

JPRI Working Paper No. 11: July 1995

The 1955 System and the American Connection: A Bibliographic Introduction

by Chalmers Johnson

Japan's "M-Fund" Memorandum, January 7, 1991

by Norbert A. Schlei

America's Favorite War Criminal: Kishi Nobusuke and the Transformation of U.S.-Japan Relations

by Michael Schaller

The 1955 System and the American Connection: A Bibliographic Introduction

by Chalmers Johnson

In a letter to the *New York Times* dated March 4, 1995, the Acting Director of Central Intelligence Admiral William O. Studeman wrote, "We are aware of the importance of an accurate historical record." Nonetheless, he insisted that the CIA has an obligation to "keep faith" with foreigners who have "received legally authorized covert support from the United States."

It is important to state at the outset that an "accurate historical record" is also what interests the Japan Policy Research Institute. As we search into the history of American payoffs to the Liberal Democratic Party in Japan and dirty tricks against its political opponents, we do not wish to compromise in any way the national security of either the United States or Japan. Kodama Yoshio (1911-1984), probably the CIA's chief asset in Japan, has been dead for more than a decade; and for most Japanese and Americans the Allied Occupation, the M-Fund, the mobilization of *yakuza* to protect President Eisenhower in 1960, and the Lockheed case itself are all ancient history. Our present-day discussion could embarrass some deceased Americans and some descendants of former prominent politicians in Japan, but it no longer has anything to do with national security.

It also has nothing to do with American efforts during the 1950s and 1960s to influence Japanese public opinion by offering prominent Japanese writers and intellectuals short-term visits to the United States. These official American propaganda activities are an important part of the historical record, and we applaud the series of articles by Matsui Michio and Alec Dubro in Japanese on this important subject. (See the five-part series under the general title "*Panel-D-Japan: Amerika tai-Nichi senno kosaku no zenbo*" [Panel-

D-Japan: The Complete Story of America's Brainwashing Operations Against Japan] in *Views* magazine, a Japanese monthly, starting with the November 1994 issue and running through March 1995. Topics covered include use of the actor Takakura Ken to intrude American propaganda into Japanese films, production of American-inspired propaganda films, payoffs to the NHK, invitations to professors at Kyoto and other universities to travel to the U.S. at government expense, actions to counter the popular campaigns against nuclear power and nuclear weapons in Japan, support for anti-communist writers, and support for the LDP. Also see in English Alec Dubro and David E. Kaplan, "A Question of Intelligence: Forty-five Years of the CIA in Japan," *Tokyo Journal*, March 1995, pp. 32-37.) Whatever one may think of these Congress-of-Cultural-Freedom type operations, carried out not just by the CIA but particularly by the USIS, they were a ubiquitous aspect of the Cold War. The communist side pioneered them, and they arguably constitute a part of the legitimate cultural diplomacy of all nations in getting their message out to foreign populations. They also have nothing to do with national security in the narrow sense, and they are not what we are concerned with here.

Our interest is in the foreign manipulation of the Japanese political process during the Allied occupation and its evolution over the more than forty years since the occupation ended. This issue has not merely historical significance. As Jim Mann has recently put it, "Did you ever want to know why the Japanese government behaves the way it does today-- why its politics seem so corrupt, why its political parties are so hopelessly weak? Why Japan never developed a workable two-party system? There are some U.S. government files that could help shed light on those questions." (see "CIA Keeping Historians in the Dark About Its Cold War Role in Japan," *Los Angeles Times*, March 20, 1995.) Similarly, John Dower (a member of the JPRI Board of Advisers) comments, "We look at the LDP and say it's corrupt and it's unfortunate to have a one-party democracy. But we have played a role in creating that misshapen structure." (see "C.I.A. Spent Millions to Support Japanese Right in 50's and 60's," *New York Times*, October 9, 1994.) This is JPRI's interest in this subject. It is historical but it is also directly connected with day-to-day policy-making in Tokyo and Washington now and in the future.

At the risk of being repetitive, let me make clear that we are not in any way suggesting that the current failures and ineffectiveness of the Japanese political system can all be blamed on foreign manipulation thirty years ago. There are many reasons why the Japanese government could not respond to the challenge of United Nations' actions to defend Kuwait until after the war was over, why the Japanese government was slow in calling out troops to try to rescue victims of the Kobe earthquake, and why the police have been slow in bringing charges in the wake of an attack using nerve gas against innocent passengers on the Tokyo subway system. There are also complex reasons why the conservatives and the socialists are currently joined together in a coalition government despite decades of ideological hostility, why policies to deregulate the economy in order to ease the high yen and the high trade surpluses are invariably gutted by the bureaucracy, why the people of Japan's two-largest cities elected television comedians as mayors rather than candidates put forward by either the bureaucracy or the political parties, and why Ishihara Shintaro withdrew from political life saying "Japan hasn't been able to express its will clearly as a nation. . . . Under this government everything is at the mercy of the bureaucrats" (April 17,

1995). But like many Japanese intellectuals, we contend that the failure of Japan to develop a two-party system comparable to that, for example, in Germany and the country's persistent reliance on unelected officials for most governmental decisions was influenced by United States's efforts during the Cold War to ensure that Japan did not choose neutralism.

It may well be that the outcome would have been no different had the Americans not intervened. Other elements at least as important as American money and dirty tricks include the argument made recently by Tamamoto Masaru that the Japanese still do not understand the political theory underlying the American-drafted Constitution. "The manner in which democracy came to the Japanese," he writes, "--as an imposition by an alien authority rather than as a product of popular struggle from below--challenged the Japanese people's ability to construct a clear conception of their democratic state. . . . The constitution embodies ideas that the Japanese have yet to fully understand" (*Daedalus*, Spring 1995, pp. 1-22). Watanabe Osamu makes a different case, arguing that company unions and political control of regional and local government in Japan through pork-barrel projects undercut political development (*Seiji kaikaku to kenpo kaisei* [Political Reform and Constitutional Change], Aoki Shoten, 1994. For a review of Watanabe's book, see *Social Science Japan*, April 1995, pp. 28-29.) But we also want to stress that had the Americans left more of Japan's political "modernization" to the Japanese themselves, it is perfectly possible that they would have developed a more effective and accountable political system. As has frequently been pointed out, the Americans sacrificed the political systems of both Japan and Italy to the requirements of the Cold War. Whether the Americans were right or wrong to do so is a different debate. The costs of their doing so are nonetheless coming due today.

These issues reentered the news last autumn when the *New York Times* published its "C.I.A. Spent Millions to Support Japanese Right in 50's and 60's," by Tim Weiner, Stephen Engelberg, and James Sterngold. This report did not say anything that had not been strongly suspected earlier, but it quoted some important participants, including Alfred C. Ulmer, Jr., the CIA's operations chief for East Asia from 1955 to 1958; Roger Hilsman, the head of Intelligence and Research at the State Department in the Kennedy and Johnson administrations; and U. Alexis Johnson, American ambassador to Japan from 1966 to 1969. Each acknowledged making or authorizing payoffs to the LDP from 1955 to approximately 1972. In Tokyo the *Sankei Shimbun* reported that on October 10, the day following the *New York Times*' story, Deputy Prime Minister Kono Yohei (whose father, Kono Ichiro, was one of Kodama's closest associates) held an "emergency meeting" with Ambassador Mondale, which the Foreign Ministry later explained was merely a long-scheduled diplomatic appointment (*Sankei*, November 17, 18, 1994). Both the Japanese and the Americans maintained that the Times story concerned old news that had become common knowledge.

The real importance of the *Times* article was that it came in the middle of an on-going struggle to get the CIA to declassify information for the State Department's official histories of U.S. foreign policy. According to Jim Mann, "Right now, the State Department historians are preparing to publish the volume that will cover American policy toward

Japan, Korea, and China during the John F. Kennedy Administration. They have found plenty of information about the CIA's operations in Japan and want to include it in the official history. But the CIA has refused to declassify or allow publication of the files that show what it was doing in Japan in the late 1950s and the 1960s" (*Los Angeles Times*, March 20, 1995). A group of academic historians advising the State Department has recommended that it publish blank pages for the sections dealing with Japan in those Cold War years rather printing a sanitized version.

These materials will ultimately come available, but meanwhile both Japanese and American scholars and journalists continue to pursue the issues they raise using the sources that are available. The record on the Japanese side is not secret at all, even if there are people in Japan who would prefer that it remain private. As a contribution to this continuing inquiry, JPRI is publishing two unusual reports. One is a four-year old memorandum by Norbert Schlei on the "M-Fund" and his unfortunate involvement with it; the other is an essay by a distinguished historian written for the *Yomiuri* newspapers and reprinted here in English with the newspaper's permission. It is based on information that our author knows but cannot (yet) cite.

Like our authors, we are unable to guarantee the complete accuracy of either of these reports, but we can supply some background information on both (particularly on the M-Fund) that puts them in context. We also want to draw readers' attention to incidents of interference in Japanese political life by the Occupation's CIC and later by the CIA that are not in doubt and that establish a pattern and a precedent for later activities.

The M-Fund is one of the more slippery topics in postwar Japanese history. During the late 1970s and the 1980s, Japanese swindlers used the aura surrounding it and its alleged continuing existence to defraud such companies as Fuji Steel, All-Nippon Airways, and the Tokyu Railroads. Details concerning these cases, as well as the early history of the M-Fund are contained in Takano Hajime, *M Shikin, Shirarezaru chika kin 'yu no sekai* (M-Fund: The Unknown World of Underground Finance) (Tokyo: Nihon Keizai Shimbun Sha, 1980), which is the most important source on the subject. Also relevant is a series of articles in *Asahi Journal*, which were translated into English as "Lockheed Connection: The 'M Fund' Ghost," *Asahi Evening News*, April 19-21, 1976.

It is possible that our author, Norbert Schlei, was trapped by yet another fraudulent misrepresentation of the M-Fund, much like those detailed by Takano. That is an issue before the U.S. Federal courts, although it is unlikely they will ever uncover the full truth of the matter. Schlei is a distinguished American lawyer. He was first in his class at Yale Law School; a former assistant attorney general for Presidents Kennedy and Johnson; deputy to Robert Kennedy in 1962 when troops were sent to Oxford, Mississippi, to integrate the university; and a founding partner of the Los Angeles office of Hughes Hubbard & Reed.

Schlei undertook to represent several dozen Japanese investors in their attempts to get the Ministry of Finance to recognize (and redeem) securities that the Japanese government maintains are forgeries. In his statement to the *New York Times*, Schlei said that the instruments, called "certificates of redemption" and not bonds, "were issued secretly, outside normal channels, to hide or 'park' a political fund in the names of people who

would mean nothing to investigators probing into the affairs of former Prime Minister Kakuei Tanaka.” Schlei argues that these instruments were issued in 1982 by the then Minister of Finance in the Suzuki cabinet, Watanabe Michio; and Schlei furthermore says he was negotiating with the Japanese government about them before he was trapped by an American sting operation. For further details, see Rick Bragg, “Stalwart of the Kennedy Justice Dept. Finds His World in Ashes After a Trial,” *New York Times*, April 14, 1995; Karen F. Donovan, “The Upending of a Camelot Knight,” *The National Law Journal*, April 10, 1995; and 14-page letter to the editor of *The National Law Journal* by Norbert A. Schlei dated April 12, 1995, on file at JPRI.

Schlei was convicted on January 5, 1995, in Federal court in Tampa, Florida, on charges of securities fraud; and his case is on appeal. Although it is irrelevant to the present discussion, we believe that there are many aspects to the sting operation in which Schlei was trapped that demand review; and we are certain that the Japanese aspects of the case were not properly presented to, or understood by, the jury. But the evidence for the existence of the M-Fund between approximately 1947 and 1972 rests on more than the statements of Schlei’s clients.

As Schlei’s memo printed below indicates, the M-Fund was named after General William Frederic Marquat (1894-1960), one of MacArthur’s inner circle of advisers known as the Bataan Boys. Although not a specialist in economic affairs, he was chief of the Economic and Scientific Section in SCAP headquarters and the figure in charge of *zaibatsu* dissolution during the occupation. MacArthur used the M-Fund to influence politics during the occupation as well as for other politically difficult operations, such as creating the Police Reserve Force, the predecessor of today’s Self-Defense Force, after the outbreak of the Korean War.

According to Takano’s book *M Shikin*, the M-Fund was created out of several different funds that all originally had different names. The “Yotsuya Fund,” put together by General Willoughby, the head of G-2 and the CIC, came from black market operations and was used for anti-communist plots. The “Keenan Fund,” named after Joseph B. Keenan, chief prosecutor in the war crimes trials, derived from confiscated property. The M-Fund itself, referring to money that Marquat controlled, was initially created from sales of confiscated Japanese military stockpiles of industrial diamonds, platinum, gold, and silver that had been plundered in occupied countries; the sales of shares of dissolved *zaibatsu companies*; and so-called GARIOA or “counterpart funds,” which were accounts of nonconvertible yen derived from the sales in Japan of official American aid imports and authorized imports of such commodities as petroleum.

All three funds were combined into one M-Fund when the occupation ended, and the fund was jointly operated by Americans and Japanese until the late 1950s, when it was turned over to the Japanese by then Vice President Nixon to then Prime Minister Kishi. Schlei’s memorandum outlines some of the fund’s post-occupation uses and its alleged later history. The amounts involved were very large and were used for industrial projects in rebuilding Japan’s economy and later for clandestine activities elsewhere in Asia.

The chief evidence supporting the existence of the M-Fund or something like it, other than circumstances and anecdotes, comes from the life and statements of Kodama Yoshio. For details on his life, see the treatments in David E. Kaplan and Alec Dubro, *Yakuza* (Reading, Mass.: Addison-Wesley, 1986, part II “The Kodama Years,” pp. 41-123); Chalmers Johnson, *Japan: Who Governs?* (New York: Norton, 1995, pp. 194-97); and Kodama’s own two books written while he was an unindicted class-A war criminal in Sugamo Prison from January 25, 1946 to December 24, 1948. They were translated into English during the 1950s as part of the effort to rehabilitate him--from 1956 on he was the Lockheed Aircraft Corporation’s chief fixer and wire-puller in Japan--and were published as *I was Defeated*, Taro Fukuda, trans. (Tokyo: An Asian Publication, 1951), and *Sugamo Diary*, Taro Fukuda, trans. (Tokyo: Radiopress, 1960). The most important Japanese sources are the study by the Mainichi Shimbun’s Political Department--*Kuromaku Kodama Yoshio* (Tokyo: Eru Shuppansha, 1976)--and Omori Minoru’s long interview with him on May 25, 1974 (see *Nihon hokai, sengo hisshi* [Japan’s Collapse, Postwar Hidden History], Tokyo: Kodansha Bunko, 1981, vol. 1, pp. 248-312).

There is no doubt today that Kodama returned to Japan in 1945 from China as the former head of the Navy’s *Kodama Kikan* (Kodama Agency) a fabulously rich war profiteer. He transferred stolen diamonds and platinum before he went to prison to Hatoyama Ichiro and Kono Ichiro, and the funds these materials produced when sold by Kono, about \$175 million, financed the creation of the Liberal Party. The go-between in this famous operation was the *kuromaku* Tsuji Karoku, whom the Diet questioned in 1947 about the alleged use of former military and black market funds to influence politics. There is also little doubt that when Kodama was released from Sugamo on the day after the convicted war criminals were executed, he had been recruited by and was working for U.S. intelligence. On that matter Tad Szulc has written, “Intelligence sources say that Kodama had a working relationship with the CIA from the time he was released from a Japanese prison in 1948”; and another seasoned observer who was also a former SCAP official, Hans Baerwald, comments, “[Kodama’s] release from imprisonment allegedly was tied to his becoming an agent of the American intelligence services in general, and ultimately the Central Intelligence Agency in particular.” (Szulc, *New Republic*, April 10, 1976, p. 11; Baerwald, *Asian Survey*, September 1976, pp. 817-18.)

On April 4, 1976, the *New York Times* summarized what Kodama did for the CIA and for Lockheed: “Last week there was more evidence of the agency’s [CIA’s] apparently ubiquitous involvement: its officials knew 20 years ago that the Lockheed Aircraft Corporation bribed Japanese politicians in connection with the sale of F-104 fighter planes to the Japanese Government. In a period of 20 years (1956 to 1975) Lockheed paid \$12.6 million to top Japanese officials to sell \$700 million worth of aircraft. About \$1.5 million was spent to win the F-104 contract away from Grumman Aircraft in the late 1950’s. It is not known whom the agency told about the bribes. It reportedly did not inform officials of Grumman, or the State Department.”

Another service Kodama performed was to counter left-wing protesters by mobilizing “some 50,000 gamblers, street vendors, racketeers, and members of the violent right to take part in the so-called ‘Mass Mobilization for Greeting Ike’ and to help the police keep

‘order’ during the presidential visit.” Even though Ike ultimately cancelled his 1960 visit because of the storm of protests over renewal of the U.S.-Japan Security Treaty, this effort cost hundreds of millions of yen, “the source of which is still unaccounted for,” in John Roberts’ words (see John G. Roberts, “The Lockheed-Japan-Watergate Connection: A ‘Kwantung Army’ on the Multinational Front,” *AMPO: Japan-Asia Quarterly Review*, March 1976, pp. 6-15). These funds probably came from the M-Fund; it was available and had been created for precisely such needs. All accounts say that after the end of the occupation, the fund’s American managers came from the CIA.

While we know a lot about Kodama Yoshio and his operations, researchers would still like to see the U.S. government’s file(s) on him. Other files that would be of great interest are those concerned with the great murder-or-suicide and sabotage cases of 1949--the Shimoyama, Mitaka, and Matsukawa cases. The Japanese have sought out the KGB files on these subjects and found them unrevealing, but they have long claimed that these incidents were provocations carried out by SCAP and were intended to justify the “reverse course” and its “red purge.” Someday we need to know the truth of the matter. (On the three big cases plus SCAP’s covert action unit, the Cannon Agency, and its kidnapping of the prominent writer Kaji Wataru, see Chalmers Johnson, *Conspiracy at Matsukawa*, Berkeley: University of California Press, 1972; and Omori Minoru, *Boryaku to reisen no jujiro* [Plots and the Crossroads of the Cold War], which is volume 7 of his *Postwar Hidden History*, 1981.)

Our message in this Working Paper is straightforward. The Cold War is over. Whatever the United States may have believed was necessary to prosecute the Cold War, the Cold War itself can no longer be used to justify ignorance about its costs and unintended consequences. The issue today is not whether Japan might veer toward socialism or neutralism but why the government that evolved from its long period of dependence on the United States is so corrupt, inept, and weak. At a minimum, these essays should forewarn unsuspecting scholars that uncritical analyses of democracy in Japan may one day be blindsided by newly declassified information.

CHALMERS JOHNSON is President of the Japan Policy Research Institute and has authored some twelve books on a variety of subjects including developmental capitalism in Asia and revolution in China. Most recently, Johnson has authored *Japan: Who Governs?* (W.W. Norton, 1995).

Japan’s “M-Fund” Memorandum, January 7, 1991
by Norbert A. Schlei

The subject of this memorandum is Japan’s so-called “M-Fund,” a secret fund of money of enormous size that has existed in Japan for more than forty years. The Fund was established by the United States in the immediate postwar era for essentially the same

reasons that later gave rise to the Marshall Plan of assistance by the U.S. to Western Europe, including the Federal Republic of Germany.

At the outset, the Fund was administered wholly by the U.S. with purely advisory input from Japan. Later, however, control over the Fund was allowed to pass into Japanese hands. Under Japanese control, very serious abuses of the Fund have developed, and it is clear today the Fund has been and is being used in a way that is contrary to the interests of both the United States and Japan.

I. The Background

After Japan's surrender on September 2, 1945, a military government was established in Japan by the U.S. armed forces under the command of General Douglas MacArthur. In the early postwar period, General MacArthur saw that financial aid would be required in order to develop democratic institutions in Japan and to rebuild its devastated economy. Primarily because some of these funds would be used to finance political activity deemed necessary to get democratic forces off to a good start, General MacArthur became convinced that it was essential to establish a secret fund.

Such a fund was duly created, utilizing primarily money and property that had been in the possession of the Japanese armed forces at war's end after having been seized during the war in occupied areas such as China, Korea, Taiwan and the Philippines. This wealth, which was turned over to the U.S. at war's end, was not on Japan's books as a nation and was available for use by MacArthur without the need of any public legislative action in the United States. It turned out to be much more substantial in amount than was originally realized. Later, so-called "counterpart" funds--"soft" foreign currencies acquired by the U.S. which could not be converted into dollars--were added.

The new fund was administered by General MacArthur's Headquarters with advisory input from Japanese sources, primarily Prime Minister Shigeru Yoshida. The fund came to be known to insiders as the "M-Fund" or "Marquat-Fund," after an officer named Marquat who was identified with the fund's establishment and early operation. Because of Mr. Yoshida's involvement with the Fund, it has also sometimes been referred to as the "Yoshida Fund." The M-Fund was used not only for the building of a democratic political system in Japan but, in addition, for all of the purposes for which Marshall Plan funds were used in Europe--in effect, the rebuilding of the Japanese economy. Long-term, low-interest or interest-free loans were provided to key Japanese industries such as coal, iron, shipbuilding, fertilizer, electric power, and the like.

When the Korean War broke out in 1950, the departure of U.S. forces for Korea left a vacuum in the maintenance of public order in Japan. This vacuum was filled by the creation of a National Police Reserve, the predecessor of today's National Defense Force. Because of the provision in the Japanese Constitution prohibiting the maintenance of military forces, the government of Japan was totally unprepared to meet the cost of creating the new force. MacArthur solved this financial problem by allocating 20 billion yen(then about \$60 million) from the M-Fund.

The Treaty of Peace between the United States and Japan came into effect on September 8, 1951 (U.S. Department of State, *Treaties and Other International Acts Series* ["TIAS"] 2491, p. 3169 et seq.). This terminated the military occupation of Japan. Concurrently, however, the U.S. and Japan entered into a Security Treaty which came into effect on April 28, 1952 (TIAS 2491, p. 3329 et seq.). Incident to the Treaty of Peace and the Security Treaty, the U.S. and Japan entered into a secret agreement whereby the M-Fund was made subject to joint U.S.-Japanese control.

Late in the 1950's, Japan became dissatisfied with the provisions of the 1952 Security Treaty and requested that it be revised. In response, President Eisenhower sent Vice President Nixon as his special envoy to negotiate a revision of the treaty. After extensive negotiations between Nixon and Prime Minister Nobusuke Kishi, a new Treaty of Mutual Cooperation and Security was concluded to replace the 1952 treaty. The new treaty was in due course ratified by the Senate and came into effect on June 23, 1960 (TIAS 4509, p. 1633).

Incident to the revision of the Security Treaty, Vice President Nixon agreed to turn over exclusive control of the M-Fund to Japan. It has been alleged that this action by Nixon was part of a corrupt political bargain, whereby it was agreed that if Japan would assist him to become President of the United States, Nixon would agree to release control of the Fund to Japan and, if he became President, would return Okinawa to Japan. However, the ostensible reason for ceding control of the Fund to Japan was Japan's need for an emergency source of funds in the event that war should break out. In such an eventuality, Japan would be especially vulnerable because its constitutional prohibition on military force would severely hamper financial preparation for defense. In order to make the Fund an even better source of defense funds in time of need, the Japanese negotiators agreed that after the Fund was released to Japanese control, they would add substantially to the amount of the Fund.

The task of adding to the M-Fund, which is believed to have amounted to 12.3 trillion yen (about \$35 billion) in 1960, was delegated to Kakuei Tanaka, Finance Minister in the Ikeda Cabinet. The plan was to obtain the necessary amount by selling the Japanese real estate which the government had confiscated during the war from enemy aliens (i.e., citizens of the U.S. and other Allied Powers) who had failed to qualify for postwar restitution.

During the ten-year period from 1960 to 1970, Tanaka sold 1,681 properties through nominees at a total profit of 7.9 trillion yen (\$22 billion). Tanaka's technique was to sell the properties privately to nominees at a low price, then have the nominees sell at market value, remitting the profit to the Fund. This program was terminated in 1970 by Prime Minister Eisaku Sato in order to avoid public disclosure after questions were raised in the Diet by the Komeito Party.

The Fund has today grown to the staggering size of more than \$500 billion. It dominates Japanese politics and is a major force in the Japanese economy. And yet, amazingly enough, it remains a secret fund, unknown to most of the world and to the vast majority of Japanese citizens. Even more amazing, as I discuss below, the Fund is not controlled by the

government of Japan or even by the Liberal Democratic Party, but is, rather, the private preserve of a small group of individuals.

II. Control of the Fund and Resulting Abuses

The exact nature of what Nixon did or intended to do when he yielded control of the M-Fund to the Japanese negotiators in the waning days of the Eisenhower Administration has never been made public. It seems inconceivable that he knowingly “gave” the Fund to Prime Minister Kishi and his associates as individuals, free of any governmental or institutional control. The fact is, however, that beginning with Prime Minister Kishi, the Fund has been treated as the private preserve of the individuals into whose control it has fallen. Those individuals have felt able to appropriate huge sums from the Fund for their own personal and political purposes. The Fund has not been deemed an asset of the nation or subjected to governmental or even institutional control.

The individuals who have controlled the M-Fund since 1960 have all been affiliated with the Liberal Democratic Party and have had an interest in that Party’s continued control of the Japanese government. However, those individuals have not been under the control of the Party as such, and frequently the controller or controllers of the Fund and the leaders of the Party have been quite different. For example, it is known that the control over the Fund by Kakuei Tanaka and his appointees lasted until 1986, many years after Tanaka was convicted of bribery in the Lockheed scandal and ousted from power.

Today’s [that is, in 1991] Prime Minister, Toshiki Kaifu, has virtually nothing to say about the governance of the Fund. Even the man who is the nation’s most influential political leader behind the scenes, Noboru Takeshita, has not yet been able to wrest control of the Fund from former Prime Minister Yasuhiro Nakasone and his appointees, who gained control in 1986 and still retain a somewhat tenuous hold on control even though they have long since lost their status in government and in the Liberal Democratic Party.

The secrecy surrounding the M-Fund and the absence of governmental or institutional controls over it have led to abuses so great as to dwarf any governmental scandal within memory in any part of the world. The litany of abuses begins with Kishi, who, after obtaining control of the Fund from Nixon, helped himself to a fortune of 1 trillion yen (then nearly \$3 billion). Kakuei Tanaka, who dominated the Fund for longer than any other individual, took from it personally some 10 trillion yen which he invested through the Union Bank of Switzerland.

Others who are said to have obtained personal fortunes from the Fund include Mrs. Eisaku Sato, widow of the former Prime Minister (300 billion yen), and Masaharu Gotoda, a Nakasone ally and former Chief Secretary of the Cabinet (60 billion yen).

Although the people of Japan and the world do not yet know it, the Fund under Mr. Nakasone’s control was responsible for the Recruit scandal. So far as the public is aware, the Recruit scandal concerned relatively small sums of money distributed by the Recruit Company to some 200 politicians in order to influence governmental policy. Prime

Minister Takeshita resigned because approximately \$1.5 million was received by him or his associates as political contributions or in other ways that involved no illegal conduct on Takeshita's part. However, the real abuse underlying these events is that the Recruit Company itself was, in effect, created and financed by the M-Fund to serve Nakasone's personal and political interests.

When Nakasone obtained control over the M-Fund in 1986, the Recruit Company was a small company doing business in the fields of information, advertising, and real estate. The company was controlled by Hiromasu Ezoe, a longtime friend and supporter of Nakasone. At the insistence of Nakasone, the M-Fund was utilized to make available bank loans to Recruit amounting to some 1.7 trillion yen (more than \$10 billion). (By way of comparison, the bank debt of Shin Nippon Steel Company, the largest steelmaker in the world, then was 1.2 trillion yen. The bank debt of Seibu Department Stores Group, a company hundreds of times larger than Recruit was at the time, was «1.0 trillion.) In essence, the money handed out to politicians by Recruit came from the M-Fund.

The M-Fund is reported to have been the cause of several political murders. Many people in Japan believe that former Prime Minister Eisaku Sato was murdered, the victim of deliberate poisoning rather than a digestive upset as reported to the press. According to these widely circulated reports, Sato's death occurred at the height of a contest with Kakuei Tanaka for control over the M-Fund. The dispute was, ultimately, settled and a major scandal averted by the payment from the Fund to Sato's widow of a huge death-benefit of 300 billion yen.

In more recent times Mr. Takeshita's assistant, Mr. Aoki, supposedly a suicide, is said to have been assisted by persons having a vital interest in preserving the secrecy of the M-Fund. In the days before his death, Aoki, who was known to have detailed knowledge of the Fund's operations, made the mistake of telling several friends that the Recruit scandal was a minor matter compared to another scandal that was about to become public through his impending testimony.

From a national and international perspective, abuse of the M-Fund has had even more far-reaching consequences than any of those mentioned above. It is not too much to say that the M-Fund, controlled as it is by individuals free of any significant governmental or institutional restraints, has prevented Japan from becoming a truly democratic country. Japan today, scandals notwithstanding, remains under the iron control of the same political party that has controlled the nation for more than forty years without a break. The enormous money power of the M-Fund has prevented the development of political parties able to compete with the Liberal Democratic Party. All parties in Japan other than the Communist Party, including the Socialists, have shared in and become dependent on the largesse of the M-Fund. None can compete with the LDP, and none ever will be able to compete so long as the M-Fund silently subverts the political processes of the nation.

Similarly, Japan's economy has been both artificially stimulated and gravely distorted by the money power of the M-Fund. Among other things, the Fund has created a class of economic barons, individuals having a net worth of \$20 billion or more, that exists

nowhere else on earth. It is these barons, more than any other group or class, who run the country, using their wealth to subvert normal political and economic processes. It is they who are able to eliminate problems such as Mr. Sato and Mr. Aoki (and Mr. Tanaka's chauffeur and others) with seemingly complete immunity from detection and prosecution. Sad to say, Japan today retains a significant totalitarian quality in its political and economic life. In large measure this is so because the M-Fund, provided by a benevolent U.S. government, has been subverted and misused by those into whose control it has fallen.

Copyright 1995 by Norbert A. Schlei, 2800 28th Street, Suite 321, Santa Monica, California 90405. All rights reserved. No part of this document may be reproduced in any form or by any means without written permission from the copyright-holder. Permission to reproduce granted to JPRI in a letter of Norbert A. Schlei dated April 20, 1995.

NORBERT A. SCHLEI is a former U.S. Assistant Attorney General in the Kennedy and Johnson administrations and a prominent attorney in Southern California.

America's Favorite War Criminal: Kishi Nobusuke and the Transformation of U.S.-Japan Relations
by Michael Schaller

Evidence in a variety of open and still classified U.S. government documents strongly indicates that early in 1958, President Dwight D. Eisenhower, making what he and his aides earlier called a "big bet," authorized the CIA to provide secret campaign funds to Japanese Prime Minister Kishi Nobusuke--formerly an accused war criminal--and selected members of the Liberal Democratic Party. This fateful decision followed Kishi's June 1957 visit to the United States, where he had addressed both Houses of Congress, thrown out the first pitch at a New York Yankees baseball game, and joined Eisenhower in a round of golf at an otherwise racially segregated country club. In private discussions, the president and Secretary of State John Foster Dulles also gave Kishi a crucial political reward: their pledge to renegotiate the unpopular 1951 security treaty imposed upon Japan as the price of ending the Occupation.

The honors bestowed upon the prime minister could only be described as remarkable, given the fact that as a member of General Tojo's cabinet in 1941 Kishi had co-signed the declaration of war against the United States. As minister of Commerce and Industry and later head of the Munitions Ministry, he had overseen the forced conscription of hundreds of thousands of Korean and Chinese laborers and been responsible for military production. When American Occupation troops entered Japan in August 1945, they arrested Kishi as a suspected Class A war criminal and he spent three years in Sugamo Prison under investigation.

As much as anyone, Kishi represented everything the United States detested about Imperial Japan and had pledged to eradicate. His political resurrection symbolized the transformation of Japanese-American relations during the 1950s. In a literal sense, Kishi's life mirrored Japan's evolution from enemy to ally, the emergence of the Cold War in Asia, and the role played by the U.S. in forging Japan's postwar political and economic structure.

Kishi first came to the attention of American officials shortly before the Pearl Harbor attack when, as a rising star in the Ministry of Commerce and Industry, he struck up a friendship with Ambassador Joseph C. Grew. Grew's admiration was evident in 1942 when, while under detention and awaiting an exchange of diplomats, the ambassador commented on Kishi's offer to release the detained American to play a round of golf. "Kishi has always been one of my highly valued friends in Japan and nothing can ever change my feeling of personal friendship and affection for him," Grew wrote. "That feeling will endure permanently, no matter what has happened or what may happen in the future." This testimonial served Kishi better than he could ever have dreamed.

Kishi's release from prison in December 1948 reflected the dramatic reversal of Occupation priorities during the previous 18 months. American forces arrived in Japan armed with a bold plan to demilitarize, democratize, and economically reorganize the nation. By the summer of 1947, enthusiasm for the radical restructuring of Japan waned. With China racked by a civil war and Europe politically divided and economically prostrate, the Truman administration viewed Japan, like Germany, as a power vacuum into which Soviet influence might flow. Soviet control of German and Japanese industrial potential, men such as State Department Policy Planner George Kennan, Army Undersecretary William Draper, and Navy (later Defense) Secretary James Forrestal believed, would tilt the global balance in Moscow's favor. In simplest terms, Forrestal put it, real security against communism required the "restoration of commerce, trade and business" worldwide. This meant putting "Japan, Germany and other affiliates of the Axis back to work."

George Kennan argued that Japan must be redeveloped as the "cornerstone of a Pacific Security system." The "radically changed world situation," Kennan resolved in 1947, "required that Japan be made internally stable, amenable to American leadership, and industrially revived as a producer . . . of consumer goods and secondarily of capital goods." Had it not been for the opposition of Occupation commander General Douglas MacArthur--whose stubborn commitment to the initial reform program was part of his strategy to seek the American presidency--the Truman administration would have "reversed course" in Japan by the end of 1947, as it did in Germany. Instead, it postponed action until mid-1948, after MacArthur's defeat in a series of presidential primary elections and his withdrawal from the race.

Once the general ceased to be a political threat, President Harry Truman moved swiftly to implement the economic and political policies advocated by Kennan and Draper. By the end of 1948, the United States ended war crimes trials, abandoned plans to break up the *zaibatsu*, and stopped the flow of reparations to Japan's wartime victims. Washington

encouraged the Japanese government to rein in organized labor and named Detroit banker Joseph Dodge “economic czar” to “crank up” Japan’s economy by imposing central planning designed to maximize export production at the expense of domestic consumption. Dodge encouraged the creation of powerful government planning and trade ministries, such as MITI, to promote export production by large, integrated firms. These new priorities, resembling many of Kishi’s wartime economic control measures, led directly to Kishi’s release from prison and his return to politics by the time the Occupation ended.

Kishi’s prewar friendship with Ambassador Grew assisted his political rehabilitation. A small but influential group of private Americans, who played a key role in drafting the Reverse Course policy, identified Kishi as among those best suited to lead the new Japan. In 1947, *Newsweek* foreign affairs editor Harry Kern, *Newsweek* Tokyo bureau chief Compton Packenham, corporate lawyer James L. Kauffman, the retired Joseph C. Grew, and Eugene Dooman, a retired diplomat who served under Grew in Tokyo, took the lead in creating the “American Council on Japan” (ACJ) with the aim of changing occupation policy. These men had prewar ties with numerous Japanese business and political leaders purged after 1945 and served as mediators between them and American officials. The ACJ members, like their Japanese counterparts, were bitterly critical of SCAP policy and resented Prime Minister Yoshida Shigeru’s resistance to rearmament and military cooperation with the U.S.

During its years of operation from 1947 to 1952, ACJ members such as Kern, Dooman, Kauffman, and Packenham consulted regularly with Kennan and Dulles, influencing their policy views and arranging meetings in Tokyo between the visiting American envoys and their Japanese friends, who included members of the emperor’s household, former military officers, purged business leaders and politicians. As part of their effort to “polish” Kishi’s image in the early 1950s, Packenham tutored Kishi in English and Kern served as a public relations consultant, arranging trips for Kishi to Europe and the United States.

By 1953, with financial backing from industrialist Fujiyama Aiichiro and Kodama Yoshio (a fellow Sugamo inmate who amassed a fortune in wartime China and began working with U.S. intelligence officials during the Korean war when he smuggled tungsten out of China), Kishi emerged as leader of the Democratic Party, one of two major conservative groups vying for power.

By the end of 1954, the economic dislocation caused by the end of the Korean War, combined with American frustration over Yoshida’s reluctance to rearm, eroded the prime minister’s base of support and forced his resignation. U.S. Ambassador John Allison pressed the conservative parties to select Kishi Nobusuke as his replacement. Kishi had ingratiated himself with Allison by working to unify the factious conservatives (a goal achieved in 1955) and by reassuring the ambassador that “for the next twenty five years it would be in Japan’s best interests to cooperate closely with the United States.” Despite American pressure, another conservative and former purgee, Hatoyama Ichiro, was elected prime minister.

To America's disgust, Hatoyama proved nearly as reluctant as Yoshida to amend the "no war" clause of the constitution, speed rearmament, accept strict limits on trade with China, or passively accept the security treaty. Hatoyama's effort to negotiate a peace treaty with the Soviet Union drove Dulles wild. When it appeared likely Tokyo and Moscow would reach a compromise over the disputed "northern territories," Dulles scuttled the chance by threatening to occupy Okinawa permanently.

Hatoyama's tacit support of efforts by Japanese firms to expand trade with China also offended Washington. The Eisenhower administration's outlook was epitomized by Treasury Secretary George Humphrey, who declared "we could not hope to keep Japan as a loyal ally. . . if it became dependent economically on Communist China." Trade would hand the "Chinese Communists a terrible club to hold over Japan." At the same time, Dulles believed that American consumers would shun Japanese products as merely "cheap imitations of our own." The only "solution" for Japan, Dulles argued, was to sell goods to and obtain raw materials from "presently underdeveloped areas such as Southeast Asia."

When Hatoyama resigned in December 1956, United States' representatives in Japan renewed their campaign for Kishi. Over the previous three years he had further ingratiated himself to the Americans by providing "inside" information about LDP policies, finances and personalities. He convinced American diplomats that he was the only politician capable of halting Japan's drift toward neutrality abroad and toward Socialism at home.

In a close party vote, Ishibashi Tanzan, the least pro-American among the major LDP leaders, edged out Kishi. One American diplomat complained that the U.S. put its "money on Kishi, but the wrong horse won." If Hatoyama proved a disappointment, Ishibashi terrified the Eisenhower administration. U.S. diplomats described him as a "headstrong rabble rouser" who "never got over the personal affront of having been purged during the Occupation." When Ishibashi declared that the "era of more or less automatic compliance with American wishes on China was over," Washington braced itself for battles with Tokyo over China, and anticipated demands to recover Okinawa and dump the security treaty.

Only Ishibashi's declining health and resignation after two months in office averted a crisis. When the LDP finally selected Kishi as prime minister in February 1957, Washington heaved an audible sigh of relief. Kishi reasserted his loyalty to America's Cold War strategy, pledging to limit contact with China and, instead, to focus Japanese economic attention on exports to the United States and mutual development of Southeast Asia.

Still, American policymakers recognized that their troubles were hardly over. The recently merged Japan Socialist Party garnered public support with its calls for economic reform, an opening to China, and a campaign to rid Japan of its humiliating military pact with the United States. U.S. political analysts predicted that in the Diet election expected in the spring of 1958, the JSP might win nearly as many seats as the factionalized LDP.

The recently appointed ambassador to Tokyo, Douglas MacArthur II (the general's nephew), described Kishi as the only Japanese politician able to stem this tide. The U.S. needed Kishi as prime minister, MacArthur informed Dulles, but Kishi could only hold on to power if Washington agreed to revise the security treaty. Japan, MacArthur warned early in 1957, faced a "turning point." Without movement toward treaty reform and Kishi's hand on the tiller, relations with the U.S. would deteriorate "in an atmosphere of acrimony and mounting hostility." Japan would turn toward neutralism or even an accommodation with the communist bloc.

Dulles was persuaded that the United States had little choice but to negotiate a new treaty if it hoped to retain base rights and keep the LDP in power. He described himself "at the point of having to make a Big Bet" on Japan and agreed with his advisers that Kishi was the "only bet we had left in Japan." Dulles and Eisenhower resolved that "the time had come to take the initiative in proposing a readjustment" to the security treaty and to bolster Kishi. The decision led to both Kishi's triumphant June 1957 visit to Washington and the CIA payments.

In the aftermath of Kishi's visit, it appears that Eisenhower was persuaded to approve a plan for the CIA to begin influencing Japanese politics. With the aim of both strengthening Kishi's grip on the LDP and stemming Socialist gains in the upcoming Diet election, the CIA utilized nominally "private" Americans to deliver money to Kishi's circle within the LDP. This allowed both donor and recipient to deny any official foreign involvement. Additional money reportedly went to so-called moderate elements within the JSP, with the aim of securing political intelligence, boosting their numbers, and encouraging ideological warfare within the party. While the exact amount of secret funding remains uncertain, sums as high as \$10 million may have been spent annually between 1958 and 1960.

The investment paid off handsomely. In the May 1958 election to the Diet's lower house, the LDP retained nearly all its seats while the frustrated Socialists fell to bickering, culminating in a party split at the end of 1959. Meanwhile one of the Americans involved in the operation remarked cynically that Japanese politicians proved they were like those everywhere else--anyone was welcome to play in their game as long as they put up the money.

During the next 18 months Kishi collaborated closely with Ambassador MacArthur in revising the security treaty. The U.S. agreed to scrap many of the most unpopular elements of the 1951 pact in return for the right to retain air, naval, repair, and logistic facilities in Japan--along with a secret protocol preserving the right to move nuclear weapons "through" Japan. The importance of these bases, and those in Okinawa, became abundantly clear during the Vietnam war.

In January 1960, Prime Minister Kishi flew to Washington to sign a revised mutual security treaty. President Eisenhower welcomed him warmly and the American press lavished effusive praise on the visitor, barely mentioning the demonstrations against him and the treaty when he left Tokyo. *Time* magazine graced its January 25, 1960, cover with a portrait of a smiling Kishi against a background of humming industry. The prime

minister's "134 pound body," *Time* noted, "packed pride, power and passion--a perfect embodiment of his country's amazing resurgence." *Newsweek* trumpeted the arrival of a "Friendly, Savy, Salesman from Japan." The revised treaty, along with the ubiquitous Sony transistor radios shipped to America, *Newsweek* explained, symbolized the U.S. alliance with the "economic powerhouse of Asia."

American leaders and journalists were baffled by the tumultuous opposition to the security treaty that swept Japan a few months later. Clearly, they mistook Kishi's popularity in Washington for broad acceptance of his policies by the Japanese people. In part, this was a price the United States paid for its manipulation of Japanese politics during the 1950s.

In June 1960, as soon as the new treaty became effective, the United States withdrew its support from Kishi--who now seemed like damaged goods. In a splendid irony, American officials secretly approached the elderly Yoshida Shigeru, offering to provide financial support to one of his proteges who might be able both to calm protests in Japan and cooperate with Washington.

Although the Kennedy administration in 1961 continued secret payments to the LDP and other parties, it viewed trade expansion as a better way to stabilize Japan and bind it to the United States. President John F. Kennedy's advisers envisioned a future in which Japan doubled or tripled its exports to the U.S., making Japan so dependent on American consumers that it could never contemplate neutrality! But just as support for Kishi had unintended consequences, this trade strategy contributed to an economic transformation barely imaginable to leaders on either side of the Pacific.

MICHAEL SCHALLER is a professor of history at the University of Arizona and author of *The United States and China in the Twentieth Century* (1979), *The American Occupation of Japan: The Origins of the Cold War in Asia* (1985), and *Douglas MacArthur: The Far Eastern General* (1989), all published by Oxford University Press. This article is reprinted in English from the Japanese version in *This is Yomiuri* and is used with permission.
