

THE FISCAL POLICY IN RELATION TO ECONOMIC AND SOCIAL DEVELOPMENT AFTER 1945 IN JAPAN

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CHAPTER I

THE BACKGROUND

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Today, I have to give my speech on the fiscal policy in relation to economic and social development after 1945 in Japan.

In order to make clear the circumstances after the Great war, it is necessary, I think to refer to the background of Japanese economic and social development. In this meaning, for a while, I should like to give a general historical review of the relations between the fiscal policy and the economic and social development in Japan. At the outset I will refer to the national policy that was employed by the Meiji Government after the Restoration (1868).

The national policy adopted by the leaders of Meiji Government, as will be shown later, was the measure "to increase national wealth and to have strong standing army (and navy) for the sake of national defense" It is not too much to say that this policy, having been continued for a long time, gave wide and penetrating influences on our national economy. The governments after Meiji era were fundamentally subject to the influence of this national policy.

Speaking shortly, the essential feature of this policy is found in that the government contributes in no small measure to capital-formation in the private sector of national economy in order to make the increase of national products and economic growth possible, by means of its fiscal means. So far as this feature is concerned, it is not changed even after the 2nd World war. Since 1945 Japan has not been able to expend much money for national defense, but she has given every facilities and conveniences to the private sector.

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Well, we must enter into our subject.

Japan had been lagging far behind the western countries in the development of the so-called capitalistic economy, owing to the national isolation policy of Tokugawa Régime (Bakufu) for three hundred years. But after the overthrow of ancient régime, leaders of Meiji revolutionary Government made desperate and frantic efforts to introduce Occidental Civilization inclusive of various sciences, technology and technique, political, economic and social institutions, in order to catch up with advanced-senior nations in the West. It cannot be denied that at the beginning of Meiji era our country was on the brink of being colonized by advanced senior nations under the pressure of their overseas commercial policies.

Under these circumstances, leaders of Meiji Government were enforced to employ the strong policies in order to establish the capitalistic system of national economy as quickly as they can. It was natural that their national economic policy, like the national economic policy of western countries at the formation of their modern states, was mercantilistic. It may be reasonably said that the economic measures employed and pushed forward by Meiji Government under the catchword of "Wealth of Nation and Strong Standing Army" or "National Prosperity and National Defense", was a sort of mercantilism.

With regard to the meaning of mercantilism, we have various interpretations, as you know. But, in spite of many different explanations, I think, with C. Brinkman and H. Sultan¹, both of the modern states and the modern capitalism have the same origin, that is to say, the same social-cultural-facts (environments, surroundings) produced modern states and capitalism.

By the way, we must pay our attention for the circumstances mentioned above, in studying and making clear of the relation between fiscal policy and social-economic development in Japan. If it is admitted to say in a word about the features of our national economy, generally speaking, we can define that our successive government have done much toward

1) Carl Brinkmann, *Die moderne Staatsordnung und der Kapitalismus*, GDS. IV. Abt., 1 Teil, Tübingen 1925, S. 52. Herbert Sultan, *Die Staatseinnahmen, übingen* 1932, SS. 31-32.

the economic development by promoting capital formation of this country, giving firms and undertakings in important industries of private sector many fiscal assistances.

After abolishing many feudal restrictions and shaking off fetters of ancient régime that had hindered economic and social development for a long time, leaders of Meiji Government did their best to prepare the pre-condition that had been necessary to enable our national economy to grow in a new and capitalistic order. They established the new monetary system. They introduced modern banking and credit system as well as corporation system, by which our economic transactions could be carried out in large scale all over the country. They established and managed even the government model-factories, which were transferred to private sector later on, in the field of important industries, for example, in textile and in heavy iron industry.

Meiji Government gave too the private sector many facilities, assistances, bounties and subsidies, and loan without charge to get new machines, in order to increase the national production.

Railway and telegram-telephon system necessary for making economic actions active and promoting production and distribution of goods and services were introduced and managed by the Government. (Even today telegram-telephone industry and a large part of railway are substantially owned and managed by the Government, notwithstanding these enterprises were reorganized as public corporations with monopolistic tobacco industry after the 2nd World War.

The development of marine transportation has been due to the protective shipping policy of the Government. In this connection, it is not too much to say that Mitsubishi Zaibatsu (it was one of the biggest Konzern in Japan before 1945) could not be formed and organized without fiscal advantages by Yataro Iwazaki, who, getting many ships — ships disused after the subjugation of Formosa — disposed of by the Government and receiving much subsidy-money became the eminent big shipping agent.

Well, many capitalistic enterprises were, in the manner mentioned, promoted and stimulated by the aid of Government. Above all, we must pay our attention to the facts that the efforts paid by the Government for the sake of promoting the growth of textile industry and the repletion-solidification of iron-steel industry were remarkable.

In this connection, we must bear in mind that the economic growth and increase of national wealth of Japan up to nineteen-thirties were largely due to increasing production and export of textile goods. Although the time when Japan became the country of heavy industries in real sense began after 1931 (Manchurian Incident), up to nineteen-thirtieth a large part of iron and steel industry under the control (ownership) of the government, and since it was transferred to the corporation in private sector, has been given much financial and administrative assistances to this industry.

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The facts and relations mentioned above show us that capital necessary for economic growth and increase of production of our country has been supplied with, to a wide extent, directly and indirectly under the protection of the government. Expressing in another way, Japanese economic history from the beginning of Meiji era to nineteen-thirtieth would suggest us that accumulation of capital equipments necessary for economic development of this country were made possible to a large extent by the government's policy and its fiscal measures.

We can ascertain these circumstances more distinctly by analysing systematically the details of all annual budgets since eighteen-eightieth, in which we can find how much money were expended to realize the policy of giving fiscal aids.

It is not only through government's expenditures, but also through long term credits given by the financial institutions mentioned below, that capital formation were promoted in order to expand national economy. And all of these financial facilities or institutions were established by Meiji Government as semi governmental banks (so-called Special Banks). Excluding the Central Bank (Nippon Ginko), there were Japan Hypothec Bank (Nippon Kangyo Ginko), the Industrial Bank of Japan (Nippon Kogyo Ginko), Yokohama Specie Bank (Yokohama Shokin Ginko) and Hokkaido Colonial Bank (Hokkaido Takushoku Ginko)². Being established by Meiji Government's economic policy, all of these banks aimed, as semi-governmental institutions, at supplying industrial (inclusive of agricultural and mining) and commercial enterprisers with neces-

2) After the War, all of these banks were incorporated into the private sector and reorganized as city banks.

sary capital fund wanting in the private sector on terms advantageous to them (low rate of interest and a long term loan). On the other side, these special banks needed hardly attract deposits from people, on account of that they could borrow mainly much money from Government Trust Fund (formerly Okurasho Yokinbu, now Shikin Un Yobu Shikin) on very low rate or interest.

Formerly	Now
Nippon Kangyo (hypotec bank mainly for loan on real property)	Nippon Kangyo (common deposit bank)
Nippon Kangyo (Industrial bank)	Nippon Kangyo (not changed in business)
Yokohama Specie (foreign exchange)	Tokyo Bank (not changed in business)
Hokkaido Takushoku	Hokkaido Takushoku (Common deposit bank)

Although these banks became city banks, after the War, our successive governments has established many semi-governmental financial institutions and facilities in order to supply the private sector with industrial and commercial capital. The so-called fiscal investment and loan program in Japan is being carried out mainly through these semi-governmental financial institutions.

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Showing a historical sketch of our economic development, we have accounted for that Meiji Government, at first, gave many contributions to capital-formation in this country with fiscal measures, and this fiscal policy concerning to supplying the industrial and commercial undertakings in private sector with the means to arrange capital equipments has been followed by successive governments.

Then, next problem to be answered is the following : where has been the source of revenue and the ways and means capable of carrying out this policy looked for? When Meiji Government was set up, Japan was still essentially an agricultural country, and our national economy had to rely on agricultural production for the time. So, it was a natural course that Meiji Government, laying down Land Tax Law (1873-) on the basis of modern proprietary rights, had to depend mainly upon newly reformed land tax in its financial revenue. Thus the land tax revenue became main revenue source for a long time.

The next figures show us the transformation of ratio of land tax revenue to total national tax revenues.

FY	A. Land tax revenue	index N.	(1,000 yen)	A
			B. Total national tax revenues	B
1877	39,450	100	47,923	82%
1897	37,964	96	89,322	43
1916	73,274	186	348,672	21
1926	68,728	174	886,999	8
1935	58,042	147	899,899	6
1939	48,234	122	1,745,937	3

By this tabular matters, we can affirm that from the beginning of Meiji era to the first World War land tax revenue was a dominant and effective one among government's revenues, and the government finance had depended largely upon this land tax revenue, although with development of industry and commerce, ratio of land tax revenue to total national tax revenues was decreasing. After 1920s, the government finance could depend upon many indirect taxes among which liquor tax and revenue from tobacco monopoly were dominant, and gradually on income tax in its revenue³.

At any rate, the circumstances that the government finance was dependent largely upon land tax revenue for a long time would reveal the following fact. It is not too much to say that almost all of added values produced in agriculture were invested in industry and commerce through the government finance. It is sure, roughly speaking, that these added values were not reinvested in agricultural production, and in consequence of the affairs, standard of living of many farmers could not be so much improved as that of manufacturers and merchants in the city, notwithstanding the betterment of technical-managing method in agricultural production. In short, it may be said that the capitalistic development of our economy, the growth of industrial production and enlargement of market had to be carried out at the cost of agriculture⁴.

3) We must pay our attention to the facts that the government finance could rely on income tax inclusive corporation tax in its tax revenue just after 1928 FY. In 1927 FY. income tax revenue was still below liquor tax revenue.

4) After the 2nd World War, this circumstances have been changed by Land Reform. Owing to this reform, this time, we have to transfer much income from non-farmers to farmers through public finance.

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Here again, it is time to refer to *fiscal investment and loan program*. This measure, at present, has two related functions, one of which is to supply public corporations (Japan Monopoly Corporation, Japan National Railways and Japan Telegram & Telephone Public Corporation) with investment capital from government funds, and another of which is to supply industrial and commercial enterprisers of private sector with investment capital from government funds. Further, this program is expected to serve as an effective means of counter-cycle policy, together with public finance in narrow sense. In other words, our fiscal policy of today is carried out by balancing of revenue and expenditure and by this program.

So far as the first measure is concerned, it has been an influential means to supply industry and commerce with capital fund since Meiji era. And it has been carried out by lending entrepreneurs of private sector necessary money through semi-governmental financial institutions mentioned above.

Referring to government funds to be used in fiscal investment and loan program, we can mention Industrial Investment Special Account, Trust Fund of Trust Fund Bureau, Post Office Life Insurance Fund and Fund raised by Public Offerings Bonds. The recent size of these funds available in each F. Y. is shown in next table.

Source of Fiscal Investment and Loan

Item	(In hundred millions of yen)	
	1965 F.Y.	1966 F.Y.
Industrial Investment Special Account	557	480
Trust Fund	10639	12361
(Postal Savings)	(3800)	(4900)
(Welfare Pension)	(3260)	(4052)
(National Pension)	(492)	(585)
Post Office Life Insurance Fund	1100	1700
Fund raised by Public Offerings Bond	3910	5732
TOTAL	16206	20273

In this connection, the present situation of income tax burden on lower income classes is to be considered. (See my another paper concerning to the relation between progressive taxation and distribution of national income.)

Among government funds mentioned, Trust Fund of Trust Fund Bureau (Shikin-Unyobu-Shikin, formerly Okurasho Yokinbu) and Post Office Life Insurance Fund are important. Before 1953 F. Y. the latter is a part of the former, but these two funds have been separated since 1954 F. Y. Money to be reserved in these funds are largely and mainly derived from people's saving, installments paid by pensioners in Welfare Pension and National Pension, and installments paid by participants in Post Office Life Insurance. So, therefore, it may be said without exaggeration that a large part of these funds is collected from lower income groups.

In spite of this circumstance, the volume of these funds accumulated is so large that without these funds the government can hardly carry out its fiscal investment and loan program. According to recent official statistics, total sum of deposits of all (86) banks except the Bank of Japan is 22808 milliard yen in 1966, and the entrusted fund of Trust Fund reaches to 6238 milliard yen in the same year⁵. Ratio of the latter to the former is about 25%.

CHAPTER II

The fiscal policy in relation to economic and social development after 1945 in Japan

A) *National economy and fiscal policy during reconstruction and recovery.*

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Japan has lost Korea, Formosa, Okinawa and many islands by her surrender. She has also lost many lives not only in these areas but also in the civilian front. Moreover, she has lost the great part of her productive

Further, it must be noticed here that the government finance of today is mainly dependent upon income tax on lower income classes, gasoline tax, corporation tax and indirect taxes (liquor tax commodity tax and revenue from tobacco monopoly etc.) in its tax revenue.

5) Remarks, Quarterly Bulletin of Financial Statistics, 1st and 2nd Quarter, 1967 F. Y.,

— Research Section, Minister's Secretariat, Ministry of Finance, Japan. June 1967.

capital-equipments that were accumulated in consequence of her people's untiring and unremitting efforts since Meiji era.

This is the very situation in which Japan was laid before her economic reconstruction. In order to reconstruct her national economy and raise the level of her national production in agriculture, mining and industries, all possible efforts were exerted by the government and people standing on the burnt ground. Just after the War's end, the level of agricultural production was about 60% in comparison with that before the War; the production-level of mining and industries, on the average, was about 30% of the level of mining and industries before the War.

Although it may be requested to follow the process of Japanese reconstruction and recovery after the War in detail, to my regret, I should like to reserve this following for another occasion.

So, in this place, I must report immediately the circumstances concerning to how Japanese economic reconstruction and recovery were made possible in a very short time.

In order to raise the level of production, it was urgently necessary to supply the impoverished industries with a plenty of labour and sufficient capital-equipments. Fortunately there were many available labourers. But, on the contrary, according to the abuse and exploitation of capital-equipments during War, and according to the destruction of many factories and machines by bombing from the air, a large part of productive installations were severely damaged with necessary materials.

Being faced with this fact, it was the urgent necessity to reconstruct and replenish these lost-destroyed capital-equipments at that time.

Now, frankly speaking, here, we must be contented with making clear the following reasons. That is to say, how was the reconstruction and restoration of capital-plants and machines financed? Answer as follows.

Chronologically following, firstly the price adjustment expenditure, secondly advance of funds by The Reconstruction Finance Bank⁶, thirdly advance of funds from The U.S.A. Aid Counterpart Fund⁷ contributed to the economic reconstruction and made the postwar economic growth possible.

6) See annexed paper on The Reconstruction Finance Bank.

7) See annexed paper on the U. S. Aid Counterpart Fund.

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It was the main object of the government just after the war, by means of the price adjustment expenditure, to maintain the stability of prices of important commodities (for example, foodstuffs such as rice and wheat, coal, iron and others such as chemical manure), and to check the fluctuating general prices. Really and strictly speaking, it was almost impossible to give check on the general rising prices. The government was just able to restrain the rising prices of important articles within a certain extent. In spite of this, the government had to give much subsidy-money to the producers of such articles from its tax revenues, for the sake of its price adjustment policy. Thus, the government could not prevent the price adjustment expenditure from increasing yearly. Ratio of this expenditure to total expenditures in General Account is 25% (inclusive of direct exp. and indirect exp.) in 1947, 27% (direct exp. and indirect exp.) in 1948, 28% (only direct exp.) in 1949. Only at making up the so-called over-balanced budget in 1950 — just after this year the real policy of stabilizing national economy was introduced — this expenditure could be reduced to 13%. At any rate, total sum paid to private sector by the government as the price adjustment expenditure was considerably vast.

In spite of its large sum, this price adjustment expenditure served only as the means of maintaining indirectly the existing conditions of capital-plants through restraining the prices of important goods to a certain extent.

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On the contrary, the financing of The Reconstruction Finance Bank (RFB) did much toward the reconstruction of capital equipment of the important key industries, notwithstanding that it caused a severe inflation (RFB - inflation). It was recognized evidently that the fiscal policy to stimulate and promote production was carried out at the cost of inflation. To our regret, it was an undeniable fact that the slogan More inflation and More production was supported even by the government authorities. It may be said that the merits and demerits of RFB offset each other. The details of RFB will be shown in annexed paper.

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At any rate, we could recover our national economy to a certain extent — up to 80% of production-level before the war — by reconstruct-

ing and replenishing capital-plants owing to RFB-finance and the price adjustment expenditure. But the recovery was not sound. It was the time to let national economy undergo an. In order to stabilize it completely and make its recovery possible stabilization was necessary. So, in 1949, the government had to introduce seriously and carry out the economic stabilization policy. The financing operation of RFB was suspended by the order of GHQ. U.S. Aid Counterpart Fund, which up to that time had been utilized as export-and-import-subsidy, began to serve as a substitute for RFB - Fund. The details relating to U.S. Aid Counterpart Fund will be reserved for annexed paper. The contribution of this Fund to the consolidation of the electric power was remarkable. About 20% of the equipments and supplies of this industry owed to this fund.

Now, taking notice of the time-limit, we must give up the idea of sticking to the details relating to the reconstruction and recovery process, and refer to the fiscal policy after 1950 that has been doing much toward Japanese economic growth.

B) The Fiscal Policy in the Postwar (after 1950) Japan
— in relation to economic growth —

Frequently, it is mentioned that the postwar Japanese economy has a high rate of economic growth. There are many reasons of it. However, in this place, I want to concentrate our attention to what a role the public finance has played in the process of economic growth.

It may be said that the administration of public finance in the postwar Japan has contributed to promote economic growth. I think, in many developed countries, the national policy decision is based on many considerations, for example, economic policy consideration, social security consideration and national defense (military) consideration and so on. However, in the postwar Japan, the economic policy, especially economic growth policy consideration plays a dominant role in the making decision of national policy. It is so in the area of fiscal policy. Therefore, the character of public finance has been a type of promoting economic growth. That is, the fiscal administration has been devised so as to stimulate private investment and capital-accumulation through the public finance itself.

§ 1. Capital accumulation through the public finance itself

In the following table, we can find that the postwar Japanese public finance is relatively small in its size but is a type of promoting economic growth.

Ratio of public finance to G. N. P.

	(national and local, 1950-1960, %)		
	revenues	expenditures	investment expenditure
Japan	21.3	19.8	4.8
U. S. A.	26.0	26.3	2.3
U. K.	31.0	31.5	1.4
W. Germany	35.7	31.7	2.7
Italy	30.8	30.7	2.5

	ratio of investment expenditure to total expenditures		ratio of surplus to revenues	
		surplus		
Japan	24.2	6.4	29.8	
U. S. A.	8.8	2.1	8.0	
U. K.	4.4	1.0	3.1	
W. Germany	8.5	6.7	18.9	
Italy	8.1	2.6	8.4	

That is,

- 1) The ratio investment expenditure to total expenditures is very high. Therefore, the public finance is the type of high investment.
- 2) The ratio of surplus to total revenues is very high. Therefore, the public finance is type of high saving.

What is the reason of it? Regarding to high investment type, we must mention that the expenditure on national defense and the expense of public debt are on very low level. On account of this, there are a margins to spend more on other expenditures. In Japan, the government has only small debt, owing to two reasons. One reason is that a large amount of public debt accumulated in the prewar period was redeemed really in the process of postwar hyper inflation. Second reason is that

the postwar public finance was administered without public debt under the provisions of "Fiscal Law" article 4 and 5 (the article 4 provides that the public debt issued to raise general revenue other than for public works, public investment and loan is prohibited. The article 5 provides that the public debt undertaken by the Bank of Japan is prohibited completely). Therefore, there is only small debt. See next table.

The cumulative balance of public debt (1964)

	A) G. N. P.	B) balance of public debt	C) size of public debt	B	B
				—%	—%
				A	C
Japan	256,681	13,492	57,504	5.3	23.5
U. S. A.	628,700	317,274	122,395	50.5	295.0
U. K.	30,960	30,411	8,543	98.3	356.3
W. Germany	376,500	33,287	58,767	8.8	56.6
France	431,900	87,969	101,430	20.4	86.7

Japan (100 million yen) U.S.A. (a million dollar)

U. K. (a million pound) W. Germany (a million D. M.)

France (a million F.)

The composition of public expenditure

	(1965 fiscal year, a hundred million yen)				
	Japan %	U.S.A. %	U.K. %	W Germany %	France %
defence	3014(8.2)	188260(51.7)	21369(25.0)	18194(31.6)	14588(21.7)
social					
security	6835(18.7)	47281(13.0)	19202(22.5)	17613(30.6)	12577(18.7)
public					
work	7359(20.1)	18214(5.0)	5050(5.9)	4930(7.6)	3620(5.4)
interest					
on debt	86(0.2)	41975(11.5)	11844(13.9)	1083(1.9)	4159(6.2)
others	19287(52.7)	68127(18.7)	28034(32.8)	15734(27.3)	32411(41.1)
Total	36581(100.0)	363858(100.0)	85499(100.0)	57554(100.0)	57355(100.0)

Moreover, we must refer to the low level of national defence. It is due to the provision of the "Constitutional Law" article 9 (it provides a limitation of a military preparations) on the one side, and also it is due to the reflection of national mind to avoid war on the other side. The above table concerning to composition of public expenditure will make clear these circumstances.

Next, on the high saving type of the Japanese public finance. There are some reasons of it. The first reason is that the postwar Japanese fiscal administration had taken a principle of balancing the budget. Secondly, it is due to that postwar economic growth is so rapid and always so exceeds a prediction that the increase of tax revenue is very large and exceeds an estimate of it. Third reason is that the fiscal authority underestimated always a tax revenue in order to arrest increase of public expenditures. Consequently, the revenue exceeds the expenditure largely and there was an annual budget surplus. According to the Fiscal Law, this budget surplus is carried over to the budget of two years later. Then, this amount could not be spent during two years.

Therefore, this surplus becomes a sort of saving from the view point of national economy. The next table relating to the settlement of the general account in the last decade will make clear the situation mentioned above.

The settlement of the general account

fiscal year	revenues	expenditures	surplus	(1954-63, a hundred million yen)	
				surplus	— % revenues
1954	11,851	10,408	1,443		12.2
1955	11,264	10,182	1,082		9.6
1956	12,325	10,692	1,633		13.2
1957	13,999	11,877	2,122		15.2
1958	14,537	13,316	1,221		8.3
1959	15,972	14,950	1,022		6.4
1960	19,610	17,431	2,179		11.1
1961	25,159	20,635	4,524		18.0
1962	29,476	25,566	3,910		13.2
1963	32,312	30,443	1,869		5.8

§ 2. The postwar public finance stimulated the private investment

Next, I am going to explain that the postwar public finance has stimulated the private investment and promoted the economic growth. This process of public finance has two aspects. On the one hand, the public finance stimulated the private investment through the tax system, fulfilment of social overhead finance has made high rate of investment possible without inflation. I shall refer to first point in this place.

(1) The fulfilment of social overhead capital.

In the process of Japanese economic growth, there has been important bottlenecks in social overhead capital e.g. in roads, in railways, in port equipments and so on. So, the government has intended, by its fiscal measure, to fulfil these deficiencies of social overhead capital through public works, public investment and loan etc. The next table, by showing the percentage of public work expenditure in the general account, will make clear it.

The expenditure on public works
(a hund million yen)

fiscal year	A) total expenditures	public works B) expenditure on	A
			—%
			B
1935	22	11	5.0
1955	10,133	1,445	14.3
1957	11,846	1,754	14.8
1959	15,121	2,599	17.2
1961	21,074	4,036	19.2
1963	28,500	5,134	18.0
1965	36,581	7,359	20.1

This fulfilment of social overhead capital made the high rate of private investment possible.

(2) The promotion of private investment by the fiscal investment and loan.

The government has promoted the private investment by its fiscal investment and loan policy. See the following table.

The composition of fiscal investment and loan
(1953-59, a hundred million yen)

	1953	1954	1955	1956	1957	1958	1959
investment & loan to key industry	1090	855	707	602	928	884	1343
investment & loan to private firm	634	621	747	877	1356	1474	1622
investment & loan to government enterprise	210	127	160	83	135	310	397
purchase of local government debt	1033	941	867	840	840	850	850
others	—	—	1	10	10	—	10
Total	2967	2544	2482	2413	3268	3518	4222

(3) The encouragement of private investment by the tax system. The encouragement of private investment by the tax system has played an important role in the postwar Japanese economic growth. That is to say. In the Japanese tax system, there are some provisions relative to tax free reserves or allowances. These provisions have contributed to increasing of the internal reserves of corporated companies, and therefore encouraged the capital accumulation and economic growth. It will be made clear in the next table.

The cumulative amount of tax reduction and exemption according to the provisions relative to tax free income and tax free reserves

(1952-67, a hundred million yen)						
fiscal year	1952	1953	1954	1955	1956	1957
tax free income	74	115	178	385	513	806
tax free reserves or allowances	896	1906	3012	4054	5310	6280
fiscal year	1958	1959	1960	1961	1962	1963
tax free income	523	472	493	691	373	576
tax free reserves or allowances	7197	8337	9671	11077	11945	13171

Here, the tax free income implies incomes accrued from export trade, production of new important goods and so on. The tax free reserves or allowances imply reserves or allowances for the fall of price of inventories or securities, retirement allowance, export trade losses etc.

(4) The encouragement of personal saving by the tax system.

There are some other factors related to economic growth in the tax system. For example, the interest of personal deposit is exempted from progressive income tax but imposed at flat rate 10%. This is intended to encourage personal savings. Moreover, there are some other example like this in the tax system.

However, usually, the effect of such treatment are considered as doubtful. Because the personal saving may be considered as remarkably independent of interest rate. This reasoning is based on the recent experiences that personal savings has continued to increase in spite of a rising trend of consumer prices.

§ 3. The public finance made the high rate of private investment possible without inflation

Previously, I mentioned that there was an annual budget surplus every year in the postwar Japanese public finance. The high rate of investment without inflation was due to these circumstances.

The fundamental factor supported the economic growth was the high rate of private investment. Especially, the private fixed investment that was over 30% of G.N.P. in 1959-61 caused economic growth at high rate. This private investment was chiefly financed by borrowings from banks. As to this, there are some reasons, one of which is the insufficient situation of capital market, other reason lies in the insufficient internal reserves of firms and the tax system that gives its favours to borrowings than stock issue etc.

There was very large investment financed by borrowings from banks so that there was a shortage of fund to banks. Then, this shortage of fund of banks was financed by borrowings from the Bank of Japan. Thus, the volume of currency in circulation began to inflate. There was a danger of inflation. But there was no hyper inflation after 1950.

Why? The answer may be found budget surpluses that absorbed excess currency. Of course, there were some other causes also, it was due mainly to the absorption that we could avoid inflation.

However, in this process, the function of funds changed. They absorbed much money by taxation from national economy. This measure reduced consumption funds of people. See the next table.

The composition of tax revenue

(1965 fiscal year, a hundred million yen, %)

		%			%
Direct taxes	20658	58.9	Indirect taxes	14403	41.1
personal income tax	9891	28.2	liquor tax	3889	11.1
corporation income tax	10357	29.5	gasoline tax	2679	7.6
inheritance tax	409	1.2	sales tax	1639	4.7
			custom duties	2847	7.1
			contribution of tobacco monopoly co.	1655	4.7
			others	1876	5.9

On the contrary, as an inflow of fund to national economy, banks lent investment fund to firms. Therefore, in this process, consumption was reduced and investment was encouraged.

**§ 4. The recent situation of Japanese public finance
— the change of the pattern of fiscal administration —**

So far, I have discussed some effects of the government finance on the postwar Japanese economic growth. In short, the postwar Japanese public finance was a type of promoting economic growth. However, in last few years, there is a drastic change of the pattern of fiscal administration. That is to say, The day of annual budget surplus has passed and administration has changed its character from a balanced budget to a deficit budget.

This conversion of the pattern of fiscal administration has been caused by the falling rate of economic growth after 1966-67. This fall of rate of economic growth has caused the falling rate of increase of tax revenue. But, in spite of such a situation, the public expenditures have been increasing at a considerable high rate. It is an important cause of the deficit budget. On account of this, the public debt was issued in order to finance this deficit. Its amount is 250 billion yen in 1965 fiscal year, 730 billion yen in 1966 fiscal year, and 800 billion yen in 1967 fiscal year. The governments finance is changing its character, by accumulating public debt. The fiscal policy seems to threaten us with the fear of cumulation of public debt may lead to inflation.

**§ 5. Has national welfare increased in the process of economic
growth?**

Owing to the remarkable economic growth that has been made possible by the economic and fiscal policies of the government, the national welfare has been increased to some extent. Labourers are employed almost fully, and the level of their nominal wages is rising. The social services given by the government are increasing. National pension system, has been introduced, and national medical insurance has been filled up a little. Many people have been given the opportunities of getting a fair amount of education, especially liberal, commercial, technical, business and even university education, under the education system based on democratic principles after the War.

We cannot deny that all of these betterments have done much toward the increase of national welfare. But in spite of these conditions, we cannot refrain from taking it for a superficial and ostensible improvement. The government cannot always stabilize the general price level, especially consumer's price level. Prices of many commodities relative to people's living are rising considerably. The real wages seem to be falling. The real tax burden of the people has been never reduced, notwithstanding that the tax-reduction measures were introduced by the authorities yearly. In this connection, we would like to point out the facts and relations mentioned in my another lecture. The facts and relations are that Japanese tax system depend, even today, considerably upon the income tax on relatively lower income classes and upon the regressive indirect taxes for lower income classes in its tax revenues.

To us, it seems, that in spite of the recent increase of the public expenditure for the social services, people's heavy tax burden cannot be offset fully by this increased expenditure.

Annexed paper on

1) *The Reconstruction Finance Bank (Fukko Kinyu Kinko).*

Was established in January 1947 for the purpose of supplying with the funds necessary to promote the post-war economic recovery in Japan. Its capital counted only 10 billion Yen at the opening, and rose to 145 billion Yen before the end of the year 1948. The capital should have been all financed by the government, but in fact only 25 billion Yen had been paid-up by the government. The Bank might issue the Reconstruction Finance Bond (Fukko Kinyu Saiken), whose limit was the amount of unpaid capital.

From January 1947 to March 1949 the issued bond totaled 168 billion Yen. At the end of the fiscal year 1948 (March 31, 1949) the net balance of the bond amounted to 109 billion Yen, since 59 billion Yen's worth of the bond had been repaid up to that time. A large part of the bond was financed by the Bank of Japan: the part of bond that was financed by the Bank of Japan totaled 70 billion Yen. This meant that the Reconstruction Finance Bond led to an increase in credit creation by the Central Bank. From January 1947 to March 1949 the Bank of Japan notes increased by 213 billion Yen, to which the proportion of the above 70 billion Yen is 33 percent. The inflation in that period, there-

fore, was properly called "Reconstruction Finance Inflation" (Fukkin Inflation). In the same period the effective price index number rose by about 250 per cent (from 100 to 350 per cent).

At the end of March 1949 the amount of loan of the Bank counted 132 billion Yen, of which 94 billion Yen were used for equipment fund, and the remainder 38 billion Yen for working fund. At the same time the proportion of the amount of loan of the Bank to that of all the banking system in Japan was 23 per cent for total fund, 74 per cent for equipment fund, and 9 percent for working fund. Thus it should be noted that the Bank played a very significant role in supplying with equipment fund, especially in the coal, iron and steel, manure, electric power, shipping, and textile industries. In those days the government followed an economic policy called the "priority production system", which attached the greatest importance to the coal and the iron and steel industries. Equipment fund in both industries was almost all financed by the Bank (more than 90 per cent). We must remember that the loan of the Bank consisted mainly of large loan for a small number of big business. From January 1947 to March 1949 the mining and manufacturing production index number rose by about 100 per cent (from 100 to 200 per cent).

In the fiscal year 1949 General Headquarters of the Occupation Forces prohibited the Bank from issuing any new bond and ordered to repay all the issued bond within a year with respect to so-called "Dodge Policy". From that time onward the Bank endeavored mainly to recover the bygone loan. In January 1952 the Reconstruction Finance Bank was finally absorbed by the Japan Development Bank (Nippon Kaihatsu Ginko).

2) The Special Account for the Counterpart Fund of U.S. Aid to Japan :

In the immediate post-war period Japan received the U.S. Aid in two main forms: Government Appropriation for Relief in Occupied Area and Economic Rehabilitation in Occupied Area. These aids were given all in kind. The former consisted mainly of food, manure, and medical supplies etc., while the latter consisted mainly of machinery, raw cotton, and mineral products etc., which acted as capital goods in a process of economic recovery. These goods were sold up in Japan, and the proceeds of sale was applied to trade subsidies under a multiple exchange rate

system before April 1949. (For example, the exchange rate, on an average, was 1 dollar: 130 Yen in import, while it was 1 dollar : 330 Yen in export.) It is, however, impossible to ascertain the amount of these U.S. aids in this period.

In April 1949 a single exchange rate (1 dollar : 360 Yen) was adopted with respect to so-called "Dodge Policy", and at the same time "the Special Account for the Counterpart Fund of U.S. Aid to Japan" was established by a memorandum of General Headquarters of the Occupied Forces. From that time onward the proceeds of sale of these U.S. aids goods of 306.5 billion Yen, which consisted of food etc. and raw material etc. on halves.

The amount that was financed by the Special Account in this period counted 375.6 billion Yen as follows,

	billion Yen	per cent
public enterprise	113.5	30
(Japan Development Bank)	(32.0)	(9)
private enterprise	140.0	37
(electric power)	(63.1)	(17)
(shipping)	(54.6)	(15)
repayment of Reconstruction Finance Bond	62.5	17
miscellaneous	59.6	16
total	375.6	100

From April 1949 to March 1952 the proportion of the Counterpart Fund to equipment fund in the electric power industry was 48 per cent (432 : 892 in billion Yen), and 40 per cent (427 : 1046 in billion Yen) in shipping industry. Besides, in the fiscal years 1951 and 1952 the Japan Development Bank loaned to the electric power industry about 17 billion Yen whose proportion to total loan of the Bank was 29 per cent, while the loan to shipping in industry counted 10 billion Yen (17 per cent). It should be noted that the Special Account directly and indirectly gave large funds to these two industries in this period.

On June 30th, 1952 these U.S. aids ended, and on July 31 st, 1953 the Special Account for Counterpart Fund was abolished, and its assets was succeeded by the Special Account for Industrial Investment which was established on August 1st, 1953. (By the way, Japan and the U.S.A. concluded the Mutual Security Act on March 8th, 1954.)

On January 9th, 1962 Japan and the U.S.A. concluded an agreement for the restitution of these U.S. aids. According to this agreement, the terms of obligation of Japan are as follows,

total obligation to restitute	176.4 billion Yen (490 million dollars),
term of restitution	15 years,
interest rate	2.5 per cent annually.

Japan, therefore, must pay annually 15.8 billion Yen for the first 10 years, and 6.3 billion Yen annually for the remaining 5 years. The restitution should be financed by interest revenue of the Counterpart Fund in the Special Account for Industrial Investment. Japan is now doing just so.
