Q: Dr. Fine, I'd like to start out by finding something out about your background. Could you tell me when and where you were born, where you grew up, something about your family?

SF: I was born in New York City and went to school for the most part in New York City. I got my Ph.D. at Columbia University in the field of economics in 1943.

Q: Had you been interested in economics all along in high school, college?

SF: Oh, yes. I had majored in economics in college.

Q: Where did you go to college? Was that also Columbia?

SF: I went to New York University, Washington Square College, and they had an excellent Economics Department.

Q: Were there many professors at that time who were especially influential? Are there any particular books that you recall from your New York University days?

SF: Well, I guess like most fellows who were studying economics at that time, Thorsten Veblen had a great influence on us. But beyond that, I guess the dominant influence in my thinking was the fact that the New
Deal had just exceeded the power in Washington and nothing was more exciting than following the course of New Deal economic policy. And actually I guess, if you had to press me, I might have to answer that the reason I became an economist is the fact that I was convinced that the overwhelming problem confronting the United States was the problem of underutilization of our resources and the enormous unemployment that we have. I think this is the explanation for almost everyone becoming an economist who is roughly my age.

Q: So this was then the late thirties or so when you got a bachelor's degree?

SF: Yes. Well, I went to college from 1932 to 1936.

Q: And so that was at the beginning stage of the /President Franklin D./ Roosevelt Administration?

SF: That's right.

Q: Then I assume from what you have said that you were intrigued or sympathetic with the sorts of things that Roosevelt and his advisors were doing to solve the problems of the Depression?

SF: Well, the more striking aspect of the New Deal was the fact that it was an activist administration/ they were not primarily engaged in trying to justify inaction. And of course there were many reversals, many changes of directions, as inevitably had to be the case given the fact that an active interventionist policy in the U.S. tradition was unprecedented of this magnitude and of this character. And actually I have written about this at some length. It's a very, very complex subject and much that the New Deal undertook to do it never achieved. But this is hardly unique. But it did constitute a major break with all past administration.
policies toward economic policy. And the mere assumption of responsibility constituted an enormous first.

Q: What led you to Columbia University and its Economics Department?

SF: Well, it had a good department and economics had something to do with it. I had a job, which I had to have if I were going to go to college, for undergraduate as well as graduate school, and there was no reason for not going to Columbia. But I did subsequently, I took my orals and then went down to the Treasury Department and worked there. And not having completed my dissertation, I accepted a Lytell Fellowship and went to Harvard for a year and largely finished my dissertation. But unfortunately, the intervention of the war required me to broaden out my topic somewhat.

Q: I'm interested in the dissertation topic, if you don't mind telling me, and whether you found Harvard people exciting or stimulating at that stage of your development.

SF: Well, the dissertation and the subsequent slightly revised version of it which was published was called, "Public Spending in Postwar Economic Policy." And you can see how an analysis of New Deal spending had to be substantially modified once the U.S. entered World War II because fiscal policy never attempted to achieve full employment. It could have. The cost would have been a lot higher than that which the Administration and its understanding at the time would have tolerated. But we certainly enjoyed full employment under the accelerated spending terms associated with World War II.

Q: Could I ask, prior to the outbreak of the war with Japan or Pearl Harbor,
whether you would describe the results as primarily interested in the United States and its economic history and problems? Or did you have an interest in Europe or other parts of the world as well? Did you have any Japan or China consciousness at all?

SF: Well, yes, I did. I had taken a course on Japan at college and was quite interested in Japan.

Q: What sort of course was that?

SF: Well, this was a course on the political and historical background of Japan. Unfortunately, the professor's name skips my mind, but I do remember many years later meeting him and telling him that I had the opportunity to spend eight years in Japan. But like a number of my fellow students who may not have had that opportunity, we talked at great length about Japan because he was not an economist and found the problems presented to an economist in Japan, by virtue of this unique, special set of circumstances, naturally very interesting.

Q: And how then did the outbreak of World War II for the United States affect your career? What was your World War II experience? I should say your life.

SF: Well, as an economist, I was working for the Government. I can't say very quietly. In 1941, where was I? I guess I was working in the OSS [Office of Strategic Services]. I think it was around 1941 or 1942 I went to work for the OSS.

Q: It was in the very early stages of its organization.

SF: That's right, that's right. I was almost a charter member, and actually I was in the curious position of finishing my dissertation and always
being harrassed by my job.

Q: May I ask what part of OSS you were in?

SE: Well, I worked on, actually I was engaged in formulating strategic bombing operations against the German aircraft and German submarine installations' facilities and complex, and that of course was a fascinating job. But I think I've always been interested, almost as much in European and Asian economics and economic development problems as I have in the United States.

I was living in Turkey at the time. Let me think now--no, that came later. No, I was living in the United States at Pearl Harbor and of course had little appreciation that it would involve my spending that amount of time in Japan. But it's not particularly surprising that I spent many years overseas because that was really what my career was moving in the direction of.

Q: And did you stay with OSS during the war?

SE: Yes, I was there and also in Turkey, and it of course is a very, very interesting operation. As a diversion, let me point out that the chief of the OSS, Stansfield Turner, lives right down there about 300 yards away from here.

Q: The reconstituted OSS/CIA /Central Intelligence Agency/?

SE: Yes. I found his moving here and being invited over there quite amusing.

Q: Was the Harvard economist, Edward Mason, one of the people to whom you reported?

SE: Yes, Ed Mason was the dean at that time, and I took of course his seminar on Price Policy. Alvin Hanson had a seminar on Fiscal Policy along with a chap by the name of Williams, John H. Williams. And that was a very
interesting time to be at Harvard because everyone was there then. Paul Samuelson was there, almost every economist of note in the American firmament right now was there at that time, and it was a period of very, very genuine intellectual ferment. But as I look back, it was curious—and this was in 1939—even though the general theory of Keynes was published in 1936, Keynes still did not have any significant impact on intellectual ferment at Harvard at the time. When we talked about deficit financing, it was the more, well, conventional approach of Alvin H. Hanson, who was very much concerned with the impact and consequences of public spending on total economic inactivity.

Q: One of the things that Mason wrote a great deal about before the war and then on during the war was the concentration of business power in the United States, and I wondered if that was something that interested you then, too, that particular question? Or you were off into other things?

SF: Well, I would not say it was a subject that was primary in my interest. I must confess that I didn't have many of the conventional liberal attitudes in this area, although I suspect that I had them in most other areas. I was more inclined to be aware that bigness itself might confer distinct advantages and that insofar as prices were directly controlled or preponderantly influenced by large corporations, this was of course a concern to any administration in power. But I was appalled by the possibility of doing something about this, and the mere breaking up of corporations into smaller components I felt would not confer any of the anticipated advantages and would generate all kinds of new difficulties.

Q: Are you alluding then to the anti-trust drive under /Thurman/ Arnold, that period in our history?
SF: Yes.

Q: Just before and into the beginning of the war?

SF: Yes. I could certainly sympathize with the motivation, but it was not really a motivation based upon economic sophistication. It was more a strong liberal ideology which had very, very valid antecedents. But I think essentially it was naive.

Q: Well, coming back to your World War II experience and the ending of the war, may I ask where you were when the war with Germany and the war with Japan came to an end? Had you any idea that you would be going on out to serve in the occupation of Japan?

SF: Well, I was in Turkey at the time and I was in a position where I guess all U.S. employees who were overseas were in when the war ended. We had to think in terms of next steps. Well, I thought that it would be interesting to go either to Germany or to Japan. I preferred Japan for a variety of reasons. Subjectively, I guess, I felt negatively inclined toward the German population because I felt that the German population knew what their government was doing, beginning in the thirties, and that it was very difficult to be charitable even though the consequences were catastrophic from their disastrous war.

As far as Japan was concerned, I felt quite different. I felt that the Japanese, and I didn't know until I got there how right I was, were far more naive politically, that they didn't have any genuine participation in the policies that led to World War II and that the Japanese were relatively innocent and naive in the prosecution of the course that led to the unfortunate happenings that began after Pearl Harbor.
Q: When did you arrive in Japan, how early a stage?
SF: I arrived in October of 1945.
Q: So very, very early in the occupation?
SF: Yes.
Q: When the initial policy had already been published but before the--well, a long time before the actual directive to General Douglas MacArthur was ever made public. When you arrived in October of 1945, were you assigned immediately to ESS /Economic and Scientific Section/? What was the job you reported to?
SF: Well, I had been taken on as the economic advisor to the Foreign Trade Section.
Q: In other words Economic and Scientific Section had already been set up?
SF: Yes, it had been set up. I guess I should have said the Foreign Trade Division of the Economic and Scientific Section. And I held that post for, oh, I guess about eight months or so and then a new post was created, that of Director for Economics and Planning.
Q: So then your first head was not General /William F./ Marquat but Kramer?
SF: That's right. Oh, you have a remarkable memory. Yes, Ray Kramer. You know, Bill Ryder, who was quite astute, talked about Ray Kramer once and said, "You know, the tragedy about Ray Kramer is that he's made his millions and no longer has any legitimate struggle to preoccupy himself."
Q: I remember reading an article about ESS and Kramer in Newsweek Magazine, I believe December of 1945, and it was quite a long article. A lot of attention was given to Kramer and his plans. And then suddenly he was no longer in Japan. I've been curious to know the story.
SF: Well, I can't really presume to know definitively the answer, but I've discussed this with my wife. Well, why would you discuss this with your wife? Well, curiously enough, my wife was in the White House at this time and it was quite obvious that Kramer was plugging to get that star. And I think it was Harry Vaughan who for a variety of reasons, was equally determined that Kramer would not become a BG, and this is why eventually he I think felt that as a colonel he couldn't really have the prestige that ESS required, surrounded by section chiefs, you know, other than Nugent, who were all quite successful in the military hierarchy.

Q: Was Marquat brought in immediately as the successor to Kramer?

SF: That's right. Marquat was the antiaircraft officer under MacArthur in the Philippines and he came up from Corregidor with General MacArthur. And I suspect that the chief reason why General MacArthur selected General Marquat in that post was he was interested in economic affairs and he had been a former newspaperman. And he had great facility with words. Also, you can't find a more loyal subordinate than General Marquat and also I suspect that he was not unaware of the fact that General Marquat would be disinclined to initiate independent economic courses.

Q: Well, that's very interesting. You're the first person to indicate to me that he did have a facility with words and that he was interested in economic things.

SF: He did have a facility with words at his typewriter. I wouldn't say that he was particularly facile verbally. He was a thoughtful man. I suspect he felt somewhat ill at ease for quite some time in the field of economics. But he was very, very conscientious in attempting to correct
that deficiency because I remember suggesting a number of books. Actually I gave him a number of books on foreign trade and fiscal policy and labor and so on and so forth very early in the game. And there was every evidence that he did not ignore them. But of course you can't pick up economics at night at home.

Q: He ran one of the largest sections. I suppose CI&E /Civil Information and Education Section/ and ESS were two of the largest of MacArthur's sections.

SF: Yes.

Q: And I was curious how a general like Marquat would handle something so important/ something that would require such sophisticated knowledge as Japan's economy with his kind of background.

SF: There weren't any major sections other than—no, I guess there weren't any major sections headed by civilians. And that is the context in which General MacArthur preferred to operate. But I must say that I suspect that I share the attitude of most of my colleagues toward Marquat in saying that he was remarkably sensitive to advice. He was not a rigid so man. He was personally exceedingly modest and was/terribly, terribly determined to do the best possible job he could that as a consequence he sought whatever advice he could. He was of course very much on the spot. He had a tremendous job. Just think of one man handling every facet of the economy other than agriculture and transportation.

Q: Did he hold regular staff meetings, weekly meetings, or more often than that?

SF: No, he didn't. We used to have staff meetings intermittently. I dare say in that respect it might have been every three or four weeks, something
like that. But sometimes when we were very, very busy, they would be held less frequently.

Q: Would he tend to rely then on people like yourself whom he would consider to be experts to get things done or just expedite things?

SF: Yes, I think he was very eager to get whatever advice was available. He had several people close to him. What was it, the third floor of the Forestry Building? I think it was the third floor. And he had one or two businessmen there. I think we had a fellow by the name of Calvin Verity who used to be the president of a fairly respectable steel company. I think it was Armco Steel. But in any event, it was one of the, let's say, intermediate sized steel companies. And he had of course Bill Ryder and one or two other colonels. I was on that same floor and I think Ted Cohen after a while was. I think that was about it.

General Marquat primarily relied upon the duly authorized executives to discuss prime issues and I guess he wanted to have someone who was involved in all of these and that's one of the reasons that I was involved in most of the problems that he was concerned with.

Q: Would you say that he had easy access to MacArthur? You mentioned that MacArthur saw him as very, very loyal, as I assume he saw General Courtney/Major General Charles/A./Whitney and/Willoughby. Most people indicate that it was Whitney who had the closest relationship with MacArthur but then there was also Willoughby and Marquat. And I wondered if from where you sat, you could characterize the relationship with his generals and Marquat specifically.

SF: There's no question but what Whitney had the most continuous personal relationship with General MacArthur. His was not a relationship which was
restricted to the government arena. He was, I guess, dependent psychically on Whitney's approval and he found him fairly foxy and shrewd in many areas. Whitney was a very, very, let's say, imaginative and shrewd operator. He also was exceedingly conservative and one could say a number of let's say unflattering things about him. But that's hardly my province.

Willoughby of course was a specialist and Willoughby of course was a terribly charming, very, very urbane man. And I enjoyed his company all the time even though I didn't share any of his political views. I really must say I continuously enjoyed Willoughby because we used to perform quite frequently together. I was on the roster of, what do they call it, "performing artists." Every visiting dignitary of course would have to get the chief-of-staff treatment. So that meant a lecture on the current political status, the current intelligence status, the current economic status and the diplomatic status. We'd get Ambassador William Sebold in for that. So that I got to know Willoughby very well and we enjoyed each other's company, and we talked frequently about intelligence and economic issues.

Q: Would you say that Marquat was sort of third down on the rung of those who had access to MacArthur?

SF: No, I wouldn't say he was third down. I would say that he wasn't really competing with Willoughby. You see, Willoughby was a specialist. He had his own area. Marquat was also a specialist, and Marquat would be primarily asked to come up to see the chief when the chief had a message in from Washington that required some discussion and formulation of a
position before we worked up a final response. He wouldn't normally call Marquat to discuss anything other than economic issues.

Q: While we're on the subject of those gentlemen who headed the sections, I wondered if you had any interaction with Nugent or had any observations of him or /Colonel Hubert/ Skenk or some of the others?

SF: Yes. Well, Skenk of course was a competent professional. He was not a very strong personality. He could always be expected, I guess, to follow instructions. He was in an insecure position surrounded by all those stars, and he behaved I guess more or less the way he was expected to behave. Nugent had a very difficult job. I think he was a competent fellow. He had a very challenging assignment and no one could have been in that spot and covered themselves with glory. Your mistakes and your errors become notorious. The things that you do right are never noticed.

Q: Coming back to your own job in SCAP, I'm fascinated by the fact that you came out immediately to work on foreign trade problems.

SF: Yes.

Q: How were those problems envisioned? What was the emphasis that SCAP or the occupation had already given to Japan's foreign trade or revival of that trade?

SF: Well, the frame of reference was fairly clear, help Japan as quickly as possible to become a self-supporting nation.

Q: Was this something that you felt that early, in October?

SF: Oh, yes. I never had any great mystery about the fact that the US wouldn't be prepared to maintain Japan as a ward indefinitely for hundreds of millions of dollars a year to support an economy which was kept at let's
say artificially and deprived level of activity to insure that she'd never be self-sufficient.

Q: Do you recall your immediate responsibilities in October and in November and December of 1945, the sorts of things that you looked into or got information on?

SF: Well, I'll tell you the thing that I was concerned with was essentially trying to make an assessment as to what the capabilities of Japan as a potential exporter to the neighboring countries and to the U.S. were. And on my own I immediately began to think in terms of what kind of a foreign exchange rate would be appropriate to facilitate that. Also of course I spent a great deal of time on examining the probable level of imports required to maintain the population at a minimum acceptable level. And this led, not too surprisingly, to my becoming involved in setting up and working with the people in Research and Statistics on import and export projections, balance of trade projections. And this of course was one of the subjects that I continued to be concerned with all the time I was there because one of my responsibilities consisted of regularly going back to the Department of the Army and trying to resolve outstanding issues concerning our requirements. These are the prospective appropriations. And also I guess I appeared on the average, oh, three or four times a year before various House and Senate committees on what we called GARIOA, which was an abbreviation for Government and Relief in Occupied Areas.

Q: Was the interaction between SCAP and the War Department people—would it be the Civil Affairs Division people that did a lot of exchange of information and ideas? And did you also have good exchange between the State Department people, the Division of Japanese and Korean Economic Affairs?
I have in mind Edwin Martin, Henry Owen, and others.

SF: Yes. Well, naturally when I went back there I spent quite a bit of time in the State Department and they were deeply interested in Japan. You know, one of these noble experiments, and obviously thought it an exciting enterprise. I used to meet with all of them. I'd come back generally for about a week or so at a time and I'd invariably spend about a few days with people at State, maybe a day and a half before various committees although sometimes I'd have to stay two or three weeks because of various committee hearing schedules.

Q: Before we go on further with your job responsibilities, I wonder what your very first impressions of Japan were when you arrived in October of 1945, just the street scenes, the people, the morale of the people. How did this hit you when you arrived?

SF: Well, I arrived at Atsugi Airport just about dusk, and I was impressed with the fact that there apparently weren't any electric lights at Atsugi. And when it came dark, it really was dark. And we were loaded into the back of a truck with a few seats. But the most amazing aspect of this trip was my consciousness of going through Yokohama and a good deal of Tokyo. And as I mentioned to my wife, it was incredible but in this drive—I guess it must have been as much as 15 miles—I don't recall more than a dozen electric lights that were on. Then of course the following day I had occasion—I've forgotten what the errands were—to have to go back to Yokohama, and it was one of the most desolate sights I've ever seen. The only things that remained intact, for the most part, were the godowns and the large fireproof chimneys. And they were, you
know, little hovels made of metals that were put together, made into temporary huts. But before I leave this subject, when I left Japan eight years later, it was as though a war had never taken place. Japan had not only restored the damage but had gone way beyond that and built thousands and thousands of new structures that were far more advanced, of course. And then the Japanese population was far more numerous than it had been in 1945 and the people were far more prosperous in many respects than they had been before the war.

Q: When you made these early projections about exports and foreign trade, were you rather pessimistic as to the time that it might take Japan to become self-supporting?

SF: Well, it was obvious that Japan had had her entire economy so badly disrupted that it would take many, many years before she could be on a minimum footing. And we didn't, I think, undertake to make any projections as to when Japan would achieve something approximating a self-supporting basis I think until about 1947 and 1948. And then we projected the possibility of Japan achieving a balance in her trade accounts by 1950. The incredible thing was that this came to pass, but it came to pass for reasons that had nothing to do with the validity of the projections. It had to do with the outbreak of war. The outbreak of the Korean War was the one thing that permitted Japan to achieve a balance in the foreign accounts because Japan was the natural source for enormous varieties of equipment, machinery, spare parts, and a great deal of rehabilitation was undertaken in Japan.
I remember waking every night—I was living at the Imperial Hotel—with these enormous trucks that had on them one or two tanks that were substantially damaged. They were rolling to Japanese facilities where they were going to be repaired. But it was of course the Korean War that made it possible to greatly accelerate the rehabilitation of those seriously damaged sectors of the Japanese economy.

Q: You mentioned earlier when you were making these projections that you got involved with Research and Statistics.

SF: Yes.

Q: That's part of ESS?

SF: That was a part of ESS, that's right.

Q: Was that the outfit that was run by Emerson Ross?

SF: That's right.

Q: And one has all sorts of questions about statistics, the problem of statistics, how you gathered them and how much of that was provided by the Japanese themselves and how much you gathered on your own and how much might have been projected from Washington. I wondered if you had any comments on the problem of statistics.

SF: Yes. I'll be fairly brief. Japanese statistics were poor to nonexistent and we had to set about with of course Japanese assistance. We had large numbers of Japanese statisticians helping us in this undertaking, and we had to completely revise almost every single series: production, consumption, GNP /Gross National Product/, prices, so on and so forth. And the Japanese were just amazed at the ability of our Research and Statistics Division to revise and bring up to date all of that data. And they quickly began to
accommodate their procedures to the suggestions we made. And I guess right now I can't say that all is attributable to this brief period, but I think the Japanese were eminently aware of how deficient their statistics were for a whole wide range of reasons, some of which are not particularly flattering to the Japanese.

Q: You became economic advisor along about May or so of 1946 and I assume moved into wider responsibilities?

SF: Well, I had a fascinating transitional experience. General MacArthur had requested former President Herbert Hoover to come to Japan to help in the task of selling our GARIOA requirements to Washington and of course to the American people. And I was detailed to Herbert Hoover's party for the entire 10 days he was there, and I went all around Japan with President Hoover, trying to make brownie points, as it were, in selling our program. Well, we were very successful. Herbert Hoover endorsed our entire ESS appropriation and resources requirements program, and it was a fascinating opportunity working with Herbert Hoover, whom I had occasion to change my attitude about. Actually I had written a book, as I had mentioned, on Public Spending and Postwar Economic Policy and of course was terribly, terribly critical of Herbert Hoover and the Republican Administration in its failure to comprehend the entire predicament they were in. But I found Herbert Hoover/remarkably sympathetic personality. He had a great public relations barrier. He had a difficult nominal personality, but once you got to know him, you immediately saw that he had a great deal to offer. He was intelligent, he was fast and had a remarkably large frame of reference. Of course he had had a great deal of experience.
Q: And this was early 1946 then that he came?

SF: Yes, yes.

Q: Before you assumed these larger responsibilities as economic advisor and were concerned with many, many problems, could I backtrack to the time when you were still primarily involved with foreign trade and ask whether for purposes of Japan's exporting capability, you had anything to do with revival of the textile industry or attempts to revive the silk industry or anything of that nature?

SF: We in SCAP /Supreme Commander Allied Powers/ were naturally concerned with reducing the burden imposed by the occupation on the U.S. taxpayers, quite apart from any larger ideological conflicts, whether or not Japan should remain an agrarian society, and whether or not Japan should be permitted to be completely uninhibited in their reaching out for a return to their previous militaristic role. There were some things that didn't raise such large issues and which were primarily pragmatic issues about which most people, unless they were ideologically involved, could agree upon. The first issue was how we could begin to utilize the idle manpower of Japan and how we could begin to facilitate Japan's achieving a higher standard of living, hardly controversial issues. As far as one of the key elements of Japan's potential at this time, which didn't involve imports of costly raw materials, was of course the silk industry. And the silk industry had deteriorated sharply during the war, but it lent itself to fairly rapid rehabilitation. The big problem presenting itself was how could appropriate markets be found. But we addressed this by importing a number of silk exports. And within a year and a half or so there was
quite a volume of silk trade going to the United States. We had to actively promote the sale of silk and we had representatives bothering Wanamaker's and Macy's and all the merchandisers, talking about what Japan's potential was, giving samples of the things that we were doing and indicating possible design patterns that we could quickly respond to in fairly large volume. I must say we were very fortunate in getting some excellent American design people and excellent American retailers. But we let them go, I guess, after about a year or two, since we had exploited all the potential benefits we could derive from them. And by that time the Japanese had established their own connections with outside markets. As far as the textile industry is concerned, of course very extensive damage had taken place, but the Japanese had an incredible capacity for restoration and in many cases replacement in advance technology of the destroyed capacity. We strongly favored the fastest possible rehabilitation of the Japanese textile industry, only because it was one of those things that could be done faster than many other things. And psychologically we felt it would be a great thing if the Japanese could see some visible evidences of a beginning of a resumption of normal trade with their earlier markets.

I might parenthetically say that a number of us in ESS felt that a major reorientation of Japanese export policies were in order and a re-orientation and reemphasis seemed to us most appropriate. Mainly the Japanese of course had achieved their preeminence as the dominant exporter in the Orient on the basis of cheap, shoddy exports, and had virtually inundated the markets of the Orient. We felt that it was time to upgrade
the Japanese export potential and shoot for the European and shoot for
the U.S. markets and not necessarily ignoring their past historical
markets but perhaps upgrading quality and squeezing out a higher level
of return. The Japanese didn't prove resistant, and I must say that in
retrospect one is astonished by what has taken place. I frequently have
been accused of holding the dagger in the Japanese hands which has plunged
into the American bosom. The truth of the matter was that when you are a
submarginal economy living from hand to mouth, the competition potential
for undermining U.S. industry does not seem a very close prospect. This
of course didn't prove to be the case very, very soon, but it was very
difficult at this time to any American who lived in Japan envisaging the
Japanese, for example, having a preeminent automobile industry. All the
Japanese could turn out and turn out reasonably good quality was these
three-wheeled trucks and bicycles and motorcycles. The prospect of
Japanese manufacturers beginning to compete on American terms in more
sophisticated manufacturing areas, such as computers etcetera, etcetera,
was such a farfetched idea, given Japan's desperate straits, that it
was the kind of thing that one didn't dismiss entirely but it hardly
seemed a relevant consideration at that time.

I know that we were involved in bringing large numbers of technicians
from the United States to facilitate the process of reconstruction and
rehabilitation and lending technicians. I know I was personally involved
in facilitating iron and steel exports from some of the largest and more
advanced American companies who willingly came there without any payment
to rehabilitate. Some of them stayed for months.
Q: Was this fairly early or midway through the occupation?

SF: Oh, I'd be hardpressed to put a time on that. I would say probably about 1947, 1948. But before that we brought experts from the ship-building industry in the United States to help them in rehabilitating their shipyards and to introduce, believe it or not, introduce more advanced techniques of assembly. That's carrying coals to Newcastle, eh?

Q: A simple thing like textiles—it was simple by comparison with automobiles—was there any really organized resistance in the United States to buying Japanese cotton textiles or products? Did you run into that difficulty with the cotton program?

SF: Well, I don't think initially the U.S. was the target for many Japanese textiles. I think the initial objective was to resume the pattern of trade with Japan's neighbors. It was only later when the improvements in the quality of fabrics and improvements in design were brought about that the U.S. market presented itself as a reasonable target objective. But I would say that the changing attitude of the textile industry was of course the function of the degree of prosperity being enjoyed by the textile industry. For quite some time the textile industry did so well that the prospect of Japanese competition was not a serious one.

Q: I know that you are one of the few civilians to see MacArthur quite frequently and I wondered if you would give me your observations of MacArthur, how he operated, how you saw him, why you were privileged to see so many times.

SF: Well, I don't how many is "many," but one of my responsibilities related to presenting our GARIOA appropriation to the U.S. Congress. The GARIOA
is an acronym for Government and Relief in Occupied Areas, and this is something that we formulated in the Research and Statistics Division of the Economic and Scientific Section every year and it was based upon our best estimates of Japanese food requirements and other essential ingredients, petroleum products, and also raw materials associated with starting activity in Japanese industry. Altogether, I guess, during the time I was there, which was/ the total period of the occupation, the U.S. appropriated oh, I think, in the vicinity of about $1.2 billion. And this is a function of the actions of the Senate and House Appropriations Committees in the first instance. It was my role to present our requirements to the sub-committees of these House and Senate Committees. And I must say that for the most part they proved to be remarkably responsive. Here an American was presenting requirements for a defeated enemy who had been, in some respects, let's say, unpleasant to Americans in a variety of military situations. And yet the appreciation was very, very keen that we now had an obligation to this nation in putting them back on a self-supporting basis. And the appreciation was not unrelated to the recognition of the fact that Japan should become an ally of the United States. And the ominous sounds emanating from the Soviet Union were of course calculated to strengthen the U.S. resolve to help Japan become a self-supporting nation.

Q: You've touched on a question that is of extreme interest to me. The emphasis on America's obligation to help Japan become self-supporting because of the initial policy and initial directives to MacArthur—he was told that it was a Japanese responsibility to do anything along
those lines. It was not his responsibility. And so I am wondering, from where you sat in the occupation, at what point SCAP began to talk about taking more constructive action to help the Japanese. To what extent was Washington also interested constructively in helping the Japanese? Or was it more you people in Japan?

SF: Well, I would say that people on the scene inevitably are more sensitive to the real world than people sitting in Washington just talking and thinking about a country. But what was also a factor accelerating real politic was the growing emergence of the Soviet Union as a distinct threat to the Free World. And it was that that very, very clearly indicated the shape of things to come. We didn't have to get a message to understand what was obvious to anyone who could read and write. And the prospect of the Japanese being reduced to a pure agrarian society was ludicrous, ludicrous in terms of the inability to employ Japanese, ludicrous in terms of the social consequences of protracted deprivation of living standards and idleness of a large part of their work force. So that as a practical proposition it was clear that there was emerging, quite unrelated to any new directives, a greater appreciation for emphasis upon encouraging the Japanese economy rather than penalizing the Japanese for Pearl Harbor and the attendant costly military effort. So that I would say that Washington proved to be quite responsive, for the most part, for the emerging emphasis that developed in our overall approach to the Japanese economy and to specific efforts to accelerate the recovery of particular industries.

Q: I was wondering if that's the sort of advice that you were giving Marquat
or Marquat was giving MacArthur, the sort of thing that.

END SIDE I, BEGIN SIDE II

. . . or if that was the sort of thing that MacArthur was arriving at on his own, that the occupation should give more constructive help to the Japanese in rehabilitating their economy? You moved into the position of economic advisor in 1946 and then later in 1947, would it be, you became director of economic planning. And so I'm seeking to learn more about the kinds of advice that you gave as you looked at the overall Japanese economy and its problems.

SF: I must say that there was substantial agreement in Japan at every level that our emphasis had to be a positive one and not a negative one, that the Japanese need be punished for war crimes. They had certainly been punished enough in the field of battle, and that now we were in an entirely different environment. We had different problems. We would have to respond to them in a constructive, dispassionate way. I would say that I can't identify any single meeting where a blinding light suddenly enveloped us and said that "Punishment no; uplift yes." I would say that anyone in our positions were keenly aware of the distress enveloping the Japanese economy, and we were perfectly capable of minimizing, let's say, negative instructions and admonitions to the contrary. We felt that Washington was composed of grownup people almost as smart as us, of course, who would in time appreciate the considerations prompting the growing emphasis upon industrial rehabilitation and growing insistence upon securing basic raw materials with which to make an industrial expansion possible. Then of course over a period of time it was quite clear
that there wasn't any disagreement whatever between the central emphasis upon speeding recovery, both in Washington and in Japan.

Q: Was there a real fear of economic collapse in Japan, let's say, in 1947? I seem to recall that Under Secretary /Dean/ Acheson was talking about sending an economic mission to Japan, getting more trained civilian personnel, more economists out to advise MacArthur. There was some concern about MacArthur's understanding of economic matters. And then there was talk about an early peace treaty, too, and I wondered what your assessment would be of these Washington initiatives to send an economic mission.

SF: Well, we had certainly longstanding and basic policy differences with the Japanese, and this stems of course from the difference of postures. As an occupying force, we tended naturally to want to minimizing wastage. We wanted to minimize the annual volume of appropriations. We wanted to encourage the Japanese to take such steps as would serve to accelerate production rather than to accelerate consumption. Actually, the same struggle that is now evident in the United States on consumption versus emphasis upon the supply side certainly existed in very, very different form in Japan. And it expressed itself very particularly on the whole subject of inflation.

Inflation in Japan of course was a function of shortage, and shortage was a function of the fact that many of the patterns of consumption and levels of consumption had been substantially impaired, although the Japanese were not prepared to accommodate to their changed circumstances. Let me give you a very, very simple and I hope graphic example. We imported
several hundred thousand tons of rice annually to Japan. Unfortunately, our conception of the Japanese diet varied from theirs. We were very, very interested in the Japanese polishing the rice that we were making available to the point where let’s say the trade was 10 percent polished, so that it looked somewhat brown. The Japanese had normally consumed rice that was, I guess, about 35 percent polished. Unfortunately, in the process not only was there a great deal of wastage in terms of the bulk of the rice kernels. But unfortunately, most of the nutrition of the rice was destroyed in the process. Well, we were fairly optimistic that we could persuade the Japanese to change their dietary habits, and we would distribute this rice refined to the extent that the best medical opinion we had suggested as advisable and definitely consistent with the Japanese interests. And we discovered that it was no dice. The Japanese were taking this rice and remilling it, remilling it and wasting virtually most of the nutrition, all the vitamin B, and refining it to what they normally did before the war. Actually during the war they conformed more to our norm. Now here’s an instance of clear conflict of interest. Here the United States was involved in importing more rice inevitably than would be necessary had they been more responsive to the reality of their underprivileged circumstances.

This was reflected in numerous other instances. The Japanese were not at all concerned with inflation from the point of view that we were because inevitably we were obliged to sustain the cost of inflation. As prices went up, we were the ones who were obliged to make the adjustments rather than the Japanese because we were essentially underwriting a minimum
standard of living in Japan. Now the Japanese were perfectly prepared to tolerate seriously imbalanced budgets; they were perfectly prepared to tolerate a level of inflation that was inconsistent with their best long-term interest, basically because they felt it didn't really impair their current standards of living. It would be the United States that would be inevitably the ones that had to respond to this. I don't know to what extent the man in the street comprehended this problem, but certainly the policy makers with whom we were in constant association comprehended this. And of course we were in a rather awkward position of trying to persuade a Japanese to control the creation of new money. We were in an awkward position in trying to persuade the Japanese to reduce their consumption of a variety of what we believed to be unessential products merely because resources were being diverted away from what we believed to be essential consumption patterns. But this is not particularly surprising. It stems from the fact that we were a wealthy uncle and they were, in a sense, preoccupied with their own temporarily severely diminished circumstances. But in a larger sense, this was not that fundamental a problem. Now that I think back, the difference between $1.2 billion and $800 million or $1.2 billion and $1.5 billion, it seems almost absurd that anyone could have been concerned with such small sums dealing with such a large problem. But of course I've been thoroughly brainwashed, and I no longer think in terms of millions. I think in terms of hundreds of millions. The truth of the matter was that the Japanese were behaving in a pattern that was consistent with the reality of their economic circumstances and the conflict we had with them in this whole area of price and rationing had to do with the difference
in our status. Now we were not very successful with certain aspects of
our price stabilization program. We had formulated quite a variety of
do's and don'ts in the price control and rationing sphere, in the monetary
sphere, and in the foreign trade sphere. We were also concerned with dis-
couraging wage increases which of course put you in a rather untenable
position with respect to organized labor. This was complicated by the
fact that there was a latent potential of serious proportions with respect
to the Communist labor movement. Obviously you resolve these issues as
best you can, never knowing as much in one way as you would like but tem-
porizing with the realities of Japanese political life and a sensitivity,
we hope, for the continuity of Japanese political traditions. I would
say that it was primarily our feeling that we needed more ammunition and
a greater sense of presence of someone prominent from the U.S. business
or banking community that led eventually to the appearance of Joe Dodge.
Actually I was back--I think it was sometime in 1947, speaking to General
/William H./ Draper, whom I think at that time was Under Secretary of the
Army, considering possible personalities prominent in either American
political, economic or financial affairs who could come out and support
us in this effort. And we agreed that Joe Dodge seemed to have many of
the qualities indicated by this role, and Draper asked me to visit Joe
Dodge in Detroit. We spent a full day with Joe Dodge, who impressed me
as having both the temperament and the personality, if not the formal
background in economics. Actually I think he had just gone through high
school, but he was eminently a sophisticated faker and also I was impressed
with the fact that he had the kind of personality that would go quite well
with the environment in Japan. I had to persuade Joe Dodge, who seemed to be quite reluctant—he had never been to the Far East before—to become involved in something so completely foreign to his background. But he came, and I must say that I think we worked very, very well together. He was terribly useful because after all, I was, I think, at that time about 33 years old and I was more aware of that than perhaps most people were. But I felt that having a father figure would not be inappropriate at this time.

I think Joe Dodge did a great job. We got along very, very well personally, and we continued to correspond long after he left Japan. I would say that essentially Joe Dodge sold the previously advocated Economic and Scientific Section stabilization program with a number of, I would say, improvements. I think he put it in a framework that made it perhaps somewhat more salable politically to the Japanese political leaders.

Q: Are you saying that the nine-point stabilization program that was finally worked out at the end of 1948 and then put into effect in 1949 basically came out of ESS and then had the endorsement of Dodge or that, let us say, Washington, Army or State Department personnel offices had considerable say about the stabilization program?

SF: I would say a large number of people were involved in the nine-point program, but basically it was something that emerged from ESS. It was modified. Actually cables went back and forth in considerable number to Washington. State had a hand in it. Certainly the Army was completely involved in it. And what came out, however, was a product that was not terribly different from the original one that SCAP had advocated. And there's nothing
particularly surprising about this because a stabilization program had to have a number of basic ingredients. You had to touch the major sectors of the economy that had to be inhibited if you were going to do very much about inflation. There wasn't any great mystery about it. This is not the most erudite subject under the sun, and I would say that reasonably intelligent people would be likely to hit on just about what we've hit on. The important thing was to sell it and have the Japanese say, "We have something here that we think we can move on without alienating many of the better organized elements in society. I say "better," I mean better by better organized, such as the labor movement and the various political parties. And also how the political leaders would feel in terms of whether or not it had sufficient elements of appeal to sell.

Q: Did you have difficulty selling this to Yoshida /Shigeru/, for example? I'm very interested in it, how you went about educating the Japanese or selling the Japanese on some of these ideas. And did they come up with some of their own?

SF: Well, the Japanese appreciated the need that we labored under to achieve a degree of stabilization, to show some progress toward an objective which inevitably was in the best interests of the Japanese. But at this time the Japanese did not have a foreign exchange rate fixed to the dollar or any other currency. And since they were exporting commodities at enormously varying prices—-I know that they were exporting some commodities at an effective rate of about 50 to 1 and other commodities at an effective rate of about 500 or 600 to 1. So that they didn't see the connection between inflation and increasing their costs and the effect on export sales.
So that it wasn't really until we got into and finally resolved the 360 to 1 rate that the internal price structure began obviously to affect the international sales possibilities of their merchandise. But establishing the rate was a matter, I guess, of negotiation and planning and accounting for a period of about six months. But had we not achieved that at that period of time, the Japanese would have been far less serious about the importance of stabilization than they eventually turned out to be.

Incidentally, I wanted to mention the fact that General Marquat would see Prime Minister Yoshida on the average of about once a month. There were times when there were urgent outstanding matters that he would see him more frequently. I was invariably at this meeting, and I must say that I was tremendously impressed with Yoshida as a man, as a personality, and as a fellow who was eminently sensitive to the tolerances of his position in this very unusual setting. And Yoshida of course was the Prime Minister far more than anyone else during this occupation period. When I think of Japanese officials, I primarily think of Yoshida as the Prime Minister. I think he was a very happy choice. He was a very courageous man and though quite short in stature--I daresay he was about 5 foot 1 or something like that--he never impressed you as being a small man. He had quite some bulk. I guess he weighed about 185 or 190 pounds, but he had a very strong personality. And I was impressed with the fact that he had excellent relations with General MacArthur.

Q: Although you may think this is an overworked subject, I did want to talk to you if I could about this deconcentration program and attendant problems.
I wonder if you were much involved when Corwin Edwards first came out on his combine mission and then subsequently made his proposals having to do with deconcentration. What were your feelings about that program, the wisdom of it? Do you recall a lot of controversy within SCAP itself even though there were orders to MacArthur and the orders had to be enforced? Were there lots of internal misgivings from the start or did those misgivings come a bit later with the arrival say of Mr. Welch?

SF: Well, this is of course one of the more controversial subjects about which many, many people have written and much more talk has perhaps been devoted to this than a lot more, I think, of more substantively important issues. Somehow or other, this is a red herring kind of issue and everyone feels very, very strongly about this, whether they understand it or not. I would say that Corwin's mission initially had a frame of reference that pretty much dictated his findings. Given the origin and the timing of the frame of reference, it was pretty much impossible that he would have come out with very much else. It was also true for the reasons we were earlier discussing that with the greater appreciation of the fact that the Japanese had to stand on their own feet or else would be a mendicant dependent upon U.S. aid for the indefinite future, that we had to begin to recast our thinking about the structure of Japanese industry.

Now basically, some Americans have serious difficulty in thinking about the Japanese economy. The U.S. has the kind of resources structure where competition is much more consistent with economic reality than a country like Japan with very, very limited resources and by the same token, a rather
limited domestic market. I think that much of the anti-trust legal framework in the United States makes sense primarily to lawyers. It doesn't really make sense to many economists because the structure is one thing. The reality of pricing patterns is something else, and the breaking up of a huge let's say industry like U.S. Steel wouldn't necessarily in any way result in lower steel prices. We have very, very genuine competition in the steel industry in the United States, and of course in Japan they had at that time a far less degree of competition. They didn't want competition. It was foreign to their conception of how an industry should be run, and while I would certainly prefer competition as opposed to price structure determined by a few officials, none the less the reality of Japan suggested that this is far more consistent with economic reality in Japan.

Now it is true that the zaibatsu constituted a major force leading to Japanese aggression in the neighboring area, and by virtue of that, we of course naturally were antagonistic to an economic group that so willingly and aggressively played ball with the military. But the truth of the matter is that once Japan's warmaking power had ceased to exist, we had to independently assess the consequences and the potential of the zaibatsu as it related to Japanese economic survival.

Now certainly there were directives that eliminated those who were identified in the zaibatsu as having played an aggressive military role, were in a sense designed to separate the economic issue from the political and from the military. I can't say that any particular scale is necessarily more consistent with economic survival than any other scale. It's a function
of what kind of efficiencies are associated with different industries with the scale of operation. I think it's notable that the Japanese have returned to substantially the pattern of industrial organization which had as their apex these large trading companies that tended to be in their institutional setting perhaps a more efficient kind of export-promoting agency than they would in another kind of economic environment. I'm not happy that the zaibatsu are so powerful in Japan, but I can certainly see overwhelming reasons for, in a country with such limited natural resources, their not wanting to commit the inevitable waste which is involved in our kind of competition in the United States.

I must say that is a longwinded introduction into the fact that initially the directives were fairly forthright about breaking up the existing structure of Japanese leadership and organization for fairly good reasons. This is related to Japanese march to military aggression. But after Japan had been defeated, it was pertinent to consider obviously changes at the top of Japanese financial and industrial and retailing organizations, but not necessarily breaking up vehicles which apparently were consistent with Japanese needs.

Now it's very difficult to think very, very forcefully about making changes in a society to which we are foreigners. After all, the relevance of American experience may or may not be pertinent in this environment. Now with the passage of time, I think the priority inevitably became less reform and more production and confrontation of pragmatic economic problems and the need to compete. Now the Japanese of course were very reluctant to disrupt their established institutions. We felt that it would be a good thing if some of the operating types took over as opposed
to the representative top hierarchy, who frankly were not really the
operators of the zaibatsu. By the time a man became at the top of the
Mitsui or the Mitsubishi, he was invariably in the seventies and he was
nominally, only nominally, in charge of operations. So we hoped and we
encouraged that some of the younger operating heads in charge of sub-
divisions of this complex or numerous complexes in these trading
companies would progressively take over and introduce a degree of com-
petition which previously did not exist within the zaibatsu structure
itself. I think there's some reason to believe that some of this has
come to pass, but I'm reluctant to become involved in all the details
of the controversy that took place within SCAP which related primarily
to the fact that we had a very, very aggressive, very, very impressive
head of the Anti-Trust Division, who one could say was almost a zealot
in prosecuting his assignment, even though increasingly, in the eyes
of many of his associates, that objective should perhaps have been
subordinated to the priorities then increasingly being devoted to
maximizing exports, maximizing the production of those things that the
economy needed rather than the reform objective which seemed to appeal
to certain Americans as being a paramount objective and the chief justi-
fication of our being in Japan.

We were also not unmindful of the fact that we in ESS were only
going to be in Japan a relatively short period of time and that we should
not be unmindful about imposing on the Japanese institutions and values
so completely foreign that they had no prospects of survival.

Q: Would you say that initially Marquat and MacArthur were sold on the
idea of deconcentration and had to be reeducated by let's say Draper coming out to Japan a couple of times?

SF: I would say, and of course this was a long, long time ago. I would say that the transition was a gradual one and that it formed part and parcel of a growing identification of a new set of priorities. Japan was not to be on the receiving end of a constant stream of punishment but rather the help of the Japanese economy and the Japanese society must be viewed as a major plus by the United States, since it reinforced and strengthened our common political objectives and that rather than being concerned with Japan's again dominating a co-prosperity sphere, it was quite clear that Japan still was expected to be the supplier of the manufactured products of so many of these Asian countries, the U.S. was not preoccupied with replacing Japan as a producer of the cheap consumer goods that would certainly be unprofitable, given our cost structure to export to these neighboring countries. So that our concern with the stability of Asia as a whole inevitably related to our concern with getting Japan on its feet again at the earliest possible date. Now this was a subtle thing and it permeated the progressive faces, most of the echelons of SCAP. And of course it was reinforced by the accelerating Cold War. So that after a while, it was a distinctly minority opinion that was preoccupied with the reform aspects when the reality of the common interests of Japan and the United States suggested accentuating the positive.

Q: I know that MacArthur before 1948, sometime in 1947 became very, very interested in the revival of private trade and invited businessmen to come back to Japan. And many studies were prepared about stabilization
and rehabilitation of the Japanese economy. So I naturally, as any other researcher, have wondered why such enormous pressure was put on the Japanese Government in December 1947 to pass that deconcentration bill. I understand it was perhaps the most controversial piece of legislation during the entire occupation. And perhaps even before that bill was passed MacArthur was beginning to sense that maybe it wasn't wise.

SF: Well, there were pressures from Washington. I wish I had some of the pertinent documents in front of me to reinforce my memory, but unfortunately I don't. But there were various time lags and there was a certain gap between the formalism and the realities of this environment. And there were some strong personalities back in Washington, primarily in State, who were sensitive to the conviction on the part of some elements in the Senate who were quite vocal about the need to destroy Japan's warmaking power which was almost at the same time saying we had to break up Japanese industry and destroy the organizational structure. And one could understand this point of view being taken, but with the passage of time, I would say that it progressively withered away. And while I view that temporary rise of a determination in 1947 to act as being perhaps a last gasp of antediluvian thinking which slowly, I'd say, passed away.

Q: It seems to me that at least two important personages in Washington involved in this would be Draper in the Department of Army and Lovett in the Department of State. I wonder if you just have any impressions or observations of those two gentlemen.

SF: Well of course I know or knew Draper—he died just a few years ago—
quite well. I didn't know Lovett. I would say Draper was a very, very shrewd, responsible chap whose perceptions about the need of a healthy Japanese politic were basic to most of the evolution away from the let's say control-and-punishment phase which inevitably was prominent in the period immediately after Japan's surrender.

I remember Draper when he was on General /Lucius/ Clay's staff in West Berlin, and he impressed me as being a tremendously effective and forceful leader. He was not primarily an economist. He was primarily a financier and a businessman, but he I think had one of the finest appreciations of the problems, economic, political and military, that both Germany and Japan found itself in in the immediate post-war period and the need to move away as quickly as possible from an attitude of vindictiveness to creating an atmosphere of mutual trust and movement toward a new set of common objectives. And I would say that Draper was one of the most important people throughout the entire occupation period in which he was involved in at the Department of the Army.

Q: Even more so than Kenneth Royall?

SF: Oh, yes. Draper was much more immediately involved in this than Mr. Royall, much more.

Q: I wanted to go back to that question about MacArthur. I would be most interested to hear your observations of him and impressions of him since you did see him fairly frequently.

SF: Well, the reason I saw SCAP frequently related to one of my responsibilities which I made reference to, namely, my involvement in the annual defenses of the government and relief in occupied areas budget. These trips were fairly frequent. Sometimes I think I was back and forth to Washington
twice within a period of just a month. And you know this was a period when the only mode of transportation was a DC4, and sometimes it would take five or six days to go from Tokyo to Washington. It was an interminable trip because the flying radius was very limited. And every single island was an airport that we could not avoid, so that these were very, very onerous trips. But each time before I went on one of these GARIOA missions to appear before House and Senate Subcommittees, I discussed it with General MacArthur, indicated what our objectives were, tried to assess our prospects for realizing these objectives, and tried to identify those elements in the House and in the Senate that might possibly interpose reservations or more than that, to our objectives. And of course I would always appear before General MacArthur upon my return, indicating how well our various trips had gone.

General MacArthur was of course a unique individual. He doesn't conform to most of the let's say standards that we apply to judge other people because he had his own frame of reference. I'll never forget the very first time I saw General MacArthur. I had hardly any notion as to what was going to transpire, but I was going back to Washington. I think this might have been sometime in the spring of 1946. And lo, to my amazement, he had prepared for a meeting with me. I just couldn't believe it because he had obviously familiarized himself with the names of a number of economists, some of whom he perhaps didn't know too well. He referred to—of course in the process of a discussion—to Lord Maynard Keynes and it was quite obvious that this was the first time he had had occasion to utter Keynes' name. But he was exceedingly well read. He referred in this
first conference that I had with him to Adam Smith. He referred to Ricardo, he referred to Malthus. And I thought, well, lord, he's sounding like a fellow who's just prepared for his Ph.D. oral. But all joking aside, MacArthur did have an unusual flair. He was most sensitive to flattering the egos of those he spent time with. I know that he was scheduled for a visit by two or three prominent senators--I can't recall their names--and he asked me whether I happened to know by chance their favorite brands of cigarettes. Well, obviously, because I'd seen this happen once or twice after that, he always knew, if it was possible, what their favorite brands of cigarettes were and would offer them Chesterfields or Lucky Strike or what-not, saying as he offered them, "I know that this is your favorite brand." Well now, this is not the kind of episode that would be unnoted by a senator. The mere fact that General MacArthur had troubled himself to ascertain that, along with certain elements in the man's background, how many children he had, where he was born, and who his closest associates were in the Senate or the House, things which would be brought up during the course of meeting, were very effective in converting people who were either skeptical or even outright hostile to the General as being an overbearing, arrogant, self-preoccupied, dictatorial man to being someone who was remarkably sensitive about other people's egos and other people's backgrounds. I think he found this a very, very effective investment of time. I know I was tremendously impressed that he apparently had prepared the names of a number of economists to present to me. I've never forgotten that experience.
But General MacArthur of course was not a man eminently at home in the field of economics, but he had a shrewd feel for economic and political issues and contrary to what I've read about him, he was not at all rigid. I've never known a man to be more open-minded about complex political, social, cultural and ethical issues than General MacArthur. He has the stereotype in the eyes of so many Americans as being an arch-reactionary. And I must add quickly that there were some grounds for this. I know that a number of occasions when he was seriously considering securing the Republican nomination for the Presidency at various periods that he lent himself to exploitation by extreme reactionary elements of the American press. I know--this you might find of some personal interest--I know one time I returned and he was interested in hearing from me what certain newspapers were saying about him and I recalled as best I could, not being prepared for this particular question. And I told him what the Hearst papers were saying, what the McCormick papers were saying. And then he said something that I've never forgotten. He said, "It has always been a source of profound mortification that the most reactionary elements of the American press have always been my staunchest admirers."

Now I thought this was rather significant. He was not unaware that politically this was a serious liability. But by various public statements he would make, he seemed to encourage this kind of image. However, in his role as SCAP, I must say that to the extent of my knowledge he never adopted antediluvian policies toward any of the practical decisions he had to make. He was a man who knew, in a sense, he was in the forefront
of virtually all progressive reform in Japan. It was MacArthur who was so sensitive to the need for changing the status of women. It was MacArthur who was so sensitive to change the whole contour of Japanese education. It was MacArthur who was sensitive to the need for reforms in the Japanese press. It was MacArthur who was sensitive to the need for changing the whole communications apparatus, the reform in the radio communications, etcetera. It was MacArthur who was sensitive to the need for improving the standards of living of the more underprivileged in Japan and so on and so forth. Now these are not postures of an arch-reactionary. I think that, as has been brought out by a whole slew of volumes on MacArthur and the occupation, that in the issues presenting themselves to him, he would invariably be on the most enlightened side. And I think that these were genuine expressions of his thinking. They were not opportunistic decisions made for the benefit of the American press or American public consumption. I think that he, whatever else he may have been in terms of his association with certain political elements in the United States, he was eminently a farsighted leader accommodating himself, not to politically expedient postures for the moment, but adopting a long-term perspective consistent with the kind of Japan that would be self-reliant, the kind of Japan that would no longer be an aggressor nation and the kind of Japan that would have more self-confidence in itself. Because I must confess that I was constantly impressed with the prominence of a dominant inferiority complex on the part of the Japanese, even to the extent of having the mannequins in the department stores that were promoting Japanese garments wrapped over Caucasian models. I think we have
plenty of food for thought in that rather curious contradiction.

Q: I would be very interested now to hear about your concerns and your role at the end of the occupation after Dodge had been there on his 1950/1951 when peace treaty negotiations became very serious and when John Foster Dulles was making his trips. I wondered about your involvement in those negotiations and what our economic concerns were for Japan after the occupation was over.

But before that I want to make sure that I do understand more precisely the nature of your job. You were Director of Economic Planning?

SF: No, I was not Director of Economic Planning. I was Director of Economics and Planning.--

Q: Economics and Planning.

SF: --which is slightly different. I mean, the content of that, to me, is somewhat different. It involved economic planning but it went way beyond economic planning because it was operational to a considerable extent.

Q: And when was that job responsibility defined? Was this in 1947 along with the

SF: Oh, I can't really say. I was/economic advisor for maybe a few months and then that changed. I don't know whether it was in 1946.

Q: Isn't there a story involved in the defining of this job?

SF: Not particularly. I can't think of any.

Q: You say it was operational?

SF: Yes, it was operational as well as policy. I think, in all objectivity, that one of the requirements of this position was that for someone who could, even though he was a civilian, not find it very difficult getting
along gracefully with the military and who would be flexible enough to know when he had to step down and modify a position, but yet be firm enough to make it very, very evident what let's say his definition of a correct position would be. Now it's not the easiest thing to be a civilian in a military occupation, and I must say that it was loaded with all kinds of incongruities. But the military worship titles and being a Ph.D. I guess was at least the equivalent of being a colonel in their eyes. If you were just a Mr. I guess that would be the equivalent of being a major or a captain, but here I was, in their eyes, almost respectable even though not a military man.

Q: Was Theodore Cohen in your outfit after he had served as head of the Labor Division?

SF: Well, the Labor Division was one of the divisions that I was associated with, along with the other economics divisions. And I would say that Ted Cohen was an admirable chief of the Labor Division. He had been the deputy for a time under Jim Killen, and I guess he worked as a deputy to Chet Hetlin, if memory serves. But then he was the chief of the Labor Division for, oh, I don't know, maybe two or three years until he resigned. He resigned to become a very successful businessman. Actually I guess he resigned because we were still so rigid in the military that we discouraged American civilians from marrying Japanese women. I'm not too clear on that but I think that Ted recognized that it was incompatible for him to be married at that time to a Japanese woman and still be a member of the occupation forces, which was one of the reasons why there were so many liaisons that never materialized into marriage. But of course this was changed. I can't recall exactly when it was changed but it was so absurd
it was bound to be changed, but this took a remarkably long period of time.

Q: I did want to get back to that question about 1950 and 1951, but it does occur to me that you might have some things you want to say about our labor policies or our agricultural policies.

SF: Oh, I was not involved in agriculture. I was not involved in agricultural policies or in transportation policies. I was of course involved in labor policies. Well, we had ups and downs. Nothing is more difficult than encouraging a labor movement and accepting all of the consequences associated with that. Of course in most countries a labor movement is inevitably also a political movement. The United States is one of the few countries where this is not the case. And it was very difficult being both enlightened and also not exposing ourselves to the consequences of let's say uncontrolled political opportunism. And there were occasions when we were confronted after our decision not to permit the electric workers and I think the railroad workers, who were both government employees, to strike. We of course were subjected to the threat of a general strike, and at this time of course we had no alternative but to be consistent. We could hardly assume responsibility for an environment where we were presiding willfully over a general strike that would involve the grinding to a halt of the entire Japanese economy, with all the suffering and disruption thereby entailed. So that we did take a very firm line. When we said "did," I would say that I strongly supported action to prohibit an entitlement to strike on the part of government employees who were involved in essential industries, as did General Marquat
and I believe all the officials involved in SCAP other than Jim Killen, who was a very able chief of our Labor Division at the time.

Jim Killen was in an untenable position. He was on leave at the time as a vice president of the Coke and Sulfite Paper Workers Union.

END TAPE I, BEGIN TAPE II

Jim Killen took the attitude that a labor official I guess would have to take in a dispute of this kind. Jim Killen and his very able deputy—I think it was Paul Stanchfield at the time—resigned and returned to the States as a consequence of the posture that SCAP took. I must say that this disagreement that Jim and I had and Paul Stanchfield as well never affected our personal relationships.

Q: You've already alluded to changes in the Japanese economy along with the Korean War and as I come back to the ending of the occupation and the peace treaty, it occurs to me to ask how you felt when MacArthur was relieved of his duty in 1950 and what impressions you have of changes in the atmosphere of the occupation with the outbreak of the Korean War.

SF: Well, that's an interesting range of issues. Of course, it was very difficult. I was back on a mission actually and had just landed in Fairfield Citizen Airport, military airport, outside of San Francisco. And one of the colonels, a member of our group, had called his wife to say that he had arrived. And he came back whitefaced saying, "Our chief's been fired." I can't say that any of us were astonished, but we were of course upset, primarily in terms of how it would affect our mission. In the perspective of the following period, it was quite clear that our mission was not adversely affected as much as MacArthur was missed in personal terms because General Ridgway, his successor, turned
out to be a very vigorous executive, a quick learner, and a very, very effective officer. I think it would be inappropriate to make comparisons between General /Matthew/ Ridgway and General MacArthur, since General MacArthur is, of course, unique. I would say that I am not aware of any policies that were altered as a result of General MacArthur's departure because he did leave at a time when most of our policies were fairly firmly established and had, to one degree or another, their own internal supports and elements of continuity. The reasons that prompted General MacArthur's departure of course had nothing to do with the occupation and had to do with the conduct of the war in Korea. So that it was a very, very smooth transition, whatever may have been believed elsewhere. Of course you had to become accustomed to a new set of top figures, but I'm not aware of/single policy that was modified as a result of General MacArthur's departure. I can't remember--

Q: Oh, I was also asking about the changes in the occupation that might be associated with the outbreak of the Korean War, not just the departure of MacArthur after the war started. You had touched upon the Korean War and the economy previously.

SF: Well, the Korean War was the major factor in the revival of the Japanese economy and while in a sense one might have said Japan was not prepared yet to fully participate in the opportunities created by the Korean War as a supplier of manufactured products, services, repair facilities, personnel etcetera, the Japanese did a virtual miracle in accelerating their adjustments to this unanticipated opportunity. And it was the Korean War, in all objectivity, that facilitated the transition from
Japan as a sufferer from the onslaughts of an unsuccessful war to a member of the international manufacturing and exporting community, eminently capable of responding to new opportunities of this particular challenging kind.

Q: Were you much involved in the peace treaty negotiations or at least giving advice to Dulles about the Japanese-American economic relationship once the treaty went into effect?

SF: I spent of course some time in briefing Mr. Dulles as did other civilian and military officials. He was an unusual personality, not the easiest person to brief, but certainly one of the fastest learners I've ever known. I think that Dulles had some fairly clear ideas of his own before he arrived in Japan and was essentially looking for reinforcement and chapter and verse with which to polish some of these ideas and possibly modify some of them. I'm not aware that he had occasion to make many changes in his original conception as to what kind of a peace treaty would be appropriate for Japan.

Dulles stayed for oh, it seems to me a number of weeks and we continued to have to respond to all kinds of queries to Dulles once he returned. I would say in retrospect that the peace treaty went off very, very smoothly. This is one of the things that we used to wonder about for years and years and years. I know back in 1946 and 1947, if I recall it properly, I think we used to say "Everything great in '48; everything fine in '49; everything nifty in '50; and everything done in '51." These were our estimates as to the probable timing of a peace treaty, but of course that kept on being postponed. When it finally came in 1952, it was of course about time. I think the period had been extended unnecessarily and
unfortunately. I think in retrospect the damage was relatively modest, but at the time it seemed quite painful and inexcusable.

Q: Do you think that Dulles and those who were chiefly responsible for the treaty thought a great deal about the economic relationship, Japan and Southeast Asia, Japan and the United States as much as they thought about military issues and security issues?

SF: I would find it difficult in terms of my own personal experience in responding to that. I know that Bill Sebold, who was the U.S. Ambassador there, was eminently sensitive to the economic issues. How much influence he had in determining Dulles's thinking, I hesitate to say. I recall Mr. Dulles as an exceedingly tough-minded, resolute individual. I would doubt that he would be relatively easy to influence once he had made up his mind.

Q: In projecting ahead at the time of the ending of the occupation, did we think that we had to keep giving Japan a great deal of aid for years to come?

SF: Oh, no. By the time I left, which was September 1953, it was quite clear that the Japanese potential was enormous. There were inevitably questions about Japan's capacity to survive free of foreign assistance. Inevitably it's very difficult for someone like an American in my role there being confident that the entire Orient would evolve in the direction that it did. There were so many question marks relative to the futures of China, of Korea, of Southeast Asia, that wondered whether or not the requisite degree of political and military stability would exist to permit Japan to do what its economic machine was capable of. So that I say that one of the major questions would be "What kind of international
environment would emerge in terms of affording the opportunities that Japan required to survive free of foreign assistance?"

Q: You've sort of answered my next question. I was wondering to what extent we deliberately and consciously tied Japan to trade with us, economic dependency upon us. Or was this part of the problem of getting the Southeast Asian markets to welcome Japan again or some of the British Commonwealth nations to trade with Japan again?

SF: Well of course we in SCAP have been repeatedly accused of knowingly undertaking to recreate the Japanese co-prosperity sphere. I don't view this as an indictment or a particularly critical assessment. The truth of the matter was that Japan was the logical supplier of the manufactured requirements of these neighboring countries. And as long as this took place under a completely modified environment in which opportunities were created in turn for these neighboring countries to supply the raw materials so urgently needed by Japan, the co-prosperity sphere was consistent with the economic requirements of that period and of the nations involved.

Q: I just have one or two more questions. One of them has to do with your own personal life in Japan. It sounds to me as though you had a very, very busy and responsible position. But I wonder if during that period of time you had much opportunity to travel around Japan, become acquainted with the Japanese people, the Japanese culture.

SF: Well, there was a period in which unfortunately most of us in SCAP did work six and a half or seven days a week. One of the most unusual aspects of General MacArthur is that he literally did work every single day of the year. I never took pride in working every single day of the year. I didn't feel that my career depended upon it nor did I have the need to
justify myself every single day of the year as being a productive member of society. But I do know that MacArthur worked Christmas, he worked New Years, he worked Thanksgiving. And frankly, one had to scheme and manipulate your own personal environment to get a full weekend off. It was normal that we worked six days a week, but to take Saturday off you had to have a succession of tries and you'd finally make it. But I know that I was in Japan a lot freer agent in the fall of 1945 because I was working just with foreign trade. But living in Japan during that period was quite miraculous. You would leave miserable Tokyo, with its evidences of devastation, enormous ruts and gaping holes in the highways, burned-down buildings, skeletons left standing. And you would in half an hour or an hour, if you weren't going in the direction of Yokohama, you'd be back in the 16th century. You'd stay at a Japanese inn and it was unbelievable. It bore absolutely no relationship to the world in which you lived. And the behavior of the Japanese, the clothing they wore—of course by this time I could speak some rudimentary Japanese—afforded the kind of time machine that I found endlessly fascinating. And we used to go away whenever we could pile up our excuses sufficiently to get away for 48 hours.

But when my job changed, unfortunately I was far less free for a year or two. But this of course was the best time of the occupation, I might say, even though I was not married. The married men used to say the greatest time of the occupation was 1945, 1946, and 1947 before they were invaded by dependents, their own families. And of course Japan changed a great deal beginning in 1948 and 1949. By the time I left in 1953, as
I had earlier indicated, there were no superficial indications that Japan had ever been engaged in this disastrous military enterprise.

Q: Did you stay in the Imperial Hotel?

SF: No, I was in the Dai-Ichi Hotel, I think for about five or six months. And then with the change in my status, I was elevated to the pinnacle, the Imperial Hotel, which I must say was an enviable experience. We had one of the greatest chefs in the world. We had one of the finest wine cellars in the world, and we could afford the prices. But it was a very congenial environment. We had a motion picture theatre in the building, in the basement. We also had a squash court. And we had many, many clear days, and you could actually see Mt. Fuji regularly if we were not fogged in. I was in Japan about a year and a half ago, coming back from Bangkok where we had lived the last few years. And Japan of course has been transformed completely. It of course is a magnificent city now, with a price structure that I found quite formidable. I told my wife that I think that the 10 days that we had spent in Japan as a family, most of it, over a week, in Kyoto, I told her that I probably spent more in the last 10 days than in the eight years that I lived here, from 1945 to 1953. But this is of course, I hasten to explain, largely a function of the depreciation of the dollar vis a vis the yen. Recently the yen has been fluctuating between oh, I guess, 245 and 250 to 1. When we were there it was about 180 to 183 to 1 at the absolute lowest value of the dollar. And we stayed at the, what was the name of that, Sebora Hotel in Japan. It was I guess the loveliest hotel in Japan, and it cost us $200 a night.

Q: This was in Tokyo?

SF: In Tokyo.
Q: In the Okura?

SF: Okura Hotel, yes. How could I have forgotten? The Okura Hotel, and the children would order a glass of orange juice coming out of a can when we were in Kyoto. And it would cost $3.00, a glass of orange juice, a far cry from the days of the occupation. But obviously the yen was grossly over-valued, as subsequent period has demonstrated. But I have noted this week that the wholesale cost of living in Japan rose at a rate of over 22 percent on an annual basis in Japan. And Japan has the kind of inflation that is closely parallel to what we're having in the United States at this time.

Q: My very last question has to do with your observations of SCAP personnel. Some scholars, in particular Japanese scholars, make a great fuss about New Dealism in the organization. And I wondered if you think that's a fair judgment or if there was much more diversity among occupation personnel or it changed over time, 1945 to 1953?

SF: I think that the characterization of the SCAP officers and policy positions as New Dealers is understandable. I would say that those economists and government specialists and administrators who were attracted to Japan were naturally more adventuresome and more new experience-oriented than those who were not intrigued to come to a newer environment loaded with possibilities for personal impact that greatly transcended what was possible working in the conventional bureaucracy in Washington. To some extent, I know I've always been damned as a New Dealer. I never felt embarrassed when I was described as a New Dealer. I think that I would much prefer to be characterized as a New Dealer than an Old Dealer. I don't think that one
could approach the challenge of Japan in any other than in experimentalist and pragmatic fashion. There were certainly no clear guidelines as to what an occupying force, an advanced capitalist country freighted with all kinds of idealistic and liberal orientation would do under these unprecedented novel circumstances. I don't really know what a classical economist would do in an environment such as Japan other than rely on the free market. Now the free market just didn't have the opportunities to recommend it in the exceptional circumstances that Japan found itself. Now even though there were lots of New Dealers in Japan, I would say that many of us New Dealers hoped for a return of circumstances that would permit the earliest possible termination of the comprehensive set of price controls, rationing controls, governmental machinery that characterized almost every single aspect of our period of involvement in Japan. This I would say was one of the unfortunate inevitable aspects of the deprived circumstances in which Japan found itself.

Now I'm not absolutely sure that every one of these controls was terminated at the earliest possible time, and I think that may very well be a legitimate criticism. But I would say that the Japanese are far more control-minded than the United States is. The Japanese bureaucracy is still very, very powerful and I'm afraid exercises more control than I would personally like to see in the Japanese environment. But on the other hand, my opinions are completely irrelevant. I think the Japanese have demonstrated a capacity to come to grips with the challenges of international trade and international commerce that is tremendously impressive. I think that if there's anything disappointing about Japan's postwar role, it has been the reluctance of Japan to assume its rightful
place as an advocate of policies in the international arena. Japan has been behaving in a very, very subdued way in the international scene. As one of the dominant participants in the world economy, one would have imagined Japan would have emerged as a much more powerful advocate of solutions, of approaches, to urgent issues than she has. I'm reluctant to make criticisms of Japan, since I have not been involved in Japan for a long period of time. But one reads repeatedly about Japan's refusal to participate in its "legitimate defense activities." I think this is understandable. One must realize the overwhelming antagonism to military adventures and to militarism associated with the disastrous war. Nonetheless, I would say that one can hope that Japan, with its increased capabilities, will participate more fully in supporting its interests. I'm not talking about supporting the U.S. interests. I'm talking about supporting its interests in Asia because the percentage of Japanese GNP being devoted to defense is, by most criteria—in effect the criteria that one would apply looking at what NATO/North Atlantic Treaty Organization/countries provide and what the U.S. itself provides—is distinctly below its potential. And I would hope that the Japanese are slowly able to evolve a more representative participation in its security activities because the United States can no longer be viewed as an endless cornucopia with its urgent balance of payments deficit and its hyperinflation and its growing inability to come to grips with many aspects of our own domestic economy. We I think no longer are the legitimate supporters of a Japanese defense establishment that the Japanese themselves should very willingly begin to share.
Q: Your discussion just now prompts me to ask whether SCAP was always of a single mind about its policies and its emphases.

SF: I'm glad that you asked that question because SCAP was never any monolithic organization working with computer speed, always unanimously arriving at agreed-upon solutions. In the enormously challenging and complex area which touched the lives of every Japanese individual, it was inevitable that something less than complete agreement characterized our resolution of issues relating to Japanese standard of living, the Japanese price structure, Japanese monetary policy, Japanese banking policy, Japanese reindustrialization. The reason I mention this is that you should appreciate that the arrival at policies that we transmitted to the Japanese, since we never operated in Japan; we operated through the Japanese, and we operated through trying to persuade them that a particular course had merit over alternative policies. It's important to realize that there wasn't a single issue in which we in ESS didn't have alternative possible solutions and that it was the process of debate, argumentation and inevitably compromise that was associated with almost every single one of our actions.

Now these debates inevitably proceeded on various levels. Within the divisions there were in almost every single case—I can remember in price control and rationing—very urgent issues. At least they appeared to be very urgent at the time concerning whether or not we were going to impose a new tax on cigarettes as a means of reducing the extent of the budgetary deficit. There were complex arguments about the fact that since most cigarettes went through the black market, you could never tax them, and since most cigarettes going on the market were imported cigarettes,
they were ipso facto black market cigarettes and that only a small part of the market was absorbed by Japanese manufactures based upon imported tobacco. Well, this is the kind of issue that to an outsider several decades later might appear to be very insignificant. But none the less, at the time it definitely did bear upon important decisions relative to the size of the budgetary deficit and while doubling the cost of Japanese cigarettes may seem to be of no consequence, it was of genuine consequence in terms of constituting a major component factor in the Japanese budget.

There are great disagreements in determining how to price essentials, whether or not one should tolerate an increase of price or whether or not one should sacrifice that and import more rice as a means of combating inflation. There are great disagreements about monetary policy and there are great disagreements about what activities should be permitted to certain kinds of newly-constituted Japanese banks. As far as foreign trade was concerned, we had enormous disagreements about how we would price Japanese export products. And the resolution of a yen-dollar exchange rate was something that I'm sure, in the final resolution, was unsatisfactory to any number of individuals. I'm not really sure that anyone was completely happy. It was a compromise and I think in retrospect it was a successful compromise because the Japanese rate survived for several decades after its imposition.

Q: Did you yourself spend a lot of time with the Japanese talking to them about these options and these programs and trying to persuade them that what SCAP wanted to do was right? Or were there other people who were involved in persuading the Japanese?
SF: Oh, I would say that there were dozens of people involved in this process. The people in every one of our divisions were actively engaged in trying to promote solutions that both were satisfactory in light of SCAP objectives and were acceptable to the Japanese, something they would not nominally buy and immediately undertake to depart from, but something that they could buy because they thought it constituted an effective resolution of a problem that they had.

Q: Did you find in this very large problem of stabilization that the Japanese Economic Stabilization Board was of great help or assistance or ingenuity in tackling these problems?

SF: Well, the Japanese Economic Stabilization Board was one of their better organisms and I would say that we worked quite effectively with them, subject to the proviso that their perspective was inevitably different from ours. They were primarily concerned with maximizing the standard of living and facilitating the let's say greatest possible accommodation to their set of priorities. We were on the other hand, laboring under a somewhat different degree of emphasis. I would say we both had the common larger objective but operationally and specifically we inevitably had a different set of priorities.

Q: Once again, thank you very much for being so generous.

END OF INTERVIEW