Crisis in Japan

While war in Korea threatens the whole Far East, what is happening in Japan ? This up-to-the-minute survey of a vital subject is based on careful research and documentation.

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EVENTS in Korea throw a new and threatening light on the whole situation in the Far East. A peace settlement with Japan is under discussion in London and Washington. In the past the Japanese have proved bad neighbours and false friends. What is the prospect today ?

One Problem —

A few weeks after last Christmas the secretary of a textile trades association in Stockport made an announcement which provoked much thought in Lancashire, although it was generally ignored by the national press.

Large quantities of shirts coming from Hong Kong were being offered by London firms to Manchester traders at prices as modest as 29s a dozen. One Manchester firm, the announcement went on, had already ordered a thousand dozen children's shirts at landed prices of 24s 10d and 26s 8d a dozen, and another firm had ordered large quantities of men's shirts to sell at 5s 6d each, and of boy's shirts to sell at 3s 9d each. The announcement said that the shirts, coming from Hong Kong, were classed as Empire goods and so qualified for preferential duty; and the fear was expressed that some of them might be of Japanese origin.(1)

Anxieties about cut-price Japanese competition had become general by the autumn and early winter of 1949. Mr. Walter Fletcher, the Conservative Member for Bury, was speaking for many on both sides of the House when he said in October that there was great uneasiness in Lancashire over the re-entry of " certain nations " into the commercial field. " Japanese goods are being exported today, copied absolutely from us, and they are cheaper."(2) A Japanese export catalogue which reached London at about this time was said to advertise bicycles, for instance, of " Raleigh Type " and " BSA Type," at prices much below those at which British bicycles could be sold. On November 8th the Federation of British Industries said that it had appointed Air Vice-Marshall C. A. Bouchier to be head of an economic intelligence service which should keep track of Japanese trade competition.(3)

The Air Vice-Marshall thereupon spent three months in the Far East. When he returned to England, he told the Press that the Japanese textile industry was still "a very big potential threat to Lancashire." He added:

1, 2, 3. For these and subsequent references, see page 24.

" We have got to be factual. If those 83 million people don't sell their stuff, they are going to starve." The threat, however, was not yet serious.

The China and Far East Section of the Manchester Chamber of Commerce, meeting early in the New Year, warned of a " most serious form " of Japanese competition.

> " Even as things are, the Japanese estimate that this year (1950) 800 million yards of piece goods will be exported. This is approximately one-third of the pre-war figure, but it must be remembered that Japan has now lost her Empire markets such as Manchuria and Korea, and others such as India and the South American countries are closed to her for the moment. This is resulting in the focusing of her export effort on the British colonies and those Far East markets which have been of such importance to us in the past."

General MacArthur had done something to spur these fears by abolishing, in October 1949, the minimum-price stop on Japanese exports. This was accompanied, true enough, by resolutions on behalf of the Japanese Government that there should be no Japanese dumping as in the past; but such resolutions appear to have brought little comfort to foreign competitors. At the same time General MacArthur announced that all Japanese export business would be handed back to private interests forthwith. These measures evoked widespread protest. Mr John Judge, President of the United States Textile Export Association, greeted them on October 26th with the remark that American exporters were " highly perturbed "; and that " the measure would enable Japan to sell textiles 25 per cent under competing prices." (4)

Another of General MacArthur's regulations was soon to give alarm in a different direction. When it was known that SCAP (Supreme Commander for Asia and the Pacific—the United States Authority in Japan) would advance a loan of £8,600,000 to rebuild the Japanese mercantile marine, a spokesman of the National Federation of American Shipping said that: " It will be dangerous to permit Japan, with her very low labour costs, to rebuild her merchant fleet to a point where she would compete with the commerce of other nations." (5)

—And Another

If left to itself under existing conditions, Japanese export competition will obviously make deep inroads into British (and even some American) overseas markets. But this is only one side of the question. The other side of it is Japanese. Without exports the people of Japan cannot live; their raw materials must be brought from abroad. Even more surely than Britain, Japan must export or die.

This is not a new thing. The physical characteristics of Japan, crowding a great population upon small and largely infertile islands, provide one reason for it. Another reason is the nature of the Japanese industrial revolution and of the restrictionist economic system which grew out of it. There is no doubt that the Japanese, as they had evolved since the Meiji " modernising revolution " of 1868, really could not live, before

the last war, without preying upon their neighbours and commercial rivals in one form or another. It was this fact that was used by the Japanese generals and industrialists to assure themselves of the military loyalty of the Japanese masses. Their islands were too cramped, they must go out and find new *Lebensraum* .....

We shall examine later on how far these governing conditions have changed since 1945. Meanwhile, it is perfectly clear that the Japanese will starve (or continue to live on United States subventions) unless they are encouraged and allowed to sell their goods abroad. War has worsened the problem. There are now ten million more Japanese on the islands of Japan than there were in 1940, making a total population of about 82 millions. This population is increasing at the rate of about 1,500,000 a year. (6)

It is reliably estimated that with "an average calory intake of about 2,160 *per capita* per day (compared with about 3,000 in Britain) Japan would have in 1950 a food deficit of approximately 15,894,000 million calories (4 million metric tons in brown rice equivalents), or 24.5 per cent of the required food intake. The prospects of Japan becoming entirely self-sufficient in respect of food supply are remote: in the words of a SCAP document, 'because Japan can produce domestically neither the food nor the raw materials required to support her population, Japan's hopes for recovery are bound up in foreign trade.'" (7)

Even with food imports during the post-war period at "half of all imports, the average *per capita* food intake of the Japanese population has been at estimated levels of about 1,850-2,050 calories, considerably less than the amount consumed in pre-war years." (8)

No doubt these facts reflect the dislocation of defeat as well as the chronic shortage of home-grown food. The percentage of imported foodstuffs to total imports began to decline in 1949. Even before the last war, however, Japan bought about a quarter of her food from foreign countries.

> Set alongside each other, these two aspects of the question of Japanese exports reveal *a choice of two alternatives, and two only, for the future.*
>
> One alternative is to have cut-throat competition as in the past—a process which has always resulted, and clearly will again, in continued suffering for the poorer country and a sharp reduction in the standard of living of the richer. Cheap exports, like bad money, sooner or later drive out the better product.
>
> The other alternative is to find ways and means of integrating Japanese recovery with the continued well-being of other nations. This alternative, which we mean to discuss briefly at the end of this study, calls for a new approach to many of the basic questions of Japan's economic life.
>
> Diagnosis must come before prescription. The principal aim of the present study is to offer keys to an understanding of the nature of the Japanese economy and of what has happened to it since 1945.

REASONS IN THE PAST

LIKE Germany, Japan came late to the imperial share-out. Modern Japan dates from 1868, the year of the Meiji Restoration. This was the overthrow of the Shogunate, a system which had existed in one form or another since 1147 and had flowered into full feudalism with the rise of the Tokugawa family in the early 17th Century. But the overthrow of feudalism in Japan followed a different course from the revolutions of Europe. The Meiji Restoration (so-called because it "restored" the power of the Mikado) was not so much a revolution as a deal between the feudal chieftains (or some of them) and the handful of bankers upon whom, more and more, these chieftains had come to depend for credit. Other motives for this transformation of the Japanese ruling-class were the acute fear of foreign invasion and the indigence, and therefore unrest, of thousands of feudal retainers (the *samurai* and the *ronin*) who were cast off, or reduced in status, by their chieftains at this time. Feudalism broke down; but instead of being overthrown, as it was in Europe, it was married skilfully with modern technique. And thereby hangs the tale.

This was the principal reason why the Japanese capitalist system, which may be said to date from the Meiji Restoration, never developed, even in its earliest days, that liberal framework of free enterprise which characterised the industrial revolution in England. A financial oligarchy, narrow and restrictionist, seeking and acquiring huge profits, dominated Japanese capitalism from the very beginning. Thus Mitsui, "one of the great merchant princes in the feudal period, banker to the Tokugawa and later to the Imperial House, became right from the beginning one of the financial pillars of the new government." [9] This alliance between the merchants and the princes was sealed fast by common action to suppress the many peasant revolts which stained with blood the early years of the new regime.

A Permanent War Economy

The feudal-merchant coalition took a special form. The tribal chieftains saw that they needed modern industry to provide the arms with which Japan could be defended against foreign gunboats and foreign cannon. They could build these industries only by borrowing from the merchants. What came about, broadly, was that the new regime went into business on a big scale, took over existing industries and arsenals, rebuilt them and multiplied them on credit provided by a handful of merchant bankers (from 1868 until 1900—the critical period of transformation—only two foreign loans were contracted, both of them in London); and then, when this was done, sold back the non-strategic industries to the merchant bankers at knock-down prices. Both sides of the coalition were thus richly repaid: the chieftains gained security and the bankers gained immense new assets. But for Japan this meant that the whole economic system came to be based on the strategic industries—the war industries—and that control of all other industry remained in the hands of a few monopolists. As time went by, the princes and the bankers intermarried. The modern Japanese ruling class, a confusing

amalgam of commerce and militarism, emerged upon the world scene. The world, not surprisingly, did not exactly welcome it.

One further point will make this process clear. The Japanese noblemen were not simply expropriated of land by the Meiji reforms. Those who made these reforms assured themselves of the continued loyalty of the nobility by giving these landlords compensation for their lands in the form of government bonds. When this compensation came to be finally capitalised, in 1876, it was seen that no less than 190 millions' worth of yen bonds had gone to the landlords; besides this over 20 million yen was made over to them in cash. Thus, "the feudal lord ceased to be a *territorial* magnate drawing his income from the peasant and became instead . . . a *financial* magnate investing his freshly capitalised wealth in banks, stocks, industries, or landed estates, and so joined the small financial oligarchy." [10]

In 1884 the oligarchy converted itself into a peerage along European lines. By this time the nobility had dug deeply into the banking world. In 1880, for instance, the *daimyo* and *kuge* who were about to become the peers of Japan possessed 44 per cent of all shares in the national banks, while their former retainers, the *samurai*, held another 31 per cent. Their business was to lend their money to the State, *their* State—which took all the risks and rendered them back a guaranteed profit.

The merchant houses of the Meiji Restoration in its earliest years, meanwhile, did equally well for themselves. Four of them swallowed up most of the private banking and commerce of Japan.

Control by Oligarchy

These four great monopolies, the Mitsui, Mitsubishi, Sumitomo, and Yasuda, known as the *Zaibatsu* (along with other family businesses operating on a much smaller scale), possessed by 1937 more than one third of the total deposits in non-government banks. Their trust companies held about 70 per cent of all trust deposits. They conducted about a third of Japan's foreign trade . They invested capital in shipping, ship-building, warehousing, colonial exploitation, engineering, mining, textiles, metallurgy, sugar refining, and flour milling. Mitsui and Mitsubishi controlled the paper industry between them. Above all, they continued to lend to the State the capital which they and the Japanese militarists needed in order to make the arms with which to take more *Lebensraum*; and to exploit this *Lebensraum* when they had taken it. [11]

"It should also be noted," adds a competent observer, "that through their control over the two major political parties (Mitsui over the Seiyukai party: Mitsubishi over the Minseito) and the financial pressure which they could exert on the Government, the *Zaibatsu* were in a position to influence the Government's industrial policies, and also to secure subsidies, fiscal protection for their industries, and profitable government contracts." [12]

By the turn of the century this process of breakneck development had transformed the whole economic system of Japan. Its first real test on

the international scene came in the war with Russia, when, in 1903, the Japanese amazed the world by emerging victorious. By the eve of the first world war, in no more than 46 years from the Meiji reforms, Japan had come to be reckoned as a Great Power.

The price paid for this by the Japanese people will never be known, but it was certainly stupendous. Feudalism had at least provided the peasants, who were the majority of the people, with certain elementary safeguards against starvation. The income of the feudal landlords, after all, had consisted of goods in kind (and mainly of rice); this income depended upon the continued existence of the peasants. If the peasants were to starve, the income would disappear.

The Meiji reforms changed all this by transforming these old customs into a money economy. Very soon the towns were crowded with starving peasants seeking work. Industrialisation was carried through with incredible wastage of human life and an almost complete disregard for human welfare. Wages were exceedingly low and—as Lancashire knows—were to remain exceedingly low. Workers lived in foul dormitories near to their places of work. Working class organisation was prevented by police suppression. This system of feudal-capitalism—although no worse than conditions prevailing in other parts of the non-Soviet Far East and in some respects a little less inhuman—made all growth of democracy impossible.

Having weathered the first world war successfully, and feeling themselves on the firm ground of great wealth and technical capacities, the Japanese oligarchy—a Janus-headed body which faced one way towards feudal tradition and the other towards commercial profit—turned in the logical order of things to foreign conquest. There followed the great expeditions to the mainland, the conquest of Manchuria, the attempt to conquer the whole of China, the preparation for the second world war, Pearl Harbour, and, finally, the lightning thrusts southward into the Pacific and South-East Asia.

Japanese foreign adventures were not an accident of history. As Allied policies recognised when the occupation of Japan began, these adventures were the product of Japanese militarism and industrial monopoly.

AND REASONS IN THE PRESENT

ALLIED policies in Japan since 1945 have meant, and mean, American policies. The Allied Control Council has been without real influence on the course of events. Those who look for a longer summary of how this came about are referred to our previous UDC study of Japan, issued in July 1947, where the matter is discussed in some detail. Meanwhile it is sufficient to note that it was finally " agreed by Britain and the United States that the only way to exclude the USSR was to exclude Great Britain also, and to spread the idea that America desired a virtual monopoly in an area which had been their theatre of war." [13] This abdication by the Labour Government thus helped to leave a clear field for American policies in Japan.

"The Allied Council for Japan," our previous study found, "has been completely dominated by the United States, and General MacArthur has made it abundantly clear that he regards it as mainly of nuisance value."

The British Government has been content, largely, to leave General MacArthur unchallenged. An interesting picture of the Allied Council's activities was provided lately by the Tokyo correspondent of a leading British journal. He described what he called the "organised buffoonery" of an international body without prestige or influence. "General MacArthur has always resented the existence of the Allied Council for Japan, which was set up as a compromise by the then American Secretary of State (Mr. Byrnes)." Although this compromise recognised the right of the Allied Powers to decide jointly the policies which should govern occupied Japan, the Americans have never allowed this right to become effective.

> "At his only appearance at the Council—the initial meeting (April, 1946)—General MacArthur," writes the same correspondent, "even warned the Council against 'ill-conceived criticism of our occupation policies.' At no time has he advised the Council delegates of his occupation decisions or reasons for these decisions. His right-hand man, General Courtney Whitney, head of Government Section, went out of his way to insult the Council at an early meeting at which he was requested for information about Japanese who had been removed from office." (14)

What, then, are the American policies which have governed Japan since 1945 ?

A New Japan

They began on a liberal note which is reminiscent of certain parts of the Potsdam Agreement. Economic objectives of the "United States Initial Post-Surrender Policy for Japan," were as follows:

> Encouragement shall be given and favour shown to the development of organisations of labour, industry and agriculture, organised on a democratic basis. Policies shall be favoured which promote a wide distribution of income and of the ownership of the means of production and trade.
>
> Those forms of economic activity, organisation and leadership shall be favoured that are deemed likely to strengthen the peaceful disposition of the Japanese people and to make it difficult to command or direct economic activity in support of military ends.

Three great reforms were undertaken :

(*a*) the break-up of large estates by land reform;
(*b*) the break-up of industrial and financial monopoly;
(*c*) the democratisation of politics by methods which were to include the founding of genuine trade unions.

These reforms were discussed at some length in our previous study. At that time it was too early to say how far they would be effective. Today, after about three more years of SCAP control, we find that **they**

have not changed the former structure of Japanese life in any decisive or permanent way.

Land Reform was initiated as early as Dec 9th, 1945, when SCAP instructed the Japanese Government to evolve the necessary legislation. A law finally emerged on October 21st 1946, by which the Government would gradually purchase between 70 and 80 per cent of the land then held in tenant cultivation. This would be resold to tenant farmers on easy terms stretching over 24 years. Altogether it was said that a third of the farming land of the country would be transferred in this way. By July, 1948, the Government had purchased as much as 3,803,638 acres, or 80 per cent of all the land in question. [15] It is not known, however, how much of this land has actually passed into the ownership of tenants. It will be obvious, in any case, that this snail-pace reform can become effective only with the continued good will of the Japanese Government. But this Government, as we now know, has meanwhile passed into the hands of men who appear to differ in no essential way from those of the old regime.

On the dissolution of **industrial and financial monopoly,** the results are just as disappointing. A good deal of anti-trust legislation, supervised by a Fair Trade Commission, was enacted; but this resembles closely the half-hearted efforts made in the same direction in Germany. The *Zaibatsu* family holdings were liquidated formally, but compensation was paid in every case and the field thrown open for private re-investment. Since the *Zaibatsu* families still command most of the available capital of Japan, it is easy to see that re-investment must quickly lead to the restoration of the previous structure of monopoly.

A writer in *Far Eastern Survey* (December 14, 1949), published by the American Institute for Pacific Relations, noted that " Japan's giant combines, in other words, have taken some heavy blows, but have not been weakened to the point where restoration of the old pattern is impossible or even improbable "; and added that " many observers have noted a gradual change in the American attitude towards this problem since the arrival of private traders in Japan late in 1947." The Johnston Committee, which visited Japan in the Spring of 1948, recommended that business reorganisation should be limited to " the minimum necessary to insure reasonable competition." This Committee included General William Draper, an associate of the Wall Street firm of Dillon Read and Company; General Draper had acted as adviser to the United States Commander-in-Chief in Germany, where the same " minimum reorganisation " of concentrated industry became the policy of the United States—with the result, as in Japan, that the monopolist interests have substantially retained their former power and privilege.

The Manchester Chamber of Commerce has noted that there is already " the complete return of Japanese export trade to private hands—in effect the same big combines which operated before the war." [16]

General MacArthur is worth quoting on this. Commenting on the purge from public life of leading Japanese implicated in war-guilt, he pointed out last summer that:

" no one is denied the right to work in Japan, nor does the purge

affect anyone's property holdings." [17] He went on: "Persons affected by the *Zaibatsu* Family Law (for the liquidation of monopolies) are subject to even less restriction than persons purged as militarists or ultra-nationalists"—please note the *even less*—"Actual members of the *Zaibatsu* families are excluded only from managerial positions in *Zaibatsu* enterprises, leaving them entirely free to engage in any other activity"—complete, be it added, with their capital—"High policy-making officials of *Zaibatsu* companies not members of Zaibatsu families, but close enough to be considered their agents, are excluded only from companies belonging to the particular *Zaibatsu* combine with which they were identified. They are entirely free to apply their initiative and talents anywhere else, *and in most cases are doing so*" (our italics).

"Our Primary Purpose"

There was a key, in the same article by MacArthur, to the reason for this failure to carry through effective social and economic changes in Japan. **"Our primary purpose," General MacArthur wrote, "has been to lay foundations for the development in Japan of a capitalistic system** based upon private competitive enterprise..." But how ensure the survival of capitalism in Japan while destroying the capitalists? Inevitably, the capitalists—with the *Zaibatsu* at their head—survived. American "industrial reforms" have rested on the erroneous, and, one can only suspect, disingenuous view that capitalism in Japan today can be, in the nature of things, something other than monopoly capitalism.

Since the end of 1948, when the United States entered officially upon an active policy of rehabilitating the economic power of Japan, SCAP has retreated step by step from earlier intentions of imposing social change. So far has this process gone the *The Times* could write in its *Review of 1949* that: "Greater and greater power, economic as well as political, is now being made over to the Japanese, and the men who wield it show at present little sign that they have broken with the traditions of the commercial and militarist oligarchy who originally committed Japan to her disastrous course of aggression."

The consequences are fast coming home to roost. Thus the Australian Lt-Col. Wm. Hodgson, who is now the British representative on the Allied Control Council for Japan, stated on March 1st last that "a new monopoly has risen in Japanese banking." He said that "eight banks controlled 80 per cent of the industrial, financial, and economic life of Japan." (*The Times*, March 2nd 1950). When Col. Hodgson tried to raise the matter in the Allied Council, however, he was ruled out of order by the American chairman, Mr. William Sebald.

The political scene bears out these gloomy judgments. The partial but visible progress towards democratic procedures reported in our previous survey is not, we find, being maintained. To quote *The Times* review of 1949 again: "While the Allies have to deal with a (Japanese) Cabinet which is trying to bring about a conservative national revival under cover

of the new constitution, the forces of organised labour, owing their strength to democratic reforms, have become increasingly restive from the conviction that Mr. Yoshida's Government, secure in the support of the Supreme Commander, is thoroughly reactionary in outlook." Rather than confirming a trend towards democracy, the general election of early 1949 returned a conservative government to power.

"Three factors at least have vitiated the play of the parties," wrote one experienced French observer this April, "To begin with, the resurgence of very ancient political customs, characterised by the relations between the "oyabun" and the "kobun"—that is to say, patron and client. Thorugh this system, which has retained such vitality in the whole collective life of Japan, the real holders of power remain 'behind the curtain'; they are the heads of clans, who direct the activities of their mandatories. **Intimidation, blackmail, and subsidised violence are everyday practices; parties with no fixed programme fight for a few leaders rather than for ideas."**

"The year 1948," this writer continued, "brought into sudden prominence the second vice of the regime, corruption. A series of financial scandals, fatal to the Centre parties (Democrats and Socialists), which they compromised, exposed the political background. It revealed at the back of the great parties the big business elements that have monopolised reconstruction—roads, military and other installations paid for by the occupying Powers, public works, and so on. It was discovered that it was difficult to play straight and get elected, for the securing of a seat is too expensive; the candidates who succeed are those who accept secret subsidies from the political black market . . . "

And, thirdly, "while the Americans imagined that they had built the political structure anew or thoroughly reformed it, the reactionary Old Guard found their way into it, and quickly learned how to make use of the new institutions by donning a democratic mantle." [18] The likeness with Western Germany appears strikingly close.

Trade Unions ?

Official reports, true enough, provide an encouraging account of the condition of the Japanese trade unions. The number of trade unions is said to have risen from nine in October 1945 to no less than 35,376 in October 1946 (a multitude which in itself reveals the lack of *organised* strength, and speaks volumes for the state of mind of the more conservative trade union leaders). Membership is said to have passed the six-million mark. Collective agreements were reported to regulate the conditions of employment of as many as 4,475,031 workers in July 1947.

It is hard to know how far these figures may be reliable. The report of an ILO mission to Japan commented in July 1949 that "there is good reason to suspect that the statistical returns in regard to the recent development of the trade union movement . . . are misleading." The report went on :

> "The existing organisation for the adjustment of industrial relations, far from being informed by a spirit of real co-operation

between employers and workers, would seem rather to aim at **the demonstration of an outward compliance with the standards set by the occupation authorities.** Although the subsidising of trade union activities by employers is forbidden by law, trade union officials as such apparently still continue to be carried on the payrolls of undertakings, and the unions maintain large staffs—'many-fold more than would be engaged by trade unions in the United States or Great Britain.' It is alleged," the report continued, "that employers continue the practice of giving 'strike pay' to the workers. Persons with Managerial responsibilities seem to be freely admitted to trade union membership."

Much the same thing may be fairly said, it seems, of new laws such as that for unemployment insurance. These innovations may be partially effective in the bigger factories, where inspection is easier; almost certainly they have never become so in the thousands of small factories and workshops where so great a part of Japanese industry is carried on.

"Thousands of employers are not paying the premiums required by the Unemployment Insurance and the Workmen's Compensation Laws," the Chief of the Labour Division of the Economic and Scientific Section of SCAP declared in a broadcast on Feb. 1st, 1949: **"Many employers are collecting the workers' share of the premiums and holding these, as well as their own share, from the Government. The Labour Standards Law is being constantly violated, a relatively small proportion of labour bosses have been eliminated, and undemocratic recruiting and hiring practices are still being followed in various industries."**

The Japanese conservatives who now again control Japan do not want to change their ways. That is scarcely surprising. What is much more serious is that SCAP should have exerted no real effort to make them change their ways. At the same time, it must be noted that the Japanese people incontestably enjoy more political liberties than before the war. They are free to organise and to enter political parties which stand for genuine reform and change. They have the right of assembly. They can educate themselves. These gains are real, although it is too early to measure what their full effect may be.

By and large, however, we conclude that the governing conditions in Japanese life remain substantially unchanged.

£3 a Month

The consequences are now becoming apparent. They amount to a sharp and ever-growing threat to the standard of living of all countries which compete, or expect to have to compete, with Japanese exports.

The pace at which this threat will materialise can be gauged even in a brief review of the industrial position. In the first place the size and potential of Japanese industry is (with the exception of spindles) not much less than during the war; in some industries it is greater. Reparations have remained largely a dead letter. In May 1949 General MacArthur announced that further payment of reparations would not be made.

How much damage was actually inflicted on Japanese industry ? Answering this question in the House of Commons on March 2nd, 1949, Mr. John Edwards, Parliamentary Secretary of the Board of Trade, made the following remarks :

> " If we take the period from 1930 to 1934 as being the last normal period before Japanese production was distorted by the emphasis placed on the heavy industries for war production, and compare that with Japanese production in 1948, the latter still represents overall only 60 per cent of the former ... The production of **textiles** .... was little more than 25 per cent of the figures for the base period. Before the war Japan possessed some 13 million spindles, of which eight million were in operation. There remain at present something like 3,364,000, of which $2\frac{1}{4}$ million are actually operating ... "

Use of spindles, Mr. Edwards admitted, was " slowly increasing." But by 1952, if American-Japanese plans are realised, cotton yarn will be produced from an installed spindle capacity of 5.85 millions. [19]

There are discouraging signs that the mentality of the present rulers of Japan, coupled with the American fear of social revolution in China, will prevent the Japanese from opening their natural markets on the Far Eastern mainland. This point will be discussed later. Meanwhile, it should be noted that there is every prospect today of cheap textile exports being made, once again, the principal source of foreign revenue. An authoritative spokesman of the Federation of British Industries, Air Vice-Marshal Bouchier, told the Press on March 21st, 1950, that while the Japanese now had only about three million spindles in operation, " there was talk in Japan of getting the limit raised to six or even eight million spindles."

For Lancashire at least the competitive position is already serious.

> " During 1948 West Africa was Britain's best (textile) market, taking nearly 14 per cent by value of total cotton cloth exports. Within the last two weeks, however, it has been reported that Manchester shippers are having to buy Japanese printed and dyed goods in order to obtain supplies adequate to meet the West African demand. Previous British purchases from Japan had consisted almost entirely of grey cloth to be printed and finished for re-export in this country. Now Japanese goods are being shipped direct to their final destination ... **the Japanese are able to offer their products at prices sometimes as much as 40 per cent below current Lancashire quotations ...** " [20]

The wider picture of Japanese production was lately reported by the Commission for Asia and the Far East as follows: " During the first five months of 1949 the index of industrial production in Japan reached 66 per cent of the 1930-34 level, an advance of 21 per cent above the level prevailing 12 months earlier. (There appears to be a discrepancy here with Mr. Edwards). Coal production during the first five months of 1949 was 13 per cent greater than in the corresponding period of 1948. In most major industries (for the same period), Japan's production continued to show substantial advances ... The outstanding gain was in the

iron and steel industry. Although Japan's current production of cotton textiles is maintaining 1948 levels, it is only about one-quarter of pre-war output . . . "

The rate of Japanese recovery can also be measured from the foreign trade figures. [21] Below we give the values of merchandise imports and exports of Japan for several main commodities, for 1946-48 and for the first part of 1949. They are expressed in millions of US dollars:

IMPORTS

Commodity	1946[1]	1947	1948	Jan.-July 1949
Total, all commodities ..	305·4	526·1	682·6	575·3
Foods	170·2	295·2	316·6	211·6
Industrial raw materials ..	132·4	209·8	321·8	322·2
Cotton, raw	105·0	70·0	98·1	113·5
Wool, raw	0	1·8	17·4	22·0
Other fibres and products	0	5·0	12·9	16·7
Non-metallic minerals ..	·3	2·3	4·7	4·4
Iron ore	0	·3	12·0	15·5
Coal and coke	0	·3	24·6	34·4

[1] September 1945 through December 1946.

EXPORTS

Commodity	1946[1]	1947	1948	Jan.-April 1949
Total, all commodities ..	103·3	173·6	258·6	164·7
Foods	2·2	4·3	12·1	3·9
Industrial raw materials[2] ..	28·6	19·2	34·7	9·6
Textiles and manufactures ..	62·1	131·1	159·2	107·2
Cotton fabric	·2	85·4	91·4	51·7
Cotton yarn	2·6	17·7	6·9	8·5
Rayon yarn and fabric ..	1·2	6·0	9·5	8·5
Silk, raw	56·9	10·8	22·1	6·8
Silk fabric	·2	6·4	16·2	6·8
Wool yarn and fabric ..	·7	3·1	6·1	7·3
Clothing and other ..	·3	1·7	7·0	17·6
Other products	10·4	19·0	52·6	44·0
Machinery	5·3	7·1	12·9	10·5

[1] September 1945 through December 1946.
[2] Excepting raw silk, which is included here under textiles.

The rapid increase in textile exports speaks for itself. Whereas in the whole of 1948 textile and other manufactured exports were valued at 159.2 million dollars, in the first four months of 1949 they had achieved a value of 107.2 million dollars.

Stated in this way, there is every reason for all of us to feel satisfied that the Japanese are doing well. A starving nation is a drag upon the whole world. And yet what are the accompanying conditions ?

We have seen that the **ownership and management** of Japanese industry have undergone no significant change. **Production** is capable of picking up quickly: the general index had reached 77.8 per cent of the 1932-36 level by June 1949, while industrial activity (including utilities) stood at 94.2 per cent. [22] What about costs ?

Here the biggest factor is of course **wages.**

This is where the realities of capitalist recovery under " free enterprise " become most painfully apparent. Examination of official Japanese statistics shows plainly that **real wages in Japan today are much lower than they were even in the bad times before the war.**

According to *Japanese Economic Statistics* (an official publication) of December 1948—since when we know of no significant change of trend—wages are especially bad in the textiles industry. The **average monthly wage in this industry stood at 2,996 yen (about £3)** compared with an average of 7,017 yen (about £7) for all manufactured industries. The ILO comments on this figure by pointing out that it gives too favourable a picture of the level of earnings in the textiles industry, since it is swollen by the larger earnings of the men employed. " Women and girls constitute the bulk of the workers in the industry, and in their case **the monthly average was no more than 2,352 yen (about £2 7s 0d)."**

Wages—no matter if they are supplemented to some extent by payment in kind—at these levels spell nothing less than economic warfare against the rest of the world. " There can be little hope of reintegrating the Japanese economy with world economy "—commented the ILO Mission which visited Japan early in 1949—" until there is an assurance that the efforts made in Japan to improve labour standards and social conditions generally will be maintained and doubled." It was the very least they could say. Yet the most diligent search does not reveal the slightest real assurance of that kind—either from the Japanese themselves or from the Americans.

America's Interest

American policy, we find, reflects that steady maintenance of conservative and capitalist policies with which the treatment of Western Germany has made us familiar. No doubt some American assistance would have had to go to Japan in any case. In the event it was given and continues to be given in such a way, and at such a rate, as to bolster a capitalist system which had crashed beyond the point at which it could help itself. Between 1946 and 1949 the *total of American grants, loans, and credits* to Japan and the Ryukyu Islands amounted to more than 1,694,432,000 dollars—over three quarters of which was by direct grant. This is about one million dollars a day.

While no figures for private American investment are available (although it is known that plans for such investment have long existed), it will be clear from this that the Americans have a strong vested interest in ensuring that this revived Japanese capitalism should eventually pay its way. "The power and prestige of the United States," in General MacArthur's words, have become "committed to the issue"—not to speak of the commercial side of it.

This commercial side is best defined, perhaps, by the bare facts of Japanese foreign trade. In the period January-July 1949 as much as 65.6 per cent of all Japanese imports derived from the United States, while only 17.3 per cent of Japanese exports went to the United States. Unless Japan is to prove a bad debt, Japanese goods will have to go either to the United States or to the rest of the world. But evidently there is no intention that they shall go to the United States.

Mr. Erroll, the Conservative Member for Altrincham and Sale, put the matter in a nutshell during a debate in the House of Commons on March 2nd 1949. "It may be said," Mr. Erroll affirmed, "that in the case of Japan the Americans will agree with us to ensure that Japanese prices are about the same as those prevailing in the rest of the world. I cannot believe that that situation is likely to arise. I feel sure, whatever agreement is reached, that General MacArthur will always ensure that Japanese prices are a little bit below our own, so that Japan will always continue to sell her goods in preference to ours. The Americans are determined that Japan shall sell her goods and sell them successfully, so I do not think we can look with confidence to any assurance, however well-intentioned, that Japanese prices will be kept up to the level of our own."

WHAT ALL THIS MEANS

SUMMARISING, then, we can say that:

1) the Japanese economy is still powerful and is steadily recovering its pre-war potential;

2) the ownership and management, and therefore the conditions of production and marketing, remain unchanged;

3) this revived Japanese capitalism, as at present directed, can only pay for its necessary imports of food and raw materials by crashing into its former markets abroad, many of them now British, at cut-throat prices.

4) the American authorities are allowing, and in effect encouraging, this process.

THE CONSTRUCTIVE ALTERNATIVE

ONE is struck once again, in commenting on these conclusions, by the similarity with Western Germany. The original American intention toward Japan — just as the original American intention toward Germany[23] — was one of structural change. The Japanese, like the Germans, would not only have to pay for the war; they would also have to mend their ways, to modernise themselves, to flow into the broad current of humanist development.

But this original intention failed to endure. There emerged another. By 1949—to quote Air Vice-Marshal Bouchier again—the American authorities were primarily concerned with building up the Japanese economy so as to make Japan a "bulwark against Communism in the Far East." However undesirable many Americans may have thought the choice, in the nature of things this new intention involved an ever-increasing reliance upon the latent forces of Japanese nationalism.

Mr. Yoshida, who may reasonably be described as "close to the *Zaibatsu*," emerged in Japan—in the same way as Dr. Adenauer, equally close to the cannon-kings of the Ruhr, became West German Chancellor during the course of 1949. A "bulwark against Communism," after all, could not be built from the political forces of the centre and left of centre; it must be founded, if it were to prove staunch, upon a revived capitalism—and a revived capitalism, quite surely in Japan, would carry with it a revived and eventually militant nationalism.

Reliable reporters on Japanese affairs seem agreed upon the facts of reviving nationalism. As in Western Germany, the evidence lies on every hand—in banking, in the control of industry, in the evasion of new social legislation, in the pitiful condition of Japanese trade unionism, in the Press, and in the Japanese Diet.

A contradiction in the ideological aims of American policy becomes apparent. As was the case in China, the Americans preach democracy but rely increasingly upon the forces of conservative and militant nationalism. And as with Kuomintang China, this revived nationalism not only resents democracy and does its best to make a mockery of its practice—but, as far as it dares, resents also the secondary status to which it is relegated in the American partnership. No doubt the *Zaibatsu* and their monopolist connexions are glad to bargain their independence against their chance of continued existence; but the bulk of Japanese who are now being attracted again to the creeds of extremist nationalism are far from likely to prove as docile.

The contradiction may be seen in another context. The early policies of American military government allowed and encouraged the emergence of democratic parties, of trade unions, of a free-thinking Press and public opinion. But it is precisely this liberal and leftwing opinion which is now vocal in protest against the new policies of General MacArthur, against the reinstatement of the *Zaibatsu* and all they stand for, against

the retention of American bases in Japan—in a word, against the whole conception of making Japan a satellite of the United States in its fight against social revolution in the Far East.

So far is this the case that General MacArthur now finds himself faced with the prospect of having to repress the activities of those very parties and organisations which he helped to create, and upon which, as his spokesmen used to say, the hope of democracy in Japan must rest. He has made a beginning, in this, by repressive action against the Japanese Communists.

More and more, the Americans are coming into head-on collision with resurgent democratic forces in Japan—just as, in another sense, they are coming into collision with resurgent nationalist forces. It was significant of this that General MacArthur, in forwarding the new Nine-Point Economic Programme of 1949 to the Japanese Prime Minister, should insist that there was "no place for political conflict over the objectives to be sought... nor will there be any place for ideological opposition, as the purpose to be served is common to all of the people; and any attempt to delay or frustrate its accomplishment must be curbed as menacing the general welfare."

An American Dilemma

General MacArthur's economic policies uncover this fundamental American contradiction in all its depth and difficulty.

It has constituted a primary concept of American policy that Japan should move as quickly as possible towards economic independence. American subsidies could not be paid at the present astronomical rate for very long, if only because of their inflationary effect upon the American economy. Hence the Supreme Commander for Asia and the Pacific received, at the end of 1948, a new Directive for economic affairs.

Worked out by Mr. Joseph Dodge, this "Nine-Point Programme" was held to point the way towards economic independence at a relatively early date. The programme assumed a balanced economy by 1953, and it based this assumption on points which included the following:

(*a*) the population would reach 87,663,000 by 1953;

(*b*) the standard of living would advance to about 90 per cent of the average of 1930-34;

(*c*) the net terms of trade would move in favour of Japan by 13 per cent between 1949 and 1953;

(*d*) private capital formation would be as high as from 15 to 17 per cent of the national income for each year after 1949;

(*e*) industrial production would rise by 80 per cent by 1953, largely through a 70 per cent rise in productivity; agricultural production would also rise by 20 per cent; while exports would increase by 1,500 million dollars, namely six times the figure of 1948.

Now if it is true, as we have seen, that the Japanese economy is poised to move along the same lines as before the war—but *without* the vast

possibilities hitherto enjoyed of colonial and quasi-colonial exploitation of Manchuria, Korea, China, Formosa, and other parts of South-East Asia—there is simply no prospect of the above objectives being realised. Even if Japanese exports greatly increase to former British and other Western markets, they can scarcely do so to the point envisaged by Mr. Dodge.

More than ever, it becomes clear that the Japanese economy can expand and remain healthy only if it is linked with the limitless needs of the Far Eastern Continent and the whole complex of South East Asia. This means, above all, an unrestricted expansion of trade with China.

But the uninhibited export of Japanese goods to China—in return for the food and raw materials which Japan must have at all costs—runs directly counter to the over-riding policy of making Japan ' a bulwark against Communism in the Far East." If Communist China grows strong by the import of Japanese capital goods, the " bulwark " will scarcely have answered its purpose, which is much more than mere containment. If Japan is cut off from Asia, on the other hand, the Japanese people will face desperate conditions at home. That is the dilemma of United States policy in Japan; and it is a dilemma which is not within sight of solution.

Japan and China

" Japan's economic needs thus run counter to the apparent United States policy of denying capital goods to Communist areas." commented a writer in the authoritative *Far Eastern Survey* last August.[24] Between 1918-37, China had taken an average of one quarter of all Japanese exports; in 1939, near the height of Japanese imperialist expansion on the mainland, China absorbed 49 per cent of all Japanese exports. In 1934, furthermore, China supplied 33 per cent of the iron ore and 72 per cent of the pig iron imported by Japan; Manchuria and Korea supplied great quantities of food and other raw materials. China's share of Japanese foreign trade was running, before the war, at the rate of about 30 per cent a year.

" At present," by contrast, " the Americans are prohibiting almost every transaction between Japan and Red China. They are afraid of contagion. To help Japan, should they not end the prohibition, as more than one Japanese business leader secretly wishes, to say nothing of the Chinese?" [25] (This is no longer quite the case.)

Late in the Autumn of 1949 a group of Chinese trade representatives came to Japan. In the course of talks, with SCAP's full knowledge, the Chinese suggested that they should take over from certain Japanese engineering works ten out of twenty locomotives which were then being built for the Kuomintang Nationalists. But SCAP, upon being approached, would authorise the Chinese to take only four of these locomotives.

The position was well described by an American commentator lately. Discussing the trend of events in the Far East since the war, he pointed out that " it is quite possible to predict that these events (occuring since

the war) will so enormously increase the difficulties of an economic solution for Japan as to throw into doubt the related political and military aspects of our post-war policy for that country."

The only feasible economic solution for Japan, in this American's opinion, would be an economic *modus vivendi* with a Communist East Asia; but apart from the political dangers of such a policy to the American position in Japan, the United States would also be risking the "gradual development, under our protection, of a Japanese economy designed to provide those industrial elements needed for the construction of power in a Communist East Asia. This risk we cannot justifiably take."

Touching on the more purely political aspects of this dilemma, he let fall the significant remark that "we cannot, under present circumstances, easily devise a policy of standing against Communist advance in South-East Asia except under conditions that will substantially lessen the freedom of choice of the peoples in that region." (26) The "bulwark against Communism," in other words, is to accept colonial status.

The implications of retaining Japan as an American satellite were sharpened in the public eye when a debate in the Japanese Diet, early in March 1950, suggested that proposals had come from Moscow to the effect that the Soviet Union might be willing to hand back the Kurile Islands to Japan (transferred to the Soviet Union by the Yalta Agreements); and, still more inviting, might also be willing to lend its support to the project for a far-reaching commercial pact between Japan and China. It was common konwledge that many Japanese traders were extremely anxious for the trade pact, however little they might care about the Kuriles. A British correspondent reported that huge stocks of cheap textiles, for instance, were stored in ware-houses at Osaka, Nagoya, and elsewhere. (27)

By the Spring of this year, indeed, the dilemma of American policy had become acute. The alternatives were considered by a conference of American experts and officials which met in Tokyo late in April under the chairmanship of Mr. William Sebald, General MacArthur's principal political adviser. Their conclusions, though not published, were reported to be that American policy should:

(1) find means, if possible, of preventing Japan from trading extensively with China;

(2) initiate, to that end, a programme of regional organisation by which Japan should be linked to the countries of South-East Asia.

"The conference, it is understood," commented a British correspondent in Tokyo, "considered that Asiatic countries must get together to provide a basis for regional aid by the United States. American policy here aims at diverting Japanese attention from China, particularly since the Japanese have begun to demand permission to trade freely (in such commodities as machinery, locomotives, steel rails etc.) with that country. The American desire to link Japan's economy with South-East Asia has

found little favour in allied circles in Tokyo, since it is felt it might well mean a revival, even though in a modified form, of the notorious Greater East Asia Co-Prosperity Sphere " of the Tojo Administration, thereby affecting the Commonwealth's position." [28]

This American preference for restricting Japanese trade with China has thus met with opposition from Allied as well as Japanese circles. Early this year, accordingly, the Japanese Government was permitted to enable Japanese business to take up its Chinese connections again. But, as is the case of West European trade with Eastern Europe, the export of " strategic materials " is prohibited. This prohibition is likely to prove both extensive and severe.

Britain's Responsibility

The constructive alternative to these policies of restriction and reaction is now extremely difficult to realise. Opportunities for social and structural changes inside Japan were devised in the first months of defeat by an America determined to preserve another powerful part of the capitalist system from dissolution. Britain has done nothing to oppose that denial. The modernisation and democratisation of Japanese society is being left to the enlightened elements in Japan to fight for alone—and these are now far from the seats of power. Their fight cannot be other than long and bitter.

The British Government in 1945, together with other Commonwealth Powers, deliberately took a back seat in the Allied Control Council in Tokyo and in the Far Eastern Commission in Washington. Does this mean that Britain must now sit by and watch the destructive potentialities inherent in Japanese capitalism spring forth unfettered to a ruthless struggle for markets ?

We do not underestimate the difficulties of constructive action, but we do not share this defeatist view. The British Government—among others who fear the cut-throat knife of Japanese competition as it is now shaped—can still do much to mitigate the worst evils of this grave situation.

> **The paramount point is that the constructive integration of Japanese trade with world trade lies inseparably with the profound social and industrial revolution which is now in progress throughout Asia.** The backward and exploited countries of the Far East are throwing off the handcuffs of the past. Vast populations in China and India are breaking through the mist of myths and misery which has kept them so long deprived of modern science and technique. The industrial revolution is thundering at their gates.

The peace and welfare of Japan consist in enabling the Japanese to meet the immeasurable requirements of this great and hopeful event. If the growing Japanese demand for expanding trade with China and the rest of the East can be met, then the problem of Japanese recovery and

of Japanese competition with the West, can be moved a long way towards solution.

This will not be easy to obtain. Backward influences now uppermost in Japan, and elsewhere,will certainly fight hard against a solution which robs Japan of her industrial lead in the Far East and helps on the social progress of Asia. The United States appears to be counting now on the most reactionary elements in Japanese society to provide its main bastion and base in the Far East.

Present American trends have dangerously explosive possibilities. Having committed itself to the reinstatement of the old regime in Japan —dressed up, it is true, to look like new—American policy may find it hard to resist the temptation to make this intensely nationalist Japan into a military partner and ally. Once again the parallel with that other "bulwark against Communism," the West German State, springs to mind: the Joint Chiefs of Staff, it is understood, have already recommended the partial rearmament of Western Germany. By how much more are they likely to recommend the rearmament of Japan ?

The rearmed Japanese of the old regime, it is needless to add, would be more likely to rest content with a subordinate role than their colleagues in Western Germany. So much is suggested by the frame of mind in which the Japanese leaders are now believed to have accepted defeat in 1945.

Several weeks before the atom bomb was dropped on Hiroshima, it is now known, a number of Japanese generals in Java received a new batch of instructions from the Japanese Supreme Command. They were told that surrender was coming shortly, but that this surrender was to be regarded as a truce which might last five or six years—after which war would be resumed on a vaster scale, this time between the United States and Russia. And in this third war, it was explained to these generals in Java, the services of Japan would be needed because Western Europe, if only from fear of Russia, would be reluctant to come in. The battleground, therefore, would be largely in East Russia and Manchuria; and Japan would play a major role.

The Chance for Peace

It is in these terms of war that the United States Chiefs of Staff, to an extent which we find is by no means understood in Britain, are now talking. Their principal problem in mid-1950 is to find a means of reconciling a separate peace treaty with Japan with the continued existence of American bases on the Japanese islands.[29] General MacArthur himself, as far as can be judged from reports, appears to be thinking primarily in terms of the military bases which would be needed—irrespective of events in Korea—to bomb Siberia and to intercept fighters.

There are saner elements in the United States who realise that such military policies are provocative and inconsistent with the maintenance of peace. But the strongest opposition to them comes from within Japan itself. Here, in recent months, the political atmosphere has greatly changed. More and more, it is seen that economic policies are contingent

on the terms of the coming peace treaty. There is a growing demand for a peace treaty with all the victorious Powers, and not simply a peace treaty with the West. In working for a separate peace treaty, the Western Powers will find themselves allied with the old conservatives and the "new *Zaibatsu*," led by Yoshida, and increasingly opposed by enlightened Japanese of every political colour.

It is not too much to say, in view of the forces at work in Japan and the world, that current Western support for a separate peace treaty is support for policies which can only extend the dangers of war. A separate peace treaty will mean an adventurous attempt to retain Japan as a military base, while hindering the Japanese from developing natural and normal partnership with other countries in East Asia, and from hingeing their economy to the needs of the industrial revolution in China. It will therefore mean abnormal and unnecessary pressure on British oversea markets.

These are policies of ruin. It is in moderating and correcting present American policies that the British Government can still bring its influence powerfully to bear for the general good.

Britain cannot escape this responsibility. She is a member of the Allied Control Council in Tokyo and of the Far Eastern Commission in Washington; she must approve American policies or reject them, for she cannot remain neutral.

Once again in the great tribune of world politics, the Labour Government is offered the opportunity of siding with the forces of social progress against the forces of obscurantism.

The Labour Government's aim, we conclude, must be primarily, and notwithstanding events in Korea, to ensure that the projected peace settlement with Japan is brought about in such a way as to open and broaden the paths of peaceful intercourse and commerce between Japan and the Far Eastern mainland. If, however, the peace settlement is to be concluded under the guidance of present American policies as part of a programme for war, cold or hot, then the baleful consequences, we are convinced, will be felt in every part of the world, but not least in the homes and factories of Britain.

The fighting in Korea renders it still more imperative that efforts for a general settlement with Japan should be renewed. As an initial step, we suggest, a meeting of the Far Eastern Commission should be called at an

early date.* The British Government should take the initiative in calling for such a meeting; and should elaborate proposals for a general settlement which should include the Soviet Union and China as well as the Western Powers.

*The Far Eastern Commission for Japan, set up by the Moscow Agreement of Dec. 27, 1945, as part of the machinery for the control of Japan, consists of representatives of the U.S.A., U.K., Soviet Union, China, France, Netherlands, Canada, Australia, New Zealand, India, and the Phillipines. Another part of that machinery, the Allied Council for Japan, was set up at the same time; and consists of the Supreme Commander (or deputy), who is Chairman and U.S. member, a Soviet member, a Chinese member, and a member representing jointly the U.K., Australia, New Zealand, and India.

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