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Paper Tigers: Enforcement Constituencies and the De Jure-De Facto Gap in Occupied Japan's Economic Reforms

Matthew Wu

The Horace Mann School, Bronx, New York, USA, mdwu1009@gmail.com

Abstract: This study examined two major redistributive reforms that the American occupation of Japan enacted into Japanese law and that met opposite fates. Deconcentration of the zaibatsu, Japan's family-controlled industrial combines, was whittled to just nine reorganizations, and within two years of the peace treaty the Diet had exempted export and recession cartels from the antimonopoly law while former zaibatsu reformed as keiretsu. This paper argues that where each reform lodged enforcement authority explained the divergence, not occupier competence or Cold War pressure. Land reform placed enforcement in elected village land commissions on which tenant beneficiaries held a statutory majority, which made the rule self-enforcing from the moment of transfer. Deconcentration placed enforcement in its cost-bearers, including the Finance and Commerce ministries, the Holding Company Liquidation Commission, and the combine managers, while its beneficiaries remained diffuse and unorganized. The comparative historical analysis represents a within-country natural experiment for the study of imposed institutions. The findings amended the claim that Japan's growth followed the destruction of its zaibatsu, whose dissolution proved de jure only, and showed that the same surviving organizational know-how that made constitutional democracy workable also defeated deconcentration.

Keywords: Occupied Japan, Land Reform, Zaibatsu Dissolution, Deconcentration, Keiretsu, Enforcement, Imposed Institutions, Self-Enforcing Institutions

1. Introduction

On February 1, 1947, General Douglas MacArthur, presiding over the American occupation of Japan as Supreme Commander for the Allied Powers (SCAP), banned a general strike that would have mobilized four million workers, nearly two-thirds of the country's organized labor force (Schonberger, 1989, p. 62). His justification echoed the complaints of the industrialists his occupation had vowed to disempower: the strikers were a "small minority" engaged in subversion (Schonberger, 1989, p. 62). Two years earlier, MacArthur had promised to break the zaibatsu, the family-controlled combines that dominated Japanese industry, and to make empowered workers the foundation of democratization. Now he was suppressing the largest labor action in Japanese history.

The strike ban was an early signal of the pattern that would define economic deconcentration: statutes enacted in full, enforcement whittled to almost nothing, and reversal the moment the occupier departed. In February 1948, the Holding Company Liquidation Commission (HCLC) announced 325 companies in its two designations under the Deconcentration Law: 257 industrial firms on February 8 and 68 distribution

and service firms on February 22 (Hadley, 1970, p. 113; Holding Company Liquidation Commission, 1950–1951, pp. 24–88). Within five months the Commission released 225 of the 325, and an April 1948 Headquarters policy exempted every bank in Japan and capped reorganizations at twenty (Hadley, 1970, pp. 72, 166–167). The Deconcentration Review Board that Washington installed in 1948 to review those designations recommended the structural reorganization of exactly eleven (seven of them monopoly cases by the board's own definition of 70 percent of the market and above, the remainder Mitsubishi Heavy Industries and the three great mining companies) while recommending asset adjustments in eight more (Deconcentration Review Board, 1949; Hadley, 1970, pp. 171, 174–175). SCAP's own officers saw the gap between statute and enforcement at the moment of enactment. According to an informant of Draper's, just before the House of Peers took up the deconcentration bill in December 1947, a colonel from SCAP's Economic and Scientific Section warned Prime Minister Katayama that the bill had to pass so as not to embarrass MacArthur, who expected the Republican presidential nomination; the colonel added that the supreme commander cared little how anyone enforced the law, provided the world saw no dissension in Japan (Schonberger, 1989, p. 75). Within a year of the San Francisco Peace Treaty taking effect, the Diet exempted export cartels from the antimonopoly law through the Export Trade Act of 1952, and exempted recession and rationalization cartels the following year, dismantling in two legislative moves what SCAP had spent seven years constructing (Hadley, 1970, pp. 346–348; Nakamura, 1995, p. 26; Yamamura, 1967, pp. 57–58). The former zaibatsu re-emerged as keiretsu; indeed, the same firms, managers, main-bank relationships, and intercorporate shareholdings, coordinated through presidents' councils, including Mitsubishi's twenty-five-company Friday Club (Kinyō-kai), Sumitomo's White Waters Club (Hakusui-kai), Mitsui's Monday Club (Getsuyō-kai) (Hadley, 1970, pp. 205–207).

Yet the occupation's other great redistributive program never unwound at all. The land reform of 1946–1950 compulsorily purchased the entire holdings of absentee landlords and all but one chō (roughly one hectare) of the land of landlords resident in the villages, transferring roughly 37 percent of Japan's cultivated land to the tenants who farmed it (Duus, 1989, pp. 171–172, 496; Nakamura, 1995, p. 29). The share of farmland worked by tenants fell from 45.9 percent in November 1946 to 10.1 percent in August 1950; owner-operated land rose from 54 percent of the total to 90 percent by the beginning of 1950 (Nakamura, 1995, p. 29; Yamamura, 1967, pp. 17–18). No postwar Japanese government, including the conservative cabinets that presided over the cartel exemptions, ever attempted to reverse it.

This divergence is the puzzle this article explains, and it has the structure of a comparative historical study. The occupier, the occupied country, the legal instruments, and the period are all held constant. Both reforms were foreign-imposed, both were redistributive, both were enacted into Japanese law, and both were opposed by those they expropriated. One became a permanent feature of Japanese society; the other was a paper tiger. Explanations that operate at the level of the country like occupier competence, Japanese culture, or Cold War pressure cannot explain why the same occupier, culture, and geopolitics produced opposite outcomes in the same five years.

The explanation defended here operates at the level of enforcement. Following Voigt, a rule "matters" only if there is no gap between the de jure text and de facto reality, and following Weingast, the gap closes only where rules are self-enforcing in which no actor can profit by reneging (Voigt, 2021; Weingast, 1997). Whether an imposed reform becomes self-enforcing depends on where enforcement authority sits. SCAP, an organization of roughly 5,500 American officials governing a nation of seventy million, concentrated its own authority where directives produced immediate and verifiable results (i.e., constitution-drafting, purges, legislative mandates), while implementation ran

through the existing Japanese ministries (Truman, 1945). That asymmetry is the key to everything that follows. Land reform lodged enforcement in elected village land commissions on which the reform's beneficiaries held a plurality, five tenant seats against three landlord and two owner-cultivator seats: a concentrated constituency administered its own victory, parcel by parcel, with the government as compulsory intermediary buyer (Williamson, 1951). Deconcentration lodged enforcement in the Ministry of Finance, the Ministry of Commerce and Industry (MCI), the Holding Company Liquidation Commission, and the banks, which were the actors bearing the program's costs (the designation lists never named a single bank), while its beneficiaries, consumers and would-be competitors, were diffuse and unorganized (Hadley, 1970, p. 72; Olson, 1965). The first reform was self-enforcing the day it was implemented; the second required the continuous, credible commitment of an occupier whose objectives were already shifting and that commitment, once Washington began signaling reversal in 1947–48, no rational Japanese actor had reason to believe (Flores & Nooruddin, 2011).

The reversal needed no conspiracy because it needed no concealment: every actor who defeated deconcentration did so openly, rationally, and on the record. Finance Minister Ishibashi Tanzan, reasoning as a self-described Keynesian that Japan's rising prices amid idle labor and capacity were not a "true inflation" and that the state should channel funds into under-utilized industry, expanded the Reconstruction Finance Bank (RFB) as a pipeline for government and Bank of Japan funds; its bonds, accepted by the Bank of Japan, financed Arisawa Hiromi's priority production system (Nakamura, 1995, pp. 34–35). Monetized credit, and not "surging demand," drove a price level that stood at 100 in August 1945 and reached 1,184.5 by the following March, with consumer prices then rising roughly 40 percent per quarter through 1947 (Johnson, 1982, pp. 177–178; Nakamura, 1995, pp. 35–36). The combined families of Mitsui, Iwasaki, Sumitomo, and Yasuda lost and stayed dispossessed: their compensation arrived as ten-year non-negotiable bonds that inflation destroyed, and even Yamamura, the leading skeptic of the zaibatsu-revival thesis, records that their holdings vanished down to the shareholder lists of the former zaibatsu banks (Hadley, 1970, pp. 23, 60; Yamamura, 1967, pp. 11–12). After August 1946, the managers, the group banks, and Keidanren openly defended the organizational structure. In Washington, the attorney James Lee Kauffman, who served as prewar counsel to General Electric and Standard Oil, and Dillon, Read, traveled to Japan in August 1947, obtained the Far Eastern Commission's confidential FEC-230 deconcentration directive, and made it the centerpiece of a public campaign against the program; Under Secretary of the Army William Draper, himself formerly of Dillon, Read, organized the Economic Mission of March 1948; Secretary of the Army Kenneth Royall publicly urged on January 6, 1948 that zaibatsu dissolution be modified in light of new world conditions; George Kennan's Policy Planning Staff paper PPS 28, submitted to Secretary Marshall on March 25, 1948, recast occupation policy around containment; Harry Kern's American Council on Japan, headquartered in Kauffman's New York law offices, coordinated the publicity; and Joseph Dodge imposed the stabilization of 1949 (Schonberger, 1989, pp. 76, 140, 144, 180). Each acted rationally within an incentive structure the occupation had created. "Elite subversion" as an explanation dissolves into something more instructive: a reform designed so that its cost-bearers controlled its enforcement did not need to be subverted; it needed only to be waited out.

The case makes three contributions: a within-country identification strategy for the study of imposed institutions, an amendment to Olson's account of Japan's postwar growth, and a disaggregation of the occupation's coded status as the paradigm case of successful institutional transplant. To the economics of transitions and of exporting institutions by occupation, it offers a within-country experiment isolating the variable that cross-national compliance measures cannot: Gutmann, Lewczuk-Czerwińska,

Lewkowicz and Voigt show that constitutional compliance varies systematically across societies; this case holds society constant and shows compliance varying with the enforcement constituency (Coyne, 2008; Gutmann et al., 2025). To Olson, who famously attributed Japan's postwar growth to the occupation's destruction of its distributional coalitions, it offers a friendly amendment: the industrial coalitions largely survived, because their dissolution was de jure only (Olson, 1982). Moreover, to Boettke, Coyne and Leeson, who code Japan's reconstruction as the leading success case of imposed institutions dovetailing with local mētis, it offers a disaggregation: the political reforms stuck, but the same surviving organizational mētis that made constitutional democracy workable also defeated economic deconcentration (Boettke et al., 2008). Success and failure were produced simultaneously, by the same mechanism.

Section 2 develops the framework: imposed rules become self-enforcing only where a concentrated beneficiary constituency controls enforcement. Section 3 shows how SCAP's 5,500-person administration necessarily lodged enforcement in Japanese ministries. Section 4 presents the de jure reforms. Sections 5 and 6 analyze land reform and deconcentration as paired cases: one enforced by its beneficiaries, one by its cost-bearers. Section 7 tests the argument out of sample against West German deconcentration and Russian privatization. Section 8 concludes.

2. The Political Economy of Paper Tigers

Voigt distinguishes the de jure constitution from the de facto constitution and argues that written rules "matter" only where the gap between the two is small (Voigt, 2021). The distinction, developed for constitutions, extends naturally to occupation law: SCAP's directives and the Diet statutes implementing them were fundamental rules of the game, imposed from outside, and each faced the question every constitutional provision faces: would anyone comply once compliance became costly? The reforms of 1945–47 were genuine as law: statutes enacted, designations issued, deeds recorded. Whether they were genuine as outcomes depended on institutions the law's text did not reach.

Weingast shows that rules limiting powerful actors survive only when they are self-enforcing—when no actor with the capacity to renege can profit by reneging, because the expected costs of transgression exceed its benefits (Weingast, 1997). A rule enforced solely by an external guarantor lasts exactly as long as the guarantor's presence and attention; a self-enforcing rule needs no guarantor at all.

Whether an imposed rule becomes self-enforcing depends on who is positioned to enforce it, and Olson supplies the relevant asymmetry (Olson, 1965). Reforms that create a concentrated class of beneficiaries, actors whose individual stakes make defense of the new rule individually rational, can lodge enforcement in those beneficiaries and become self-perpetuating. Reforms whose beneficiaries are diffuse (e.g., consumers facing marginally lower prices, entrepreneurs who might someday enter a market) generate no constituency capable of bearing enforcement costs. If such a reform's day-to-day administration is lodged instead in the actors who bear its costs, the reform depends entirely on the external guarantor's continuing will.

Reliance on an external guarantor converts the reform into a credible-commitment problem: compliance depends not on the rule but on expectations about the reformer. Flores and Nooruddin analyze post-conflict reform as a credible-commitment problem: actors comply with new rules only if they expect the rules to outlast the reformer, and reformers whose objectives visibly shift devalue every commitment made under the previous objective (Flores & Nooruddin, 2011, pp. 474–475). North and Weingast showed that even a sovereign's promises bind only when institutional structure makes reneging costly, which is acute for a military occupation that is temporary by construction

(North & Weingast, 1989). Every Japanese actor deciding in 1947 whether to comply with deconcentration was forecasting American policy in 1952.

Finally, Boettke, Coyne and Leeson explain what imposed institutions must attach to in order to survive the guarantor's departure (Boettke et al., 2008, p. 350). Foreign-introduced exogenous (FEX) institutions stick only when they dovetail with underlying mētis, or the local knowledge, practices, and organizational habits of the receiving society. Mētis is usually read as popular culture, but it includes organizational practice: the routines, personnel networks, and intercorporate relationships of Japanese business and its ministries were mētis in exactly this sense, and they could defeat a transplanted institution as surely as peasant custom could defeat a transplanted land code.

The framework yields a single testable implication. Where an imposed reform lodges enforcement authority in its concentrated beneficiaries, the de jure rule becomes de facto and survives the occupier's departure; where it lodges enforcement in its cost-bearers while its beneficiaries remain diffuse, the de jure rule remains paper, and no continuing statute can substitute for the missing constituency.

3. Historical Context

Following the Meiji Restoration of 1868, Japan's new government built national industrial power deliberately, cultivating zaibatsu as its primary instruments of modernization (Frankl, 1999, p. 997). Observing the failures of Chinese resistance against Western imperialism, the Japanese government sought to modernize rapidly to avoid submission to foreign powers. Therefore, they soon used targeted subsidies, foreign trade, and private sector competition to build their industry through industrial zaibatsu. These groups, anchored by a family bank and radiating outward through wholly owned subsidiaries, grew to control every major sector of Japan's economy: by the interwar period, zaibatsu controlled approximately one-third of Japan's total capital stock, with the four major conglomerates of Mitsui, Mitsubishi, Sumitomo, and Yasuda dominating banking, heavy industry, mining, and international trade (Frankl, 1999, p. 997). The concentration was not a product of laissez-faire: it was deepened by state direction at every stage through subsidies, wartime procurement, and the control associations of the mobilization economy, so that what the occupation confronted in 1945 was concentrated private control created and organized by the state. "Restoring" that order, as later sections show, meant restoring particular families, managers, and bank relationships, not restoring free markets. The Taishō period (1912-1926) produced Japan's first sustained democratic experiment, as universal male suffrage in 1925 enabled party cabinets and parliamentary competition. Soon, Japan integrated commercially and diplomatically into the Western-led international order (Duus, 1989, pp. 98–102). The zaibatsu adapted, cultivating political allies across factional lines and extracting favorable legislation through party connections while preserving their industrial monopolies beneath the surface of democratic competition. When the Great Depression struck in 1929, it shattered the credibility of party government: financial scandals, deepening rural poverty, and a series of political assassinations, most notably the May 15 Incident of 1932 that killed Prime Minister Inukai Tsuyoshi, dismantled parliamentary rule and replaced it with military-dominated "national unity" governments (Duus, 1989, p. 470). The zaibatsu adapted again. The military's National General Mobilization Law of 1938 formally subordinated private enterprise to wartime production priorities, but zaibatsu leveraged their industrial indispensability to extract lucrative defense contracts, positioning themselves as essential partners in Japan's military expansion rather than subjects of military rule (Morck & Nakamura, 2005, pp. 451–452). SCAP reformers arriving in 1945 thus confronted not a unitary elite but distinct groups with distinct assets: the combine families (i.e., Mitsui, the Iwasaki of Mitsubishi, Sumitomo, Yasuda), whose asset was ownership; the professional

managers of their operating companies, whose asset was position; the career bureaucrats of the Finance and Commerce ministries, whose asset was statutory control over money and materials; and the conservative politicians, Yoshida Shigeru foremost, whose asset was office. Their fates under the occupation diverged sharply, as the families were dispossessed even as the managers, banks, and bureaucrats prospered. They shared experience, though: each had survived one democratic experiment and one military dictatorship by adapting to the ruling framework while preserving its own network.

As American forces advanced toward the Japanese home islands through 1945, planning within the Truman administration accelerated for an occupation that Japan's imminent defeat would require. Japan's unconditional surrender in August 1945 brought that planning to execution: President Truman appointed General Douglas MacArthur Supreme Commander for the Allied Powers (SCAP), technically governing on behalf of all Allied nations, though in practice the Far Eastern Commission and Allied Council held no real authority to override American directives, rendering the occupation a largely American affair (Holcombe, 2017, p. 311). To help smooth over resistance, American strategists chose to preserve Japan's political institutions rather than replace them outright, directing MacArthur to work through the existing Japanese government to achieve their overarching goals of demilitarization and democratization (Truman, 1945). MacArthur's SCAP organization, roughly 5,500 American bureaucrats overseeing a nation of seventy million, concentrated its authority where directives produced immediate and verifiable results: constitutional drafting, high-level purges, legislative mandates for land redistribution and union recognition (Truman, 1945). Japanese ministries, however, retained the mechanisms that would determine whether those directives produced real economic change, including resource allocation, fiscal policy, industrial planning, and the daily enforcement mechanisms that SCAP lacked the personnel and institutional knowledge to supervise directly. American planners described this arrangement as governance with "supervision," a phrase that obscured its structural consequences: SCAP held policymaking authority while Japanese bureaucrats held enforcement authority (Truman, 1945). The officials who staffed those ministries, career men of Finance and Commerce, not appointees the purge would reach, held the leverage that institutional continuity afforded.

The ministries survived the defeat with their personnel intact. Japanese estimates put MCI officials purged at forty-two; SCAP itself investigated sixty-nine and removed ten (Johnson, 1982, p. 173). Shiina Etsusaburō's reorganization ploy preserved the ministry's structure, and the Economic Stabilization Board grew from 316 employees to more than 2,000 by May 1947, drawing its largest contingent from MCI (Johnson, 1982, pp. 181, 183). The same officials wrote the Ministry of International Trade and Industry (MITI) Establishment Law (No. 102), which the Diet passed on May 24, 1949, and the government implemented the next day, with Yoshida's confidant Shirasu Jirō as its prime mover (Johnson, 1982, pp. 190–192).

The purge reached roughly 200,000 people overall; SCAP screened 717,415 and barred 201,815, about three quarters of them military and ex-service (SCAP figures, as reported in Dower, 1999). The economic purge removed 1,535 officers; Yamamura counts about 2,200 under the January 1947 decree covering officials of the 250 designated companies (SCAP, as cited in Hadley, 1970, p. 92; Yamamura, 1967, pp. 10–11). The Zaibatsu Appointees Law reached 1,682 companies and 3,668 officers on paper yet produced only about forty removals beyond the purge itself (Hadley, 1970, pp. 100–102). Nakamura draws the system-level conclusion: the purge accelerated the succession of younger managers to senior positions (Nakamura, 1995, p. 32). Releases began in 1950, the economic depurging started in August 1950, and the machinery ended with the occupation in April 1952 (Yamamura, 1967, p. 38).

4. SCAP's Ideological Reform

Since planners in Washington crafted their post-surrender policy in Japan around ideological idealism rather than institutional knowledge of Japan, radical reform became a difficult task because American planners underestimated how far outcomes depended on mētis, the local knowledge and administrative capacity they lacked, which forced delegation to the very ministries whose interests the reforms threatened (Boettke et al., 2008). In the Initial Post-Surrender Policy, approved by President Truman, American authorities placed an emphasis on "disarmament and demilitarization" through the dismantling of the wartime economy and the remaking of Japan's political institutions. Other provisions among the key reforms included a cession of land from landowners to tenant farmers, reparations and restitution, punishments for war crimes, and the "promotion of democratic forces," mostly underground by the end of World War II (Truman, 1945). As MacArthur took office as Supreme Commander during late-August and September, he used the policy document passed down by Washington as a template to democratize Japan's political institutions and aid its economic recovery. He issued one of his most radical mandates on October 4, 1945: named the Civil Liberties Directive, it voided all laws that restricted political, civil, or religious liberties, while also releasing all political prisoners held by the Japanese government. Other early actions included the end of state Shintoism and the repatriation of Japanese soldiers and civilians ("Postwar Reconstruction," 2001, pp. 1166–1167). The radicalism of SCAP's early orders reveal how MacArthur and his planners lacked comprehensive knowledge of prewar Japan, instead transplanting specific American statutes: the Wagner Act into the Trade Union Law, and the late-1930s antimonopoly program into FEC-230. In addition to American law, MacArthur's personal convictions influenced his governance: his emphasis on the emancipation of women contrasted with Washington's post-surrender policy, which did not mention the issue at all ("Postwar Reconstruction," 2001, p. 1167). These examples support the revisionist account of scholars like T.A. Bisson, a former SCAP official who observed the lack of dedicated Japan experts in SCAP and who argued that democratization rhetoric consistently masked the deeper objective of remaking Japan in America's image (Schonberger, 1989, p. 90).

SCAP's economic reformers often carry the label New Dealers, but the label obscures which New Deal they carried. The antitrust program descended not from the early New Deal's cartelizing phase, the National Industrial Recovery Act and its National Recovery Administration (NRA), whose industry codes suppressed price competition outright, but from the late-1930s antimonopoly turn: Thurman Arnold's Antitrust Division and the Temporary National Economic Committee (TNEC) investigations. The lawyers and economists who staffed SCAP's reform sections, Charles Kades and Edward Welsh in Government Section, Theodore Cohen in Labor Division, Eleanor Hadley in antitrust, came out of that second phase, and FEC-230 reads as a TNEC document, not an NRA one. In his formal introduction of American policy to the Japanese government on October 11, 1945, MacArthur cemented his adaptation of the original American policy and SCAP's commitment to remaking Japan in America's image. Conscious of the disconnect between his own beliefs and those of the Japanese populace, MacArthur chose to deliver this policy statement in a private meeting. MacArthur began his statement lamenting Japan's "traditional social order under which the Japanese people for centuries have been subjugated" (MacArthur, 1945/2001, p. 1167). From the first sentence, he positioned himself in opposition to the Japanese government he addressed, emphasizing Western frameworks like a "liberal… Constitution" without deep roots in Japanese history (MacArthur, 1945/2001, p. 1167). He framed the occupation as a form of liberation, writing that the Japanese people "must be freed from all forms of government

secret inquisition into their daily lives which holds their minds in virtual slavery" (MacArthur, 1945/2001, p. 1167). The word "slavery" reframed SCAP's campaign into a moral imperative, evoking the American Civil War and positioning Japan's occupation and rehabilitation as a continuation of America's own liberation narrative. MacArthur then denounced the suppression of "freedom of thought, freedom of speech, or freedom of religion," liberties articulated in America's founding and Bill of Rights, revealing that he measured Japanese reform against American constitutional standards instead of Japanese political tradition (MacArthur, 1945/2001, p. 1167). His subsequent reform priorities continued the denigration of legacy institutions. After calling for women's rights and labor reform, his third point addressed an objective to reframe the Japanese government's role from "master" to "servant of the people," extending the slavery analogy he had established earlier (MacArthur, 1945/2001, p. 1168). His fourth point positioned SCAP as liberator, promising "a system of justice designed to afford the people protection" against the prior "secret inquisition and abuse," a promise that installed the occupier, rather than any Japanese institution, as the guarantor of justice (MacArthur, 1945/2001, p. 1168). His final point called for a "democratization of Japanese economic institutions" in the vein of the late-1930s antimonopoly program rather than the NRA, attempting to redistribute economic power to workers at the expense of monopolistic zaibatsu conglomerates (MacArthur, 1945/2001, p. 1168). Taken together, MacArthur's statement revealed a commander who used the vocabulary of liberation to construct a moral framework that justified sweeping overhauls of institutions even while pre-occupation maneuvers had established that the Japanese government held controls over fiscal policies.

MacArthur's policy statements confirmed Schonberger's and Bisson's revisionist claim that occupation policymakers lacked concrete knowledge of Japanese history and society. But the revisionist account has its own blind spot: Schonberger attends closely to American business actors while treating Japanese officials mainly as their instruments, whereas the record shows those officials acting on interests of their own. Bisson and Schonberger were right that policymakers' unfamiliarity with Japanese business practice weakened oversight; what their account misses is that no degree of familiarity could have substituted for the enforcement constituency the reforms never created.

What SCAP did build, energetically and successfully, was legitimacy. Its initial occupation steps primed Japan for reform by establishing moral superiority, a clear democratizing mission, and Japanese goodwill. As the occupation began, American forces faced a destitute Japan ravaged by war. Public sentiment reflected war fatigue, as Japanese citizens hoped to return to peace, to reunite with lost family members, and to rebuild. While the population did not actively support SCAP, it tolerated reforms to make the best of a bad situation. Some, who blamed Japan's militarist government for the war, hoped that SCAP would help Japan avoid warlike aggression in the future, while others grew concerned that the American military occupation might brutalize Japanese citizens (Duus, 1989, pp. 166–167). In short, public opinion was largely split. Economic troubles also plagued the transition, as Allied firebombing and infrastructure collapse led to key resource shortages, and imports ran dry as Japan could no longer source raw materials from its overseas colonies. As a result, inflation soared and ordinary people suffered from hunger and even starvation. Early on, food shortages proved especially brutal, as food rations dwindled and most turned to black markets for meals (Holcombe, 2017, p. 312). Statistics told the same story: food production had decreased 26 percent from 1943, and daily caloric intake fell from 2,000 calories in 1941 to just 1,680 calories by 1945, while rations decreased the number further to only 1,042 calories (Solt, 2014, p. 7). In response to the crisis, MacArthur and SCAP petitioned Washington for food shipments, insisting that the U.S. must send basic aid to prevent mass starvation (Truman, 1945). The plan

worked to secure both domestic stability and occupation legitimacy in a chaotic period: it successfully alleviated starvation and provided reassurance to those Japanese fearing a hostile occupation. Indeed, as food shipments arrived and distribution began throughout the country, Americans' affluence and generosity impressed many wary Japanese (Holcombe, 2017, p. 312). Food aid continued throughout the occupation, including donations of American wheat and a nationwide school lunch program in 1947 (Solt, 2014, pp. 8–10). By 1948, American food aid, combined with rebuilt infrastructure and an especially good harvest, had effectively relieved widespread starvation (Parrott, 1948). SCAP employed another tool to instill compliance and to create positive narratives around their occupation: mass media. Unlike other institutions that remained independent, Japanese media came under SCAP control by late 1945, and became an effective tool to promote pro-American public opinion. SCAP mandated that Japanese news media go through American censors before publication and broadcasting, ensuring that hostile messaging would not spread (Duus, 1989, p. 167). In addition to granting legitimacy to the occupation, the controlled Japanese media helped transmit American culture, such as the distribution of publications like the English Reader's Digest, thus humanizing the American occupiers to ordinary Japanese citizens (Duus, 1989, p. 168). After establishing goodwill with the Japanese populace, SCAP instituted sweeping reforms of the Japanese political system. Legitimacy mattered, but tolerance by a diffuse public does not constitute enforcement, and none of it altered where enforcement authority sat.

Before taking substantive steps toward demilitarizing Japanese society through economic reform, SCAP needed to establish reliable channels of government cooperation. From the outset, the Japanese military and the deep influence it held in politics dominated SCAP's reform efforts as its primary concern (Bisson, 1945, pp. 473–474). Since almost all civilian institutions had been co-opted by military appointees during World War II, and due to the Americans' decision to keep those institutions intact, anti-reform defenders of the imperial system now occupied Japanese leadership positions. SCAP promoted a new Japanese constitution to enshrine civil liberties while diminishing imperial norms. Government Section lawyers under Charles Kades drafted the 1947 Constitution, which established popular sovereignty and stripped the emperor of his divine authority. The constitution formed a parliamentary Diet and guaranteed inalienable rights such as freedom of speech and universal suffrage, which had been previously framed as conditional rights the emperor granted his "subjects" (*The Constitution of Japan*, 1946). The Constitution's "Renunciation of War" made an unprecedented commitment to "forever renounce war as a sovereign right of the nation," demonstrating SCAP's commitment to demilitarize Japan and erase its former aggression (*The Constitution of Japan*, 1946). In addition to the constitution's practical changes, the rhetoric employed reflects American authorship: the constitution begins with "We, the Japanese people," reminiscent of the American Constitution's "We the people" (*The Constitution of Japan*, 1946). The design of the constitution weakened past elites' ability to resist reform, while the language promoted an adoption of American rhetoric and style of government, setting the tone for America's political democratization agenda. MacArthur and SCAP focused early efforts on the 1947 Constitution's ratification since the Constitution so heavily favored American security interests and would permanently embed them in Japanese governance.

Political reforms provided the foundation for SCAP's sweeping economic agenda, which centered on land reform, labor rights, and zaibatsu dissolution. SCAP believed that these reforms would eliminate militarist influence and transform Japan's society. Because SCAP recognized the widespread military influence in Japan's upper class, it viewed the zaibatsu combines, and the families and managers behind them, as the foundations of the nation's warmaking capability. To achieve total demilitarization, SCAP made the

redistribution of economic power one of its top priorities (Schonberger, 1989, p. 100). By breaking up the combines, SCAP aimed above all to diminish Japan's capacity for renewed aggression; deconcentration served that security goal rather than a free-standing ideology, and FEC-230's own text justified it in exactly those terms (FEC-230, as reprinted in Hadley, 1970, pp. 501–505).

SCAP first focused on land reform, transferring 37 percent of cultivated land from established gentry to tenant farmers: working through the Japanese Diet, SCAP secured the Owner-Farmer Establishment Special Measures Law of October 1946, which compulsorily transferred all land of absentee landlords and resident landlords' tenanted holdings above roughly one chō (about one hectare) outside Hokkaidō (Duus, 1989, pp. 171–172, 496; Nakamura, 1995, p. 29). Land reform helped achieve economic redistribution for multiple reasons. Though the law displaced Japan's agricultural nobility once-and-for-all, upending centuries of feudal rule in the countryside, Japan had already begun a transition away from the feudal agricultural elite. More importantly, MacArthur viewed land reform as imperative to remake Japan as a capitalist, American-aligned, society, thereby redistributing economic power by converting tenancies into fee-simple ownership by cultivators, widespread ownership on the Jeffersonian model Royall himself invoked in January 1948. Moreover, he hoped private ownership would induce agricultural productivity and alleviate food shortages that still plagued the country (Duus, 1989, pp. 172–173, 496).

After reforming agriculture, SCAP focused on industrial initiatives. SCAP promoted unionization, which had been illegal in prewar Japan, promoting the Labor Union Law in December 1945. This broad-scale legalization of unions, modeled on the American Wagner Act, aimed to create countervailing bargaining power against employers (Williams, 1988, p. 190). By decentralizing power, SCAP hoped to dampen Japanese oligarchs' resistance and empower Japanese workers, who broadly supported the American reform agenda. This policy, too, proved effective, as over 50 percent of Japanese workers had unionized by the occupation's end (Duus, 1989, p. 498).

The last part of SCAP's economic reform involved its campaign against the zaibatsu and their entrenched owners. Many within SCAP viewed the zaibatsu as the primary perpetrators of Japan's warmongering policies and of its economic inequality, making their dissolution the best comprehensive solution. In his October 11th policy statement, MacArthur made targeted efforts to eliminate zaibatsu to "ensure a wide distribution of income and ownership of the means of production" (MacArthur, 1945/2001, p. 1168). To combat zaibatsu influence, SCAP primarily relied on Progressive Era American law, creating anti-trust laws to dissolve the largest conglomerates. American-style antitrust policies held no precedent in Japan, as shown by major parties' platforms at the time: while conservatives supported the continuation of zaibatsu domination over markets, left-wing groups supported nationalizing industries as an alternative. No party supported the American position of breaking up the zaibatsu and substituting for them competitive markets (Schonberger, 1989, p. 102). Regardless, the program began at the top: the HCLC designated eighty-three holding companies between September 1946 and September 1947, beginning with the top holding companies of Mitsubishi, Sumitomo, Mitsui, and Yasuda (Hadley, 1970, pp. 69–70; Williams, 1988, p. 192). That success would not last, as most zaibatsu would return by the occupation's end. Dissolution ran on two legal tracks. The first liquidated the holding companies themselves: the HCLC designated them in 1946–47, took custody of their shares, and dispersed them. The second, the Deconcentration Law of December 1947 (Law 207), targeted operating companies, and their reorganization meant court-supervised splitting into successor firms or compelled divestiture of plants and shareholdings; the review board ordered Mitsubishi Heavy Industries divided into three regional companies on April 12, 1949, and Ōji Paper into

three (Hadley, 1970, pp. 175, 178). Nor was the de jure program trivial. The designated holding companies owned 167 million shares worth ¥8.1 billion, nearly 40 percent of the 443 million corporate shares in Japan, and the HCLC disposed of 165 million of them by 1951, sales equal to between one third and one half of the 1945 paid-up value of all corporate securities in the country (Hadley, 1970, p. 182; Nakamura, 1995, p. 26). While the paper transfer of ownership succeeded, the durability of deconcentrated control failed. By dissolving the zaibatsu, the Americans hoped to eliminate the old guard's influence over the Japanese economy and to facilitate a complete transformation to an American-style economy, featuring dynamic competition, laissez-faire policies, workers' empowerment, and demilitarization. However, these reforms would ultimately fail due to an American strategic miscalculation that favored passage of written legislation over implementation, which they delegated to Japanese bureaucrats.

Zaibatsu dissolution exposed a fundamental flaw in occupation governance: SCAP delegated policy implementation to Japanese institutions and the elite officials who ran them. Direct American enforcement would have required monitoring thousands of procurement decisions, resource allocations, and corporate transactions across Japan's industrial economy, a prohibitively costly endeavor. This delegation of authority created an information asymmetry that the implementing ministries and firms exploited. While SCAP could verify formal compliance through documentary evidence like land deeds, union membership rolls, corporate dissolution orders, it could not verify substantive compliance with competitive market behavior, non-discriminatory resource allocation, or good-faith antitrust enforcement. The Japanese government controlled the productivity statistics, resource-allocation data, and fiscal implementation that would have revealed whether the combines genuinely dissolved or merely reorganized. American officials therefore could not distinguish reforms failing from resistance from reforms failing from design. And the incentives of those holding the data ran the wrong way: the ministries, the HCLC, and the combine managers bore the program's costs, while its beneficiaries like consumers, or would-be entrants could neither observe compliance nor reward it. Actors so positioned had every reason to deliver formal compliance while withholding substance, and the informational structure of occupation governance let them do so undetected (Schonberger, 1989, p. 97).

5. Land Reform: The Reform That Stuck

The transfer was massive, fast, and complete. Between 1947 and 1950 the government compulsorily purchased and resold roughly a third of Japan's cultivated land, which comprised about 80 percent of all tenanted land; the share of farmland worked by tenants fell from 45.9 percent in November 1946 to 10.1 percent by August 1950, with the steepest declines precisely where landlordism had been strongest: Hokkaidō fell from 48.7 to 6.7 percent (Nakamura, 1995, p. 29). Owner-operated land rose from 54 to 90 percent of the total (Yamamura, 1967, pp. 17–18). Productivity rose with ownership, as land improvement and new rice technology spread fastest in the reformed northeast (Nakamura, 1995, pp. 29–30).

Enforcement sat with the beneficiaries. The elected village land commissions that identified purchasable parcels, applied the retention caps, and executed transfers seated five tenant representatives against three landlords and two owner-cultivators: the people administering the expropriation were the people receiving the land (Williamson, 1951). In the framework's terms, the reform was self-enforcing virtually from the moment of transfer. After 1950 no actor could profit by reneging, because reneging meant recovering titled land from millions of owner-households, parcel by parcel, through commissions those owners dominated.

Inflation, the great solvent of the occupation economy, hardened this settlement rather than dissolving it. Purchase prices had been fixed in 1945 rental values while consumer prices rose roughly 40 percent per quarter through 1947; the real burden on buyers fell toward zero, while landlords' compensation, paid in fixed yen and long-term bonds, evaporated (Nakamura, 1995, pp. 35–36). In both reforms the cost-bearers were compensated claimants holding fixed-yen paper, and in both the inflation expropriated them; the difference was that land reform's beneficiaries held the enforcement machinery, so the erosion locked the transfer in rather than inviting its reversal. Restitution became fiscally impossible; the 1952 Agricultural Land Law then fixed the new distribution in statute, defining owner-cultivation and restricting farmland transfer precisely to prevent a return to landlordism.

The decisive test is what the reform's opponents did when the occupier left. Every post-occupation government was conservative; the same cabinets that presided over the cartel exemptions of 1952–53 never introduced a bill unwinding land reform. Former tenants were now voters, millions of rural households concentrated in the constituencies on which conservative Diet majorities depended. Yoshida himself later reflected that had the government failed to carry out a thorough land reform and aroused rural discontent, "the result would have been incalculable," the countryside stayed calm while the cities boiled, and the reform's chief political beneficiary was the conservative order itself (Yoshida, 1962). A reform whose enforcement constituency includes its former opponents' electoral base is self-enforcing in the strongest sense. Deconcentration, to which the article now turns, had the opposite structure at every point.

6. Deconcentration: The Reform That Unwound

6.1 Japanese Agency and Subversion

The actors who held deconcentration's enforcement machinery, including the Yoshida and Katayama governments, the Finance and Commerce ministries, the HCLC, and the combine managers with Keidanren as their voice from August 1946, bore the program's costs. Since American military presence forced elites to appear supportive of American objectives, historians disagree on the extent to which their support was genuine. Orthodox historians like Justin Williams have read Shidehara's "Revised Report," a Japanese response to the American reform program, as evidence of Japanese elites' acceptance of democratic reforms, attributing the Reverse Course to Cold War pressures that overcame SCAP's initial liberalizing intentions. This interpretation, however, mistakes calculated performance for compliance. During the initial period of economic reform, elites performed compliance within their positions of power, minimizing the reforms' radicality and projecting a willingness to accept reform as a political tool. In his "Revised Report," interim Prime Minister Shidehara addressed American demands and reforms by equivocating between the reform agenda and conservative elites' interests, obscuring the reforms' sweeping changes to maintain support for his government. He began his speech with a declaration of loyalty to the emperor: "I only hope to conform to the august will of our Sovereign" (Shidehara, 2001, p. 1169). Although SCAP maintained that the previous imperial government had been tyrannical, Shidehara attempted to bridge the gap between supporters of the wartime regime and its opponents. He continued by euphemizing Japan's surrender, instead framing it as the Emperor's own decision to "terminat[e]... the war" in response to "the genuine feeling of the people" (Shidehara, 2001, p. 1169). Through clever language, Shidehara characterized the Emperor as a sovereign who represented the people's wishes while calling the wartime government "just and equitable" (Shidehara, 2001, p. 1169). Nonetheless, he endorsed many of MacArthur's proposed reforms, including "full and fair election[s]," "wiping out… militarism," and guaranteeing "freedom of speech, thought, and election" to create a "new Japan on the basis of justice

and fair play" (Shidehara, 2001, p. 1169). During his speech, Shidehara claimed these democratic reforms had "roots" in Japanese society, maintaining the appearance of autonomy while SCAP continued directing policy behind the scenes (Shidehara, 2001, p. 1169). Shidehara therefore adopted MacArthur's rhetoric while remaining committed to prewar institutions, allowing different groups to interpret his statement in different ways, thus avoiding alienation. Far from demonstrating sincere acceptance, as orthodox scholars claim, this "Revised Report" reveals how Shidehara and other elites in government used American alignment as strategic preservation rather than sincere acceptance (Williams, 1988, p. 182). They used existing imperial language to maintain public support while expressing enough token support to satisfy American demands, thereby signaling to conservative bureaucrats that the institutional continuity SCAP preserved made space for resistance. By framing reforms as having roots in Japanese society–as continuations rather than ruptures, elites maintained the legitimacy necessary to control the enforcement mechanisms governing resource allocation, fiscal policy, and industrial planning that SCAP could not easily supervise.

While the Japanese government attempted to mollify American rhetorical demands, MacArthur insisted in his October 11th policy statement that the government stabilize the country's volatile economy, which was a difficult task to achieve. Given its wide economic controls, the government failed to combat hyperinflation, resource shortages, and infrastructure collapse effectively, leaving Japan in economic free-fall. The immediate collapse of infrastructure and supply deepened the misery; the hyperinflation itself ran on a monetary engine (Duus, 1989, pp. 494–495). The Japanese government, in Shidehara's statement, announced wide-ranging controls over prices and resource allocation, aiming "to ensure… stability" (Shidehara, 2001, p. 1171). It rationed key resources and allocated them in an attempt to revive Japan's industry, but production remained only 27.6 percent of prewar levels through 1946 (Nakayama, 1964, p. 7). Simultaneously, the central bank restricted bond liquidization and increased taxes, though these measures also failed to curb inflation. By 1946, inflation levels had reached over 300 percent (Suzuki, 2017, p. 2). Though the Japanese government attempted to use fiscal policy to end inflation and stabilize the economy, it failed to do so.

The inflation began with the settlement of the state's own wartime debts, and every step of it was announced, legislated, and recorded. The state's wartime obligations came first: payments due on wartime contracts, war-production loans, munitions guarantees, and compensation for seized plants, some ¥96 billion in total (¥53.9 billion to munitions companies, ¥21 billion to general businesses and individuals, ¥21 billion to zaibatsu-related firms), designed as a chain through which firms would repay banks and banks would clear their debts to the Bank of Japan (Nakamura, 1995, pp. 33–34). In the three months after surrender the government paid out ¥26.6 billion of these claims, roughly a third of Japan's entire military spending from 1937 to 1945, before SCAP forced a default in mid-1946 (Johnson, 1982, p. 178). Cancellation then took the form of a 100 percent War Indemnity Special Tax in autumn 1946, which extinguished claims that inflation had already gutted; the banking system absorbed losses on the order of 20 percent of gross national expenditure through the reconstruction of old and new accounts, complete by 1948 (Nakamura, 1995, pp. 33–34). The Emergency Financial Measures of February 1946 supplied the freeze: with deposits falling on conversion rumors from December 1945, the ordinance required all cash on deposit, issued new currency, capped household drawings at ¥500 per month, and levied a property tax that yielded about ¥30 billion against a ¥100 billion first draft (Nakamura, 1995, p. 24). The freeze suppressed prices only briefly.

From January 1947, the Reconstruction Finance Bank institutionalized the flow. It grew out of the Industrial Bank of Japan's Reconstruction Finance Department, and it

obtained its funds by issuing bonds that the Bank of Japan accepted: monetized credit, a pipeline, in Nakamura's image, for government and central-bank funds into industry (Nakamura, 1995, pp. 34–35). RFB loans financed roughly three quarters of investment in all industries before the Dodge Line, with 84 percent directed to coal, steel, fertilizer, power, shipbuilding, and textiles; coal alone took 74.6 percent of RFB lending in fiscal 1948 (Okazaki & Ueda, 1995; Schonberger, 1989, p. 202). Borrowers repaid only 12 percent by the end of 1948, so loans functioned as subsidies, and on the fiscal side the kōdan corporations bought dear and sold cheap, with price-gap subsidies absorbing 20 to 30 percent of the general account from 1946 to 1949 (Nakamura, as cited in Johnson, 1982, pp. 183–184; Schonberger, 1989, p. 210). Prices responded: from an index of 100 in August 1945, the level reached 346.8 by September, 584.9 by December, and 1,184.5 by the following March; consumer prices then rose about 40 percent per quarter through 1947 and about 15 percent per quarter into 1948, with black-market prices at 7.2 times official prices in 1946 (Johnson, 1982, pp. 177–178; Nakamura, 1995, pp. 30, 35–36). This was policy, and its author argued for it openly: Finance Minister Ishibashi Tanzan held that "the current economic crisis is not one of inflation" but of idle men and plants, and that output must come first (Johnson, 1982, p. 178). The incidence fell on households and holders of fixed yen claims while debtor firms' real obligations shrank; the same erosion destroyed the zaibatsu families' ten-year compensation bonds and reduced former tenants' fixed land-purchase prices toward zero, hardening both reform settlements in opposite directions for their cost-bearers (Hadley, 1970, pp. 23, 60; Nakamura, 1995, pp. 28–29).

The officials who remained were not a bloc: their responses ranged from grudging compliance to active sabotage, tracking their individual stakes rather than any common strategy. While MacArthur's political reforms expelled the highest-ranking prewar leadership, numerous mid-level bureaucrats remained in power. They varied in their degrees of resistance. While some officials, including Prime Minister Yoshida Shigeru, privately opposed reforms they perceived as radical, they complied with SCAP directives, viewing their compliance as imperative to the country's unity (Yoshida, 2001). However, others successfully used their influence to hinder democratization and economic reforms. For example, conservative negotiators translating the 1947 Constitution purposefully mistranslated the clause defining the emperor's role as separate from the "sovereignty of the will of the people," using Japanese words more similar to "supremacy" and "nation" when translating the English words "sovereignty" and "people," respectively (Schonberger, 1989, p. 101).

Though elite subversion attempted to misrepresent some political reform, economic dissent proved far more successful. While these elites could not prevent SCAP's economic reform, they could take measures to maintain their personal wealth. The Economic Stabilization Board (created August 12, 1946, with staff drawn largely from MCI and the old Cabinet Planning Board) allocated all major commodities under the Supply and Demand Control Law (No. 32, September 30, 1946), and MCI executed its plans (Johnson, 1982, pp. 179, 181; Nakamura, 1995, pp. 36–37). Resource controls therefore means statutory allocation authority over commodities in the hands of career industrial bureaucrats, not owners selling where they chose. The allocation system's burden fell on ordinary households while its benefits flowed to the designated priority industries — sectors in which the former combines dominated (Schonberger, 1989, p. 102). Firms in priority sectors received allocated materials and RFB credit at controlled prices while the kōdan system guaranteed their sales; the burden fell on households through inflation, rigged official prices, and shortages (Johnson, 1982, p. 184). The allocation itself constituted the rent, whatever the output prices. The managers also pressed claims about reform's costs that SCAP's reformers disputed (U.S. Diplomatic Post Records, 1946). For

example, zaibatsu managers complained about "increase of wages" negotiated by unions that "incurr[ed] heavy loss," leading to "high working cost[s]" and therefore "small production" (U.S. Diplomatic Post Records, 1946). The complaints were at least colorable, since real wages and productivity were both collapsing, but they were also self-serving, and SCAP's Labor Division read them as bargaining moves. Though their complaints did not immediately stop reforms, prewar oligarchs' resistance undermined SCAP's efforts while ensuring the same elites retained government control and agency within the U.S. occupation. Elites had successfully created a problem to which they could offer themselves as the solution, positioning their zaibatsu expertise as indispensable to shifting American objectives. American objectives were shifting: from punishment in 1945 to democratization in 1946–47 to recovery in 1948, with each shift devaluing commitments made under the previous objective. Reform of concentrated industry requires a credible long-horizon commitment; once PPS/28 made recovery the prime objective, the bureaucrats' industrial expertise became the binding constraint and its price rose (Flores & Nooruddin, 2011).

6.2 Reverse Course

As geopolitical competition intensified between the U.S. and the Soviet Union, internal conflict in SCAP over the faltering economy erupted as American diplomats grew concerned that volatility could spark communist unrest. Due to communist expansion in China and North Korea, Japan's strategic value increased as a forward base near communist strongholds in East Asia. As SCAP reformers continued pushing democratization and demilitarization to Americanize Japanese society, others viewed economic volatility as a key weakness that threatened American power. That group of pragmatist officials, including State Department diplomats in Washington and a minority of officials stationed in Japan, believed that a weakened economy would lead to communist unrest and, potentially, Japan's fall to communism. A 1946 State Department policy statement confirmed this sentiment: "Hungry people cannot be sustained by democratic principles and are unlikely to be interested in or understand these principles" (U.S. Department of State, 1947). They viewed a strong, self-sufficient Japan within America's capitalist sphere as imperative to winning the coming global power struggle against the Soviet Union. Many pragmatists, like General William Draper and diplomat George Kennan, began working privately to influence policy objectives in Japan. Initially, pragmatists worked with Prime Minister Yoshida to formulate a so-called "Marshall Plan for Asia," a scheme to funnel American aid and investment into Japan that aimed both to spur economic recovery and to tie its economy to American investors (Special Ad Hoc Committee, 1947). After Congress rejected this plan, Draper and Kennan turned directly to Japanese elites and American investors as potential allies. While American investors merely hoped to invest money into a growing Japanese economy and aid in its recovery, Japanese elites had different intentions (Schonberger, 1989, p. 107). The business federations and conservative ministers blamed the economic distress on the reforms like unions' wage demands, reparations, alleged communist subversion, even as the government's own announced monetary and fiscal choices were deepening it. For example, a Kobe Steel director complained that their union's demands were "impossible and illegal," representing an "extremist… militant minority" (U.S. Diplomatic Post Records, 1946). These complaints, along with larger Cold War strategic concerns, put pressure on SCAP and strengthened Draper's and Kennan's push to focus on economic recovery and abandon reform. The elites' strategic repositioning succeeded because they delivered just enough cooperation to make themselves credible allies. The economic crisis that the Japanese government's own announced monetary and fiscal choices had deepened

became evidence to the American pragmatists that reform had failed and they needed to implement a course correction.

In what scholars now call the "Reverse Course," Washington's recovery faction reached, by its own reasoning, the conclusion Japanese business had been pressing since 1946: that reversing the economic reforms would speed recovery and secure Japan against communism. In their power struggle with SCAP's antimonopoly reformers (Kades, Welsh, Cohen, Hadley), pragmatists successfully convinced MacArthur and the State Department to support their agenda. Soon SCAP's policy package shifted. Reparations relief reversed no reform, since forced reparations punished rather than liberalized, but it traveled with the rest: the Johnston Report of April 26, 1948 recommended drastic curtailment of deconcentration together with reparations relief, and Draper sequenced the two deliberately (Schonberger, 1989, pp. 175, 187). SCAP justified the relief as jumpstarting Japan's ability "to develop peaceful industries without limitation," rhetoric that marked the shift from earlier descriptions of Japanese industry as parts of the nation's "industrial war potential" (Schonberger, 1982, p. 51). Pragmatists also supported restoring previously purged militarist officials, believing that their guidance would help Japanese industry recover. SCAP then redirected the purge apparatus it had built for militarists: officials dismissed roughly 11,000 public-sector union activists between late 1949 and June 1950 and another 10,000 to 11,000 private-sector employees by the end of 1950, while releasing some 200,000 earlier purgees (Dower, 1999, pp. 271–272). That inversion, not the purging itself, marks the reform's end. Business voices directed this anticommunist sentiment to foment anti-labor fears within SCAP, alleging "secret manoeuverings by… radical members" within unions (U.S. Diplomatic Post Records, 1946). Suspicion of Communists had already led MacArthur, in February 1947, to prevent the aforementioned general strike, which public-sector unions organized around wage demands against the Yoshida government amid inflation that erased each negotiated wage gain; indeed, the national railway union calculated early in 1947 that members' pay covered about a quarter of family expenses (Dower, 1999, p. 268; U.S. Diplomatic Post Records, 1946). When asked about his decision, MacArthur repeated the industrialists' line that the strikers, four million strong, represented merely a "small minority" of Japanese labor (Schonberger, 1989, p. 62). The socialist Struggle Committee blamed MacArthur's decision on "avaricious monopolistic capitalists and the present Yoshida cabinet, their spokesman" (Farley, 1951; Schonberger, 1989, p. 130). Most scholars mark MacArthur's controversial strike suppression as the official beginning of the Reverse Course, and consider it the most significant policy shift. The decision and other Reverse Course policies faced international scrutiny, with American unions criticizing the move while Chinese diplomats described the shift as an "economic arming of Japan" (Schonberger, 1982, p. 55). However, opposition from the Soviets and Chinese representatives backfired, and became a selling point for expanding the Reverse Course: Draper convinced SCAP to reverse zaibatsu dissolution because it was "strongly supported by the Russians" (Schonberger, 1982, p. 48). Kauffman, prewar counsel to General Electric, Standard Oil, Libbey-Owens-Ford, and Dillon, Read, obtained the classified FEC-230 in August 1947 and wrote the attack on it; Forrestal circulated the report to Royall with the warning that the program meant unworkable socialization; Draper, a Dillon, Read vice-president on leave, leaked FEC-230 material for Kern's Newsweek issue of December 1, 1947, expressly to embarrass MacArthur and stiffen Japanese resistance to the pending deconcentration bill (Schonberger, 1989, pp. 75, 140–142). On the Japanese side, Keidanren's Ishikawa Ichirō, whom the Draper mission consulted directly in March 1948, supplied the business case (Schonberger, 1989, p. 187). The scapegoat claim can now carry its numbers and its authors: mining and manufacturing output stood at 72 percent of the 1934–36 base in 1949, and the Kauffman, Kern, and

Kennan line attributed the shortfall to reform and its uncertainty rather than to the credit expansion the Japanese government itself was running; Kennan warned that FEC-230 would bring economic disaster, precisely what the Communists wanted (Johnson, 1982, p. 187; Schonberger, 1989, p. 143). Pragmatist diplomats justified the reversals as productivity measures; whether the reversals caused the recovery is a separate question that Korean War procurement makes hard to answer (Johnson, 1982, p. 191). The economy, meanwhile, remained volatile.

Although pragmatists shifted SCAP's focus during the Reverse Course from eliminating prewar militarist influence to stabilizing the Japanese economy, the occupation retained the Wagner Act labor framework and the Antimonopoly Law's shell even as the 1949 and 1953 amendments would later hollow the latter. SCAP's antimonopoly reformers and pragmatists differed in their interpretation of reforms, yet both shared the goal of transforming Japan into a solid American ally in East Asia. To pragmatists, that meant a nominally democratic and capitalist nation that accepted American investment. To that end, many political changes, including rights the 1947 Constitution guaranteed and other procedural reforms remained in place, allowing SCAP to continue coordinating with Japanese officials (Williams, 1988, pp. 192–202). Though prewar oligarchs reclaimed powerful positions in the government and industry after the depurging initiative, SCAP still promoted democratic institutions, including popular elections with universal suffrage (Schonberger, 1989, p. 103). While elites undermined some reforms, other economic reforms led to fundamental changes. Statistics disprove the claim that nothing changed: over half the workforce remained unionized, and the land transfer held completely (Duus, 1989, pp. 496–498; Schonberger, 1989, p. 107). Pragmatists viewed many of the reforms already enacted as necessary to create a Japanese ally, so SCAP doubled down on them. Yet the survival of land reform and union legality obscures the Reverse Course's unintentional consequence of restoring elite dominance. These reforms persisted because they no longer threatened the power structures elites had reconsolidated. Former tenants who became owner-cultivators under the reform would not challenge zaibatsu control of manufacturing, while unionized workers who faced reinstated militarist managers and anti-communist persecution could not achieve the higher wages SCAP's labor reformers intended. Real wages depended on productivity and prices, and the administered floors collapsed under the inflation: Wada Hiroo's October 1947 system set wages at 27.8 times the 1934–36 base against prices at 65 times, and failed within weeks (Johnson, 1982, pp. 184–185). The appearance of continuity masked who controlled Japan's economy.

6.3 The Dodge Line

Even a reformist cabinet could not move enforcement authority: the Katayama government of 1947–48 held office for eight months while a hostile legislature and the permanent bureaucracy held everything else. When MacArthur forbade the planned 1947 general strike, the continuation of progressive political reform seemed lost. Remaining progressives within SCAP pinned their hopes on the general elections of April 1947, banking on the Yoshida Cabinet's unpopularity and "reckless spending policies" (the phrase is T. A. Bisson's, the SCAP Government Section analyst quoted below) to sway the Japanese population toward more reform-minded candidates (Schonberger, 1989, p. 103). Bisson commented that "If the present Cabinet, or one like it continues to hang on, most of our reforms will be vitiated. If a liberal Cabinet comes in, much may yet be salvaged" (Schonberger, 1989, p. 103). Bisson expected that the Social Democrats, led by Katayama Tetsu, would win due to popular anger against conservatives and their internal party divisions. However, a rule change between February and April, documented in SCAP's own files, shaped the outcome before a vote was cast. Just two weeks before

the general election, MacArthur allowed Yoshida to revise SCAP's existing election laws to grant unfair advantages to incumbent parties with large budgets. SCAP officials knew the effects of Yoshida's revisions ahead of the elections, calling the changes "definitely advantageous to the parties now in power" "in comparison to the existing system" (Schonberger, 1989, p. 103). Though Katayama and the Social Democrats won a plurality in the elections, the rule changes cost them an estimated fifty seats, blocking them from winning the majority needed to form a single-party cabinet. The resulting coalition proved unwieldy and fractured, leading to ineffective governance. Katayama's leadership also proved indecisive in rallying reform support and effective opposition to elite power. James S. Killen, a SCAP director, observed at a private dinner how Katayama's genuine intentions to improve Japanese people's lives never materialized due to his naive belief that his party's role as "the workers' best friend" would inspire nationwide cooperation (Schonberger, 1989, pp. 123–124). Instead, conservatives in the ruling coalition undermined Katayama's leadership and diluted their reformist agenda. Disjointed leadership caused economic conditions to worsen even faster than before and disillusioned the labor movement from the Social Democrat Party and moderate socialism more generally. As a result, the Katayama Cabinet dissolved just eight months after its formation, replaced by a right-wing cabinet until Yoshida returned to power (Schonberger, 1989, p. 103). The story of the Katayama Cabinet serves as a microcosm for the entire Reverse Course. Its flagship initiative, state control of coal, which MCI's Hirai Tomisaburō drafted enthusiastically, lost its substance in the Diet and passed as Law 209 on December 20, 1947 with a three-year sunset covering fifty-six former zaibatsu mines; its lasting product was a larger Coal Agency, and the Diet repealed it early, in May 1950 (Johnson, 1982, p. 185). A reformist cabinet, a hostile legislature, and bureaucratic execution: the pattern holds without any conspiracy. By 1948, voters no longer trusted the Left to solve economic woes using reform and returned to conservative elites like Yoshida. On the other hand, the Japanese labor movement further radicalized, allowing for elites to call for greater reversals by claiming increasing communist subversion in unions (Schonberger, 1989, p. 124).

Announced in March 1949, the Dodge Line represented a final institutionalization of the alignment between the Yoshida–Ikeda government and Washington's recovery faction that had been consolidating since 1947, and the moment at which economic reconsolidation became structurally permanent. Cold War anxieties mounted while the economy stayed inflationary and aid-dependent even as output recovered: consumer prices were still rising about 15 percent per quarter into 1948 (Nakamura, 1995, pp. 35–36). SCAP finally decided to intervene in the Japanese economy directly. The decision was driven in part by the Japanese Communist Party's resurgence in the January 1949 general election, which convinced pragmatist officials that inflation-fueled unrest had become a threat to American strategic interests (Dower, 1999, pp. 271, 546). Formulated by the Detroit banker Joseph Dodge, architect of the West German currency reform, the Dodge Line aimed to make postwar Japan economically self-sufficient as the occupation ended, and it had two separable parts. The stabilization part: a budget Dodge overbalanced into actual surpluses, redeeming debt faster than the law required; the Counterpart Fund, whose largest single use, ¥63 billion of an estimated ¥140 billion, retired RFB debentures; the suspension of all new lending by the Reconstruction Finance Bank (RFB), the primary channel for inflation-financed industrial subsidies, which in Nakamura's words cut off the supplies of new currency at their source and ended entirely by September 1949; and the single ¥360 rate from April 25, 1949, which held for twenty-two years (Nakamura, 1995, p. 40; Schonberger, 1989, pp. 210–211). The permissive part ran on a separate legal track: the 1949 Antimonopoly amendments (Law 214) had already abandoned the general ban on intercorporate stockholding and lifted the multiple-directorate restriction, and the 1953

amendments raised the financial-institution shareholding cap to 10 percent and authorized depression and rationalization cartels (Dower, 1999, pp. 540–541; Hadley, 1970, pp. 190, 198, 346–348). Yoshida appointed Finance Minister Hayato Ikeda, a quintessential "elite" and founding member of what historians call the "Yoshida School," a cohort of conservative politicians drawn directly from the prewar Finance Ministry bureaucracy, to serve as the plan's Japanese administrator (Dower, 1999, p. 544). Through cooperation with Ikeda, Dodge used his role as "economic czar" to steer the stabilization, while the Diet's permissive track advanced in parallel (Dower, 1999, p. 540). The RFB's closure also had a distributional edge. Though lower funding might seem to harm elites by lowering investment opportunities, the policy actually allowed large firms to outcompete small- and medium-sized ones. Since the RFB had been lending broadly to firms of all sizes, who relied on government credit to survive, its closure shifted financing to the city banks, which lent beyond their deposit bases with the Bank of Japan covering the gap and directed credit to larger, stabler firms with existing ties. From March 1949 to June 1950, city-bank lending rose ¥3,244 million against a deposit rise of ¥2,836 million, with borrowings from the Bank of Japan up ¥483 million (Nakamura, 1995, pp. 42–43). As the RFB closed and government subsidies reduced, private commercial banks and resurgent conglomerates, known as keiretsu, gradually assumed the roles formerly held by zaibatsu holding companies (Dower, 1999, pp. 544–545). These keiretsu used the Bank of Japan's rediscount window and the group-affiliated city banks to provide capital to finance connected companies, effectively recreating zaibatsu under a new corporate structure. Their names did not even change, as zaibatsu like Mitsubishi and Sumitomo re-formed and expanded as keiretsu (Tajima, n.d.). Stabilization did not entrench oligopoly by its nature. The sequencing did the work: by the time Dodge stopped the money, enforcement authority over concentration had already reverted. The Board filed its final report in July 1949, the Diet amended the Antimonopoly Law in June 1949, and the banks that would organize the keiretsu had never faced designation at all. The stabilization itself ran through that untouched bank channel: post-Dodge Bank of Japan bond purchases and lending, in Nakamura's description, converted the Dodge Plan's deflation into disinflation (Nakamura, 1995, pp. 42–43). Pragmatist policymakers achieved the economic outcome they wanted while elites locked in the power structure SCAP had originally come to dismantle (Duus, 1989, pp. 501–502; Schonberger, 1989, pp. 105–107). While many initial reforms like labor reform and antitrust legislation remained, their continuation had largely ended by the implementation of the Dodge Line, which ultimately cemented elites' control over Japan's economic power.

6.4 The Occupation's Legacy

The Korean War, which began in June 1950, completed Japan's transformation from reform project to strategic asset, foreclosing the possibility of further structural economic change during the immediate occupation. As the staging area for United Nations forces on the Korean peninsula, Japan received valuable procurement orders for goods and services assigned to Japanese suppliers. These orders flowed overwhelmingly to the heavy industrial firms, steel producers, and machinery manufacturers that had already reconsolidated around keiretsu banking networks, injecting an estimated $2.3 billion in "special procurements" between 1950 and 1953 (Dower, 1999, p. 542). The war and the economic stimulus it provided permanently reoriented American policy around the industrial capacity elites had spent the occupation protecting, as strategic positioning magnified objectives to create an economically self-sufficient Japan. Reform was no longer strategically viable when the firms SCAP had originally targeted as wartime perpetrators were now producing the material on which American military operations depended (Dower, 1999, p. 542). In this last phase of the occupation, beginning in 1950,

SCAP deemed the political and economic future of Japan firmly established and set about securing a formal peace treaty, as the U.S. perception of international threats of communism had changed so profoundly between 1945 and 1950 that a re-armed Japan no longer alarmed American officials. Instead, they hoped to arm Japan both economically and literally, serving as a counterbalance against regional communist powers like the Soviet Union, China, and North Korea (Schonberger, 1982, p. 52). Both parties reached a final agreement, the San Francisco Peace Treaty, in September 1951. Effective by April 1952, the treaty ended the occupation on terms shaped entirely by Cold War priorities rather than the redistribution of ownership, of land and corporate equity, that MacArthur had proclaimed in October 1945, when his instructions directed him to favor a program for the dissolution of the large industrial and banking combines, forever cementing the legacy of zaibatsu as keiretsu in an elite-dominated post-occupation Japanese economy (Hadley, 1970, pp. 20, 218–219).

When the occupation finally ended in 1952, the numbers told the story that policy documents and official narratives obscured: the gap between statute and outcome was immediate and unambiguous. The introduction's ledger returns here: of 325 designations, the Commission released 225 within five months, and nine reorganizations stood complete when SCAP declared the program finished in December 1948; eighteen companies in all ever split (Hadley, 1970, pp. 113, 166–167; Nakamura, 1995, p. 27; Schonberger, 1989, p. 81). Japanese officials had narrowed that list within months, and the unwinding ran so thoroughly that the legal architecture SCAP built to prevent reconsolidation collapsed within a year of the peace treaty. The Japanese government exempted export cartels from antimonopoly laws in 1952, and exempted recession and rationalization cartels the following year, dismantling in two legislative moves what SCAP had spent years constructing (Ariga & Rieke, 1964, pp. 471–474). (A depression cartel permits competitors to restrict output or price jointly during a downturn on Fair Trade Commission authorization; a rationalization cartel permits joint action on capacity, specialization, and standards to lower costs; the 1953 Antimonopoly amendments legalized both.) (Hadley, 1970, p. 348) Prewar bureaucrats, whom SCAP had left in place and had empowered throughout the occupation, now controlled the economic ministries that oversaw these rollbacks (Schonberger, 1989, p. 98).

Market-share concentration mostly fell or held after the occupation. Nakamura credits dissolution with a competitive dead heat among mid-sized firms and good market mechanisms, and Yamamura's fifty-three-market series for 1950–62 systematizes the point (Nakamura, 1995, pp. 27–28; Yamamura, 1967, pp. 86–104). What re-knit was group structure: bank-centered lending, cross-shareholding, presidents' councils, and re-merged trading companies, with Mitsubishi Shōji reconstituted in 1954 (Hadley, 1970, p. 207; Nakamura, 1995, pp. 42–43). Yamamura reads the Kinyō-kai as an information clearing house without decision authority; Hadley documents that its roster reassembled the entire prewar first line (Hadley, 1970, pp. 205–207; Yamamura, 1967, pp. 122–123). The claim here requires only what both concede: the coordination network survived, and the statutory bar against it did not. Reconcentration in this article means conglomerate re-grouping, not rising market shares. Some individual markets stayed tight: in 1949, the top three firms held 97 percent of crude oil, 100 percent of aluminum, 89 percent of pig iron, and 84 percent of electric power (Hadley, 1970, p. 335). Former zaibatsu firms, which had cultivated banking relationships for decades, now sat at the center of new credit networks while smaller competitors without existing ties to banks and foreign investment found themselves shut out. In the end the occupation's incidence split the old order in two: the combine families were expropriated in fact, as compensation bonds inflated to nothing, the capital levy taking much of the rest, family control never returning, while the managers, group banks, and economic bureaucrats emerged with their networks intact

and their political allies in power (Hadley, 1970, pp. 23, 60; Schonberger, 1989, pp. 105–107; Yamamura, 1967, pp. 11–12). While the occupation changed who voted, who owned farmland, and which rights appeared in the constitution, it did not change who owned Japan's industry. Though SCAP rewrote Japan's economic laws, the ministries, banks, and business federations that had administered the old economy administered the new one, and by 1953 had amended the statutes to fit.

7. Economic Comparisons with West Germany and Russia

In occupied West Germany, the same Allied impulse produced decartelization law and the breakup of I.G. Farben into three successor companies, and the same reversal: Ruhr steel and coal deconcentration was substantially unwound during the 1950s as successor firms re-merged, with enforcement authority passing back to German institutions whose priority was reconstruction, not competition; Bayer, BASF, and Hoechst each grew larger than the original combine within a generation. The legal convergence ran in both directions: Japan's 1953 depression- and rationalization-cartel provisions were patterned on articles then pending in the West German draft cartel law of 1957 (Ariga & Rieke, 1964, pp. 471–474). As in Japan, the reform's diffuse beneficiaries never organized; its concentrated cost-bearers administered its aftermath. Russian privatization in the 1990s supplies the extreme case: control of the process was lodged in enterprise insiders, the managers and connected officials who were the old system's cost-bearers turned claimants, and produced ownership by incumbents rather than competition (Shleifer & Vishny, 1998, as cited in Boettke et al., 2008, p. 352). Against these stands the one reform in this record whose enforcement sat with concentrated beneficiaries like Japanese land reform, and it is the one reform that never unwound anywhere. The pattern suggests that legal enactment alone displaces concentrated economic power only when it creates and arms a constituency whose members individually profit from its defense.

8. Conclusions: Liberalization's Long Shadow

The occupation enacted two redistributive reforms into Japanese law within the same five years, and only one survived the occupation. Land reform held. The share of farmland worked by tenants fell from 45.9 percent to 10.1 percent between 1946 and 1950 (Nakamura, 1995, p. 29), and no post-occupation government, however conservative, tried to reverse it. Deconcentration did not hold. Of the 325 companies designated in 1948, eighteen were ever split (Hadley, 1970, pp. 113, 166–167; Nakamura, 1995, p. 27). The Diet loosened the ban on intercorporate stockholding in 1949 and exempted export, recession, and rationalization cartels in 1952–53 (Hadley, 1970, pp. 190, 198, 346–348). The combine families lost their holdings for good (Hadley, 1970, pp. 23, 60; Yamamura, 1967, pp. 11–12), and market shares in many industries held steady or fell (Nakamura, 1995, pp. 27–28; Yamamura, 1967, pp. 86–104). But the managers, group banks, and ministries that coordinated Japanese industry kept their networks intact and re-formed them as keiretsu (Hadley, 1970, pp. 205–207).

The paired comparison shows that factors common to both reforms cannot by themselves explain the divergence. The occupier, the legal instruments, the culture, and the geopolitical setting were the same for both, so occupier competence, Japanese culture, or the Cold War alone cannot account for opposite outcomes. The most visible difference was who administered each reform. Land reform placed enforcement in village commissions dominated by its beneficiaries (Williamson, 1951), who then became a rural electorate on which conservative majorities depended (Yoshida, 1962). Deconcentration placed enforcement in the ministries, the HCLC, and the combine managers who bore its costs, while its beneficiaries stayed diffuse. This pattern fits Weingast's (1997) account of self-enforcing rules and Olson's (1965) asymmetry between concentrated and diffuse interests.

The pattern also suggests two amendments to existing scholarship. First, Olson's (1982) claim that Japan's growth followed the destruction of its distributional coalitions held for the landlords and the combined families. It does not hold for the industrial coordination networks, whose dissolution was largely de jure. Second, the occupation's status as the paradigm success of imposed institutions needs to be broken into its parts. The same surviving organizational mētis that made constitutional democracy workable also allowed Japanese actors to outlast deconcentration (Boettke et al., 2008).

The argument has limits that this evidence cannot resolve. Where enforcement sat is the most visible difference between the two reforms, but not the only one. Land is fixed and titled, so its transfer could be verified parcel by parcel and completed once, whereas deconcentration required continuing changes in corporate behavior that no occupier could easily observe. Timing differed as well. The land reform law passed in October 1946 and transfers began in 1947, while the Deconcentration Law passed only in December 1947 and its designations came in February 1948, as Washington was already signaling a change of course (Duus, 1989, pp. 171–172; Hadley, 1970, p. 113; Schonberger, 1989, pp. 75, 140–144). The Cold War therefore bore on the two programs unequally, even within the same years. Inflation, rural electoral weight, and the strategic value of heavy industry during the Korean War all pushed in the same direction as the enforcement structure (Dower, 1999, p. 542; Nakamura, 1995, pp. 35–36), and a two-case comparison cannot separate their effects. The degree of reversal is itself contested, since Yamamura reads the postwar presidents' councils as information clearing houses without decision authority (Yamamura, 1967, pp. 122–123), and the market-share evidence shows that deconcentration had lasting competitive effects. Finally, the study relies largely on English-language secondary sources and published documents, and the West German and Russian cases in Section 7 are illustrations rather than systematic tests.

With those qualifications, the case suggests that the location of enforcement is one variable shaping whether an imposed reform outlasts the power that imposed it. It is also one of the few such variables that reformers can deliberately design. A statute that leaves enforcement to those who bear its costs, and creates no concentrated group with a stake in defending it, depends on the continued attention of an outside guarantor. When that attention shifts, the statute risks becoming a paper tiger. Cross-national work finds that constitutional compliance varies across societies (Gutmann et al., 2025). This case suggests that compliance can also vary across reforms within a single society, in ways that track who holds the enforcement machinery.

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