

THE UNREALISED DECARTELISATION OF JAPAN: AN INTERMESTIC APPROACH

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Abstract

After the surrender of Japan following WWII, the US occupied Japan for seven years until 1952 – while remaining in Okinawa until 1972. The aim of the occupation's administration was to demilitarise and democratise Japan. One of the goals to achieve this aim was the decartelisation of Japan and the dissolution of the Zaibatsu. However, while the decartelisation of Japan was an early goal of the administration, the dissolution of the Zaibatsu was never fully realised. The occupation's administration was concerned with New Deal liberalist reforms at the onset of the occupation. However, after the first two years of the occupation, the US shifted its decartelisation policy from economic reform to economic recovery in what has been dubbed as Japan's reverse course. The origin of the reverse course has often been explained as a Cold War phenomenon. However, through archival research, this thesis shows that domestic factors such as the US domestic economic situation and the Republican victory in the 80th Congress significantly changed the course of the Zaibatsu dissolution. As such, these “intermestic” issues influenced the shift away from economic reform to economic recovery and the result of this can be seen in the Japanese economy to this day.

Preface

The research for this thesis first started around October 2018, as part of the North American Studies programme at Leiden University. It was inspired by “Democratizing Japan and Germany,” a chapter from Tony Smith’s *America’s Mission*, as recommended by dr. William Michael Schmidli, who would later become my supervisor for this thesis. With a topic that has so exhaustively been written about like the occupation of Japan, it makes sense in hindsight, that the topic of this thesis changed multiple times over the following half year.

However, in January 2019, the first groundwork for what this thesis would become had been laid. Over the following months, I was able to delve into the occupation and decartelisation of Japan, which culminated in the thesis that lies before you. This thesis has gone through many phases, but with each one there were people helping me along the way that I would like to acknowledge.

First of all, I need to thank the North American Studies department at Leiden University. Over this last year, I have grown as a person, but more importantly, I have been able to grow as an academic. This is all due to the help, guidance, and motivation that you have given me. I have come out of this year a better person, fully committed to advancing my academic career.

Part of the research for this thesis was done at the Roosevelt Institute for American Studies in Middelburg. I want to thank the Roosevelt Institute for opening its doors for me. Tessa Baan especially deserves a mention as the one who helped me find my way around all the sources and courteously invited me into the institute.

Parts of this thesis were also presented at the Netherlands American Studies Association’s Amerikanistendag conference at the University of Groningen. The discussions after my presentation at the conference helped me shape my analysis. I am grateful to all of those who listened to my presentation. I am particularly thankful of dr. Dario Fazzi, who

chaired my panel, and dr. Cees Heere, who shared my passion of US-Japan relations and was able to offer great feedback on my research.

The friends and family who have supported me in this endeavour also deserve to be mentioned. Particularly Anne-Mayke Zwetsloot and Hans Zdravko Harmens, who have always helped me with my writing and offered feedback. Countless hours were spent in the Coffee Company in The Hague and the people who were there have been of invaluable help. My parents, Marjolein and Wim Meinderts, as well as my partner Emma van Rooijen, need to be thanked for their emotional support as well. Without you, I would not be the person that I have become.

Most importantly, I am indebted to my supervisor, dr. William ‘Mike’ Schmidli. I have been pestering him with my research over the last nine months and he has always been extremely helpful with all the guidance and advice he has given me. He also introduced me to the notion of intermestic affairs, featured in this thesis, which has been valuable in my academic career outside of this thesis. Without his extensive guidance and supervision, both me and this thesis would have been all the poorer for it.

Tom Meinderts

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Table of Contents

Introduction	5
Research Design	7
Intermestic Affairs	9
Defining the Intermestic	9
Intermestic Affairs and the Occupation	13
Literature Review	15
The Midterms of 1946	16
MacArthur and the Presidential Election	19
Domestic Influences on Japan’s Reverse Course	21
An Intermestic Approach	24
The United States and the Zaibatsu Dissolution	26
The Initial Policy	28
Implementing the Dissolution	30
The Limits of New Deal Liberalism	33
Congress and the Occupation	38
Shifting Policies	44
Reverse Course for the Dissolution and Operation Crank-Up.....	45
Economic Concerns	50
The End of the Zaibatsu Dissolution	53
The Legacy of the Dissolution	55
Zaibatsu to Keiretsu	56
Conclusion: The Good Occupation	59
Abbreviations Used in Notes	62
Primary Sources	63
Bibliography	66

Introduction

After the surrender of Japan following WWII, the US occupied Japan for seven years until 1952 – while remaining in Okinawa until 1972. The aim of the occupation's administration was to demilitarise and democratise Japan. One of the goals to achieve this aim was the decartelisation¹ of Japan's Zaibatsu. The Zaibatsu were families who together held monopolies on most aspects of Japan's economy and, as such, also held significant political power. In order to turn Japan into a democracy with open access to the global free trade market, the US wanted the Zaibatsu to be dissolved.

While the decartelisation of Japan was an early goal of the administration, the dissolution of the Zaibatsu was never fully realised. The occupation's administration was concerned with New Deal liberalist reforms at the onset of the occupation. However, after the first two years of the occupation, the US shifted its decartelisation policy from economic reform to economic recovery. Consequently, while the Zaibatsu initially did lose some power, they quickly rose from the ashes and regained their dominant position in Japan's politics and economy. The decartelisation of Japan was one of the primary policies of the occupation's administration, so why did the US shift policies?

The sudden shift in the policies of the administration occurred in late 1947 and has been referred to as Japan's "reverse course."² The reverse course was a shift in aim from economic reform to economic recovery and heavily influenced decartelisation policies. The reason behind the reverse course is often explained as a Cold War phenomenon. US-Soviet relations were deteriorating, China was in the middle of the Chinese Communist Revolution, and the division of Korea signified rising tensions, which would lead to the Korean War.

¹ Also known as deconcentration. In this thesis, these terms are used interchangeably.

² Howard B. Schonberger. *Aftermath of War: Americans and the Remaking of Japan, 1945-1952*. (Kent: Kent State University Press, 1989), 4.

While rising Cold War tensions in the Pacific were undoubtedly a factor in the occupation's shift in policy, this was not the only reason for Japan's reverse course. The US economy was recuperating from an enormous drop in GDP after a decline in government spending following the end of the war in the mid-1940s and the US was going through a short recession in 1948-1949. Moreover, for the first time in thirteen years, the Republicans gained the majority in both houses of Congress following the midterms of 1946. This thesis explores how these domestic factors influenced the decartelisation of Japan and the reverse course.

This thesis aims to show how intermestic deliberations changed the course of the decartelisation of Japan and the Zaibatsu dissolution. Seeing as there has not yet been an exhaustive study of the domestic factors shaping the Zaibatsu dissolution, this thesis hopes to fill this gap in the literature. Moreover, this thesis will contribute to the literature surrounding the occupation of Japan and, more broadly, diplomatic history.

The first chapter of this thesis outlines the concept of "intermestic affairs" and serves as an interpretive framework for the rest of this thesis. Intermestic affairs is a blend word – or portmanteau – of domestic and international. It explains how foreign affairs policies are often rooted in domestic deliberations. This chapter is followed by a review of the existing literature concerning domestic influences on the course of the occupation of Japan. The next two chapters provide an analysis of the influence of domestic factors in shaping Japan's reverse course. The third chapter outlines the initial policies towards the Zaibatsu dissolution, how the discourse surrounding the decartelisation of Japan started to change over time, and what role the 1946 midterm elections played in this changing discourse. The fourth chapter explicates the progression of Japan's reverse course and examines how US economic deliberations shaped the shift in policy regarding the decartelisation of Japan. This chapter is followed by a final chapter which examines the legacy of the Zaibatsu dissolution and how

the consequences of the reverse course can still be seen in the current Japanese economy.

Research Design

While the current literature acknowledges that some domestic considerations may have shaped the reverse course of the deconcentration program, it mostly explains it as a Cold War phenomenon. In order to fully understand the reason for this reverse course, these domestic considerations need to be further examined. This thesis aims to do so by posing the question: What were the domestic considerations that shaped the reverse course of the Zaibatsu dissolution policy?

In order to answer this question, this thesis focuses on archival research, including declassified documents, government publications, and Congressional records. Key archives consulted are the *National Archives*, the *Foreign Relations of the United States* series, the *Central Intelligence Agency Freedom of Information Act CREST Records*, the *Harry S. Truman Presidential Library Archives*, and the *Roosevelt Institute for American Studies*. As such, this thesis is a qualitative close-reading of primary and secondary sources.

As noted above, I take an intermestic approach to understanding the domestic influences that shaped the reverse course of the Zaibatsu dissolution. As such, this thesis examines how foreign policy is shaped by domestic considerations. This approach can be particularly insightful for this topic because it allows us to understand what is missing in the current literature: domestic considerations for the US's economic policy towards Japan.

When writing about US-Japan relations, it would make sense to take both a US perspective and a Japanese perspective into account. However, this thesis does not aim to provide a complete history of the processes guiding the decartelisation. Instead, this thesis looks at the processes and the motivations behind the changed US policy towards the decartelisation by taking an intermestic approach. As such, the emphasis of this thesis is

placed on the US's role in shaping the occupation's policy and particularly the Zaibatsu dissolution.

Furthermore, while the Cold War was undoubtedly an important factor in shaping Japan's reverse course, this thesis does not go in-depth into Cold War deliberations regarding the decartelisation policies as there is already ample literature on these deliberations.

Nonetheless, it is necessary to mention these deliberations to fully understand the domestic influences on US policy. As such, while not focusing on the Cold War, this thesis does reference Cold War deliberations for its cultural and historical context.

Intermestic Affairs

The decartelisation did not just affect Japan, but the US as well. The occupation of Japan lasted for seven years – and 27 years in the case of Okinawa – which meant that the US was directly linked to Japan. As such, the domestic economy and political discourse within the US shaped the policies for the administration in Japan over this seven-year course. Therefore, a purely foreign policy focused approach cannot account for the sudden shift in policy regarding the decartelisation of Japan. The direct post-war period in the US was rife with rapid political, economic, and financial changes. As such, the domestic factors that shaped the decartelisation policy need to be examined more closely.

In this thesis, I will explain the shift in policy regarding the decartelisation of Japan by using an “Intermestic” approach. As such, I aim to explain how domestic deliberations shaped US foreign policy in the case of the occupation of Japan. In this section, I will outline what is meant by intermestic and how this approach works in explaining the factors motivating foreign policy. Afterwards, I will briefly explain how this intermestic approach may be especially viable when discussing the occupation of Japan, and how this thesis will use an intermestic approach regarding the decartelisation of Japan.

Defining the Intermestic

The notion of intermestic affairs may be best explained through the role of the President, as Presidents have both a domestic, and an international role to play. Political scientist Ryan J. Barilleaux explains that traditionally, researchers of presidential affairs have examined presidents as Janus-faced; the domestic affairs president and the foreign affairs president.³ He

³ Ryan J. Barilleaux. “The President, ‘Intermestic’ Issues, and the Risks of Policy Leadership.” *Presidential Studies Quarterly* 15, no. 4 (1985): 754.

continues by stating that intermestic affairs are overshadowing the personas mentioned above and that issues within international relations that affect the domestic affairs of a country have affected the role of the president.⁴ As such, the traditional dualistic way of looking at the role of the president, cannot account for issues which link domestic and foreign affairs.

The term “intermestic” was coined by Bayless Manning in *Foreign Affairs* in 1977. Manning poses that the key reasoning behind the increased intermestic nature of foreign policy is because the “interdependence in the world’s economy has redistributed international bargaining power.”⁵ As such, he poses that foreign policy issues often have a domestic impact, providing an example of how oil embargoes affect domestic prices.⁶ However, while Manning approaches intermestic affairs as economically motivated, others have started to take the intermestic more broadly.

In recent years, the literature concerned with intermestic affairs has grown significantly and this analytical framework has become increasingly influential. In a state of the field concerning diplomatic history, Thomas Zeiler posited that the field has innovated by including not only state actors, but also public actors in the analysis of foreign policy.⁷ Moreover, Zeiler argues that diplomatic historians have started to incorporate culture as an element influencing foreign policy.⁸ As such, he argues that the “reconceptualization” of the field of diplomatic history, has made differentiating between foreign and domestic history harder, if not impossible.⁹ Nonetheless, Zeiler argues that power is still centred in the state and that the state should remain the primary actor.¹⁰

Fredrik Logevall, in response to Zeiler’s article, was less optimistic about the

⁴ Barilleaux, “The President, Intermestic,” 754-755.

⁵ Bayless Manning. “The Congress, The Executive, and Intermestic Affairs.” *Foreign Affairs* 57, no. 2 (1979): 307.

⁶ Manning, “The Congress, The Executive, and Intermestic Affairs,” 308.

⁷ Thomas W. Zeiler. “The Diplomatic History Bandwagon: A State of the Field.” *Journal of American History* 95, no. 4 (2009): 1064.

⁸ Zeiler, “Diplomatic History Bandwagon,” 1066-1067.

⁹ *Ibid.*, 1072.

¹⁰ *Ibid.*, 1072.

inclusion of an intermestic dimension in diplomatic history. Logevall argues that the intermestic dimension “too often becomes a missing element in historical research.”¹¹ Jessica Gienow-Hecht also responded to Zeiler’s article. She disagrees with Zeiler’s assertion that the focus should remain centred around the state and argues that “the history of US foreign relations, is not primarily the state and power but citizens and any encounter with the world outside of the territorial borders of the United States.”¹² As such, this does show how both scholars stress the importance of the intermestic dimension.

Logevall, in particular, has done a considerable amount of research into the intermestic dimension. Logevall posits that the decisions made in regard to foreign policy, directly affect their domestic reputation.¹³ He explicitly mentions how foreign policy influences the polls.¹⁴ So while Manning approaches the intermestic as economically motivated, Logevall looks at it in more political terms, arguing that foreign policy is – at least partially – shaped by the effect that this policy might have on one’s political standing and, perhaps most directly, on the next elections. Logevall takes this notion of intertwined domestic and foreign affairs even further by proposing that a policy is not worth doing – or even counterproductive – if there are no votes to be won.¹⁵ He posits that even if a foreign policy is unproductive, one could still choose to go through with it if the public perception regarding the policy is positive.¹⁶

In his book *Choosing War*, Logevall looks at intermestic deliberations during the Vietnam War. He argues that the importance of the Vietnam War for president Lyndon B.

¹¹ Fredrik Logevall. “Politics and Foreign Relations.” *Journal of American History* 95, no. 4 (2009): 1077.

¹² Jessica Gienow-Hecht. “What Bandwagon? Diplomatic History Today.” *Journal of American History* 95, no. 4 (2009): 1086.

¹³ Fredrik Logevall. “Domestic Politics” in *Explaining the History of American Foreign Relations*, Edited by Frank Costigliola and Michael J. Hogan, 151-167. (New York: Cambridge University Press, 2016).

¹⁴ Logevall, “Domestic Politics,” 151.

¹⁵ *Ibid.*, 161.

¹⁶ *Ibid.*, 161-162.

Johnson had derived from “its potential to threaten their own political standing.”¹⁷ He specifically mentions the importance of the 1964 presidential election in how to deal with the Vietnam War. The credibility of the president and the Democratic Party – rather than the credibility of the United States as a whole – was at stake in the Vietnam War. As such, these US domestic deliberations shaped the foreign policy of a war in Asia that lasted decades.

Similarly, political scientists Phillip Brenner, Patrick Haney, and Walter Vanderbush argue that intermestic issues are not the policies blurring the lines between domestic and foreign affairs, but rather the factors shaping these policies.¹⁸ In their article, they examined whether intermestic issues can be seen as a “two-level game.”¹⁹ When a policy is being crafted in this two-level game, one must take into account how both domestic and foreign actors will respond to the policy.

Robert Putnam’s original conception of the two-level game looked at two actors: one domestic and one international.²⁰ In this two-level game, a nation will try to fulfil its national interests while trying to minimise international backlash. Brenner et al., however, argue that these domestic and foreign actors have different groups within them as well. In their article, Brenner et al. examined US policy towards Cuba and identified several domestic and foreign actors. They also found, that while the two-level game focused on the chief of government in determining policy, Congress played an equally important role.²¹ As such, they argue that the two-level game model is too simplistic to analyse intermestic affairs.

Nonetheless, scholars agree that certain policies inherently blur the line between the

¹⁷ Fredrik Logevall. *Choosing War: The Lost Chance for Peace and the Escalation of War in Vietnam*. (Oakland: University of California Press, 2001), XV-XVI.

¹⁸ Philip Brenner, Patrick J. Haney, and Walter Vanderbush. “The Confluence of Domestic and International Interests: US policy toward Cuba, 1998–2001.” *International Studies Perspectives* 3, no. 2 (2002): 204.

¹⁹ Brenner, et al. “The Confluence of Domestic and International Interests,” 204-205; Robert D. Putnam. “Diplomacy and Domestic Politics: The Logic of Two-Level Games.” *International Organization* 42, no. 3 (1988): 427-460.

²⁰ Putnam, “Diplomacy and Domestic Politics,” 434.

²¹ Brenner et al., “The Confluence of Domestic and International Interests,” 205.

domestic and the international.²² Logevall posits that a policy regarding immigration or tariffs, for example, is subject to party politics and, as such, “pulls foreign affairs into the domestic political arena.”²³ Manning puts similar examples forth like tariffs and energy policies.²⁴ These examples are inherently intermestic because the effects of this foreign policy directly affect the domestic economy. Therefore, there is always a significant domestic consideration when proposing a foreign policy that directly affects the domestic sphere.

Intermestic Affairs and the Occupation

In 1946, Congress shifted from a Democratic majority to a Republican majority. If one takes an intermestic approach to look at the significance of this shift on the occupation’s policy, it can allow us to understand why the reverse course set in when it did. Logevall argues that for foreign affairs, “the overall state of a president’s relations with Congress and his standing in public opinion deeply influence his ability to get things done and, in general, to lead effectively.”²⁵ Manning also states that Congress plays a “major and often determining role in intermestic issues.”²⁶ Brenner et al. also underscore Congress’ importance in intermestic affairs, arguing that explaining foreign policy to Congress makes foreign affairs a domestic issue as well.²⁷

Applying Manning’s notion of intermestic affairs to the occupation of Japan can show us how intermestic considerations may have shaped the occupation’s economic policies. The occupation of Japan, while a foreign policy, was a significant burden on the US economy.

²² Shah M. Tarzi. “The Trump Divide and Partisan Attitudes Regarding US Foreign Policy: Select Theoretical and Empirical Observations.” *International Studies* 56, no. 1 (2019): 46; Brenner et al., “The Confluence of Domestic and International Interests,” 204; Logevall, “Domestic Politics,” 151.

²³ Logevall, “Domestic Politics,” 162.

²⁴ Manning, “The Congress, The Executive, and Intermestic Affairs,” 309.

²⁵ Logevall, “Domestic Politics,” 152.

²⁶ Manning, “The Congress, The Executive, and Intermestic Affairs,” 310.

²⁷ Brenner et al. “The Confluence of Domestic and International Interests.” *International Studies Perspectives*, 204-205.

Therefore, since this foreign policy directly affected the domestic economy, the occupation can be framed as an intermestic policy, rather than a foreign policy. Instead of looking at the occupation's economic policies as merely foreign affairs, an intermestic approach which also looks at the effects of these policies on the domestic economy may be able to paint a better picture as to the motivations behind these policies.

However, we should not disregard Logevall's broader approach to intermestic affairs when examining the motivations behind the occupation's economic policies. The fact that Japan's reverse course coincided with the Republicans gaining the majority in Congress can be explained by approaching it as an intermestic issue. As other authors have also stated, the relationship between Congress and the president can shape intermestic issues. As such, the motivations behind the unfulfilled decartelisation of Japan have been shaped by both domestic and international considerations.

In this thesis, I will take an intermestic approach in explaining the motivations behind the changed policies regarding the decartelisation of Japan. I will be taking both Manning's perspective towards intermestic affairs as motivating political economy decisions, as well as Logevall's broader perspective concerning domestic reputation and the role of Congress into consideration. As such, this thesis will use the term "Intermestic Affairs" as foreign policy shaped by domestic considerations.

I will do so, by first looking at Congress' role and the intermestic considerations that the republican majority may have influenced. Then, I will look at the motivations behind the reverse course, arguing that this was not only shaped by Cold War considerations but also by considerations regarding the American domestic economy. By doing so, I will analyse how these intermestic issues have changed the policies regarding the Zaibatsu dissolution.

Literature Review

After being at war for decades, with two major cities in ashes, and a collapse of their economic and political system, Japan was going through hard times after the end of the war. High unemployment, food shortages, and political and civil unrest were common in the first years after the surrender of Japan. While discontent might not have been present in the same degree as in Japan, the US also had domestic issues as a result of the war. In late 1946, President Truman's approval rating had gone down to almost 30 percent during the post-war recession, culminating in the Republicans gaining control of both houses of Congress for the first time since 1931. This shift in power also led to changes in foreign policy, including Japan's post-war policies.

As of yet, there is no literature that takes an intermestic approach to the decartelisation policy in occupied Japan, scholars have reflected on how certain domestic influences may have contributed to the decision-making process of the occupation's administration. For example, both D. Clayton James and Howard B. Schonberger highlight the importance of the presidential election of 1948 for MacArthur's policies. James's three books describe the General and his policies during the occupation of Japan positively, while Schonberger is critical of the General's policies. In *Aftermath of War*, he tried to shatter "the illusion of MacArthur's omnipotence" and give "full weight to the general's opportunism."²⁸

While others may not have gone in-depth regarding the presidential election as much as James and Schonberger did, one can hardly discuss MacArthur as the Supreme Commander of the Allied Powers (SCAP) without mentioning the election. As with the presidential election of 1948, scholars have also examined the significance of the 1946 midterm elections. These elections caused the Republicans to overtake the Democrats in both

²⁸ Schonberger, *Aftermath of War*, 40.

the House of Representatives and the Senate, resulting in a Republican Congress.

However, while some domestic influences like the presidential election of 1948 and the midterm election of 1946 have been discussed in the existing literature, it has barely been analysed as a factor in shaping the occupation's policies. Furthermore, while some authors ascribe the origin of the reverse course – at least partially – to the Republicans taking over Congress in 1946, this fails to take into account that the Democrats regained control of Congress in the next elections in 1948.

In this section of the thesis, I will analyse the existing literature regarding the domestic influences on the occupation's administration. This section focuses on three topics; the Midterms of 1946, the Presidential Election of 1948, and the domestic influences on Japan's reverse course. In doing so, I aim to not only show what has already been written about these influences but also to point out gaps in the literature and how an intermestic approach might be able to close this gap.

The Midterms of 1946

One of the domestic factors shaping the decartelisation policy that has been analysed by historians is the influence of the midterms of 1946. In late 1946, the Republicans won the midterm elections, leaving the incumbent Democratic president with a Republican Congress. With this new power dynamic, Truman's power was severely diminished, which led to significant changes in US politics. However, it also influenced the occupation's policies.

Truman had to work together with Republican senators in order to get support for his foreign policy. However, the Democratic base was not one-minded itself. Historian Robert David Johnson argues that the need to seek Republican support was “intensified by the erratic nature of Congressional Democrats, who did not convincingly defend the president's foreign

policy.”²⁹

While not discussing the Republican victory in Congress directly, Historian Michael Schaller does point out how more conservative policy-makers were able to gain power in the occupation’s administration in 1947.³⁰ Theodore Cohen, Chief of Labour Division during the occupation, and Asian studies scholar Herbert Passin agree with Schaller, stating that “Reforms and reformers lost prestige and even respectability, while many of the Headquarters brass cozied up to GHQ civilians with big business connections.”³¹ Historian Hajimu Masuda posits that the elections were not influenced by the economic situation at the time but fuelled by anti-communism. He argues that following the midterms of 1946, Americans had begun to “problematize the “left turn” in Japan under the U.S. occupation.”³² As such, Masuda explains the occupation’s policy shift after the 1946 midterms as motivated by early Cold War anti-communism.

The literature points specifically towards William Henry Draper, Under Secretary of the Army and economic advisor in Japan, as one of these policymakers who received more power after the election.³³ Draper, a staunch Republican, came to Japan right when the decartelisation process was about to take off. According to Finn, SCAP’s Headquarters was afraid that Draper would diminish the administration’s power, causing them to push for the quick dissolution of the two biggest Zaibatsu – Mitsubishi and Mitsui.³⁴ As it turned out, Draper was indeed able to shift the occupation’s economic course. When Draper returned to Washington, he was able to convince Congress that the occupation’s primary objective

²⁹ Robert David Johnson. *Congress and the Cold War*. (Cambridge: Cambridge University Press, 2005), 15.

³⁰ Michael Schaller. *The American Occupation of Japan: The Origins of the Cold War in Asia*. (Oxford: Oxford University Press, 1987), 109-121.

³¹ Theodore Cohen and Herbert Passin, *Remaking Japan: The American Occupation as New Deal* (New York: Free Press, 1987), 309

³² Hajimu Masuda. *Cold War Crucible: The Korean Conflict and the Postwar World*. (Cambridge: Harvard University Press, 2015), 26.

³³ Schaller. *The American Occupation*, 111-114; Richard B. Finn. *Winners in Peace: MacArthur, Yoshida, and Postwar Japan*. (Berkeley: University of California Press, 1992), 192;

³⁴ Finn, *Winners in Peace*, 196.

should be to bring about the early revival of the Japanese economy on a peaceful, self-supporting basis.³⁵

While Draper may be seen as an individual actor shaping the occupation's economic policy, there is a direct link to the 1946 midterms. As mentioned before, one of the aims of the occupation was decartelisation, and the Zaibatsu dissolution was about to commence. This changed when Draper convinced Congress to prioritise rapid economic recovery. It was not surprising that Draper held sway over Congress. He was appointed by the newly elected Republican Congress to go to Japan and sort out its economic situation. According to Richard B. Finn, who worked for the Far Eastern Commission during the occupation of Japan, Congress needed Japan to perform better since they had spent over 100 million dollars in 1946 while the economy was still performing poorly.³⁶ As such, one could view Draper to be an agent of this newly formed Congress.

Schonberger puts a similar idea forth, namely, that Washington policymakers were eager to reverse the economic course for Japan. However, he also argues the existence of the Japan Lobby: a loosely organised group of Japanese businessmen who were lobbying for a rapid recovery.³⁷ He argues that this group was able to successfully lobby for riveting Japan onto the US-dominated economy.³⁸ While it is not entirely convincing whether the Japan Lobby was able to influence economic policy changes, other authors do point out that there was a group of people within the US administration that were receptive to this group; the Japan Crowd.³⁹ As such, while there is no direct evidence that the Japan Lobby was able to influence policy directly, it is also far from unlikely.

³⁵ Finn, *Winners in Peace*, 196-197.

³⁶ *Ibid.*, 195.

³⁷ Howard B. Schonberger. "The Japan Lobby in American Diplomacy, 1947-1952." *Pacific Historical Review*, 46 no. 3, (1977): 327-330.

³⁸ Schonberger, "The Japan Lobby," 359.

³⁹ John W. Dower *Embracing Defeat: Japan in the Wake of World War II*. (New York: W.W. Norton & Company, 1999), 221; Ray A. Moore, and Donald L. Robinson. *Partners for Democracy: Crafting the New Japanese State under MacArthur*. (Oxford: Oxford University Press, 2004), 24.

While the 1946 midterms may explain why this rapid shift in economic policy was able to occur, it does not explain why the occupation remained on its reverse course after the next elections in 1948 when the Democrats regained the majority in both houses. Especially since the SCAP himself was genuinely in favour of dissolving the Zaibatsu, calling Draper's efforts "the most high-powered effort of big business interests to break down his policy of preserving Japan from carpetbaggers."⁴⁰ However, at the time of the Democratic reconquest of Congress, MacArthur had already started falling from grace.

MacArthur and the Presidential Election

The most analysed domestic factor in U.S.-Japan relations during the occupation is the contested role of General Douglas MacArthur. In the 1948 US presidential elections, one of the nominees for the Republican Party challenging President Truman was General Douglas MacArthur. Since the end of the war, MacArthur had been the Supreme Commander of the Allied Powers in Japan, and his presidential nomination influenced the administration's efforts in the occupation of Japan.

In *Aftermath of War*, Schonberger takes a close look at eight officials within the occupation's administration, including Douglas MacArthur. In his book, Schonberger spends a considerable amount of time on the commander's political aspirations, arguing that these aspirations influenced every decision that the SCAP made.⁴¹ He allowed for missionaries to come to Japan to get the Christian vote, he promoted trade unions to get the vote from the unions, and he wanted to end the occupation quickly so that he could return to America for his presidential campaign. Schonberger argues that the only exception to his motivations was

⁴⁰ Finn, *Winners in Peace*, 200.

⁴¹ Schonberger, *Aftermath of War*, 54.

his staunch anti-communism.⁴²

While scholarly accounts about MacArthur were generally positive the during the first decades after the occupation, in the 1970s, the literature became more sceptical of the general's role during the occupation, particularly within the new left movement.⁴³ As Schonberger's *Aftermath of War* was written at the start of the "new left" movement within Asian and American Studies, it is not surprising how critical the author is of the General.⁴⁴ Although Schonberger might be overly critical of the SCAP, he is able to point out how the presidential election of 1948 left its mark on the occupation's administration. Masuda has a similar view of MacArthur, stating that his "political ambitions and opportunistic attitude helped to foster the red-baiting mood."⁴⁵

However, while other revisionist authors have had an overall negative view of the SCAP, they do not ascribe as much weight to the presidential elections as Schonberger. While also critical of the General and his aspirations, both historian John W. Dower and Michael Schaller take a different view towards the influence of the presidential election on the administration's policies. Schonberger approaches his character as one who is self-serving and trying to do anything to get his presidential nomination. Dower, on the other hand, argues that the issue with MacArthur's reign is that the US "left MacArthur's GHQ with an unusually free hand."⁴⁶

Schaller, like Schonberger, is also critical of the general and argues that MacArthur already had political aspirations in 1944. However, his only mention of MacArthur and the presidential election of 1944 is summarised as a "flirtation."⁴⁷ Moreover, while Schaller goes

⁴² Schonberger, *Aftermath of War*, 83.

⁴³ Carol Gluck. "Entangling Illusions: Japanese and American Views of the Occupation." In *New Frontiers in American-East Asian Relations*, Edited by Warren Cohen, 169-236, (New York: Columbia University Press, 1983).

⁴⁴ For an overview of this "new left" movement, see: Mark Selden, "Reflections on the Committee of Concerned Asian Scholars at Fifty," *Critical Asian Studies*, 50, no. 1 (2018): 3-15.

⁴⁵ Masuda, *Cold War Crucible*, 28.

⁴⁶ Dower, *Embracing Defeat*, 79.

⁴⁷ Schaller. *The American Occupation*, 21.

more in-depth regarding the 1948 election, he still does not believe it to have held much significance on the occupation's policy.⁴⁸ Others are more ambivalent about the election's influence on the occupation's policies. Finn poses that while the general may have gone ahead with liberal policies for political clout leading up to the election, it is nonetheless hard to assess whether the election had any influence on the administration at all.⁴⁹

Nonetheless, while Schonberger examines the domestic influence leading up to the election, he does not mention how MacArthur's loss influenced his power in Washington. Schaller describes this loss as an "erosion of the general's influence in Washington."⁵⁰ He argues that after losing the nomination, the occupation's administration needed to work together with Congress in order to push policies through. Indeed, Washington would take a more active role in the occupation's administration and shift its course.

Domestic Influences on Japan's Reverse Course

Japan's reverse course was a shift in policy wherein the main aims of democratisation, demilitarisation, and decartelisation were sacrificed for rapid economic recovery. Masuda takes the meaning of this shift even further, arguing that it was a return to the pre-war culture as well, with a renewed popularity of war songs, Shintoism and other cultural practices.⁵¹ While this is an important observation, Masuda's notion of this cultural reverse course is not directly linked to policy and, as such, is separate to the reverse course of the occupation's administration.

In terms of the economic facets of the reverse course, the policy shift meant that the initial course of economic liberalisation would have to make way for policies that could

⁴⁸ Schaller. *The American Occupation*, 130.

⁴⁹ Finn. *Winners in Peace*, 160.

⁵⁰ Schaller. *The American Occupation*, 131.

⁵¹ Masuda. *Cold War Crucible*, 37.

guarantee quicker economic recovery. This shift led to the more oligarchic elements of Japan regaining power, as the existing infrastructure made it easier to provide a quick recovery. Most authors see Japan's reverse course as a product of cold war discourse.⁵² These authors see the reverse course as a reaction to China turning communist and the Soviet's expanding influence in Asia. Cultural historian Naoko Shibusawa – while ascribing to the reverse course as a product of Cold War discourse – suggests that the reverse course was not about tackling communism in Asia but in Europe. She argues that the US was concerned that “the occupation of Japan would divert energy and funds from America's primary international interest, the Cold War in Europe.”⁵³ However, it was not just foreign considerations that shaped the occupation's new agenda.

Schaller argues that before the reverse course, Washington had encouraged the administration to “pursue a program that reflected the most progressive tendencies of the New Deal.”⁵⁴ Historians Ray A. Moore and Donald L. Robinson argue that this is due to the fact that New Deal liberalism seemed natural to the administrators, including the more conservative elements within the administration, for these administrators had just lived through decades of New Deal politics.⁵⁵ As Finn points out, however, the reverse course shifted the occupation's course away from these liberal policies in order to create a future Cold War ally.⁵⁶ Nonetheless, while the New Dealers might have been in favour of rigid economic reform at the start of the occupation, they started working on the reverse course as well. Shibusawa suggests that both internationalist Republicans and New Dealers expected economic growth to bring abundance which, in turn, would liberalise Japanese society.⁵⁷

⁵² Dower, *Embracing Defeat*, 560; Harold Monk Vinacke. *Far Eastern Politics in the Postwar Period*. (New York: Appleton-Century-Crofts, 1956), 424; E. J. L. Van Aduard, *Japan: From Surrender to Peace*. (The Hague: Martinus Nijhoff, 1953), 96-101; Jennifer M. Miller. *Cold War Democracy: The United States and Japan*. (Cambridge: Harvard University Press, 2019), 3-7.

⁵³ Naoko Shibusawa. *America's Geisha Ally*. (Cambridge: Harvard University Press, 2006), 181.

⁵⁴ Schaller, *The American Occupation*, 25.

⁵⁵ Moore and Robinson, *Partners for Democracy*, 98.

⁵⁶ Finn, *Winners in Peace*, XX.

⁵⁷ Shibusawa, *America's Geisha Ally*, 181.

However, some authors do not entirely ascribe to the Cold War explanation.⁵⁸ These authors argue that it was not the US, but rather Japan who instigated the reverse course out of the need to tackle its inflationary crisis.⁵⁹ While Japanese agency should not be underestimated, the Japanese did not hold enough power at the time to tackle an economic issue as large as an inflationary crisis. However, while they might ascribe too much power to the Japanese influence on economic policy, it does show that the Japanese were at least receptive to such a line of economic policy.

One of the authors to posit that the motivation behind the reverse course may not have been entirely affected by Cold War discourse is Schonberger. He argues that the need for a faster economic recovery was borne out of US economic interests. More specifically, he argues that the US wanted to make Japan into a more investable area.⁶⁰ This argument is not unconvincing, for Congress, at the time, was dominated by the Republican Party. Robert David Johnson points out the difficulties that the State Department had during this time regarding working together with such an “economy-minded Congress.”⁶¹ Schonberger does, however, also ascribe importance to the growing Cold War sentiment as a factor into setting out on Japan’s reverse course, stating that the occupation fell victim to “swelling anti-Communist hysteria after 1947.”⁶² In his conclusion, he notes that by the end of the occupation, Japan had been transformed into “America’s key military and economic ally in Asia.”⁶³

Other authors mention this economic argument only in passing. Finn and Masuda

⁵⁸ Schonberger, *Aftermath of War*; Edward O. Reischauer. *The United States and Japan*. (Cambridge: Harvard University Press, 1950); Robert E. Ward. *Political Development in Modern Japan: Studies in the Modernization of Japan*. (Princeton: Princeton University Press, 1968); Joyce Kolko, and Gabriel Kolko. *The Limits of Power: The World and United States Foreign Policy, 1945-1954*. (New York: Harper & Row, 1972).

⁵⁹ Reischauer, *The United States and Japan*; Ward, *Political Development in Modern Japan*.

⁶⁰ Schonberger, *Aftermath of War*, 161-162.

⁶¹ Johnson, *Congress and the Cold War*, 14-15.

⁶² Schonberger, *Aftermath of War*, 284.

⁶³ *Ibid.*, 279.

point out how Japan's reforms were burdening American tax-payers.⁶⁴ Dower, while not discussing the economic motivations behind the reverse course in-depth, does argue that the reverse course changed US perception of Japan "both strategically and economically."⁶⁵ However, Dower does not mention this economic implication in his later work, where he argues that the reverse course served to establish Japan as an "anti-communist bastion."⁶⁶ Masuda, in his book on the start of the Cold War and the Korean War, agrees with Dower's conception of Japan as a bastion against communism, arguing that Chinese and Japanese societies turned into Cold War battlefields.⁶⁷

An Intermestic Approach

Literature concerning the domestic influences on the occupation's policies is scarce. While Congress went through significant changes during the first years of the administration – going from fully Democratic, to fully Republican and back to Democratic again – the implication of this shift regarding the occupation's policy, can barely be seen in the existing literature. Indeed, Congress, during the occupation, has been approached as united and monolithic in their policies towards the occupation by many authors. The 1948 presidential election, on the other hand, does seem to have had an impact on how authors have interpreted domestic influences towards the occupation's policy. Other domestic influences on the reverse course are more contentious than that of the 1948 presidential election. Most authors do seem to acknowledge that there are certain domestic factors – mainly economic ones – that may have influenced the reverse course. However, the dominant discourse remains that the reverse course is a product of Cold War discourse.

⁶⁴ Finn, *Winners in Peace*, 191; Masuda, *Cold War Crucible*, 32.

⁶⁵ John W. Dower. *Empire and Aftermath: Yoshida Shigeru and the Japanese Experience, 1878-1954*. (Cambridge: Harvard University Press, 1979), 369.

⁶⁶ Dower, *Embracing Defeat*, 546.

⁶⁷ Masuda, *Cold War Crucible*, 7.

As such, while there are mentions of domestic influence on the occupation's policy, there has not yet been any literature which analyses this influence specifically. While some have looked at the 1948 election's influence on the occupation, the current literature is notably lacking in its assessment of Congress's influence towards Japan and its reverse course.

Therefore, this thesis will take an intermestic approach, looking at how domestic and international considerations have overlapped during the occupation. Since the literature has already extensively analysed the influence of MacArthur's political aspirations on the occupation of Japan, this thesis will not be focusing on its influence. Instead, it will particularly pay attention to the influence of Congress and the motivations behind Japan's reverse course.

The United States and the Zaibatsu Dissolution

In the decades before the occupation, the Zaibatsu had cemented their grip on Japan and dominated the country during the war. The Zaibatsu controlled Japan's wartime economy and, as such, were able to dictate Japan's war efforts.⁶⁸ Moreover, the increased productions due to Japan's war efforts further increased the power that the Zaibatsu held over the country and helped expand their industries. The Zaibatsu were led by families who had gained power due to how their corporations were structured.

There are three elements of what makes a company a Zaibatsu: the centralised control lies with a family, they have controlled relationships among firms through holding companies, and they have significant financial power through their subsidiary banks.⁶⁹ As shown in figure 1, the Zaibatsu holding companies were able to control entire industries through their banks. In 1944, the four biggest Zaibatsu banks were responsible for 75% of all loans in Japan.⁷⁰ Together, the Zaibatsu were able to control most of Japan's economy. Therefore, in order to liberalise Japan and create a fair and open market, the US needed the Zaibatsu to be dissolved.

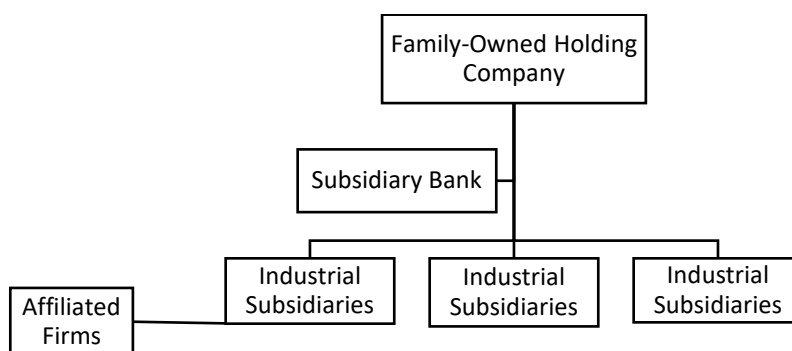


Figure 1. Zaibatsu Corporate Structure

⁶⁸ T. A. Bisson. "The Zaibatsu's Wartime Role." *Pacific Affairs* 18, no. 4 (1945): 355-356.

⁶⁹ Kozo Yamamura. "Zaibatsu, Prewar and Zaibatsu, Postwar." *The Journal of Asian Studies* 23, no. 4 (1964): 539.

⁷⁰ Yamamura, "Zaibatsu Prewar and Zaibatsu Postwar," 540.

Even before the end of the war, there were already voices within the US about the need to dissolve the Zaibatsu. Historian T.A. Bisson, a specialist on the issue before the end of the war who later also became involved in the initial dissolution process, wrote that “The weakness of the Japanese monopolists at the end of the war will offer the best opportunities for measures which will guarantee that their stranglehold on the Japanese economy will not be perpetuated.”⁷¹ In his paper, he discusses the increased dominance over Japanese politics and the economy that the Zaibatsu gained during the war. This paper was one of the first calls for a dissolution of the Zaibatsu.

Following Bisson’s lead, the need to decartelise and deconcentrate the Japanese economy was accepted by US officials as necessary. Even before the war, the Zaibatsu had had a tight grip on the economy and therefore over politics by proxy. Dower sums up the power of the Zaibatsu as “Gigantic financial and industrial oligopolies that dominated the presurrender economy.”⁷² There was also a political consideration for the dissolution of the Zaibatsu. The Zaibatsu leaders had had a major influence on the war and were the ones who had profited from it the most. Therefore, in the eyes of the US, the Zaibatsu were generally seen as dangerous for both Japanese society and the US’s occupation efforts. However, as this thesis will demonstrate, the threat of the Zaibatsu later became subordinate to both domestic and international deliberations, resulting in their escape from dissolution.

In this chapter, I analyse the discourse surrounding the initial policies towards the Zaibatsu dissolution, how the early implementation of these policies affected the occupation’s efforts, and how the discourse surrounding the decartelisation started changing over time. Special attention is paid to the effect of the 1946 midterm elections and how the outcome of the elections influenced the dominant discourse. By doing so, this chapter shows that despite

⁷¹ T.A. Bisson. “Increase of Zaibatsu Predominance in Wartime Japan.” *Pacific Affairs* 18, no. 1 (1945): 60.

⁷² Dower, *Embracing Defeat*, 68-69.

the early successes in dissolving the Zaibatsu, the decartelisation of Japan was undermined by the changing intermestic discourse in both the occupation's administration and the US's Congress.

The Initial Policy

In the initial post-war surrender policy for Japan, there was already a statement concerning the dissolution of the Zaibatsu. The policy of the SCAP was to unequivocally: "favour a program for the dissolution of the large industrial and banking combinations which have exercised control of a great part of Japan's trade and industry."⁷³ The document that outlined this policy (SWNCC 150/4), would later often be referred to whenever the issue of the dissolution came up, offering a clear notion of how to proceed with the decartelisation policies.

However, there were already those who opposed the dissolution, particularly the Japanese elites who had been in power since before the war. Yoshida Shigeru – Minister of Foreign Affairs at the time – defended the Zaibatsu, making a distinction between the old and the new Zaibatsu.⁷⁴ The old Zaibatsu had been established families since the Meiji Restoration in 1868, while the new Zaibatsu had emerged in the 1930s as a consequence of the Japanese conquest of Manchuria. As such, the new Zaibatsu had come into power because of their place in Japan's wartime economy, cooperating with the military establishment as something that Dower refers to as "crony capitalism."⁷⁵

In a telegram to the US Secretary of State, George Atcheson, political advisor for the SCAP, commented on Shigeru as saying that he "stated that the 'old' zaibatsu had made

⁷³ Memorandum for the Secretary of State, "United States Initial Post-Surrender Policy for Japan (SWNCC150/4)," 6 September 1945. Birth of the Constitution of Japan, Part 1: 1-5 U.S. Initial Post-Surrender Policy for Japan. *National Diet Library*. https://www.ndl.go.jp/constitution/shiryo/01/022/022_001r.html. (Hereafter *NDL*).

⁷⁴ The "New Zaibatsu" are also known as "Shinko Zaibatsu" or "New Wave Zaibatsu."

⁷⁵ John W. Dower. "The Other Japanese Occupation." *The Asia-Pacific Journal* 1, no. 6 (2003): 4.

substantial contributions to the prosperity of Japan.”⁷⁶ Shigeru was doubtful as to whether dissolving the old Zaibatsu would help Japan. He argued that the old Zaibatsu had “suffered heavy losses” while the new Zaibatsu had made “great profits” from the exploitation of Manchuria.⁷⁷ According to Acheson, Shigeru argued that the “new Zaibatsu were encouraged and built up by the militarists.”⁷⁸

While the new Zaibatsu had indeed gained most of their power due to Japan’s war efforts, they were certainly not solely responsible for the war itself. The six largest new Zaibatsu owned around 16% of heavy industry at the time of the surrender of Japan, while the four largest old Zaibatsu still accounted for 32% of heavy industry at that point.⁷⁹ Historian Michael Schaller describes the making of this distinction between two Zaibatsu the “elites’ tactic of sacrificing their less important components in order to shortcircuit reforms.”⁸⁰

Yoshida represented the old pre-war Japanese elite and was trying to steer post-war Japan on a track which would let the old guard regain their power. According to Historian John W. Dower, one of Yoshida’s main goals for post-war Japan was “economic reconstruction along capitalist lines, and in the zaibatsu-dominated mold of the prewar era.”⁸¹ While not from a Zaibatsu family, Yoshida came from an influential and wealthy family himself and had ties with the old Zaibatsu. Therefore, it is not too farfetched to assume that Yoshida was willing to sacrifice the new Zaibatsu in order to preserve the old, which he would directly benefit from himself.

Nevertheless, not all Japanese were as opposed to these policies. Although one could argue about their motives, some of the Zaibatsu – including Yasuda, one of the biggest

⁷⁶ The Acting Political Advisor in Japan (Acheson) to the Secretary of State, October 24, 1945. Diplomatic Papers, Volume VI, The British Commonwealth, The Far East, *Foreign Relations of the United States*, Document 560. <https://history.state.gov/historicaldocuments/frus1945v06/d560>. (Hereafter *FRUS*).

⁷⁷ The Acting Political Advisor in Japan (Acheson) to the Secretary of State, October 24, 1945.

⁷⁸ *Ibid.*

⁷⁹ Dower, “The Other Japanese Occupation,” 4.

⁸⁰ Schaller, *American Occupation of Japan*, 36.

⁸¹ Dower, *Empire and Aftermath*, 277.

Zaibatsu – submitted their own proposals for dissolution which MacArthur wanted to accept. Nonetheless, the US Department of State felt that the dissolution of the Zaibatsu was “too complicated and important for superficial handling.”⁸²

Implementing the Dissolution

By early 1946, the dissolution process had commenced. On January 4, 1946, Acheson informed President Truman that the Zaibatsu dissolution was on the record, but at the time incomplete, due to it being “too great to be accomplished by fiat.”⁸³ At this point, even Acheson – who later became a staunch opponent of the Zaibatsu dissolution policy – regarded the dissolution as an important aspect of the occupation’s goals. With a plan in place for the dissolution of the Zaibatsu, the Department of State was committed to “breaking up and destroying the influence of the large family combines commonly known as the Zaibatsu.”⁸⁴ However, there was still debate within the administration about how far the dissolution needed to go.

Edwin W. Pauley, a New Dealer with close ties to both Roosevelt and Truman, was appointed representative to the Allied Reparations Committee from 1945-1947. Through his communications, we can see that he was one of the more radical New Dealers that wanted to take the dissolution a step further. Pauley was adamantly in favour of dissolving the Zaibatsu and was already afraid at the onset of the occupation, that this policy might be compromised. In a letter to MacArthur in December 1945, Pauley stated that “under the policy now being pursued by the Japanese, I am inclined to think that the giant corporations will take over the

⁸² The Assistant Secretary of State for Economic Affairs (Clayton) to the Assistant Attorney General (Berge), October 31, 1945. Diplomatic Papers, Volume VI, The British Commonwealth, The Far East. *FRUS*, Document 581. <https://history.state.gov/historicaldocuments/frus1945v06/d581>.

⁸³ The Acting Political Advisor in Japan (Acheson) to President Truman, January 4, 1946. Volume VIII, The Far East. *FRUS*, Document 110. <https://history.state.gov/historicaldocuments/frus1946v08/d110>.

⁸⁴ The Assistant Secretary of State for Economic Affairs (Clayton) to the Assistant Attorney General (Berge), October 31, 1945.

country in spite of our program of breaking up the Zaibatsu, and that it will be next to impossible to pry loose those machine tools which should be removed as a disarmament measure.”⁸⁵ At this point, he suspected the Japanese would try to undermine the dissolution, rather than anyone from the US administration.

According to Pauley at the time, the real threat to the dissolution came from the Japanese, particularly the old pre-war elites. He was afraid that “if this happens, a most important sector of the Japanese war potential will remain functioning, integrated, and in the hands of those who ran it during the war.”⁸⁶ In other words, the Zaibatsu were seen as a threat by the Allied Reparations Committee. Thus, Pauley was convinced that Japan could only be liberalised if the old pre-war elites would be stripped of their power.

Pauley had a specific notion of the Zaibatsu dissolution in mind. On April 30, 1946, in correspondence to the Assistant Secretary of State for Economic Affairs William L. Clayton, Pauley recommended “removals of industrial machinery from Japan proper; depriving Japan of all external assets; shipping gold and precious metals to the U.S.; and using the reparations program to destroy the Zaibatsu.”⁸⁷ This same report was also submitted to President Truman.

While Pauley’s proposal may seem drastic, there was solid reasoning behind the measures put forth in his policy. The Zaibatsu owned most of the heavy industry, the same industry which had propagated the war and profited from it. The removals of the Zaibatsu’s industrial machinery, combined with seizing their assets, would cripple the Zaibatsu’s stranglehold on the economy. As such, the pre-war elites who had – at least partially – been

⁸⁵ Mr. Edwin W. Pauley, Personal Representative of the President on Reparations, to President Truman, December 6, 1945. Diplomatic Papers, Volume VI, The British Commonwealth, The Far East. *FRUS*, Document 744. <https://history.state.gov/historicaldocuments/frus1945v06/d744>.

⁸⁶ Mr. Edwin W. Pauley, Personal Representative of the President on Reparations, to President Truman, December 6, 1945.

⁸⁷ Memorandum by Ambassador Edwin W. Pauley to the Assistant Secretary of State for Economic Affairs (Clayton), April 30, 1946. Volume VIII, The Far East. *FRUS*, Document 376. <https://history.state.gov/historicaldocuments/frus1946v08/d376>.

responsible for the war, could only be stripped from their power by dissolving the industries that were responsible for this power.

Nonetheless, while Pauley's report was endorsed by Truman and sent to the Departments of State, War, and Navy, his policy was never fully implemented.⁸⁸ On the 30th of April, 1946, Pauley, in correspondence with President Truman, voiced his frustration that "no action whatsoever has been taken" regarding his recommendations.⁸⁹ As such, the Zaibatsu dissolution was solely based on the directive by the State War Navy Coordinating Committee (SWNCC) from the initial post-surrender policy.⁹⁰

Throughout 1946, the dissolution progressed like it was supposed to from its onset. However, that is not to say that there were no setbacks. Masuda argues, that the bureaucratic nature of the administration, coupled with an internal ideological divide between the New Deal oriented Government Section and the more conservative Anti-Trust Division had made the implementation of policy slow from the start.⁹¹ Nonetheless, with the Government Section holding more direct power over the decartelisation policies, the overall policy of the administration was still New Deal orientated.

In a memorandum for the meeting of the Allied Council for Japan on the 27th of November 1946, Major Cooper painted a picture of the present stage of the dissolution program. At this time, 45 holding companies had been assigned to be dissolved. These holding companies had given over control to the administration and had over 250 subsidiaries of the biggest Zaibatsu known as the "Big Five."⁹² The "Big Five" were Zaibatsu families

⁸⁸ Pauley to Truman. "Memorandum for the President." 30 April 1946, *Harry S. Truman Office Files, 1945-1953*, Part 2: Correspondence File, Reel 21, Frame 193. Middelburg: Roosevelt Institute for American Studies. (Hereafter *HSTOF*, Part 2: CF, and RIAS).

⁸⁹ Pauley to Truman. "Memorandum for the President." 30 April 1946, *HSTOF*, Part 2: CF, Reel 21, Frame 193. RIAS.

⁹⁰ Memorandum for the Secretary of State, "United States Initial Post-Surrender Policy for Japan (SWNCC150/4)," 6 September 1945. *Birth of the Constitution of Japan*, Part 1: 1-5 U.S. Initial Post-Surrender Policy for Japan. *NDL*. https://www.ndl.go.jp/constitution/shiryo/01/022/022_001r.html.

⁹¹ Masuda, *Cold War Crucible*, 35.

⁹² Memorandum by Mr. Robert A. Feary of the Division of Japanese Affairs, December 18, 1946. Volume VIII, *The Far East*. *FRUS*, Document 287. <https://history.state.gov/historicaldocuments/frus1946v08/d287>.

Mitsui, Mitsubishi, Yasuda, Sumitomo, and Fuji Industrial, which, except for Yasuda, still exist in some form as of 2019.⁹³ Major Cooper wrote that a committee was being set up by the Japanese government to redistribute the shares of the holding companies.⁹⁴

The dissolution of these companies – particularly the Big Five – was no small endeavour. The Big Five held a significant portion of Japan’s industry, and their banks were responsible for most of the country’s loans. According to Schaller, at that time, most of the Americans were in favour of these policies that stimulated a “controlled revolution.”⁹⁵ Seeing as these Zaibatsu had such a dominant place in Japan’s economy, their dissolution would indeed be a revolution.

The Limits of New Deal Liberalism

A decade earlier, the US had gone through a controlled revolution itself with Roosevelt’s New Deal. Serving as President between 1933 and 1945, Roosevelt’s administration had been able to influence the economic and political discourse of the US significantly. The legislators in the occupation’s administration had lived through New Deal liberalism for more than a decade. As such, New Deal discourse had become the status quo, and implementing a New Deal course in Japan was a natural progression.

New Deal liberalism had become so entrenched in political discourse at the time, that even the more conservative legislators had become accustomed to it. Moore and Robinson posit that “New Deal liberalism seemed natural, even to conservative Republicans such as MacArthur.”⁹⁶ As such, the original plans for the Zaibatsu dissolution were also a product of

⁹³ Mitsui, Mitsubishi and Sumitomo are now conglomerates under the names Mitsui Group, Mitsubishi Group, and Sumitomo Group respectively, Yasuda was dissolved during the Zaibatsu dissolution, and Fuji Industrial changed its name to Subaru Corporation in 2003.

⁹⁴ Memorandum by Mr. Robert A. Feary of the Division of Japanese Affairs, December 18, 1946.

⁹⁵ Schaller. *American Occupation of Japan*, 30.

⁹⁶ Moore and Robinson, *Partners for Democracy*, 98.

this discourse.

The period of the Fifth Party System (1932-1972)⁹⁷ has been described as a period of “liberal consensus.”⁹⁸ The graph in figure 2 shows that polarisation during the 1940s and early 1950s was the lowest in history. This period marked a broad consensus about liberalism described by historian Godfrey Hodgson as a period wherein “the majority of Americans . . . accepted the same system of assumptions.”⁹⁹ In this period, the political system was dominated by the Democratic Party – except for Eisenhower’s interlude in the mid to late 1950s – and political thought was heavily influenced by New Deal liberalism. As such, this paradigm of New Deal liberalism dominated US politics during the first years of the occupation.

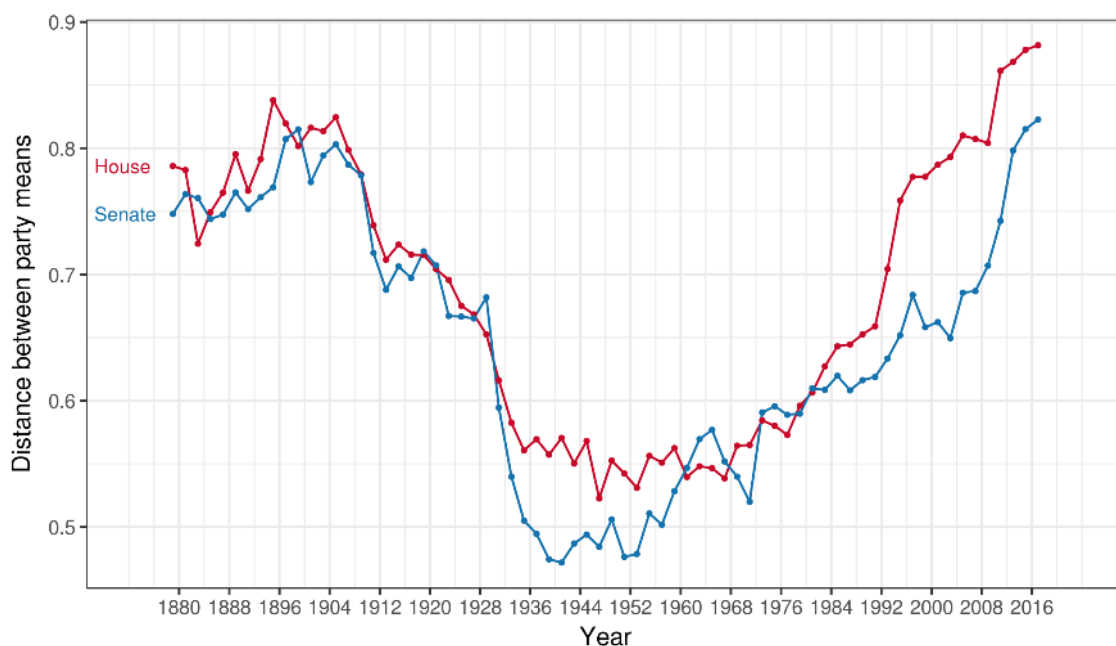


Figure 2. Liberal-Conservative Partisan Polarisation by Chamber

Graph by Jeff Lewis, “Polarization in Congress.” https://voteview.com/articles/party_polarization (Accessed 31 May 2019).

⁹⁷ Also known as the New Deal Party System, is an era in which the Democratic Party dominated politics. In this period, both parties were factionalised with a high proportion of moderates. While there is no consensus on when the Fifth Party System ended, I argue that the period ended with Nixon’s overwhelming victory in the presidential elections of 1972.

⁹⁸ Gary Gerstle. “Race and the Myth of the Liberal Consensus.” *The Journal of American History* 82, no. 2 (1995): 579; John Higham. “The Cult of the American Consensus.” *Commentary* 28, (1959): 93; Godfrey Hodgson. *America in Our Time: From World War II to Nixon*. (Princeton: Princeton University Press, 2005), 67-70.

⁹⁹ Hodgson, *America in Our Time*, 67.

Despite the prevalence of New Deal liberalist thought, many prominent New Deal figures left public office after Truman became president. Alonzo Hamby argues that Truman could not replace President Roosevelt as the “spiritual anchor” of New Deal liberalism.¹⁰⁰ Consequently, many liberals from Roosevelt’s administration, who had already become tired of years of work during wartime, were eager to leave public office. Nonetheless, President Truman’s Fair Deal policies served to carry the torch of Roosevelt’s New Deal liberalism.

However, after having had a majority in both the House of Representatives and the Senate for thirteen consecutive years, the Democratic Party lost its majority in both houses of Congress in 1946. As such, the 80th Congress had a Republican majority under a Democratic President. While the Democratic Party would regain their majority in Congress after the next elections in 1948, this Republican interlude had a significant effect on both domestic politics and the occupation’s administration and was able to pause current New Deal and Fair Deal policies. 1946 to 1948 were critical years in foreign policy as these were the years of the post-war reconstruction.

While President Truman called the 80th Congress the “do-nothing Congress,” Secretary of State Dean Acheson said that “The 80th Congress was the best Congress in foreign policy we ever had.”¹⁰¹ This difference in opinion is significant, because while both Acheson and Truman were Democrats, they had different ideas on the effectiveness of the 80th Congress. Historian Robert Johnson argues that the Democrats in Congress did not follow Truman in his foreign policy.¹⁰² The fact that Acheson nevertheless called the same Congress the best in foreign policy showcases how divided the Democrats were.

¹⁰⁰ Alonzo L. Hamby. “The Liberals, Truman, and FDR as Symbol and Myth.” *The Journal of American History* 56, no. 4 (1970): 862.

¹⁰¹ Theodore A. Wilson and Richard D. McKinzie, *Oral History Interview with Dean Acheson*, Transcript of an oral history conducted on June 30, 1971 by Theodore A. Wilson and Richard D. McKinzie, Washington, Harry S. Truman Presidential Library, 13. (Hereafter HSTPL).

¹⁰² Johnson. *Congress and the Cold War*, 15.

Figures 3 and 4 show the polarisation in Congress between 1933 and 1949.¹⁰³ At first glance, it looks as if polarisation during the 80th Congress was low and that there was a bipartisan consensus. However, as historian Jefferson Cowie states about consensus in the direct post-war period: “‘Consensus’ looks more like stalemate.”¹⁰⁴ Dubbed by President Truman as the “do-nothing Congress,” the 80th Congress nevertheless was able to enact pro-business legislation like the Taft-Hartley Act despite Truman’s veto.¹⁰⁵

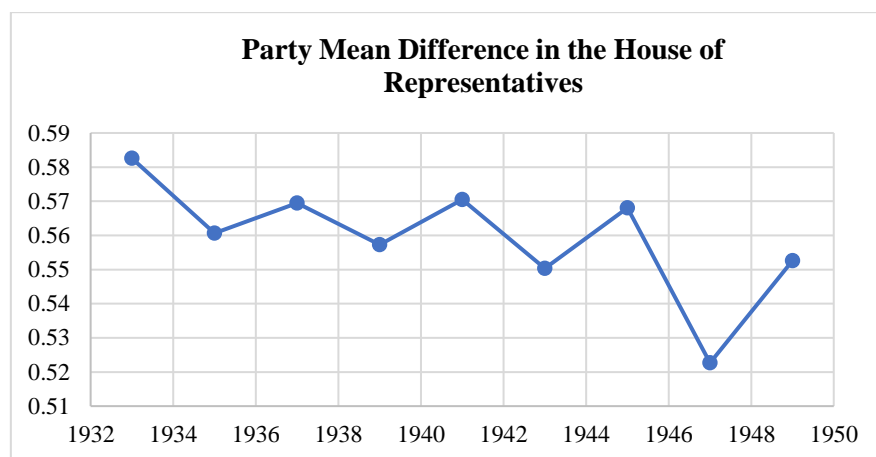


Figure 3. Liberal-Conservative Partisan Polarisation in the House of Representatives (1933-1949) – $\mu = 0.5599$
Data: Jeff Lewis, “Polarization in Congress.” https://voteview.com/articles/party_polarization (Accessed 31 May 2019).

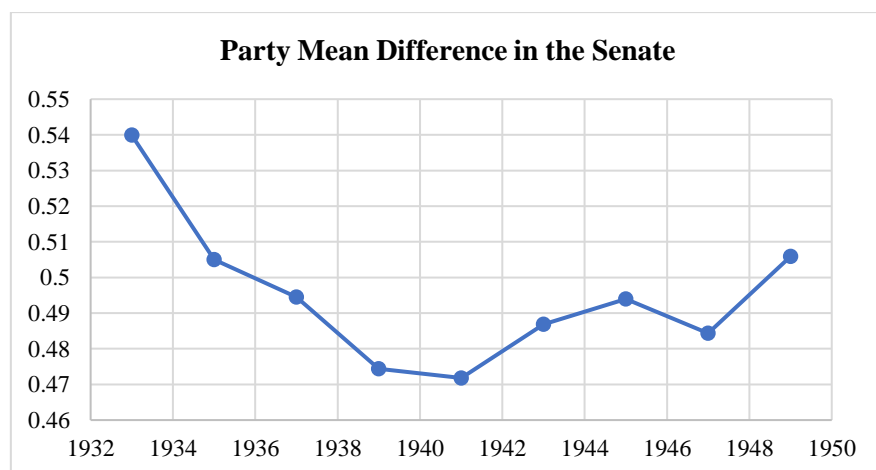


Figure 4. Liberal-Conservative Partisan Polarisation in the Senate (1933-1949) – $\mu = 0.4952$
Data: Jeff Lewis, “Polarization in Congress.” https://voteview.com/articles/party_polarization (Accessed 31 May 2019).

¹⁰³ These graphs use data by Voteview.com. The Y-axis measures the difference in ideological positions calculated using DW-NOMINATE. For an elaborate overview on how DW-NOMINATE works, see: Keith Poole. *Spatial Models of Parliamentary Voting*. (Cambridge: Cambridge University Press, 2005).

¹⁰⁴ Jefferson Cowie. *The Great Exception: The New Deal and the Limits of American Politics*. (Princeton: Princeton University Press, 2016), 167.

¹⁰⁵ Harry S. Truman. “Rear Platform and Other Remarks in Michigan and Ohio.” *Public Papers of the Presidents of the United States, Harry S. Truman, 1945-1953*. Document 183, HSTPL. <https://www.trumanlibrary.org/publicpapers/index.php?pid=1797&st=do-nothing&st1=>. (Hereafter *PPPUS, HST*).

Despite being able to pass non-New Deal legislation, the 80th Congress was also stuck in a stalemate. Indeed, while these graphs show the consensus between party lines, they do not show the consensus within the parties. What these graphs show more than anything, is how traditional party lines were starting to shift. Both parties had what could be called a right-wing faction and a left-wing faction. There were the more moderate Republicans who had worked within the paradigm of New Deal liberalism, and there were Southern Democrats who sided with the Republicans and are described by Cowie as “dead set on maintaining Jim Crow and their labor system.”¹⁰⁶

The Republican takeover of the 80th Congress was significant in that they did not just have a Republican majority but also a conservative majority. The Democrats were split between conservative Southern Democrats and the more progressive New Deal liberals. With their large majority, the Democratic Party had been able to push New Deal legislation through Congress while mostly working together with their more conservative faction. However, the Southern Democrats in Congress started voting more outside of party lines in the post-war period. As such, when the Republicans took over the 80th Congress, they were able to push non-New Deal legislation through with the support of the Southern Democrats.

Political Scientists Sean Farhang and Ira Katznelson argue that the Southern Democrats started voting with the Republicans, because they were worried that “zealous bureaucrats would use their administrative discretion, reinforced by wartime antidiscrimination efforts, to confront racially discriminatory practices by state government officials.”¹⁰⁷ They further argue that “Labor votes now evoked preferences in southern members geared more to guard Jim Crow than distinguish Democrats from Republicans.”¹⁰⁸

¹⁰⁶ Cowie, *The Great Exception*, 168.

¹⁰⁷ Sean Farhang, and Ira Katznelson. “The Southern Imposition: Congress and Labor in the New Deal and Fair Deal.” *Studies in American Political Development* 19, no. 1 (2005): 21.

¹⁰⁸ Farhang and Katznelson, “The Southern Imposition,” 21.

Historian Gary Gerstle sums the factionalised nature of the Democratic Party up by arguing that even in the 1940s, New Deal liberals “appear not as dominant political players who controlled an electoral coalition or orchestrated an ideological consensus, but as one of several vocal political groups.”¹⁰⁹ This Democratic split during the 80th Congress also had an impact on the occupation’s administration.

Congress and the Occupation

The Zaibatsu dissolution was still very much in progress in 1946. A report by the SWNCC clearly states that one of the objectives of the occupation is “destroying Zaibatsu wealth and influence.”¹¹⁰ However, that started to change in 1947. In a message sent by Acheson to the Secretary of State in July 1947, a switch in policy towards the Zaibatsu can be seen. Acheson stated that the Chief of the Anti-Trust and Cartels Division wants to pursue a policy in which “individual components of restricted companies (so-called “Zaibatsu” concerns) will be reorganized rather than dissolved.”¹¹¹

However, the official policy of the Anti-Trust and Cartels Division still stated that “the control of the Zaibatsu be eliminated and that actions be taken to prevent the Zaibatsu from regaining their control” as late as March 1948.¹¹² Therefore, it seems that internally, this policy shift was regarded as a reinterpretation, rather than a reformulation. In correspondence between Ambassador Sebald and Dean Acheson, Secretary of State, Sebald stated that the Anti-Trust and Cartels Division believes that “the new statement has definitely relaxed the

¹⁰⁹ Gerstle, “Race and the Myth,” 584.

¹¹⁰ Report by the State-War-Navy Coordinating Subcommittee for the Far East, “Interim Reparations Removal Program for Japan,” undated. 1946, Volume VIII, The Far East. *FRUS*, Document 373. <https://history.state.gov/historicaldocuments/frus1946v08/d373>.

¹¹¹ The Political Advisor in Japan (Acheson) to the Secretary of State, July 10, 1947. Volume VI, The Far East. *FRUS*, Document 240. <https://history.state.gov/historicaldocuments/frus1947v06/d240>.

¹¹² The Acting Political Advisor in Japan (Sebald) to the Secretary of State, April 23, 1948. Volume VI, The Far East and Australasia. *FRUS*, Document 652. <https://history.state.gov/historicaldocuments/frus1948v06/d652>.

application of the Deconcentration Law.”¹¹³

This shift towards large corporations was not limited to the administration in Japan but was happening in the US as well. Three weeks before Acheson’s correspondence with the Secretary of State, the Taft-Hartley Act, which restricted the power and activities of labour unions, was enacted. As such, both the administration in Japan and in the US had shifted their priorities over from reforming the economy, to rapid economic recovery since the beginning of 1947.

Throughout 1947, a reformulation of the Zaibatsu dissolution had occurred. In a report by former Major General Frank Ross McCoy, Chairman of the Far Eastern Commission (FEC) to the Assistant Secretary of State, McCoy talks about the delayed policy proposals of the last months, including that of the Zaibatsu dissolution. He states that this delay is due to the US government needing time to reformulate their position. As such, he stated that the reformulation of the Zaibatsu dissolution policy proposal took six months.¹¹⁴ This reformulation was an initiative by the US and was done without notifying others in the FEC.¹¹⁵

The other countries represented in the FEC were caught by surprise by this reformulation. In their meeting, one month after McCoy’s report, the majority of the representatives in the FEC recommended that “The process of dissolving the Zaibatsu should be completed by the Japanese Government as soon as possible.”¹¹⁶ So while the US was

¹¹³ The Acting Political Advisor in Japan (Sebald) to the Secretary of State, September 20, 1948. Volume VI, The Far East and Australasia. *FRUS*, Document 676. <https://history.state.gov/historicaldocuments/frus1948v06/d676>.

¹¹⁴ The United States Member of the Far Eastern Commission (McCoy) to the Assistant Secretary of State (Hilldring), August 11, 1947. Volume VI, The Far East. *FRUS*, Document 252. <https://history.state.gov/historicaldocuments/frus1947v06/d252>.

¹¹⁵ The FEC was an advisory commission for the Occupation of Japan. It consisted of Australia, Canada, China, France, the Netherlands, New Zealand, the Soviet Union, the United Kingdom, the United States, India, and the Philippines. For an overview of the function and early accomplishments of the FEC, see Samuel S. Stratton. “The Far Eastern Commission.” *International Organization* 2, no. 1 (1948): 1-18.

¹¹⁶ The British Embassy to the Department of State, October 1947. Volume VI, The Far East. *FRUS*, Document 426. <https://history.state.gov/historicaldocuments/frus1947v06/d426>.

having second thoughts about the Zaibatsu dissolution, the other countries in the FEC wanted to push the original decartelisation policies through. McCoy was against acting without the FEC's approval. In a conversation with Secretary of State Dean Acheson, McCoy discussed how "there was a constant tendency . . . to forget that ten other countries were interested in Japan and would continue to be."¹¹⁷

Nonetheless, this shift in policy still happened without the consent of the other FEC representatives. While many of the people in the administration still held on to New Deal liberalism, there were more and more voices within the administration that were sceptical of the Zaibatsu dissolution. In a memorandum by Robert A. Lovett, the acting Secretary of State, he particularly notes apprehensions towards the Zaibatsu dissolution by the US Department of the Army.¹¹⁸

The Department of the Army was formed in September 1947, one month before Lovett's memorandum, as a result of the dissolution of the Department of War. The Secretary of the Army, while nominated by the President, needs confirmation by the Senate. Since the Republicans held the Senate at the time, the position had to be handed over to a moderate candidate. The position was therefore appointed to Southern Democrat Kenneth C. Royall who was nominated as Secretary of War in July that year. Royall and the Department of the Army considered the Zaibatsu dissolution to be "un-american" and were also worried that it would be going "too far" and might interfere with economic recovery.¹¹⁹

Regarding the view that the Zaibatsu dissolution was "un-American," Royall had an ally in James Forrestal. Forrestal was the Secretary of Defense from September 1947 until his

¹¹⁷ Memorandum by Dean Acheson. "Conversation with General McCoy." 28 February 1949, *Official Conversations and Meetings of Dean Acheson (1949-1953)*. Reel 1, Frame 154. RIAS. (Hereafter *OCMDA*)

¹¹⁸ The Acting Secretary of State to the Secretary of the Army (Royall), November 25, 1947. Volume VI, The Far East. *FRUS*, Document 278. <https://history.state.gov/historicaldocuments/frus1947v06/d278>.

¹¹⁹ The Acting Secretary of State to the Secretary of the Army (Royall), November 25, 1947.

forced resignation in March 1949 when he was replaced by Louis A. Johnson.¹²⁰ Schaller describes that Forrestal wanted to work with the Zaibatsu because he felt that “Containing the Soviets required a business-led recovery abroad.”¹²¹ Both Forrestal and Royall described the decartelisation program as “socialism, pure and simple, if not near communism.”¹²²

Royall’s appointment as Secretary of the Army was born out of the need to appease Congress. Royall was a Southern Democrat and, as such, in some regards more in line with Republican thought than that of the Democratic Party. This ideological difference led to multiple clashes between President Truman and Royall which culminated in Royall’s forced retirement in April 1949 after refusing to desegregate the army.¹²³ Royall’s appointment was one of the ways in which Congress influenced the decartelisation policies in Japan because Royall would, together with William H. Draper, become responsible for the policies that led to Japan’s reverse course.

In March 1948, Draper went to Japan as Under Secretary of the Army and economic advisor for SCAP. When he arrived, he was immediately convinced that Japan’s “economic conditions threaten the accomplishment of U.S. objectives.”¹²⁴ Draper was anxious to leave government as soon as possible to resume his career in the banking industry but was convinced by Forrestal to stay on as Under Secretary of the Army.¹²⁵ As late as 1949, Draper still believed that the problems in Japan “largely had to do with economic recovery in

¹²⁰ Jerry N. Hess, *Second Oral History Interview with Felix E. Larkin*, Transcript of an oral history conducted on October 23, 1972 by Jerry N. Hess, New York, HSTPL, 37-47.

¹²¹ Michael Schaller. “MacArthur’s Japan: The View from Washington.” *Diplomatic History* 10, no. 1 (1986): 12.

¹²² Schaller, “MacArthur’s Japan,” 16.

¹²³ Robert Edgerton. *Hidden Heroism: Black Soldiers in America’s Wars*. (New York: Basic Books, 2002), 164-166.

¹²⁴ T.N. Dupuy to General Norstad, "Report on Visit to Japan with Under Secretary of the Army," October 6, 1947, Under Secretary of the Army, General Correspondence August 1947-January 1949, *Records of the Office of the Secretary of the Army*, Record Group 335, Box 4, File 91, National Archives. (Hereafter NA).

¹²⁵ Jerry N. Hess, *Oral History Interview with General William H. Draper Jr.*, Transcript of an oral history conducted on January 11, 1972, by Jerry N. Hess, Washington, HSTPL, 23.

Japan.”¹²⁶ Draper wanted a rapid economic recovery in Japan and believed that this would not be possible with the extensive reforms that the occupation’s administration was pursuing, including the Zaibatsu dissolution.

Royall, Forrestal, and Draper wanted to change Japan’s policies from economic reform to economic recovery. In order to achieve this, they needed to change the current reform agenda. Moreover, Congress was about to consider a foreign aid request for Japan based on the earlier reform agenda.¹²⁷ In order to change the direction of the decartelisation program, Draper, upon returning to Washington, started lobbying for a change in the decartelisation program and issued a new directive called “The Economic Recovery of Japan” which would make “economic recovery the primary objective” of the occupation.¹²⁸ It would also overrule the existing directive that the reforms were based upon.

However, in order to change the contents of the foreign aid request, Draper and Royall needed the help of Congress. They would find their help in Republican Senator William Knowland. Knowland had been trying to get the US to sell their surplus cotton by investing in the Japanese cotton industry.¹²⁹ As such, he believed that the best way for Japanese recovery lay in investment, not reform. Draper was able to convince Knowland to rally against the original decartelisation policies, leading to Knowland’s proclamation against the policy in Congress as “contrary to our way of life.”¹³⁰ This statement gave Draper and Royall the ability to lobby in the FEC against the original plans, which led to the acceptance of their new directive in December 1947 and the approval of the foreign aid package in Congress in June 1949.¹³¹

¹²⁶ Memorandum by Acheson. “Memorandum Subject: Japan.” *OCMDA*. 26 January 1949, Reel 1, Frame 23. RIAS.

¹²⁷ Schonberger, *Aftermath of War*, 174-175.

¹²⁸ Draper Memo to Secretary Royall, 1 October 1947. Assistant Secretary of State File. *Records of the Department of State*, Record Group 59, Box 3, NA.

¹²⁹ Schonberger, *Aftermath of War*, 174.

¹³⁰ *Ibid.*, 174.

¹³¹ *Ibid.*, 194.

While technically having no authority on the administration of Japan's occupation, Congress was able to influence the decartelisation policy and change the course of the Zaibatsu dissolution. The decartelisation program shifted from reform to recovery due to intermestic deliberations. As such, the 80th Congress, led by Republicans, was able to shift the occupation's New Deal liberalism, into reverse-course conservatism.

Shifting Policies

By 1947, Japan's economy still had not recovered. Exports had decreased by 90% over the last decade, and the economy was plagued by increasing inflation.¹³² The decartelisation reforms were a long-term commitment and could not be achieved in just a few years. Moreover, Japan's economic recovery would take longer with the reforms, as the dissolution of the Zaibatsu would effectively "reset" Japan's industry. The draining costs of the occupation, coupled with the slow economic recovery in Japan, led to the switch from New Deal reforms towards reverse course recovery.

The reverse course, marked a shift from the political and economic reform of Japan, to its economic recovery. As discussed in the previous chapter, this was partially due to the Republican victory in the 80th Congress, leading to a shift in political discourse away from New Deal liberalism. However, there was also a strong economic proponent to this shift. Japan's occupation was using up US resources, while the US was in a general post-war depression. Economic concerns were further exacerbated when the US got hit by a recession in late 1948. As such, rapid economic recovery became one of the main goals of the occupation, which ultimately led to the exemption of the Zaibatsu banks from dissolution.

This chapter will analyse how the reverse-course progressed from 1948 until the official end of the decartelisation program in May 1949. It will examine how economic deliberations concerning both Japan and the US influenced the course of the decartelisation program. In doing so, this chapter aims to show how intermestic economic considerations strengthened the shift in Japan's decartelisation policy from New Deal liberalism to reverse course conservatism.

¹³² Schonberger, *Aftermath of War*, 163.

Reverse Course for the Dissolution and Operation Crank-Up

“Operation Crank-Up” commenced in January 1948. Operation Crank-up was a plan by the US to lend Japan over one-and-a-half billion dollars aimed at rehabilitating the Japanese economy.¹³³ There were two specific changes in the occupation’s economic policy that the operation tried to instigate: resource aid and bank exemptions.

Because Japan is an island nation with a high-density population, the limitation of natural resources had created a problem. Japan had been dependent on other nations for the import of natural resources because their population could not carry its resource capacity. However, after the war, other East Asian countries were unwilling to trade with Japan. Japan’s industry was a manufacturing industry which imported raw materials and exported finished products. However, due to not being able to import these raw resources from neighbouring countries anymore, Japan’s production had shrunk considerably in the first years after the war. In order to combat this issue, the US would provide external aid for “the procurement of imports for processing.”¹³⁴

The unwillingness of other Asian countries to trade with Japan created another problem for the US. With a limited number of possible partners to trade with, the USSR became a more viable trading partner for Japan. An intelligence report by the Central Intelligence Agency from September 1948 mentions the “continued Soviet interest in trade with Japan.”¹³⁵ From the report, it becomes clear that the US was worried that if Japan could not find any new trade opportunities, they might be pulled into the Soviet sphere of influence. The threat of Soviet interference furthered the need for the US to assist Japan in procuring

¹³³ “Intelligence Highlights,” 20-26 January 1948. CREST, General CIA Records. *CIA Freedom of Information Act Electronic Reading Room*, Document Number: CIA-RDP79-01082A000100010036-0. <https://www.cia.gov/library/readingroom/docs/CIA-RDP79-01082A000100010036-0.pdf>, 2. (Hereafter *CIA FOIA*).

¹³⁴ “Intelligence Highlights,” 20-26 January 1948. 2.

¹³⁵ “Intelligence Highlights,” 21-27 September 1948. CREST, General CIA Records. *CIA FOIA*, Document Number: CIA-RDP79-01082A000100010001-8. <https://www.cia.gov/library/readingroom/docs/CIA-RDP79-01082A000100010001-8.pdf>, 3.

raw materials in order to normalise Japan's economic situation.

There were two reasons for the US to start investing in Japan: deterring Soviet involvement in Japan and stimulating the US's domestic economy. Japan's economic recovery would allow the US to use it "as a springboard and source of supply for the extension of further aid and influence in the Far East."¹³⁶ Schonberger argues that the shift towards the rapid economic recovery of Japan was borne out of US economic interests to make Japan into a more "investable area," rather than as a reaction to the communist threat.¹³⁷ However, it seems as though these reasons might have overlapped.

In order to stimulate the Japanese economy and prevent increased Soviet influence in Japan, the US needed to increase its trade with Japan. An internal bulletin for the Far East America Council of Commerce and Industry from April 1948 contains figures and recommendations for increased trade with Japan.¹³⁸ The bulletin shows that the US had started providing raw materials to Japan in high quantities since December 1947, most notably in the form of raw cotton.¹³⁹ As such, the export of raw materials to Japan had started.

The second policy change that Operation Crank-Up affected was the Zaibatsu dissolution, particularly the Zaibatsu banks. The banking sector was controlled entirely by the Zaibatsu before the end of the war. The original plan of the occupation was to dissolve these Zaibatsu in order to create more competitiveness in the banking sector. However, with the operation's aim to quickly rehabilitate the Japanese economy, the occupation could not afford to hamper Japan's credit structure. As such, according to a CIA intelligence report from late

¹³⁶ Michael Schaller. "Securing the Great Crescent: Occupied Japan and the Origins of Containment in Southeast Asia." *The Journal of American History* 69, no. 2 (1982): 398.

¹³⁷ Schonberger, *Aftermath of War*, 161-162.

¹³⁸ Report by the Far East America Council of Commerce & Industry, Inc., "Far East and India News Bulletin," April 7, 1948. CREST, General CIA Records. *CIA FOIA*, Document Number: CIA-RDP80-00926A000200030015-2. <https://www.cia.gov/library/readingroom/docs/CIA-RDP80-00926A000200030015-2.pdf>.

¹³⁹ Report by the Far East America Council of Commerce & Industry, Inc., "Far East and India News Bulletin," April 7, 1948. 5.

January 1948, this led to “at least the postponement of the break-up in ‘excessive economic concentration’ so far as the banks are concerned.”¹⁴⁰

As will be elaborated on in the following chapter, the exemption of the Zaibatsu banks had significant consequences for how Japan’s post-war industry would develop. Instead of a “reset” of the major industry, the financial infrastructure would remain like it was during the occupation and grow even stronger. While the family-owned holding companies were still up for dissolution, the Zaibatsu banks that controlled entire industries would remain intact. As such, one of the most important aspects of what made the Zaibatsu so powerful would remain undissolved.

However, it was not just the Zaibatsu dissolution that was affected by operation Crank-Up, but other aspects of the economic deconcentration policy were affected as well. The Far East America Council of Commerce and Industry stated that “if Japan is to recover her economic independence it may be necessary to curtail the proposed reparations program and maintain much of the plant equipment that was previously scheduled for shipment abroad.”¹⁴¹ As such, one of the earlier goals of the decartelisation of Japan regarding the “removals of industrial machinery from Japan proper” was now reconsidered in favour of rapid economic recovery.

The occupation’s administration started worrying more and more about the length of time that it had taken to meagrely stimulate the Japanese economic recovery. One of these people within the administration was George F. Kennan. Kennan, diplomat and Soviet expert, is best known for the policy of containment that he laid out in the “long telegram” and his article published in *Foreign Affairs* under the pseudonym “X” on “The Sources of Soviet

¹⁴⁰ “Intelligence Highlights,” 20-26 January 1948. 2.

¹⁴¹ Report by the Far East America Council of Commerce & Industry, Inc., “Far East and India News Bulletin,” April 7, 1948.

Conduct.”¹⁴² Kennan was involved in the occupation of Japan as Director of the State Department’s Policy Planning Staff. In a recent book by Paul J. Heer, he is described as “the intellectual author of the policy of ‘containment’ of the Soviet Union.”¹⁴³ As such, his time in Japan was also marked with containment rhetoric, leading Kennan to help the reverse course along.

Kennan was worried about the slow economic recovery of Japan. He wanted economic recovery to take prevalence over the liberalisation of Japan. In March 1948, after a meeting with the SCAP, he stated in a report that General MacArthur agreed that economic recovery “should be made a primary objective of occupational policy.”¹⁴⁴ MacArthur was, however, more concerned with the unwillingness of other East Asian countries to trade with Japan.

The report by Kennan also shows how MacArthur’s standpoint had deviated from his earlier views. While MacArthur had always been a strong supporter of the Zaibatsu dissolution, Kennan stated in his report that MacArthur changed his view because he “realized that to some extent our occupational policies had been influenced by academic theorists of a left-wing variety.”¹⁴⁵ The report shows how the general discourse within the occupation’s administration had shifted away from its original New Deal liberalism, to reverse course conservatism.

Finishing up the deconcentration policy had become a matter of urgency, primarily because of economic reasons. In a memorandum of Kennan’s visit to Canada in June 1948,

¹⁴² The Chargé in the Soviet Union (Kennan) to the Secretary of State, February 22, 1946. Volume VI, Eastern Europe, The Soviet Union. *FRUS*, Document 475; George F. Kennan. “The Sources of Soviet Conduct” in *Geopolitics: An Introductory Reader*, Edited by Jason Dittmer and Jo Sharp, 103-107. (Abingdon-on-Thames: Routledge, 2014).

¹⁴³ Paul J. Heer. *Mr. X and the Pacific: George F. Kennan and American Policy in East Asia*. (Ithaca: Cornell University Press, 2018), 1.

¹⁴⁴ Report by the Director of Policy Planning Staff (Kennan), “Recommendations with Respect to U.S. Policy Toward Japan,” March 25, 1948. Volume VI, The Far East and Australasia. *FRUS*, Document 519. <https://history.state.gov/historicaldocuments/frus1948v06/d519>.

¹⁴⁵ Report by the Director of Policy Planning Staff (Kennan), “Recommendations with Respect to U.S. Policy Toward Japan,” March 25, 1948.

he discussed his thoughts on the economic programs in Japan. He stated that “the land reform programme had been pretty successful, although it had gone too far in certain respects.”¹⁴⁶ He was also critical of the economic purge because it had hurt industry. He proposed that “we should permit the Japanese Government to relax the effect of these purge directives.”¹⁴⁷ He also criticised the Zaibatsu dissolution, stating that this should be reversed so that “something could be done pretty quickly to right this situation in order that Japanese industrial recovery might not be further retarded.”¹⁴⁸

However, it seems that economic reasons were not the only reasons for this shift in policy. Later during Kennan’s visit to Canada, he stated that economic discontent could “play into communist hands.”¹⁴⁹ When he was criticised by his Canadian respondent, Kennan stated that “while we were worrying about Japanese reforms, we were giving the Russians an opportunity to extend their influence in Japan.”¹⁵⁰ Miller argues that Kennan’s intentions for the Japanese economic recovery were not just about the economic recovery and stability of East Asia, but that this recovery was “necessary to prevent Japan from becoming a ‘power vacuum’ ripe for Soviet incursion.”¹⁵¹

This line of thinking can be validated by examining NSC 68, one of the most important documents on Cold War ideology and strategy. The document states that the US intends to provide monetary assistance to Japan “because of their special needs arising out of the cold war.”¹⁵² The document specifically mentions the need to assist in economic

¹⁴⁶ Memorandum of Conversation, Prepared in the Canadian Department for External Affairs, June 3, 1948. Volume VI, The Far East and Australasia. *FRUS*, Document 558.

<https://history.state.gov/historicaldocuments/frus1948v06/d558>.

¹⁴⁷ Memorandum of Conversation, Prepared in the Canadian Department for External Affairs, June 3, 1948.

¹⁴⁸ *Ibid.*

¹⁴⁹ *Ibid.*

¹⁵⁰ *Ibid.*

¹⁵¹ Miller, *Cold War Democracy*, 62.

¹⁵² A Report to the National Security Council, April 14, 1950. *Harry S. Truman Papers*, President’s Secretary’s Files, National Security Council – Meetings File, 1945-1953. HSTPL, Box 180, Meeting Number 55, 29. https://www.trumanlibrary.org/whistlestop/study_collections/coldwar/documents/pdf/10-1.pdf. (Hereafter *HSTP*).

development in Asian allies for their “improvement in standards of living under their present government.”¹⁵³ The line of thinking that this document iterates is very similar to Kennan’s comments during his visit to Canada. In order to keep Japan from becoming communist, its people needed to experience the benefits of capitalism.

Economic Concerns

The economic situation in the US was somewhat tumultuous as well. After the war, the US had a general post-war depression due to a sudden decrease in government spending.

However, this was also a time in which the US had high levels of foreign spending due to programs like the Marshall Plan. Due to the US’s high foreign spending, the cost of Japan’s occupation was relatively more expensive. Japan needed foreign aid, which led to the general view in Washington that the occupation of Japan was “a drain on US resources until it can be put upon a self-supporting level.”¹⁵⁴ As such, the reverse course was an intermestic decision; not solely a foreign policy decision, but also affected by the US’s domestic economy.

In the Autumn of 1948, the US was at the beginning of a recession which would continue until the end of 1949. The economies of both Japan and the US would not fully recover until the start of the Korean War in the mid-1950s. Therefore, while some within the administration had already expressed a sense of urgency regarding finishing up the Zaibatsu dissolution – in its altered form – it was now exacerbated by domestic economic turmoil.

The economic recession of 1949 lasted for eleven months and only decreased GNP by less than 4% between 1948 and 1949 and increased by over 9% the following year.¹⁵⁵ The recession of 1949 is often referred to as an “inventory recession” due to the decline in GNP

¹⁵³ A Report to the National Security Council, April 14, 1950.

¹⁵⁴ “Intelligence Highlights,” 20-26 January 1948.

¹⁵⁵ Benjamin Caplan. “A Case Study: The 1948-1949 Recession.” In *Policies to Combat Depression*, Edited by George J. Stigler, 27-52. (Princeton: Princeton University, 1956), 32.

being less than the decline in inventory investment.¹⁵⁶ As such, it was a corrective recession more than anything. Economist Benjamin Caplan posits, that even though the recession of 1949 was never likely to have a significant impact on the economy, people were scared that “Depression was just around the corner.”¹⁵⁷ As such, out of fear for another depression, Washington was becoming eager to stop Japan from draining the US economy.

In 1949, the Japanese economic recovery was accelerated even further than it already had in 1948. A directive from the Joint Chiefs of Staff (JCS) to SCAP shows how vital the recovery was for Washington.¹⁵⁸ The directive very explicitly states what measures needed to be taken in order to “achieve fiscal, monetary, price and wage stability in Japan and to maximize production for Japan.”¹⁵⁹ It also shows how the JCS started to overrule SCAP in making these economic decisions.

While the directive from the JCS does not explicitly state so, a likely reason why the JCS overruled SCAP in December 1949 is because of the rising tension in Korea. The directive was sent to SCAP in December 1949, six months before the start of the Korean War. The heavy industry that was already present in Japan, combined with Japan’s proximity to Korea, led to Japan becoming a major producer of military supplies for the Korean War. Between 1949 and 1951, Japan was a major producer of (automatic) rifles, submachine guns, and carbines.¹⁶⁰ US military procurement in Japan rose from nothing to \$850 million between 1949 and 1952.¹⁶¹

If all the heavy industry would have been removed from Japan, as per Pauley’s

¹⁵⁶ Rendigs Fels. “Cyclical Experience in the Postwar Period: Theoretical Significance of the 1949 Recession.” *The American Economic Review* 45, no. 2 (1955): 359.

¹⁵⁷ Caplan. “The 1948-1949 Recession.” In *Policies to Combat Depression*, 27.

¹⁵⁸ JCS to SCAP. “Draft Directive from JSC to SCAP.” 3 December 1949. *HSTOF*, Part 3: Subject File, Reel 13, Frames 454-456. RIAS. (Hereafter Part 3: SF).

¹⁵⁹ JCS to SCAP. “Draft Directive from JSC to SCAP.” 3 December 1949.

¹⁶⁰ JCS to Commander in Chief UN Command Tokyo. 4 January 1951. *HSTOF*, Part 2: CF, Reel 11, Frame 950. RIAS.

¹⁶¹ Richard Stubbs. “War and Economic Development: Export-Oriented Industrialization in East and Southeast Asia.” *Comparative Politics* 31, no. 3 (1999): 344.

original plan, then Japan would not have been able to restart their production of military supplies as quickly as it did.¹⁶² However, since the industry had remained intact, Japanese production of heavy industry was able to rapidly increase during the Korean War. On average, the Japanese GNP was growing by 10% each year during the Korean War, and by 1951, Japan's industrial production was higher than it had been before the war.¹⁶³ Companies like Toyota Group saw their production climb to higher levels than ever before, due to the sales of Jeeps to both the US and Korea.¹⁶⁴

It's company president described Toyota's boom in production as "Toyota's Salvation."¹⁶⁵ Indeed, the war in Korea was able to recharge Japan's heavy industry, which in turn revived the economy. However, it was not just heavy industry that benefited from the Korean War. Miller argues that Japan functioned as the base for rest and recreation during the Korean War.¹⁶⁶ Japan functioning as a base for rest and recreation meant that service industries also experienced a boost in production. Schaller goes even further and posits that "nearly every sector of the economy ... that performed piecework for the Zaibatsu experienced a rebirth."¹⁶⁷

However, the Korean War led to an even more valuable economic advantage for Japan: access to a new trade market. During the Korean War, the Japanese value of foreign trade had risen by 84%, with the value of exports going up by 53%.¹⁶⁸ Japan was now trading with the US, Australia, and Korea, and their economy started to normalise again. From the Korean War onwards, the US started creating ties with other places in Asia like Vietnam,

¹⁶² Memorandum by Ambassador Edwin W. Pauley to the Assistant Secretary of State for Economic Affairs (Clayton), April 30, 1946. Volume VIII, The Far East. *FRUS*, Document 376. <https://history.state.gov/historicaldocuments/frus1946v08/d376>.

¹⁶³ Roger Dingman. "The Dagger and the Gift: The Impact of the Korean War on Japan." *Journal of American-East Asian Relations* 2, no.1 (1993): 42.

¹⁶⁴ Dingman, "Dagger and the Gift," 45.

¹⁶⁵ Schaller, *The American Occupation*, 289.

¹⁶⁶ Miller, *Cold War Democracy*, 57.

¹⁶⁷ Schaller, *The American Occupation*, 289.

¹⁶⁸ Dingman, "Dagger and the Gift," 42.

Taiwan, and Indonesia, expanding its military assistance to a significant part of Asia.¹⁶⁹

These newly formed ties also opened the markets of these countries for Japanese products. As such, through their alliance with the US, the biggest obstacle for the recovery of Japan's economy had been overcome.

However, while the economy's return to pre-war levels was good for the general economic recovery of both Japan and the US, this return to the pre-war economy also meant that the Zaibatsu had once again taken control of the economy and could, by proxy, influence politics. With the Zaibatsu's heavy industry producing again and the economy having normalised, the dissolution of the Zaibatsu was unlikely to happen.

The End of the Zaibatsu Dissolution

In early 1948, the Deconcentration Review Board was established by the Department of the Army and the Department of State. The establishment of the Board, together with an internal purge of the more radical liberals within SCAP, led to the Board's decision to cancel most cases of cartelisation against the Zaibatsu.¹⁷⁰ Some of the holding companies were still being dissolved, but while this meant that the Zaibatsu families no longer owned entire industries, the Zaibatsu companies still did. As such, the companies still held a lot of power, despite their change in management. MacArthur stated that the economic purge had not harmed the companies, but perhaps even strengthened them because of "these elderly incompetents and opening the way for better men."¹⁷¹ While the families were no longer in charge, the companies remained, although in a somewhat altered state with new management.

In December 1948, McCoy presented a statement to the FEC as to why the US had

¹⁶⁹ Miller, *Cold War Democracy*, 84.

¹⁷⁰ Schaller, "MacArthur's Japan," 21.

¹⁷¹ Report by the Director of Policy Planning Staff (Kennan), "Recommendations with Respect to U.S. Policy Toward Japan," March 25, 1948. Volume VI, The Far East and Australasia. *FRUS*, Document 519. <https://history.state.gov/historicaldocuments/frus1948v06/d519>.

suspended US policy towards the Zaibatsu dissolution. He stated that the end result of the Zaibatsu dissolution had been that “The assets of the 56 persons who comprised the heads of the 10 major zaibatsu families and the assets of the 83 holding companies controlled by these persons have been acquired by the Government and are in process of being sold to the Japanese public. A much larger number of companies have been compelled to divest themselves of holdings in and control over smaller enterprises.”¹⁷² In May 1949, the US’s position on the Zaibatsu dissolution was that “no further policies re[garding] deconcentration program are needed.”¹⁷³

This thesis posited that the Zaibatsu dissolution was never fully realised. However, the shares of the holding companies that made the Zaibatsu families so powerful had been redistributed to the Japanese public. As such, without these holding companies, the Zaibatsu could no longer operate as they had before. Nonetheless, the subsidiary banks of these holding companies were exempted from dissolution, and through these banks, the Zaibatsu families could once again rise to power.

¹⁷² Statement by the United States Representative on the Far Eastern Commission (McCoy) on December 9, December 9, 1948. Volume VI, The Far East and Australasia. *FRUS*, Document 695. <https://history.state.gov/historicaldocuments/frus1948v06/d695>.

¹⁷³ The Secretary of State to the Acting Political Advisor in Japan (Sebald), May 18, 1949. Volume VII, Part 2, The Far East and Australasia. *FRUS*, Document 80. <https://history.state.gov/historicaldocuments/frus1949v07p2/d80>.

The Legacy of the Zaibatsu Dissolution

In 1949, at the end of the Zaibatsu dissolution, the Zaibatsu families had been stripped of their assets, and their holding companies had been torn apart and sold to the general public. However, this did not mean the end for the Zaibatsu companies. Because the banks had been exempted from dissolution, they were able to keep their financial power and exert it on the Japanese economy. The Zaibatsu were dissolved, but after the dissolution, they rose from the ashes once more with a newly formed corporate structure as Keiretsu.

This chapter analyses how, after the initial dissolution of the Zaibatsu's holding companies, they evolved into Keiretsu holding companies. It will show how the Zaibatsu bank exemption allowed for these new corporate structures to form. By doing so, this chapter aims to show that, while the Zaibatsu were dissolved in their original form, they returned as Keiretsu and continued influencing Japan's economy.

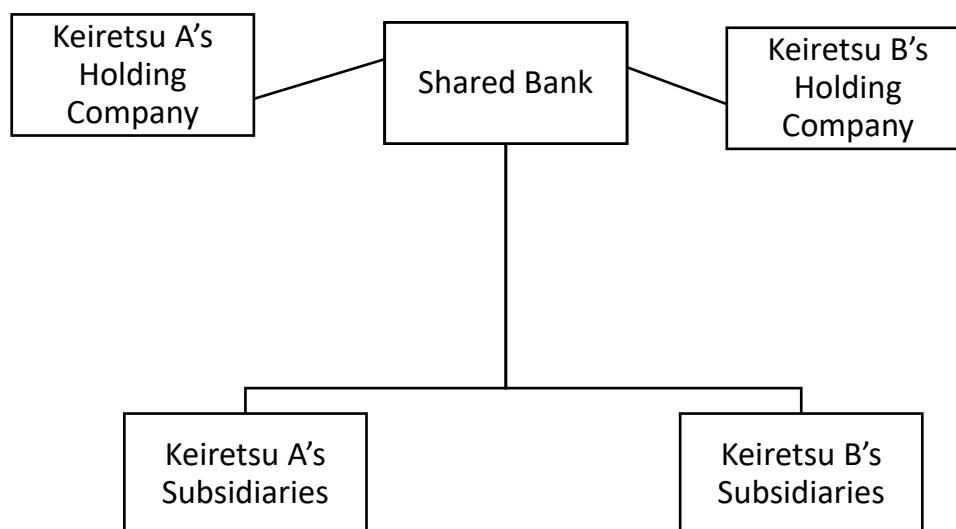


Figure 5. Keiretsu Corporate Structure

Zaibatsu to Keiretsu

While the holding companies and assets of the major Zaibatsu families had been seized during the occupation, the banks came out of the occupation strong due to US investment and a productivity boost from the Korean War. As such, while the Zaibatsu families had initially lost considerable power and influence over Japan's economy, their banks still had the financial power to control industries. Consequently, despite the redistribution of shares initially leading to a high level of individual ownership of stocks, financial institutions (former Zaibatsu banks) regained most of these shares as can be seen in table 1. These banks were able to once again acquire those shares due to the reopening of the Tokyo Stock Exchange in 1949.¹⁷⁴

	1950 Ownership, Japan	1990 Ownership, Japan	1990 Ownership, US
Individual Owners	69.1	22.4	50.2
Financial Institutions	9.9	48	30.4
Non-Financial Corporations	5.6	24.9	14.1
Foreign Owners	1.2	4	5.4

Table 1. Distributions of Shares in Japan and the US 1950 and 1990

Data: David Bernotas. "Ownership Structure and Firm Profitability in the Japanese Keiretsu." *Journal of Asian Economics* 16, no. 3 (2005): 533-554.

Before the dissolution, Zaibatsu families owned their banks outright. However, after the dissolution, the families started buying shares in each other's banks. While this would seem to make it less monopolistic, we can nevertheless still speak of cartelisation due to the newly formed corporate structure. Figure 5 shows the corporate structure of post-war Zaibatsu, now called Keiretsu. The corporate structure shown in figure 5 is a horizontal structure, often compared to the German "Konzerns," which have also been criticised for their monopolistic tendencies.¹⁷⁵ While there is also a vertical Keiretsu structure, the former

¹⁷⁴ David Bernotas. "Ownership Structure and Firm Profitability in the Japanese Keiretsu." *Journal of Asian Economics* 16, no. 3 (2005): 535.

¹⁷⁵ Maruyama Yoshinari. "The Big Six Horizontal Keiretsu." *Japan Quarterly* 39, no. 2 (1992): 186.

Zaibatsu all switched to the horizontal corporate structure like the one shown in figure 5.

There are two major differences between the Zaibatsu and Keiretsu corporate structures. In the Zaibatsu structure, one family-owned holding company was the shareholder for a subsidiary bank, while in the Keiretsu structure, several companies owned stocks in the same former Zaibatsu bank. The second difference is that due to the shared bank, the holding companies now owned major shares in each other's subsidiaries. Something that barely happened before the occupation.

While this shared interest in each other's companies meant that a single family no longer had a monopoly on an industry, it also strengthened their combined power due to their dependence on each other. Economists Erik Berglöf and Enrico Perotti explain this interdependence as "shareholding relationships."¹⁷⁶ Whereas in the American corporate models, shareholders and creditors are separated, Keiretsu companies are linked to each other in both debt and investment through their financial institutions (former Zaibatsu banks). This interdependence gives Keiretsu a strong position on the market, due to their need for "collaboration and long-term commitment" to other Keiretsu.¹⁷⁷ As such, while Zaibatsu families no longer have monopolies on entire industries, the Zaibatsu companies now share these monopolies, effectively becoming cartelised oligopolies.

The dissolved Zaibatsu names were outlawed during the occupation. However, as soon as the occupation ended, the former Zaibatsu started using their old names again and rallied around their respective banks.¹⁷⁸ Moreover, the "human networks" of exclusive business meetings between the company presidents of the different Zaibatsu, re-emerged at this point as well.¹⁷⁹ There is some debate as to whether these human networks violate anti-

¹⁷⁶ Erik Berglöf, and Enrico Perotti. "The Governance Structure of the Japanese Financial Keiretsu." *Journal of Financial Economics* 36, no. 2 (1994): 259.

¹⁷⁷ Berglöf and Perotti, "Governance Structure of Keiretsu," 260-261.

¹⁷⁸ Yoshinari, "Big Six Keiretsu," 188.

¹⁷⁹ Yoshinari, "Big Six Keiretsu," 188.

monopoly laws or not, and whether this makes for corporate collusion.¹⁸⁰ However, at the very least, studies have shown that the former Zaibatsu banks influence Keiretsu to produce above their production levels, in turn making it difficult to enter markets where Keiretsu are heavily represented.¹⁸¹ This difficulty in market entry is often so high in these industries, that at least in these cases when taking the human networks into consideration, one can speak of cartelised industries.

Nonetheless, the families that were at the head of the Zaibatsu no longer had the sole executive power within the industries. As such, we cannot call these companies Zaibatsu anymore. Their corporate structure and their place in the economy has shifted significantly, leading to Keiretsu. However, to speak of dissolution is too optimistic. The main problem with the Zaibatsu was that they had a stranglehold on the Japanese economy. This problem persists with the Keiretsu and, as such, the decartelisation of Japan remains unrealised to this day.

¹⁸⁰ David E. Weinstein, and Yishay Yafeh. "Japan's Corporate Groups: Collusive or competitive? An Empirical Investigation of Keiretsu Behavior." *The Journal of Industrial Economics* 43, no. 2 (1995): 359-376; Yoshinari, "Big Six Keiretsu," 186-190; Yoshiro Miwa, and J. Mark Ramseyer. "The Fable of the Keiretsu." *Journal of Economics & Management Strategy* 11, no. 2 (2002): 169-224; Ronald J. Gilson, and Mark J. Roe.

"Understanding the Japanese Keiretsu: Overlaps between Corporate Governance and Industrial Organization." *Yale Law Journal* (1993): 891-895; Berglöf and Perotti, "Governance Structure of Keiretsu," 259-265; James R. Lincoln, Michael L. Gerlach, and Christina L. Ahmadjian. "Keiretsu Networks and Corporate Performance in Japan." *American Sociological Review* 61, no. 1 (1996): 67-73.

¹⁸¹ Weinstein and Yafeh, "Japan's Corporate Groups," 359-376.

Conclusion: The Good Occupation

The occupation of Japan has, especially in recent decades, been described as a “good occupation.” In the early days of the occupation of Iraq, Japan’s occupation was frequently evoked by policymakers envisioning a “rosy postwar scenario.”¹⁸² Even after the realisation that Iraq’s occupation was everything but “rosy,” Japan was still offered as a blueprint for later US occupations.¹⁸³ Indeed, a similar grand strategy that was used for the occupation of Japan and Germany was used for the occupation of Iraq.¹⁸⁴ A strategy with the goals of democratisation, demilitarisation, decartelisation, and denazification¹⁸⁵ was used in all three occupations.

No doubt many of those policymakers were surprised at the difficulty in achieving those goals in the case of the Iraq War. However, using Japan as a blueprint also implies the assumption that the aforementioned strategy was indeed successful. While Japan has remained demilitarised since the occupation, there is ample evidence to suggest that Japan never turned into a full-fledged democracy,¹⁸⁶ that the denazification – or deprogramming – of Japan was never followed through,¹⁸⁷ and, as this thesis has shown, that the decartelisation of Japan was never fully realised.

The consequence of Japan’s unrealised decartelisation reveals itself to this day. In 2015, Japan and the US had bilateral trade talks regarding the Trans-Pacific Partnership (TPP). One of the main obstacles during the negotiation talks were the Keiretsu car

¹⁸² John W. Dower. “Occupations and Empires: Why Iraq is not Japan.” *The Asia-Pacific Journal* 1, no. 9 (2003): 1.

¹⁸³ Douglas Porch. “Germany, Japan and the ‘De-Baathification’ of Iraq.” *Defense Technical Information Center*. March 7, 2003. <https://apps.dtic.mil/docs/citations/ADA485192>.

¹⁸⁴ Andrew Arato. *Constitution Making under Occupation: The Politics of Imposed Revolution in Iraq*. (New York: Columbia University Press, 2009), 17.

¹⁸⁵ Often referred to as ‘deprogramming’ and ‘de-Baathification’ in the cases of Japan and Iraq respectively.

¹⁸⁶ Ethan Scheiner. *Democracy Without Competition in Japan: Opposition Failure in a One-Party Dominant State*. (Cambridge: Cambridge University Press, 2006).

¹⁸⁷ Tony Smith. *America’s Mission: The United States and the Worldwide Struggle for Democracy*. (Princeton: Princeton University Press, 2012), 146-176.

companies in Japan.¹⁸⁸ The fact that one of the most important bilateral trade deal negotiations included the Keiretsu shows how relevant the former Zaibatsu still are. Even more recently, French car manufacturer Renault renewed its Keiretsu alliance with Nissan and Mitsubishi.¹⁸⁹ The Renault-Nissan-Mitsubishi Alliance is a global leader in electric cars and an important player in the car manufacturing industry. The global power of these Keiretsu shows that although the Zaibatsu families were dissolved, their Keiretsu offspring still hold significant sway over both Japan's economy, as well as its politics.

This thesis set out to analyse what the domestic considerations were that shaped the reverse course of the Zaibatsu dissolution policy and the decartelisation of Japan. This thesis has presented the dissolution process and its implications and has linked this to both the domestic political and economic situation in the US. Intermestic considerations shaped the policymaking decisions that caused the shift in the decartelisation policy of Japan.

The 80th Congress was able to shift away from the general New Deal liberalist discourse that had shaped politics for over more than a decade, and this shift had its effects on the occupation. The appointments of Royall and Draper were rooted in intermestic deliberations and led to a focus on the Japanese economic recovery, rather than the reform of the country. Because Royall and Draper were working with Senator Knowland and the 80th Congress, reverse course policies were able to change the occupation's aims.

However, it was more than just ideology that guided this process. The direct post-war years were a drain on the US economy, and the occupation was costing more and more US resources. The notion that Japan was draining the US, combined with fears of another

¹⁸⁸ Stephen Harner. "Japan Auto Imports, TPP, and the Price of American 'Leadership,'" *Forbes*, May 20, 2014. <https://www.forbes.com/sites/stephenharner/2014/05/20/japan-auto-imports-tpp-and-the-price-of-american-leadership/>. (Accessed on June 15, 2019).

¹⁸⁹ Jim Collins. "Renault and Fiat's Quick Break-up Highlights the Barriers to Consolidation in the Auto Industry," *Forbes*, June 6, 2019. <https://www.forbes.com/sites/jimcollins/2019/06/06/renault-and-fiats-quick-break-up-highlights-the-barriers-to-consolidation-in-the-auto-industry/>. (Accessed on June 15, 2019).

depression, further exacerbated the perceived need to shift away from reforms to recovery.

As such, these intermestic economic concerns were an important deliberation for the need to shift the occupation's aims, leading to the exemption of one of the most important facets of the Zaibatsu dissolution: the exemption of the Zaibatsu banks.

Due to the exemption of the Zaibatsu banks, the former Zaibatsu were able to regain power within a few years and return to the Japanese economy as Keiretsu. While the Keiretsu are inherently different from the Zaibatsu, the same problems that plagued Japan under the Zaibatsu continue under the Keiretsu. As such, the decartelisation of Japan was never realised, and the Keiretsu's power and influence are evidence of this.

Abbreviations Used in Notes

CF	Correspondence File
<i>FRUS</i>	<i>Foreign Relations of the United States</i>
<i>HSTOF</i>	<i>Harry S. Truman Office Files</i>
<i>HSTP</i>	<i>Harry S. Truman Papers</i>
HSTPL	Harry S. Truman Presidential Library
NA	National Archives
<i>NDL</i>	<i>National Diet Library</i>
<i>OCMDA</i>	<i>Official Conversations and Meetings of Dean Acheson</i>
<i>PPPUS, HST</i>	<i>Public Papers of the Presidents of the United States, Harry S. Truman</i>
RIAS	Roosevelt Institute for American Studies
SF	Subject File

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