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JAPANESE PEACE SETTLEMENT: ECONOMIC DEMILITARIZATION  
AND ECONOMIC CONTROL

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INTRODUCTION

1. The economic foundation of the modern war machine of a country such as Japan is so great that for a stable peace settlement it will not be sufficient for the victor nations merely to disband Japanese military forces and destroy their armaments. Such security arrangements as are made to ensure that Japan will not again be able to embark on a career of aggression must include economic measures designed to prevent Japan from producing the means of making war. This can be accomplished in part by a short term programme for the elimination of those industries in Japan which are suitable solely for the production of war equipment and the reduction in capacity of other industries which, while essential in a peace time economy, are nevertheless readily adaptable to war production.

2. To ensure that Japanese war industries cannot be rebuilt and that war-supporting industries cannot be rapidly expanded in the future, further long-term economic measures will probably be necessary. One of the main characteristics of the pre-war Japanese economy was the high degree of centralized control, which made it readily adaptable to the requirements of an aggressive war. This concentration of economic power was not a purely recent development, being in some respects a carry-over from feudal times. The Zaibatsu, the great family of banking and commercial firms which controlled a large proportion of Japanese industry before the war, had been part of the fabric of Japanese economic life throughout Japan's modern period. While the occupation authorities have been taking steps to break up the Zaibatsu, it is doubtful whether the long traditions of economic organization which have nurtured these enormous trusts and holding companies can be completely eliminated in the course of a few years. The re-emergence of these financial and industrial organizations would make the Japanese economy again readily susceptible to rapid mobilization for war. Continuous allied direction of Japanese domestic economic affairs is obviously impracticable: the task of developing economic democracy in Japan is one which the Japanese people must themselves undertake. It would appear, however, that in the interests of security the victor nations must be prepared to keep a continuous check on the development of the Japanese economy over an extended period of time.

3. The formulation of a short term programme for the economic demilitarization of Japan has already been taken in hand by the Far Eastern Commission and practical measures have been carried out by the occupation authorities. This programme can presumably be completed at the peace conference and implemented before the final withdrawal of occupation troops. The drafting of long term economic policies to ensure that Japan will not be able to reconstitute a war economy and the devising of machinery for carrying out these policies are also tasks which must be included in the