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COMMENTS

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The postwar development of Japan's internationalization can be divided into three phases: 1) commodity trade liberalization; 2) liberalization of capital market; and 3) liberalization of domestic service sector.

Japan has arrived at the final phase. Present problem is that for further door-opening, Japan has to liberalize its domestic service and other inefficient subsectors of manufacturing at two levels. That is to say, Japan has to proceed with deregulation of its domestic sectors that have been protected from domestic competition for long. It is domestic liberalization that we have to start with, and unless we implement it forcefully, its international liberalization, the second level one will not be realized at all.

This will certainly involve institutional reorganization and it will be achieved only by a strong political leadership, or in case of its absence under a strong pressure from outside. A high yen rate per se will not be able to restructure and bring about a new equilibrium for more efficient resource allocation.

In contrast, there is a different view on the present trade surplus situation. That is the view which emphasize "excess saving" situation in Japan. One can argue high personal saving ratio as rational behavior of households, but it might be a one of the economic consequences of the present tax scheme.

Prof. Nakatani's paper deals with this problem from tax scheme point of view. And his view is extremely exciting owing to his implication of international tax scheme coordination. I should like to support his proposal on the *international tax summit*.

On the other hand, it is not so a well-evidenced fact that a lower tax rate or any other measure to stimulate personal saving is effective. Japanese households have been saving despite a generally low rate of return on savings.

However, there is one element in our present tax scheme that will certainly be contributing to lowering personal saving ratio if it is discarded. That is the income tax concession on interest income of "small savers." This is known world-wide by now so that I can save a trouble of explaining to you about maluse of the present scheme to evade tax.

Under the present system, most interest income accruing to time deposit or public bond are automatically added to the principal or accumulated in a different account. And generally this part of income seems to be out of savers' mind when they act as consumers.

According to my analysis, marginal propensity to consume out of interest income is significantly smaller than that out of wage income. If my estimation is correct, then abolishing the present scheme will reduce personal saving rate without affecting consumption level much. If a 20% tax rate is applied to all interest income (on the condition that real small savers will get tax returns by declaring to IRS), it is estimated that more than two trillion yen will be expected as tax revenue increase. This should give a substantial resource for the government to take an expansionary policy without enlarging budget deficit!

OK. Then what about a required tax scheme change to stimulate domestic demand in private sectors? Well, here I am not so optimistic in saying that investment tax credit or general corporate income tax reduction will enhance business spendings. So far there has not been any significant empirical result that shows a strong and significant effect of tax stimulus on business fix investment. In case of Japan a substantial lowering of capital goods price overwhelmed a small incentive given by tax credit. The recent high investment activity seems to have been a joint product of high export growth to the US and microelectronics technology development. Lowered price of capital goods might well have been a result of it and not a cause.

Now a question about how to stimulate personal spendings through any tax scheme change leads me to Prof. Teranishi's paper. His paper deals with financial aspect of I-S balance and I am impressed with the carefullness and depth shown in his paper in analyzing saving behaviors of household and firms. I should like to raise a question and wait for his response. Sometime it is asked why consumer's debt/income ratio is so low or whether Japanese consumers really stick to cash buying. Personally I view the present extremely high level of US' consumers debt/income ratio is far from healthy, but I cannot help but feeling that in our country financial intermediary has been so preoccupied with corporate financing and consumer financing has not been seriously considered. Certainly, major banks of Japan, with a grand branch office building and with a bunch of elite college graduates, are not either aiming at consumer financing or is in situation of making profit out of it. Naturally a differential between prime rate and average consumer loan rate is wider than that of the US, and the latter has been sticky in its movement over time. This situation seems to tell something about today's banking sector of Japan: A lack of competition both at the domestic level and at the international level.

Yesterday, one of the audience remarked that Session 1 and Session 2 seemed to deal with quite apart topics. That is to say, discussions on the performances of major industrial countries were proceeding on an implicit assumptions that economies are in or adjust quickly to equilibrium. Whereas in the second session discussions were focused upon protectionism, trade friction, and industrial adjustment. This makes me question the validity of discussion that are concerned with I-S balance. When one argues that excess saving of Japan's private sector necessitates her to be a capital exporter to the world, one is assuming that Japan's domestic sector is in an long-run equilibrium where resource allocation is at optimum. But this is an untenable position. For example, higher yen rate, coupled with efficient restructuring of this country's agriculture, might bring down general land price of Japan, probably providing ampler land-site and living space for city workers enabling them to enjoy larger housing space and raise their aspiration level for living standard. It will certainly affect the I-S balance of private sector. My point should be clear by now. I-S balance argument must incorporate an *ex ante* equilibrium of the economy that is brought about by new terms of trade and trade structure.

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