.

More directly, this Lattimore handled light metals and machine tools -- and light metals were a sector the Pauley Mission urged SCAP to destroy entirely, while machine tools were the only sector from which SCAP actually shipped anything abroad. In the end, SCAP did reject the Pauley Plan. But just by stalling investments and idling plants it had already cut Japanese welfare. Had it actually implemented the Plan, it would have slashed it further still.

As the Japanese economy began to boom, machine tools mattered greatly. In sectors like the automobile and automobile parts industry, they proved crucial. Yet during the 1950s, firms in these sectors made do with what they had, and what they had was very old. Even as late as 1958, over half the machine tools in the automobile and automobile parts industries were 10-20 years old (Miwa, 2004: 219 tab. 2.4). In the metalworking machinery industry, they were older still (id.: 207 tab. 2.1). When the Japanese economy began to grow, in short, it grew by exploiting the very machines that Lattimore had tried to eliminate.

Lattimore knew machine tools would matter. Indeed, he explicitly described them as "one of the key factors in all modern industry" (1949: 119). As the Pauley Report (1946: 17; in a section presumably drafted by Lattimore) put it, "machine tools are the heart of modern industry." Precisely because they were at its heart, Lattimore wanted them gone. Japan "remained industrially the most powerful national in Asia," he explained (1949: 118). The way “to insure against a too rapid revival of Japanese power" was to destroy its machine tool capacity.

Whether Lattimore consciously worked for Soviet intelligence is not the issue. Hardly the “top Russian spy” Joseph McCarthy claimed (Newman, 1992: 215), he may not have been a spy at all. His apparent ties to Soviet intelligence, after all, are entirely circumstantial. Instead, Lattimore would have pushed Soviet interests on his own. In 1946, Khrushchev had not yet disclosed the scope of Stalinist terror and Mao's worst atrocities still lay ahead. In this environment, men like Lattimore did not need

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recruited by Blunt from the Cambridge cell, where he observed Norman him becoming a "mole"). Note that the Secretary for the IPR branch in Japan was Kinkazu Saionji, who was convicted in 1943 for his part in the Sorge spy ring and emigrated in the 1950s to the PRC. See generally Klehr & Radosh (1996); Haynes & Klehr (1999: 375); Johnson (1964: 105, 111-13, 231 n*); Romerstein & Breindel (2000: 476); Willoughby (1952: 277); Costello (1988: 250, 479, ch. 15). Former CPUSA leader Louis Budenz described the IPR as "the Little Red Schoolhouse for teaching certain people in Washington how to think with the Soviet Union in the Far East" (quoted in Costello, 1988: 475).

In 1937, Bisson, Jaffe and Lattimore together visited Mao and Zhou EnLai in Yanan (Haley: 2001, 19).

instructions from Moscow to place the interests of a collectivist ally like the U.S.S.R. over those of a Nazi-aligned enemy like Japan.

IV. Other Programs

SCAP imposed two other principal programs, but in this study we address them only peripherally: land "reform," and the purges. First, in 1945-47 SCAP and the Japanese government took farm land from 3.7 million Japanese (a number that reached far into the middle class) and distributed it to those who had cultivated it (Flath, 2000: 75). Because the government promised far less than market value, paid the promised amounts in 30-year bonds, and radically deflated the currency, it effectively confiscated the land. In some cases, it took a 1/10th of a hectare of good paddy land for little more than 13 packs of cigarettes (Kawagoe, 1993: 195).

In substance, the Japanese government (a) levied a confiscatory asset tax on those who happened to have invested in agricultural real estate, and (b) conferred a corresponding windfall on those who happened to have worked in agriculture on rented land. Given that pre-War landowners had every incentive to adopt all cost-effective ways to exploit their real estate, one would not expect this pair of transactions to increase production. According to the research to date, it did not (Kawagoe, 1993: 199-200; Flath, 2000: 74).

Second, upon taking power SCAP set out to purge the government and business community of suspected militarists (Baerwald, 1959). In fact, most business leaders had realized that war with the U.S. would be bad for business, and opposed military expansion. No matter. Men like Bisson (1945) insisted that they had masterminded the expansion, and SCAP accepted their claims. Initially, it planned to purge 200,000 executives. In the end, it purged 453 executives, and about the same number resigned in advance (T. Cohen, 1987: 155, 169).

According to most historians, after the "reverse course" SCAP purged Communists instead. The claim misleads, for most of the Communists were purged not by SCAP but by Japanese firms and the Japanese government. From July to December 1950, Japanese firms fired about 11,000 employees. Many of these 11,000 were not simply Communists; they were also among the most militant union organizers. We doubt the firms much cared how their assembly-line workers voted. We do think they might have wanted to couch their union-busting tactics in terms the Occupation would find palatable.

For by the fall of 1950, the Occupation did indeed find the discharge of JCP-affiliated union leaders palatable. As noted earlier (Section II.B.5.), in January 1950 Stalin had castigated the JCP for cooperating with the Occupation, and ordered it to adopt more violent tactics. After some internal dissent, the Party had agreed to comply. Its leaders went underground, and began the terrorist sabotage that would characterize the Party for the next several years. Five months later, the North Korean army invaded the south, and American forces began ordering massive amounts of military equipment from Japanese firms. Yet firms like Nissan had Communist-controlled unions. Given the terrorist strategy the JCP had explicitly adopted, SCAP feared -- plausibly -- that JCP unionists would sabotage their purchases (T. Cohen, 1987: 451-52).

During roughly the same period, the Japanese government also fired about 11,000 Communist employees. Recall, however, that in February 1949 Yoshida's Liberal Party

had swept the polls. To such a center-right party, Communists were obviously the government employees at the farthest ideological distance. Effectively, by firing them Yoshida fired the employees who most adamantly opposed the policies voters had elected him to enforce.

Given these dynamics, characterizing the "Red Purge" as a product of a Cold-War hysteria misses much of the story. At root, the purge had two fundamentally distinct components, and both were indigenously Japanese. At the private firms, managers fired their most militant union organizers. At the government, the incumbent party fired those employees most likely to disrupt the policies voters had elected it to implement. One can debate the propriety of managers skirting labor laws to fire union organizers, just as one can contest the propriety of politicians skirting civil-service rules to fire their political opponents. Ultimately, however, those dynamics -- rather than any Cold-War-induced paranoia -- drove the "Red Purge".

V. Conclusions

In the chaos of the early post-War months, Marxist academics and command-and-control bureaucrats took control of the Japanese government. To enable them to implement their preferred policies, New Deal bureaucrats in the Occupation manipulated their own organization as necessary. And in 1947, Socialist politicians with a quarter of the vote cobbled together a coalition government. Together, the four groups imposed and enforced a series of wide-ranging and stringent controls over prices, wages, and distribution.

Disaster ensued. The controls stymied production, created rampant shortages, and generated thriving black markets. With the controls wrecking havoc, Japanese voters threw out the Socialists. In their stead, they elected center-right politicians who promised a competitive, free-market economy. Upon taking control, these politicians then promptly shut down the controls. Belatedly realizing what their officers in Tokyo had been doing, Washington intervened to let Japanese voters create the capitalist framework they wanted. The economy rebounded, and the recovery followed.

Western historians routinely miss this mundane account of Japanese politics. Ian Buruma (1994: 296), for example, claims (with no evidence) that the elections had been "rigged" to let the conservatives win, and bizarrely opines that this "stopped the Japanese from growing up politically." Gordon (2003: 238) finds the conservative victory "rooted in fear of the unknown and a deep desire for the return of some sort of familiar 'normalcy.'"

And historians show a parallel blindness toward policy in Washington. Rather than explain the "reverse course" as a straightforward attempt to curb agency slack in Tokyo, they cite mass paranoia. Rather than note that by 1946 American voters too had rejected New Deal economic controls, they attribute the policy shift to the Cold War.

Yet when in 1947 Washington shifted the Occupation into its "reverse course," most of the defining moments of the Cold War lay still in the future. The Soviets did not blockade Berlin until 1948, Mao would not take China until 1949, North Korea would not invade the south until 1950, and the Soviets would not test the A-Bomb until 1950 either. By the time the Cold War finally took hold, the Occupation had been in "reverse" for years.

The U.S. Occupation of Japan is not a tale of success through careful preparation. Indeed, it is not a tale about preparation at all. Neither is it a tale of social peace insured through scrupulous administration. It is not a tale of idealistic enthusiasm cut short by anti-Communist hysteria. It is not a tale of innovative populism undercut by old-school politicians. It is not a tale of government planning sabotaged by hegemonic industrialists, and it is not a tale of economic competition undone by scheming monopolists.

Instead, the story of the Occupation is firstly a tale of barely planned and badly executed American oversight hijacked by men (both Japanese and American) determined to impose on the country their private vision of the public good. It was a vision of government directives supplanting economic markets. It was a vision voters did not share. And it was a vision that failed.

The story is secondly a tale of democracy working as it should. By 1947 Japanese citizens realized that this command-and-control approach did not work. They used their vote to retake the government. And they shut down the control apparatus.

And the story is thirdly a tale of Washington leaders belatedly constraining the agency slack within their own Occupation. By reining in their New Deal bureaucrats in SCAP, the U.S. government gave Japanese voters the chance to implement the policies they wanted. They wanted a capitalist framework, and that framework became the foundation for the growth that followed.

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Table 1: Selected Electoral Results:

Election	Progressive*	Liberal	JSP	JCP	Cooperative	Other
4/10/46						
Seats	94	140	92	5	14	119
Vote %	18.7	24.4	17.8	3.8	3.2	32.1
4/25/47						
Seats	121	131	143	4	29	38
Vote %	25.0	26.9	26.2	3.7	7.0	11.2
1/23/49						
Seats	69	264	48	35	14	36
Vote %	15.7	43.9	13.5	9.7	3.4	13.8
10/1/52						
Seats	85	240	111**	0		30
Vote %	18.2	47.9	21.2	2.6		10.1

* Known initially as the Democratic Party.

** In the 1952 election, the JSP was split into left- and right-wing factions; the figure given is the total.

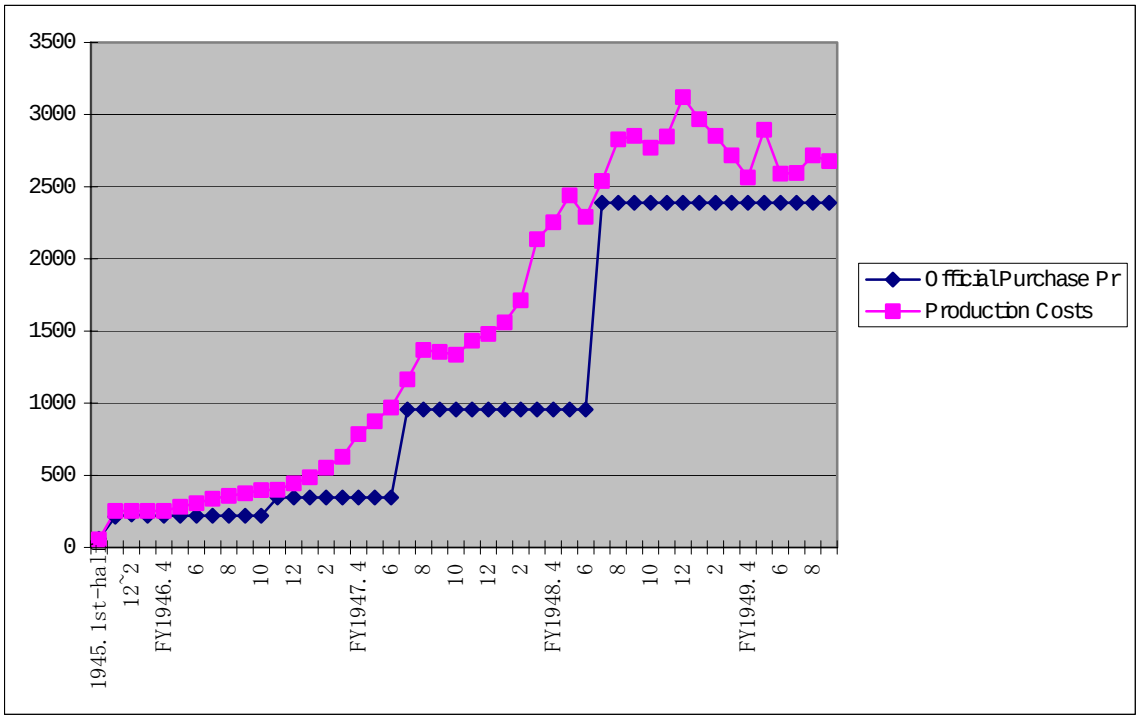
Source: Kiyoaki Tsuji, ed., Shiryo: Sengo 20 nen shi: 1 Seiji [Materials: The 20 Years of Post-War History: 1 Politics] (Tokyo: Nippon hyoron sha, 1966), pp. 448, 450.

Table 2: Source of Materials Used, by Industry in 1948

Industry	Raw Mat Materials	Own Stocks	Legal Channels	Other Channels
Cotton weaving	Pig iron	50	5	45
	Steel	70	5	25 .
Multi-purpose generator	Silicon board	20	60	20
	Pig iron	5	25	70
	Electrical wire	35	40	25
	Cotton tape	35	50	15 .
Light bulb	Tungston	92		8
	Soda ash	30	70	.
Bicycle	Steel	28	37	35
	paint	43	23	34
	coke		55	45 .
Paper pulp	Wood	16	84	
	Chemicals	5	68	27
	Coal	6	83	11 .
Automobile	Steel	25	50	25 .

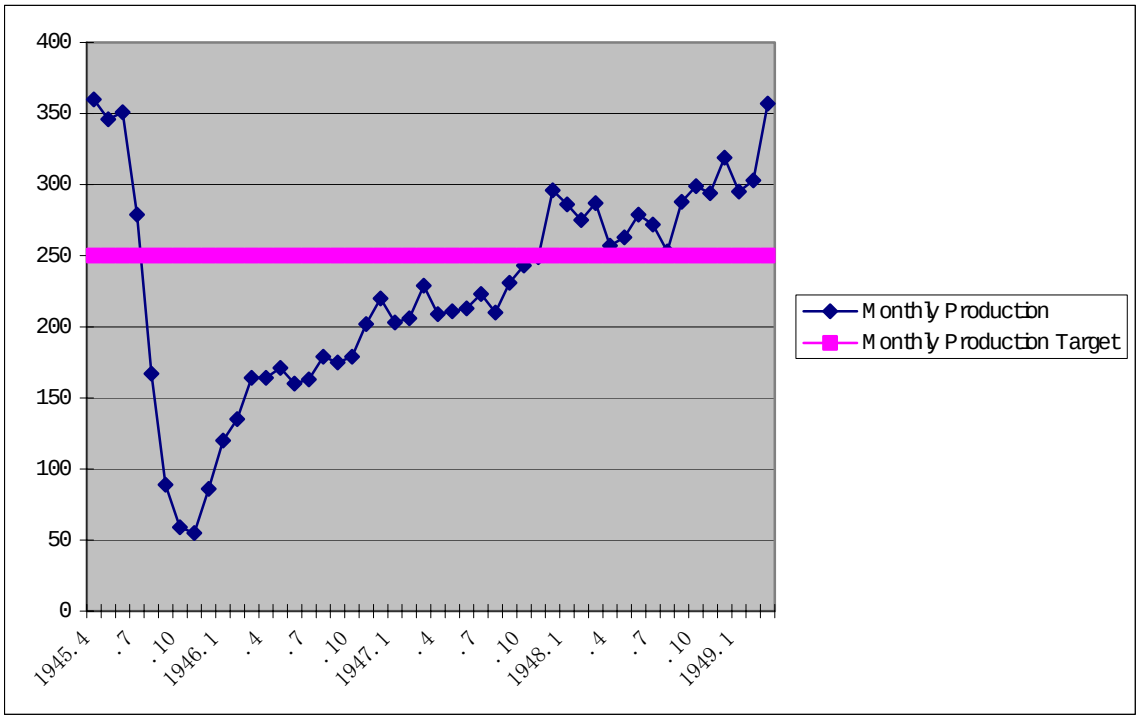
Source: Kokumin keizai kenkyu kyokai, Dai 2 kai shuyo kigyo seisan jittai chosa hokoku sho [Second Report of the Investigation into the Production of Major Firms] (Tokyo: Kokumin keizai kenkyu kyokai, 1948).

Figure 1: Production Costs and Official Sales Price of Coal, 1945-1949



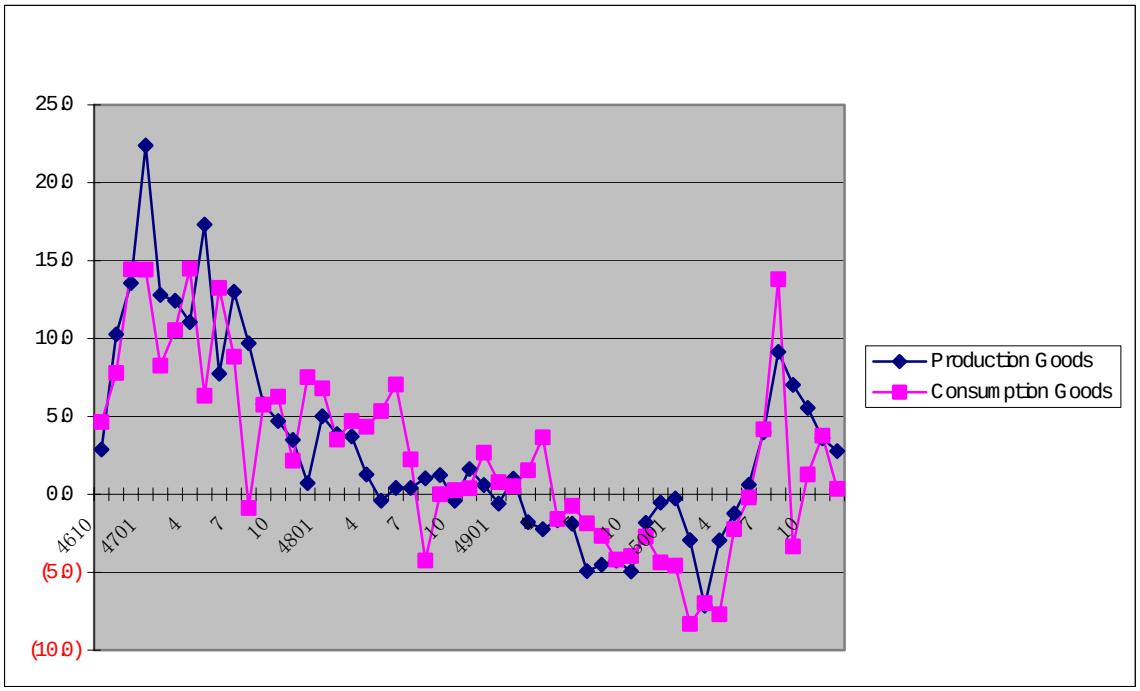
Source: Hokkaido tanko kisen, K.K., ed., Sekitan kokka tosei shi [A History of the National Controls over Coal] (xxx: Nihon keizai kenkyu sho, 1958), p. 878 tab. 330.

Figure 2: Actual and Target Coal Production, 1945-49



Source: Toyo keizai shimpo sha, Showa sangyo shi, Dai 3 kan [Showa Industrial History, Vol. 3] (Tokyo: Toyo keizai shimpo sha, 1950), pp. 247-48.

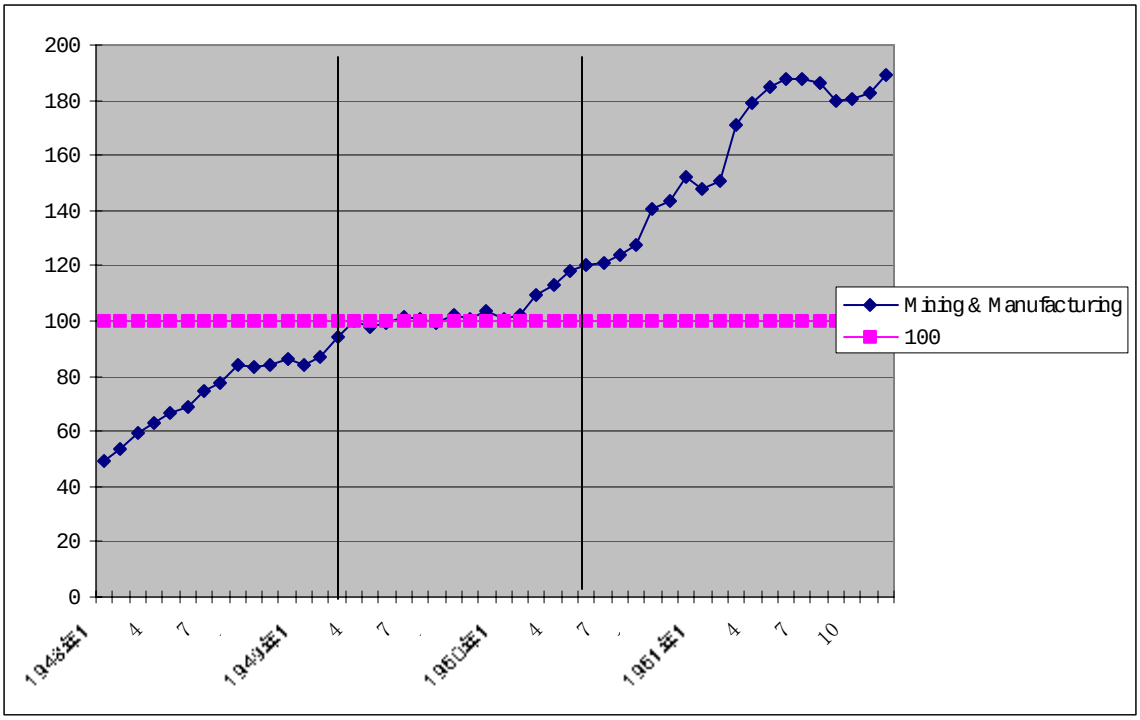
Figure 3: Black-Market Price Index:
Percentage Change from Previous Month



Note: Prices are for Tokyo.

Source: Okura sho zaisei shi shitsu, ed., Showa zaisei shi -- shusen kara kowa made, dai 19 kan [Japanese Finance History: From the End of the War to the Peace Treaty, v. 19] (Tokyo: Toyo keizai shimpo sha, 1978), pp. 60-61, 64-65.

Figure 4: Indexed Production:
Mining and Manufacturing, April 1949 = 100



Source: Okura sho zaisei shi shitsu, ed., Showa zaisei shi -- shusen kara kowa made, dai 19 kan [Japanese Finance History: From the End of the War to the Peace Treaty, v. 19] (Tokyo: Toyo keizai shimpo sha, 1978), pp. 87-88.