

pattern of Nazi Germany after World War I -- a series of minor violations of the peace treaty, none of which would be considered sufficiently flagrant by the Allied powers to warrant the drastic step of military action. A system of military security provides for only one type of preventive action, which would probably be taken only at the eleventh hour. What is required is a system of continuous restrictions which can be progressively relaxed as a reward for good behaviour.

23. Form of Economic Controls

If it is assumed that long-term economic controls for Japan are to be established, the problems arise as to how and where they should be applied and what form they should take. In view of the circumstances mentioned in paragraph 20 above, it seems evident that any system of controls which is devised should take advantage of Japan's dependence on external sources of supply for key raw materials. This might be done in the following ways.

(a) Imports of key raw materials and certain classes of manufactured goods might be made subject to licensing by an international authority. By comparing applications for import licenses with periodic estimates of the requirements of Japanese industry, both for legitimate domestic consumption and the export trade, the international agency should be able to detect very quickly whether any stockpiling of strategic raw materials was taking place or whether any war potential industries were being expanded above the levels necessary for reconstruction purposes and normal peace-time requirements. If a further check on the imports actually entering Japan seems necessary, a staff of Allied inspectors might be attached to the Japanese customs administration.

(b) As well as handling import licenses, the international agency might also be made controlling authority for foreign exchange transactions. Foreign exchange could then be withheld from the Japanese when the import of key raw materials or manufactured goods was undesirable for security reasons.

24. With regard to (a) above, the functions of the international agency obviously require that it should have an inspection branch charged with investigating Japanese industry and rendering reports on production for the domestic and foreign markets and periodic estimates of import requirements. Special investigations could be made whenever a Japanese importer appeared to be applying for licenses covering excessive quantities of raw materials in the restricted category.