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## Antitrust & Zaibatsu Dissolution

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**Abstract:**

*Zaibatsu* dominated Japan's economy during the 19th and early 20th centuries, allowing for Japan's rapid industrialization and advancement as an international power. Sumitomo, Mitsui, Mitsubishi, and Yasuda, the four largest, controlled more than sixty percent of the Japanese market until 1945. However, during the U.S. Occupation of Japan after the Second World War, the *zaibatsu* were forcibly dissolved. Free market antitrust legislation passed to create more competition throughout Japan and reduce the economic domination of the Big Four *zaibatsu* (Sumitomo, Mitsui, Mitsubishi, and Yasuda) on the rest of the Japanese economy. This change was met with anger from *zaibatsu* and government leaders alike, who warned that Japan's economy would fail if these plans came to fruition. However, today, Japan's economy remains thriving. Was *zaibatsu* dissolution and antitrust legislation successful to both modernize Japan's economy and permanently remove conglomerates from power? In this paper, I argue that while Japan's economy was modernized to great success, the success of antitrust legislation should be under question.

Introduction

In this paper, I will examine multiple factors that led to the introduction of anti-trust legislation in Japan during the Occupation, as well as the ways in which *zaibatsu* were dissolved. I argue that *zaibatsu* dissolution did *not* destroy Japan's economy, but limited its growth. Since Japan's defeat in World War II was sealed by a treaty on August 15th, 1945, the *zaibatsu*, Japan's largest and strongest companies, worried and waited for their fate under American occupation. Economic turmoil brewed as the *zaibatsu* awaited news from the Americans at General Headquarters of the American Occupation (GHQ) on what would be done to them.<sup>1</sup> Would they fall under pressure or rise to new challenges?

Dr. Ohno Kenichi of the National Graduate Institute for Policy Studies (GRIPS) in Tokyo, offers the following definition of *zaibatsu*: “*Zaibatsu* is a group of large companies...owned by one holding company dominated by an influential family,” which the Sumitomo, Mitsui, Iwasaki, and Yamada families fit to a tee.<sup>2</sup> Through their economic influence, these families expanded their political influence during the early twentieth century by marrying into influential political families, including the Shidehara and Katou families, who include Prime Ministers among their ranks.

Thomas Arthur Bisson, an economist within GHQ, further described the *zaibatsu* as “plutocracies,” writing that the *zaibatsu* were, “in line with similar terms for the ‘official clique,’ or bureaucracy (*Kanbatsu*), and the ‘military clique,’ or militarists (*gunbatsu*),” which make up the rest of the Japanese government's military-industrial complex during the early twentieth century.<sup>3</sup>

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<sup>1</sup> GHQ refers to the General Headquarters of the Supreme Commander for Allied Powers (SCAP). Technically, both terms are interchangeable, but in my research on the Japanese literature of this period, GHQ is the more common acronym for the position of Supreme Commander, and SCAP is more often used for the office itself.

<sup>2</sup> Ōno, Ken'ichi. *The History of Japanese Economic Development: Origins of Private Dynamism and Policy Competence*. First Edition. Abingdon, Oxon ; New York, NY: Routledge, 2018, p. 129

<sup>3</sup> Bisson, T. A. *Zaibatsu Dissolution in Japan*. Berkeley: University of California Press, 1954. p. 1

Yamamura Kozo, who was a professor at the Jackson School of International Studies at the University of Washington, provides a description of the main characteristics of a *zaibatsu* below:

- (a) semi-feudal characteristics, in that centralized control rests in a Zaibatsu family, which extends its power through strategically arranged marriages and other personal knight-vassal dedication relationships
- (b) Well-knit, tightly controlled relationships among the affiliated firms by means of holding companies, interlocking directorships, and mutual stockholdings
- (c) extremely large financial power in the form of commercial bank credit, which is used as central leverage to extend control to all industries.<sup>4</sup>

The modern Japanese economy is dominated by the *keiretsu*, which have arisen from the *zaibatsu* remnants. *Keiretsu* and *zaibatsu* both share structures of market and technical information and are greatly monopolistic with cartel-like tendencies, meaning that the *zaibatsu* worked together to limit prices and prevent competitors from entering the industries, generating a monopoly over a particular industry, such as shipping or steel, with full state support. In other words, the state encouraged the collaboration of the *zaibatsu* in order to fulfill its resource needs, particularly militarily. For example, the shipbuilding arm of Mitsubishi built a significant majority of Japanese warships for the Second World War, hence being targeted by American reforms.

Through these monopolizing efforts, three particularly strong *zaibatsu* have managed to retain top positions in the *keiretsu* structure of modern Japan: Mitsubishi, Sumitomo, and Mitsui. However, other *zaibatsu* have lost their names to time, merger, and American antitrust efforts such as Yasuda, Fujita, and Mori.<sup>5</sup>

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<sup>4</sup> Yamamura, Kozo. "Zaibatsu, Prewar and Zaibatsu, Postwar." *The Journal of Asian Studies* 23, no. 4 (1964): pp. 539-540

<sup>5</sup> The latter three have folded into Mizuho Group, DOWA Holdings K.K., and Showa Denko respectively

The main *zaibatsu* discussed in this article are, by their founding dates: Sumitomo (c.1615), originally a medicine and bookshop,<sup>6</sup> Mitsui (c.1616), which was founded as a brewery of *sake* and *shoyu*,<sup>7</sup> Mitsubishi (1870), founded as a shipping company with “three aging steamships”<sup>8</sup>, and lastly Yasuda (c. 1880), which was founded for the purposes of money-changing and banking.<sup>9</sup> With the diverse array of services these business provided, they were well-positioned to take control of a significant portion of the nascent Japanese economy. They were the four most powerful corporations until the reign of Meiji’s grandson, Emperor Showa, and their successor corporations continue to affect daily life in the reign of Showa’s own grandson, in today’s Reiwa era.

The practices begun in the Meiji era and extended through the Taisho and Showa eras created an environment of rapid economic advancement in Japan in the wake of Commodore Perry’s 1853 opening of Japan. The economic advancement only sped up in the Meiji era, argues Yamamura, who said: “the comparative importance of foreign trade with Asian countries as compared with that with other foreign countries increased markedly,” placing Japan at a competitive advantage compared to other nations in the region, such as the Kingdom of Joseon and Imperial China.<sup>10</sup> By creating intricate trade networks, *zaibatsu* exports more than quadrupled in the years between 1872 and 1896, a remarkable difference in less than a quarter of a century.<sup>11</sup>

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<sup>6</sup> “Sumitomo History.” n.d. Sumitomo Corporation. Accessed December 13, 2021.

<http://www.sumitomocorp.com/en/jp/about/company/sc-history/history>.

<sup>7</sup> Ríkarðsson, Árni (2020). *Origins of the Zaibatsu conglomerates*. Bachelor’s thesis. Supervisor: Kristín Ingvarsdóttir. Reykjavik, University of Iceland, p. 15.

<sup>8</sup> “Origin | Mitsubishi.Com.” n.d. Accessed December 13, 2021.

<https://www.mitsubishi.com/en/profile/history/outline/>.

<sup>9</sup> “Yasuda, Zenjiro | Portraits of Modern Japanese Historical Figures.” n.d. Accessed December 13, 2021.

<https://www.ndl.go.jp/portrait/e/datas/343.html>.

<sup>10</sup> Horie, Yasuzo. “FOREIGN TRADE POLICY IN THE EARLY MEIJI ERA.” *Kyoto University Economic Review* 22, no. 2 (53) (1952) p., 2

<sup>11</sup> Ibid

It is even more remarkable that these businesses nearly ceased to exist after Japan's loss in the Second World War. The American efforts to bring the New Deal to Japan, I argue, nearly destroyed the *zaibatsu*, and that the two billion dollars poured into the Occupation of Japan went into reforming the Japanese economy in the image of a successful capitalist state with workers' rights, unions, and healthy antitrust policies. Despite Japanese resistance to these ideas, the Americans in GHQ put these reforms in place because they believed that the Japanese economy was too centralized. By controlling more than sixty percent of the market, the *zaibatsu* held an economic monopoly, and the New Dealers in GHQ could not allow for Japan's economy to be dominated by so small a group. The main goals of the Allied Occupation in Japan were perhaps ambitious, as they wanted, "demilitarization...disarmament and decentralization of the economy through the dismantling of [*zaibatsu*],"<sup>12</sup> an effort spearheaded by the GHQ, to "de-feudalize" the Japanese economy and adapt it to a free-market capitalist 20th century.<sup>13</sup>

### *The Occupation of Japan (1945-1952)*

The goal of the American Occupation was to reform Japan's economy in a more American image, complete with a strong free-market economy, strong antitrust laws, and strong unions. Japan's economy is currently the third largest globally by nominal GDP (Gross Domestic Product, a measure of the total product created by an economy each year), and it is a member of the Group of Seven and Group of Twenty, two organizations for the most industrialized capitalist countries.

Yoshida Shigeru, the Prime Minister of Japan during the Occupation, later wrote that GHQ had a "difference of philosophy or ideology" to the Japanese government which led to differing perceptions of the Occupation, where the Americans saw themselves as reforming

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<sup>12</sup> Serafino, Nina, Curt Tarnoff, and Dick K Nanto. "U.S. Occupation Assistance: Iraq, Germany and Japan Compared," n.d., 16. pp. 2-3

<sup>13</sup> The feudalistic nature, however, was not something that ceased to exist entirely

Japan in a positive light, and the Japanese saw it as an attack on their way of life.<sup>14</sup> I believe this tension stifled meaningful reforms from fully taking place.

### *Dissolving The Zaibatsu*

Dissolving the *zaibatsu* was one of the top priorities of the American Occupation, in no small part because the continued existence of the *zaibatsu* undermined American antitrust efforts in Japan. Furthermore, the *zaibatsu-gunbatsu* industrial complex significantly contributed to Japanese military capabilities during the Second World War, with *zaibatsu* such as Mitsubishi providing ships for the Japanese navy and Chisso providing manpower in colonial holdings, such as Korea.<sup>15</sup> I believe their presence in colonial holdings, as well as their significant contributions to Japan's military strength are reasons that the U.S. could have used to justify anti-*zaibatsu* legislation, but I also suspect that anti-trust efforts played a larger role in U.S. policymaking with regards to the former *zaibatsu*.

The *zaibatsu* dominated by controlling as much of the Japanese economy as they could, rendering them too big to fail, which I believe places them in direct opposition to ideas of antitrust. Yoshida Shigeru, as well as other scholars and government officials all believed that if the *zaibatsu* were to fall, Japan's entire economy would soon follow. This aligns with a leading belief among many finance and banking theorists that certain businesses and banks control such a significant portion of the economy that if they were to fail, it would be disastrous to the larger economy, so they must be protected by the government.<sup>16</sup>

During the first half of the twentieth century, the Big Four (Mitsubishi, Mitsui, Sumitomo, and Yasuda) held tightly to their control of more than 60% of paper mills and

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<sup>14</sup> Yoshida, Shigeru. *The Yoshida Memoirs: The Story of Japan in Crisis*. 1st American ed. Boston: Houghton Mifflin, 1962. p. 155

<sup>15</sup> Kim, Cheehyung Harrison. *Heroes and Toilers: Work as Life in Postwar North Korea, 1953–1961*, p. 170

<sup>16</sup> Lin, Tom C. W., Too Big to Fail, Too Blind to See (April 16, 2012). 80 Mississippi Law Journal 355 (2010), Available at SSRN: <https://ssrn.com/abstract=2040921>

insurance policies, over a third each of the shipbuilding and commercial shipping sectors, more than a quarter of mining, and just over a fifth of the Japanese banking industry.<sup>17</sup> More than half of Japan's economic production was controlled by the *zaibatsu*.<sup>18</sup> Their colonial holdings in Korea, Taiwan, the Philippines, Manchuria, and elsewhere also contributed to their economic dominance.

When the Americans began to arrive in the aftermath of August 15th, 1945 (V-J Day), the *zaibatsu* did not react too negatively to their American guests - at first. What delivered the "crushing blow" to the business' view of the Occupation was the "revelation of the punitive and reformist policies" that the Americans were planning for the *zaibatsu* in order to make them align with American values.<sup>19</sup> Further, Raymond C. Kramer, the head of the ESS (Economic and Scientific) Division of GHQ and a former textile merchant, admitted to being unable to understand Japanese ways of thinking *or* their "structure of business," a statement that humiliated and infuriated the *zaibatsu* executives.<sup>20</sup>

Kramer's careless admissions increased anti-American sentiments in regard to the business affairs of the Japanese, and increased *zaibatsu* irritation with GHQ's efforts. The labor and workers movements supported by SCAP (Supreme Commander for Allied Powers) and GHQ in particular incensed the Mitsui executives, who saw it as interference with their business operations.<sup>21</sup>

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<sup>17</sup>Duiker, William J., Spielvogel, Jackson J.. *The Essential World History, Volume II: Since 1500*. United States: Cengage Learning, 2016. p. 642

<sup>18</sup> Mitsubishi Economic Research Institute, ed. *Mitsui-Mitsubishi-Sumitomo: Present Status of the Former Zaibatsu Enterprises*, Mitsubishi Economic Research Institute, 1955, p.6

<sup>19</sup> Dower, John W. *Embracing Defeat: Japan in the Aftermath of World War II*. London: Penguin, 2000., p.531

<sup>20</sup> "The Proceedings of the Special Committee", October 5th 1945, *Mitsui Bunko Ronso* (Journal of Mitsui Research Institute for Social and Economic History) No. 10 (November 1976), pp. 334-335

<sup>21</sup> HOSOYA, MASAHIRO. "Selected Aspects of the Zaibatsu Dissolution in Occupied Japan, 1945-1952: The Thought and Behavior of Zaibatsu Leaders, Japanese Governmental Officials and Scap Officials." Ph.D., Yale University. Accessed April 18, 2022.

<https://www.proquest.com/docview/303260856/abstract/7E276445F8BD4C53PQ/1>, p. 21

GHQ's desired reforms were incompatible with *zaibatsu*, which led to much of the tension in the first place between the American and Japanese leaders. In his book, *Remaking Japan: The American Occupation As New Deal*, Theodore Cohen, one of the many former members of General Headquarters in Japan, argued that what GHQ was trying to force were, "uniquely American solutions on Japanese problems," that did not account for cultural, political, and economic differences between the two nations. I believe that this single-minded focus on the part of the Americans was detrimental to building trade relations with Japan, and could have drastically delayed Japanese economic progress. Furthermore, he pointed out that such an attempt would never work, given that America and Japan were not the same country the American way of fulfilling their visions of Japanese reformation had changed "late in the day," without much ability to easily maneuver around roadblocks on the way to reform.<sup>22</sup> I believe that if reform is to be effective, it must be in alignment with the ideologies of the nation that is undergoing these reforms in the first place, or they will fail.

Edwin Wendell Pauley, Sr., who was a United States representative to the Allied Reparations Committee from 1945 to 1947, further bluntly described what ought to happen in Japan during its Occupation:

[The Allied Powers] should take no action to assist Japan in maintaining a standard of living higher than that of...countries injured by Japanese aggression insofar as such assistance will divert...aid from these other countries or will require the retention in Japan of industrial capacity, the removal of which is required on grounds of security...In the over-all [sic] comparison of needs Japan should have the last priority.<sup>23</sup> Pauley argued that Japan did not deserve treatment any better than that of the nations

which it ravaged, such as the Philippines, Taiwan, China, and Korea. While he contended that it was necessary to improve the situation of the Japanese, he thought doing so should be the

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<sup>22</sup> Cohen, Theodore, and Herbert Passin. *Remaking Japan: The American Occupation as New Deal*. Studies of the East Asian Institute. New York: Free Press, 1987. p 352

<sup>23</sup> E.W. Pauley, *Reports on Japanese Reparations to the President of the United States* (Washington, November 1945) pp. 6-7



Americans' last priority. I believe, however, that this was a flawed argument at best. If Japan already had the infrastructure to maintain industrial capacity, that infrastructure could be used to *help* the other nations, and also mollify the Japanese government's concerns. That was not the case, however, and so, GHQ began efforts to reform the various "cliques," with the *gunbatsu* being the first and quickest clique to be reformed. With the passage of the revised constitution of Japan, which went into effect beginning May 3rd, 1947, Article Nine erased *gunbatsu* entirely.

The Article reads, simply:

Aspiring sincerely to an international peace based on justice and order, the Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force as means of settling international disputes. In order to accomplish the aim of the preceding paragraph, land, sea, and air forces, as well as other war potential, will never be maintained. The right of belligerency of the state will not be recognized.<sup>24</sup>

Through Article Nine, Japan was no longer granted a military of its own to use for military aggression, and the state was no longer afforded the right of belligerency (i.e. to declare war).<sup>25</sup> The "right of belligerency of the state" becoming negated by Article Nine is the root of a great deal of ongoing controversy about this portion of the Japanese constitution throughout Japan. Efforts to repeal or amend it are ongoing discussions in the Japanese Diet since the adoption of this Constitution during the Occupation, particularly under the government of Abe Shinzo.

Less than a month after the *gunbatsu*'s dissolution, Mitsui Trading and Mitsubishi Trading were dissolved, "by the stroke of his [MacArthur's] pen," rendered obsolete and no longer able to do business under their previous names.<sup>26</sup> So much for a "delicate" touch that would prevent chaos. As Eleanor Hadley argues, "it is difficult to believe that critics favored

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<sup>24</sup> Japanese Constitution

<sup>25</sup> Officially, legally speaking, the JSDF is not a military

<sup>26</sup> Hadley, Eleanor M. *Antitrust in Japan*. Princeton: Princeton University Press, 2015.  
<https://muse.jhu.edu/book/39471>.p. 143

dissolution over reorganization,” when the dissolutions caused great levels of displeasure with the occupying Americans, especially on the part of Prime Minister Yoshida, who had expressed his opposition to this plan multiple times before.<sup>27</sup>

With varying levels of success, GHQ was attempting to implement progressive, New Deal-type policies across the social, cultural, and political spheres of Japanese daily life. I believe these to have varying, though generally positive, effects. The Japanese Constitution of 1947 granted women suffrage, which had not been previously afforded to them, despite the efforts of women like Kato Shidzue and Ichikawa Fusae, which was a positive for many women who had been campaigning for this right for decades. The state cult of Shintoism, where the Emperor of Japan was raised to the status of a god was abolished, though Shintoism as a folk religion was not. Furthermore, GHQ’s plans for the Japanese economy were to reform it in a similar vein to that of the United States, in a capitalist market economy rather than the previous domination of the state-sponsored *zaibatsu*. Before the economy could be reformed, however, legislative change to Japanese business and economic law had to take place.

#### *Antitrust In Japan: Eleanor Hadley*

Eleanor Martha Hadley (1916-2007) was an American economist, trained at Mills College and Columbia University.<sup>28</sup> In 1943, before completing her dissertation, she left Columbia and joined the war effort as a research analyst for the Office of Strategic Services, where she had the fortitude to draft a paper for the government on *zaibatsu*, which led to her working with the *zaibatsu* after the war’s end, when her career at GHQ as an expert on the Japanese economy began.<sup>29</sup> After the war ended, her career at General Headquarters began.

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<sup>27</sup> Ibid, 147

<sup>28</sup> *Eleanor M. Hadley Oral History*, Marlene J. Mayo Oral Histories, Gordon W. Prange Collection, University of Maryland Libraries.

<sup>29</sup> Hadley, Eleanor M. *Memoir of a Trustbuster: A Lifelong Adventure with Japan*. Honolulu: University of Hawai'i Press, 2002. [muse.jhu.edu/book/8134](https://muse.jhu.edu/book/8134). p.50

Included in the first antitrust legislation GHQ proposed to the Japanese government in 1946 was the following five requirements for firms that needed to follow their rules and regulations. These five requirements did not affect every single company, but instead targeted targeting the large firms with the capability to significantly affect the economy:

- “(1) firms with a capital of 100,000,000 yen or more<sup>30</sup>,
- (2) firms whose products commanded more than ten per cent of the market,
- (3) enterprises engaged in the manufacture of war materials or other activities calculated to aid war and aggression,
- (4) enterprises that had taken part in the economic development of colonies and occupied territories, and<sup>31</sup>
- (5) firms that were a force in the economic world, irrespective of the amount of their capital.<sup>32</sup>

GHQ’s proposed rules led to discontent and resentment among those in the Japanese business world, echoing the warnings of Theodore Cohen, though taking more of an approach approved of by Edwin Wendell Pauley. More than two hundred different firms were affected by this government directive as they made more than \$2 million, even if they had never directly supported the military industrial complex. Firms across the shipbuilding, millinery, stationery, and chemical industries were affected, leaving no part of the Japanese economy unscathed by this directive. Further, this directive included unclear language such as, “enterprises engaged in...activities calculated to aid war and aggression”, which left the desired goals of GHQ muddled and unclear in their intent. When referencing, “activities calculated to aid war and aggression,” is this referring activities such as the development of vinylon, a synthetic fiber, by a Japanese research lab, because this material was usable in times of war to create clothing?<sup>33</sup> Or did it mean something else? These vague questions allowed for a great deal of confusion to occur, which further heightened economic tensions between the *zaibatsu* and GHQ.

<sup>30</sup> 2,000,000 USD in 1946, which in 2022 dollars would be **29,487,589.74**

<sup>31</sup> This is particularly aimed at Korea and Manchuria, where the Occupation by Japan allowed them to increase their economic capabilities significantly post-war

<sup>32</sup> Yoshida, 154

<sup>33</sup> Kim, Cheehyung Harrison. *Heroes and Toilers: Work as Life in Postwar North Korea, 1953–1961* .p.17-

Eleanor Hadley's other writings do not clarify these questions, and only raise even more uncertainty on the American agenda, which again, did not heed the warnings Cohen gave to them. Her words and work were unclear, especially in the JCS 1380/15 directive, promulgated on November 3rd, 1945.<sup>34</sup> This document, the Basic Directive for Post-Surrender Military Government of Japan Proper (hereafter referred to as the "Basic Directive"), had six essential requirements in Paragraph 25b, related specifically to the dissolution of the *zaibatsu* and the other *batsu* complexes.

Requirements 1-3 of the Basic Directive ordered the Japanese government to establish an agency to reorganize and dissolve "large...combines...or other large concentrations of...control" to increase economic competition. However, the lack of clarity makes this Directive difficult to implement. Is a firm of 50 large? Or is a 500-person firm considered "large" instead? The Basic Directive's fourth through sixth requirements say that the Americans intend for the Japanese government to create a free-market economy. Instead of using vague terms as in the previous three requirements, Requirements 4-6 explain what the Americans want to do in clear, concise language. The seventh and eighth requirements of the Basic Directive promote unionization of the Japanese workers, and remove legal hindrances to doing so, further opposing *zaibatsu* traditions.<sup>35</sup> These also bring Japan more in line with the desired outcome of an American-style capitalist free-market economy.

However, because the documents themselves were ambiguous, each person interpreted the Basic Directive differently. Eleanor Hadley took a more liberal approach with the Holding Company Liquidation Commission, (hereafter referred to as HCLC), when she used the

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<sup>34</sup> "Basic Initial Post Surrender Directive to Supreme Commander for the Allied Powers for the Occupation and Control of Japan (JCS1380/15)(Text) | Birth of the Constitution of Japan." Accessed April 16, 2022. <https://www.ndl.go.jp/constitution/e/shiryō/01/036/036tx.html>.

<sup>35</sup> This unionization is why the Mitsui executives were so angry with GHQ

Directive to strike down the massive *zaibatsu* corporations, as well as their linked subsidiaries. Perhaps the lack of clarification was intentional, as it allowed Eleanor to make the argument that because “giant enterprise is inherently anti-democratic,” the *zaibatsu* needed to be dissolved - not only economically as SCAP intended - but also politically.<sup>36</sup> Her economic philosophy was primarily aligned with New Dealerism, which is a belief in the New Deal philosophies promulgated by Franklin Delano Roosevelt during the Great Depression, or as Hadley specifically chose to manifest them in her work with GHQ and HCLC - wide government control of business, which should be permitted for the good of the citizenry. The “trustbuster” faction of the HCLC, led by Thurman Arnold, a former Assistant Attorney General and seasoned “trustbuster”, argued for “vigorous enforcement of antitrust laws to break-up concentrated business power,” the particular school of thought that Hadley’s work aligns the most with.<sup>37</sup>

Eleanor Hadley left SCAP in 1947, but before her departure, she assisted in writing more documents for SCAP regarding goals for Japan’s economy during its military occupation. SCAPIN 147, one of the last directives Eleanor Hadley worked on was promulgated on July 3rd, 1947, and included, among other things, directions on policy to be applied to former *zaibatsu* employees:

Requirement 2c of the SCAPIN 1741 directive ordered that anyone who had been in a position of power within a *zaibatsu*, such as an officer, director, manager of any business branch, as well as any department or section head, was forbidden to create a new company of their own, as this could be seen as an attempt to restart a *zaibatsu* under a new name and new management. Further restrictions in SCAPIN 147 stated that there could not be more than two former *zaibatsu*

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<sup>36</sup> *Eleanor M. Hadley Oral History*, Marlene J. Mayo Oral Histories, Gordon W. Prange Collection, University of Maryland Libraries. p. 17

<sup>37</sup> “Digital History.” Accessed April 20th, 2022.

[https://www.digitalhistory.uh.edu/disp\\_textbook.cfm?smtid=2&psid=3440](https://www.digitalhistory.uh.edu/disp_textbook.cfm?smtid=2&psid=3440).

division leaders from the same original business employed at the same firm, or any firm created post-1945. Requirement 2d of the directive focused on the more general employee, and not on their superiors. All non-managerial employees of dissolved companies were prohibited to work with more than 100 of their former colleagues. Requirement 2c followed similar logic, presumably to ensure there was no scenario where a *zaibatsu* could reform without GHQ's knowledge of the transgression. SCAPIN 147's efforts were mainly to prevent the return of the "monopolistic combinations," and return the *zaibatsu* to the top of the economic food chain.<sup>38</sup>

The strict language employed by the HCLC does not allow room for interpretation, unlike past directives promulgated by GHQ and Eleanor Hadley, and makes clear that *any* attempt to reform a *zaibatsu*, whether by means of a new or subsidiary company, will not be tolerated by GHQ. This directive cost many people in Japan's business world a great deal, and thus it should not be surprising that the *zaibatsu* leadership heavily protested such requirements by GHQ. The only *zaibatsu* to escape persecution from GHQ, the Yasuda *zaibatsu*, did so by following the strict asks of GHQ, meaning it was able to reemerge after the Occupation as a *keiretsu* with relatively little scattering as the Fuyo Group, with the Yasuda *zaibatsu*'s bank belonging to the Mizuho Group *keiretsu*.

#### *Antitrust in Japan: Yoshida*

Yoshida Shigeru was Japan's Prime Minister for all but one year of the Japanese Occupation.<sup>39</sup> Yoshida was born into a *samurai* family in 1878 and joined the Japanese government as a diplomat after attending Tokyo Imperial University, eventually becoming Prime

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<sup>38</sup>1741/1: DISSOLUTION OF TRADING COMPANIES - SCAPIN-DB." Accessed April 7th, 2022. [https://jahis.law.nagoya-u.ac.jp/scapindb/docs/scapin-1741\\_1](https://jahis.law.nagoya-u.ac.jp/scapindb/docs/scapin-1741_1).

<sup>39</sup> He did not hold the post between 24 May 1947 and 15 October 1948

Minister, for all but one year of the Japanese Occupation. This length of experience allowed him to have a long view of the Occupation, which he wrote about in his memoirs in 1961.

In his memoirs, Yoshida wrote that Eleanor Hadley's agenda was "a very misdirected path," towards economic success for Japan, "and so every effort possible to get around it was sought and taken." by the Yoshida administration, even when doing so caused tension with GHQ.<sup>40</sup> Though GHQ made few concessions, Yoshida continued to attempt to bring more flexibility and permissiveness from GHQ to the Japanese people. One of these attempts Yoshida made, however, potentially saved Japan from economic destruction. GHQ's proposed purge would have affected all persons with positions of consequence, though Yoshida was able to make GHQ realize that, "if ordinary directors of commercial companies were to all be purged...[the economy] would be deprived of virtually all those with experience of company management and any hope of economic recovery would receive its death blow," because without people trained in economic matters to handle the economy, how could it survive economic tensions?<sup>41</sup> Without people experienced in the Japanese business culture, its sustainability as an economic force after the Occupation ended was in serious doubt. Yoshida and others around him worried that Japan would be unable to return to a state of economic stability if they lost key figures with business sense. Therefore, they had to come to a compromise with GHQ, resulting in the framing seen in the SCAPIN 1741 directive.

The focus on *zaibatsu* dissolution was another target of Yoshida's ire. He sharply criticized GHQ's policies, arguing that the "so-called *Zaibatsu* had never worked solely for their own profit," and that economic punishment of the *zaibatsu* was not an appropriate method of seeking reparations from the Japanese government for its war crimes.<sup>42</sup> Yoshida instead believed

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<sup>40</sup> Hadley, 28

<sup>41</sup> Yoshida, 155

<sup>42</sup> Yoshida, 150

that the Americans at GHQ were directing their criticisms of the Japanese government and its actions in the wrong direction. Yoshida believed that dissolving the military should have been enough to satisfy GHQ's desire to punish Japan. Consequently, he believed American actions towards the *zaibatsu* were out of line and misguided.

However, the argument that the Prime Minister was making has multiple historical flaws in it, which makes it a very flimsy line of reasoning upon closer inspection of the details. Most obviously, during the colonial period (officially 1910-1945, but can be traced to the First Sino-Japanese War from 1894-95), several *zaibatsu* came to the Korean peninsula and built factories, mills, and shops there for the Japanese colonial leaders and Japanese colonists. Some of these factories and mills, such as those built by the Chisso Corporation, were also used as prison labor camps for ethnic Koreans during the colonial era.<sup>43</sup> In the wake of the Second World War, the camps north of the 38th parallel were turned into polyvinyl and vinylon factories for the Democratic People's Republic of Korea, particularly focused on its second-largest city, Hamheung, which is located in the central eastern part of the nation.<sup>44</sup>

According to Dr. Cheehyung Harrison Kim, a scholar of the Democratic People's Republic of Korea:

In 1927, Noguchi established Chōsen Chisso Hiryō Kabushiki Kaisha (Korea Nitrogenous Fertilizer Company). Chōsen Chisso was the largest and most- invested. business enterprise in colonial Korea, with more than twenty subsidiary companies in diverse industries, including not only chemical but also power, steel, mining, and food processing....One subsidiary of Nihon [i.e. Chousen] Chisso was a soybean- processing factory located in the town of Pon'gung. In June 1936, the Pon'gung soybean factory was turned into a chemical fertilizer factory, which would become in 1961 the Vinalon Factory.<sup>45</sup>

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<sup>43</sup> Chisso is more famous for the outbreaks of Minamata Disease in post-war Japan caused by its dumpig of methylmuercury into Minamata Bay, and a member of the Mizuho *keiretsu*

<sup>44</sup> Kim, p. 170

<sup>45</sup> Ibid



Thus, Yoshida's argument that the *zaibatsu* were only working for the positive benefit of the Japanese people was not true in its entirety. For most mainland Japanese people, the *zaibatsu* did seem to be a positive influence. However, for many people part of the Empire of Japan's peripheries, *zaibatsu* firms did directly cause great harm during the war. Tens of thousands of Koreans had died on the peninsula by working in these factories for the Japanese war machine as ordered by their *zaibatsu* employers. Forced labor was not uncommon in Japanese colonial holdings, especially as the war raged on and steel, crops, and power were necessary for the war efforts. For that reason, the U.S. recognized that Japanese *zaibatsu* and other such large firms played a harmful role in Japan's rise to economic power. GHQ had work to do. They now had to excise these harmful creations in such a way as to prevent angering their Japanese counterparts.

To do so would take delicate hands, especially because one other point that Yoshida Shigeru made held much more water as a deterrent against dissolution than his claim that the *zaibatsu* were innocent. To destroy the *zaibatsu* in their entirety would have wreaked havoc on the Japanese economy because more than fifty percent of it relied on the structure of *zaibatsu* and their affiliated positions and products.<sup>46</sup> The New Dealers' (or rather, their trust-busting faction's) attempts to redistribute economic power in a way that fell in line with their "democratic ideals" was, Yoshida believed, at odds with Japan's continued prosperity into the post-war era if it was to survive without economic help from the United States and stand independently on its own. Yoshida also opposed Eleanor Hadley's view of what was "anti-democratic" about the Japanese economy, and the former Prime Minister wrote *scathingly* of how Hadley had "apparently" written on the subject in America, and had ordered the closing of 240-250 different Japanese corporations (i.e. SCAPIN 147), which Yoshida believed would be

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<sup>46</sup> Yoshida, p. 154

disastrous for Japan's continued success and stability.<sup>47</sup> Such a high number of businesses being closed down, he believed, was significantly going to hamper Japanese attempts to successfully become re-integrated into the global economy after the Occupation ended.

Eleanor Hadley largely ignored the Prime Minister's anger and continued her work with GHQ and HCLC. Among other activities, she delivered speaking engagements with the public to popularize the work of GHQ prior to her departure from the agency in 1947. This included several trips throughout the Japanese countryside, speaking with more rural business owners who were concerned that they, too, would fall victim to GHQ's rules, even if they were not the *zaibatsu* these documents were meant to target. As she revealed to Dr. Marlene J. Mayo in her interview for the Gordon W. Prange Collection in the 1970s, during her tours, Eleanor had taken notice of antitrust taking root in Japan, and she was greatly heartened by those results, and the progress she was seeing in making Japan adopt New Deal-style policies.<sup>48</sup> However, the situation was more complex than she seemed to share. The *zaibatsu* were dissolved, but antitrust legislation was still far from finalized. Furthermore, she had been unable to fully dissolve the *zaibatsu*, which had displeased the head of GHQ.

The head of GHQ was just as irritated as Yoshida. General Douglas MacArthur, a staunch member of the *zaibatsu* dissolution camp, was angry that it had not yet happened, and so decided to take steps of his own towards this goal. He even managed to catch Eleanor Hadley off-guard when he went ahead and announced the outright closure of the Mitsui and Mitsubishi holding companies, but this was as far as he was allowed to continue before, he was stopped in his tracks according to one of Hadley's interviews.<sup>49</sup>

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<sup>47</sup> Ibid, 154

<sup>48</sup> Hadley, 30

<sup>49</sup> Hadley, 35

Takemae Eiji, a political scientist, and historian of Japan's Occupation wrote in his book *Inside GHQ: The Allied Occupation of Japan and Its Legacy*, that the Japanese government needed to be mollified, and the dissolution of the *zaibatsu* could not continue, potentially striking a victory for the infuriated Yoshida. Instead of dissolution as MacArthur had wanted, GHQ created a "Deconcentration Review Board" (henceforth referred to as the DRB) with the aim of studying the impact of GHQ's antitrust policies and legislation on the *zaibatsu* as a whole and evaluating next steps that could be taken.<sup>50</sup>

The DRB worked within the legal framework provided by GHQ as well as the laws of Japan during the Occupation, which included new laws passed in the National Diet of Japan on April 14th, 1947. One of their most significant contributions to the efforts to rebuild Japan was advising that the five largest commercial banks, "not be broken up, but that they be remanded to the Fair Trade Commission" to effectively administer antitrust law.<sup>51</sup> This decision, I believe, maintained important cashflows necessary for the DRB's other efforts to move forwards.

The main reformation efforts were called the *Dokusen Kinshiho*, or more fully, the *Shiteki-dokusen no Kinshi oyobi Kosetorihiki no Kahuko ni Kansuru Horitsu*. In English, this is formally called the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade, but is generally called the Anti-Monopoly Act.

### *The Anti-Monopoly Act*

The AMA is the basis of current Japanese antitrust law and has been amended several times in the 1970s, and most recently in 1997. It is administered by Japan's Fair Trade Commission (公正取引委員会, kousei torihiki iinkai, more commonly known as Kotori or

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<sup>50</sup> Takemae, Eiji, Robert Ricketts, and Sebastian Swann. *Inside GHQ: The Allied Occupation of Japan and Its Legacy*. London ; New York: Continuum, 2002. p. 461.

<sup>51</sup> "Foreign Relations of the United States, 1949, The Far East and Australasia, Volume VII, Part 2 - Office of the Historian." Accessed April 2, 2024. <https://history.state.gov/historicaldocuments/frus1949v07p2/d12>.

Kotorii within Japan), and was established shortly after the Occupation arrived in Japan, and serves to enforce the antitrust efforts of the Japanese government. The Act, when written in 1947 was a U.S.-directed attempt to regulate Japan's economy and prevent future war according to the logic that the *zaibatsu* being conglomerates was what caused them to be part of the military-industrial *zaibatsu-gunbatsu* complex, which funded the Japanese war effort and destruction of their colonial holdings. Eleanor Hadley was part of a team of politicians and officials sent out to give speeches and explanations on what the Anti-Monopoly Act meant, particularly for business groups who were the main targets of this particular set of laws.<sup>52</sup> Hadley's efforts included explaining that the AMA does not apply to businesses making under a certain amount of money, or holding under a certain percentage of the Japanese economy, clarifications that helped increase the popularity of both the GHQ and JFTC. .

Of particular note within the 100-page long law is **Article 7-2** of the Anti-Monopoly Act. This section details the consequences of a business unfairly restricting trade or otherwise creates an "unreasonable" international agreement and/or contract that restricts prices of goods and services, artificial supply or purchase volume restraints, or other unnatural changes to the price of the product, , the JFTC is permitted to order the business to pay, "a surcharge of an amount equivalent to the total sum of ten percent of the amount listed in items (i) to...(iv) below; provided, however, that if the amount thus calculated is less than one million yen<sup>53</sup>, the Commission may not order the payment of such a surcharge.", meaning that fees are supposed to (in theory) face consequences for their actions that create scenarios that do not promote the equality of all given businesses in a particular sector.<sup>54</sup>

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<sup>52</sup> Hadley, 30

<sup>53</sup> As of 5/16/2022, 1 million yen is approximately \$7,756

<sup>54</sup> [https://www.jftc.go.jp/en/policy\\_enforcement/21041301.pdf](https://www.jftc.go.jp/en/policy_enforcement/21041301.pdf) Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (Act No. 54 of April 14, 1947)

The Anti-Monopoly Act does not apply to businesses that are too small to have this level of outsized effect on the economy, such as a local small business, but the widespread persecution of all companies who violated the AMA regardless of size still a noted concern of the Japanese when Eleanor Hadley toured Japan to promote the Act and clarify for the people. Further, the Japan Fair Trade Commission in and of itself is not able to target small businesses, as its focus is on corporations and larger companies.

As James Fry and Harry First noted, however, the JFTC lacks true power in regard to punishing companies that *do* violate the AMA, including the *keiretsu*, the modern equivalents of the *zaibatsu*. As Harry First, a professor at New York University School of Law noted, this lack of power that the JFTC has in creating consequences for violating the AMA is, in part, due to differences in Japanese and American regulatory cultures, as well as understanding of how business works on a societal level which differs between the two nations.<sup>55</sup>

Furthermore, unlike American practices and business culture, Japanese business practices and culture fit *naturally* into the actual definition of antitrust. When Adam Smith observed that “people of the same trade seldom meet...but that the conversation ends in a conspiracy against the public or contrivance to raise prices”, he was *very* close to the ways *keiretsu* and *zaibatsu* interlink and communicate with one another to create a well-oiled and strong economy.<sup>56</sup> Mitsubishi’s famous “Friday Club” falls perfectly into line with Adam Smith’s observations of antitrust, and therefore within the behavioral model of antitrust as a philosophy and business practice. Mitsubishi’s “Friday Club,” its ‘*Kinyokai*’ is an open secret among Japanese businesspeople - it is a series of meetings held on certain Fridays monthly for the Mitsubishi Corporation and its subsidiary companies to meet together to discuss business affairs and plans

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<sup>55</sup> First, Harry. “ANTITRUST ENFORCEMENT IN JAPAN.” *Antitrust Law Journal* 64, no. 1 (1995): 137–82. p. 138

<sup>56</sup> Ibid

for future projects, and make business plans as a collective unit. They coordinate best practices for each subdivision, and ensure that economic and business goals are being met as desired with positive effects for the company as a whole.<sup>57</sup>

During GHQ's occupation, however, the Japanese government trusted Western business ideas and practices far less and were less willing to compromise with the American attempts to engage in antitrust efforts and New Deal based economic policies. It made for a difficult first adjustment to change, but all change comes with an adjustment period.

### *The Impact of Reform*

If the original plan by General MacArthur for the Japanese Occupation had been followed, the Japanese economy would have been significantly weakened, even if the goal of reforming it into an American image of an antitrust, capitalist, free-market nation had been achieved. But that was the point. By making Japan in their own economic image, the Americans could have a possible ally against the rise of Communist China and the U.S.S.R., which were already beginning to influence Korea a great deal more than the Americans wanted. In order to make the Japanese economy like an American one, the *zaibatsu* were simply the clearest and most obvious target to change. The only *zaibatsu* to not become a victim of the Americans' efforts, the Yasuda *zaibatsu*, avoided the fate of the others by voluntarily dissolving itself with the eponymous "Yasuda Plan" which had been proposed and sent to GHQ for approval in the wake of V-J Day.<sup>58</sup>

Since *zaibatsu* had four tiers structurally, with a family council at the top, a main holding company below it, and major subsidiaries (with their own, smaller subsidiaries) taking up the first and second levels, The Yasuda plan was for the family council to dissolve and for the family

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<sup>57</sup> Financial Times. "Building an Extensive Intelligence Network to Know Your Markets," August 9, 2020.

<sup>58</sup> Edwards, Corwin D. "The Dissolution of the Japanese Combines." *Pacific Affairs* 19, no. 3 (1946) p., 235

to willingly sell their shares in the holding company, while preserving the first and second levels for use at a later time.<sup>59</sup> Unfortunately, the second phase of the Yasuda plan never came to fruition. In 1955, the Yasuda family did not recollect their shares, and the subsidiary companies were left without the family council *or* holding company to lead them, in no small part due to SCAPIN 147. Instead, the leftover portions of the Yasuda *zaibatsu* were divided up into other business groupings, such as the Fuyo Group in the 1950s, and later the Mizuho Group with Dai-Ichi Kangyo (DKB) bank and the Industrial Bank of Japan in the 2000s after the Japanese asset price bubble popped in the 1990s.<sup>60</sup>

Mitsubishi and Mitsui, for their part in the war efforts, including Mitsubishi's construction of Japanese warships, were banned from using their own names in any business dealings, and further banned from engaging in business overall. The *zaibatsu* felt as if they had been duped by the American government. However, as Corwin D. Edwards, an economist who studied cartelization, pointed out, this should not have caught the *zaibatsu* executives by surprise. The Americans did not view it as duping or hidden, they viewed the reformative path as very clear in their agenda. "The Zaibatsu system has provided a setting favorable to military aggression," Edwards wrote, noting that individual persons' actions and opinions were irrelevant to the case in question.<sup>61</sup> It was systematic actions by a powerful system that caused the *zaibatsu* not only to rise but also to fall. *Zaibatsu*, by way of being another *batsu*, or clique intrinsically supported its co-conspirators within the system. Reform was the only path forwards that would ensure that the Japanese economy could survive and even, possibly, thrive.

### Looking Towards The Future

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<sup>59</sup> Takemae, 335

<sup>60</sup> archive.ph. "企業グループ研究「芙蓉編」 旧安田財閥とビートルズとの関係って？！ - CSR特集 | 上場企業情報サイトKmonos(クモノス)," April 22, 2014. <https://archive.ph/v2IJT>.

<sup>61</sup> Edwards, 228

Today, Japan's economy is no longer dominated by the *zaibatsu*. Since the AMA was reformed in 1997 to allow holding companies to exist again, the economy of Japan is dominated by the *keiretsu*, *kabushiki gaisha*, *sogo shosha*, and other large firms. Instead of truly dissolving for long, the *zaibatsu* reformed and spun off into even greater economic success. Japan's economy, despite the presence of the *keiretsu*, is full of healthy competition. In part, this is because amount of influential conglomerates themselves has increased, from the Big Six before 1991 during the height of Japan's asset price bubble, to more than ten in 2022. The antitrust efforts of Hadley, Bisson and their compatriots are no longer apparently visible. Largely, business seems to have returned to an era of strength preceding the Occupation. To the American perception, the Occupation largely failed to preserve antitrust efforts, but perhaps another goal of theirs - to modernize Japan's economy - was met with great success.



## Vocabulary

### *Deconcentration Review Board (DRB)*

An office of GHQ sent to review anti-trust policies of the other parts of GHQ.

### *Economic and Scientific Section (ESS)*

An office of GHQ tasked with “developing economic, industrial, financial, and scientific policies to be pursued in Japan in order to implement the Potsdam Declaration”.<sup>62</sup>

### *General Headquarters (GHQ)*

GHQ refers to the General Headquarters of the Supreme Commander for Allied Powers (SCAP). Technically, both terms are interchangeable, but in my research on the Japanese literature of this period, GHQ is the more common acronym for the position of Supreme Commander, and SCAP is more often used for the office itself (see below).

### *Holding Company Liquidation Commission (HCLC)*

An office of GHQ tasked with dissolving *zaibatsu*.

### *Kabushiki gaisha* - 株式会社

Literally meaning “share companies”, these are one of the ways in which certain *zaibatsu* were reformed under antitrust legislation.

### *Keiretsu* - 系列

Interlocking businesses with shared parent organizations centered around a single bank in either a vertical or horizontal structuring.

### *Sogo shosha* - 総合商社

Another type of company, these are general trading companies. Other *zaibatsu* reformed to become *sogo shoshas*.

### *Supreme Commander For Allied Powers (SCAP)*

A position held by General Douglas MacArthur, effectively making him the head of the American occupation of Japan, and its *de facto* leader.

### *Zaibatsu* - 財閥

Large corporations such as Mitsubishi, Mitsui, Sumitomo, and Yasuda, which arose out of a variety of industries. These corporations were organized around a single family, and worked closely with the government.

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<sup>62</sup> “Chapter 3: The Command Structure: AFPAC, FEC and SCAP.” Accessed April 2, 2024.  
<https://history.army.mil/books/wwii/macarthur%20reports/macarthur%20v1%20sup/ch3.htm>.

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