

# THE ANNALS OF THE HITOTSUBASHI ACADEMY

Vol. X No. 1 August 1959

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## NEW FACTS AND FIGURES ON JAPANESE PUBLIC FINANCE

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This paper is intended to give facts and figures on, as well as a brief explanation of, public finance in Japan as related to economic development. It was originally compiled as a report for the 14th Congress of *The International Institute of Public Finance* held in Brussels, September 15-18, 1958. The full text is reproduced here, with alterations and additions made necessary by the lapse of time.

### I. *Historical Outline of Japanese Public Finance and Economy*

#### (1) The Period from the Middle of the Nineteenth Century to World War I.

The development of a capitalistic economy in Japan was due in large part to financial investment by the state. Although commerce and handicraft industries had already appeared in cities in feudal times, the prevailing industry of the country during the period was agriculture. The feudal system was brought to an end and a capitalistic society was formed by the revolution which took place around the middle of the nineteenth century. At the outset, the economic strength of the population was meager and their voluntary savings alone were not sufficient for the formation of the capital required for economic development. This required the mobilization of the financial assets of the state itself. Almost the entirety of industry centering around military production was introduced from other countries under the auspices and continuing care of the national government. In addition, mining, chinaware, machine manufacturing, spinning, and

textiles, first, then such modern enterprises as banking, postal services, telegraph and telephone, and railways were established, either by the state itself or with the financial assistance of the state. With the exception of war industries, postal services, telegraph and telephone, and the railways, most of these capital establishments were later transferred to private ownership. Remarkable as the subsequent growth of private capital was, there was constant, continuing support of industry from state funds.<sup>1</sup>

Victories in the Sino-Japanese War (1894-1895) and the Russo-Japanese War (1904-1905) spurred Japan's development of her national resources. The unprecedented wave of prosperity during World War I brought a sudden increase in Japan's economic strength leading to the firm establishment of the foundation of capitalism, the development of numerous modern industries of all kinds, and the inauguration of large-scale enterprises for the development of resources in Manchuria and other regions of the Asiatic continent.

(2) The Period from the End of World War I to the Manchurian Incident.

The Japanese economy entered a period of reaction after World War I. The period between 1926 and 1931 was the rock bottom of a depression and the country suffered from overproduction, increased unemployment, price declines, and stagnation in exports. An opportunity to break the grip of this situation presented itself when the Manchurian Incident occurred on September 18, 1931, and Japan went off the gold standard on December 13 of the same year. The outbreak of the Manchurian Incident brought about an armaments expansion that led to increased military expenditures, an unbalanced budget, and a policy of intensified issuance of public bonds. The bond policy adopted during the period from 1931 to 1936, however, had the effect of artificially creating purchasing power and a corresponding effective demand for commodities. Coupled with an increase in exports growing out of a fall in the value of the *yen* on the foreign market, it had a beneficial effect on the Japanese economy, suffering at that time from under-employment.

(3) The Period between the China Incident and World War II.

The China Incident, touched off by a clash between Chinese and Japanese troops on July 7, 1937, gradually spread over the whole Chinese mainland and began to take on the status of a full-scale war. To cope with this situation, Japan's finances and economy were gradually re-organized from a peace-time to a war-time structure. This trend was further intensified upon Japan's entry in World War II on December 8, 1941, and continued until her unconditional surrender on August 15, 1945.

The special characteristic of public finance and the national economy of the period was, in short, that all available economic resources were applied to the war effort through expansion of productive capacity and economizing in private

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<sup>1</sup> See Motokazu Kimura, "Fiscal Policy and Industrialization in Japan 1868-1895," *The Annals of the Hitotsubashi Academy*, Vol. VI, No. 2 (Tokyo: Hitotsubashi University, 1956) for the relation between public finance and capital accumulation in nineteenth century Japan.

consumption. To achieve this end, governmental control was exercised over production, consumption, distribution, prices, foreign trade, and all other phases of the national economy, while at the same time measures were taken in public financing for increase of military expenditures, curtailment of general administrative expenditures, increase of taxes, and flotation of more public loans. These measures, though gradually intensified as the war advanced, did not induce any serious ruptures until towards the end of the war, the reason for this being the extreme degree of control exercised by the government with the military at its core.

(4) The Period from the End of World War II to the Present.

From the end of August, 1945, until April 28, 1952, when the San Francisco Peace Treaty went into effect, the whole of Japan was occupied by the American military, and Japan's economy and affairs of state were under the control of the Supreme Commander for the Allied Powers.

In World War II, Japan lost 44% of her territory, and air raids and other war damage destroyed 25% of her national capital resources. Productive capacity dropped, and the production index (1931—33=100) in August, 1945, was down to 27.5, as against 158.4 for 1936, the year preceding the China Incident. Until 1949, social and economic confusion, the decline in productive capacity, the shortage of food and other goods, increased government expenditures, and a general feeling of insecurity regarding the political and economic prospects of the country resulting from the defeat caused and promoted a continuing inflationary trend. During these five years commodity prices soared to nearly 60 times their levels at the end of the war. Various countermeasures were of course taken, including intensification of financial assistance aimed at industrial recovery, freezing of purchasing power through deposit blocking, a special capital levy, and the prohibition of deficit bonds. Thanks to these steps, and to GARIOA, EROA, and other aid from the United States, inflation was temporarily checked.

The Korean War, however, broke out on June 25, 1950, and the stimulus of increased demand for goods and services from the United States forces brought a boom of prosperity to Japan's economy and sent commodity prices up again. The conclusion of a truce on July 27, 1953, then decreased special procurements by the United States forces, with the result that the international balance of payments began to take a turn for the worse. To cope with this, deflationary measures were adopted in 1954, and efforts were made in public finance to control increasingly expanding outlay. As a result, Bank of Japan notes in circulation, which had been increasing annually for several years, now decreased, rising commodity prices leveled off, the international balance of payments improved, and real national income increased. Toward the middle of 1957, however, there appeared tendencies toward over-investment, over-production, and an excess of imports. Japan's foreign exchange holdings, which had been \$1,400 million as of the end of December, 1956, dropped to \$873 million at the end of June, 1957. Countermeasures have been taken to encourage exports, curtail imports,

raise interest rates, tighten public investments and loans, prevent increase in national expenditures, and lower or abolish taxes as a means of encouraging capital accumulation. These policies seem to have achieved a marked success, as indicated by statistics in the following chapters.<sup>2</sup>

## II. *Indices of Recent Japanese Public Finance and Economy*

In this chapter there are various tables showing indices of public finance and economy in latter-day Japan. All tables and computations appearing either in this or other chapters are, unless stated otherwise, as follows:

(1) Years indicated are fiscal years. A fiscal year begins April 1 of the year stated and ends March 31 of the year following.

(2) Figures for the years 1958 and 1959 are budgeted (estimated) sums. Figures for all other years are for settled accounts (actual sums).

(3) Receipts and expenditures of the national and local governments are those indicated in the general account.

(4) Figures are based on statistical data compiled and published by such governmental agencies as the Ministry of Finance, the Local Autonomy Agency, and the Economic Planning Board.

(5) The reason the average of the years 1934-36 is used as the basic unit of comparison is to show the peace-time conditions existing immediately prior to the China Incident.

(6) Unit of computation is 1000 million yen.

Table 1 *Public Finance and Economic Development*

(Unit: 1000 million yen)

Fiscal Year	Population (In Millions)	National Income	Commodity Price Index	National Government Expenditures	National Government Revenue
1926	61	12.5	115	1.6	2.1
1930	64	11.7	86	1.6	1.6
1936	70	15.5	104	2.3	2.3
1944	73	56.9	232	93.0	81.0
1947	79	968.0	4,815	206.0	214.0
1949	82	2,737.3	20,876	699.0	759.0
1958	92	8,412.0	34,500	1,312.1	1,312.1
1959	93	8,928.0	34,300	1,419.2	1,419.2

A. Commodity price indices were obtained from the *Tokyo Wholesale Price Index*, compiled by the Bank of Japan; 1934~36=100.

B. Figures for revenue and expenditures for 1958 and 1959 are those of the original budget and do not include supplementary budgets later passed by the Diet. The same is true in all other tables, unless otherwise stated.

<sup>2</sup> For details of public finance in Japan from the Manchurian Incident to date, see Hanya Ito, "Japans öffentliche Finanzen 1931-1952", *Finanzarchiv*, 13. Band, 4. Heft (Tübingen: J.C.B. Mohr, 1952).—Also contained in Hanya Ito, *Essays in Public Finance* (Economic Series No. 3, The Science Council of Japan), Tokyo, 1954.

Table 2 *Growth of National Income*

(Unit: 1000 million yen)

Fiscal Year	National Income	Real Income	Real Income Per Capita (Unit: Yen)	Index of Per Capita Real Income
Average of 1934, '35, '36	14.4	14.4	210	100.0
1942	42.1	16.1	223	106.2
1943	48.4	16.1	219	104.3
1944	56.9	15.4	208	99.1
1946	360.9	8.3	110	52.4
1947	968.0	8.8	113	53.8
1948	1,961.6	10.3	129	61.4
1949	2,737.3	11.9	145	69.0
1950	3,381.5	14.0	168	80.1
1951	4,347.5	15.2	180	85.7
1952	4,959.0	16.6	194	92.3
1953	5,647.6	17.9	206	98.2
1954	5,984.4	18.3	208	98.9
1955	6,584.0	20.0	225	107.0
1956	7,685.0	22.6	250	119.2
1957	8,340.9	24.1	265	126.0
1958	8,412.0	24.8	269	128.0
1959	8,928.0	26.1	281	134.0

In 1946, the year immediately following the end of World War II, the index of per capita income dropped to 52.4% of the peace-time level. It has gradually risen to the present 134% registering an annual increase of somewhere between 5% and 10%.

Table 3 *National Income Accounts*

(Unit: 1000 million yen)

Fiscal Year	Average of 1934, '35, '36	1956	1958	1959
Distributed National Income	14.4	7,685	8,412	8,928
Indirect Taxes	(+) 1.4	(+) 865	} (+) 1,017	} (+) 1,083
Subsidies	(-) 0	(-) 7		
Capital Depreciation Allowance	(+) 1.2	(+) 763	(+) 895	(+) 967
Errors and Omissions	(-) 0.3	(-) 18	(-) 18	(-) 22
Gross National Product	16.7	9,288	10,141	10,762
Individual Consumption Expenditures	11.0	5,416	6,170	6,510
Gross Domestic Private Capital Formation	2.6	2,256	1,811	2,000
Government Purchases of goods and Services	3.1	1,710	1,989	2,162
Current Overseas Surplus	0	(-) 94	171	90
Gross National Expenditure	16.7	9,288	10,141	10,762
Per Capita Real Consumption Expenditures (Unit: yen)	¥ 160	¥ 183	¥ 197	¥ 205
Index of Per Capita Real Consumption Expenditures	100	114	123	128

Table 4 *Distributed National Income*

(Unit: 1000 million yen)

Fiscal Year	Average of 1934, '35, '36	1956	1958	1959
Earned Income from Personal Services	5.6 ( 39%)	3,851 ( 50%)	4,373 ( 52%)	4,654 ( 52%)
Income to Proprietors of Privately Owned Enterprises	4.5 ( 31%)	2,684 ( 35%)	2,795 ( 33%)	2,874 ( 32%)
Personal Income from Rentals	1.3 ( 9%)	110 ( 1%)	413 ( 5%)	464 ( 5%)
Personal Income from Interest	1.3 ( 9%)	218 ( 3%)		
Corporate Income	1.3 ( 9%)	872 ( 11%)	858 ( 10%)	961 ( 11%)
Surplus from Government and Public Enterprises, etc.	0.4 ( 3%)	63 ( 1%)	110 ( 1%)	128 ( 1%)
Net Income from Overseas	0 ( 0%)	(-) 33 ( 0%)	(-) 48 ( 1%)	(-) 54 ( 1%)
Interest on Government and Consumers Liabilities	— —	(-) 80 (-1%)	(-) 94 ( 1%)	(-) 99 ( 1%)
TOTAL Distributed National Income	14.4 (100%)	7,685 (100%)	8,412 (100%)	8,928 (100%)

Table 5 *National Income by Industries*

(Unit: 1000 million yen)

Fiscal Year	1934, '35, '36	1957
Primary Industries	2.9 ( 20%)	1,537 ( 18%)
Agriculture	2.4 ( 17%)	1,138 ( 14%)
Forestry	0.2 ( 2%)	196 ( 2%)
Fisheries	0.2 ( 2%)	203 ( 2%)
Secondary Industries	4.4 ( 31%)	2,804 ( 34%)
Mining	0.3 ( 2%)	192 ( 2%)
Construction	0.5 ( 3%)	421 ( 5%)
Manufacturing	3.6 ( 25%)	2,191 ( 27%)
Tertiary Industries	7.1 ( 49%)	3,948 ( 48%)
Wholesale and Retail Trade	2.0 ( 14%)	1,305 ( 16%)
Finance, Insurance and Real Estate	1.5 ( 10%)	438 ( 5%)
Transportation, Communications, and Other Public Utilities	1.5 ( 10%)	847 ( 10%)
Service Industries and Others	2.1 ( 15%)	1,358 ( 17%)
Net Income from Overseas	0 ( 0%)	(-) 38 ( 1%)
TOTAL National Income by Industries	14.4 (100%)	8,252 (100%)

Table 6 *Employment by Industries*

(Unit: 1000 persons)

Fiscal Year	1940	1950	1955
Total Population	70,818	83,200	89,275
Total Employed Population	32,231 (100%)	35,626 (100%)	39,237 (100%)
Agriculture and Forestry	13,655 ( 42%)	16,526 ( 46%)	15,437 ( 39%)
Fishing and Marine Products	538 ( 2%)	682 ( 2%)	720 ( 2%)
Mining	596 ( 2%)	591 ( 2%)	533 ( 1%)
Construction	978 ( 3%)	1,531 ( 4%)	1,813 ( 5%)
Manufacturing	6,845 ( 21%)	5,690 ( 16%)	6,975 ( 18%)
Commerce (Including finance, insur- ance, etc.)	4,381 ( 14%)	4,325 ( 12%)	6,024 ( 15%)
Transportation and Communications	1,516 ( 5%)	1,811 ( 5%)	2,027 ( 5%)
Service Industries	2,887 ( 9%)	3,056 ( 9%)	4,380 ( 11%)
Government	618 ( 2%)	1,376 ( 4%)	1,326 ( 3%)
Unidentified	217 ( 0%)	37 ( 0%)	3 ( 0%)

Figures are based on the national census taken October 1 of the years listed.

Table 7 *Major Economic Indices for Recent Years*  
(Unit: 1000 million yen)

Fiscal Year	1958	1959
Total Population (Unit: 1 million)	92.0	92.9
Labour Force (Unit: 1 million)	44.2	44.8
Total Number Employed (Unit: 1 million)	43.6	44.2
Gross National Product	10,141	10,762
Distributed National Income	8,412	8,928
Private Capital Formation	1,811	2,000
Personal Consumption Expenditures	6,170	6,510
Production Index of Manufacturing and Mining Industries (1955=100)	146.3	155.2
Foreign Exchange Account		
Receipts	1,242	1,314
Payments	1,076	1,256
Balance	(+) 166	(+) 58

Table 8 *National Wealth*  
(Unit: 1000 million yen)

As of December 31, 1930 .....	110
As of December 31, 1935 .....	124
As of December 31, 1955 .....	20,327

The figure for 1955 is for capital wealth only. Figures for 1930 and 1935 include mines and other underground resources, natural forests, and military properties as well. The value of capital resources for 1935, as opposed to the total national wealth for the year, comes to 14,689,000 million yen in terms of 1955 currency values.

### III. *Types of Public Accounts in Japan*

#### (1) The Budget Structure of the Central Government

Japan's public finances consist of the finances of the central government and the finances of local bodies. Figures for local finance appear principally in Chapter XIV.

As in other countries, national finances and the budget in Japan consist of a general account and special accounts. There are also accounts of quasi-governmental organizations.<sup>3</sup>

The general account manages administrative revenue and expenditures of a general character. Its contents are dealt with in the following chapters, beginning with Chapter IV. Special accounts and quasi-governmental organiza-

<sup>3</sup> See Hanya Ito, "Staatshaushalt und Finanzsystem Japans", *Handbuch der Finanzwissenschaft*, 3. Band, (2d ed., Tübingen: J.C.B. Mohr, 1958), and its bibliography for an outline of the national and local finance systems in Japan.

tion accounts are the subject of this chapter.

(2) Special Accounts

The number of special accounts and their contents differ from year to year. There are forty-odd special accounts at present, classified into the following five groups: 1) special accounts of state enterprises and government services (such as for the operation of postal savings, state forests, and dam construction services); 2) special accounts for control and supervision (such as for the control of foreign exchange funds and staple foodstuffs); 3) special accounts for the operation of government insurance systems (such as Unemployment Insurance, Welfare Pension Insurance, Seamen's Insurance, Postal Life Insurance, etc.); 4) special accounts for investments and loans (such as public investment in key industries and the handling of public Postal Savings, Postal Life Insurance, and other funds loaned to private groups and local bodies); and 5) special accounts for the balancing and adjustment of special funds (such as for war reparations and for local allocation and distribution tax funds).

(3) Accounts of Quasi-Governmental Organizations

These accounts are for such public enterprises as the Japan Monopoly Corporation, the Japan Telegraph and Telephone Corporation, and the Japan National Railways and for such public financial institutions as the People's Finance Corporation, the Housing Finance Corporation, the Medium and Small Enterprise Finance Corporation, and the Japan Export and Import Bank. Funds for these public enterprises and corporations are provided entirely by the government, and they therefore come close to taking on the complexion of pure government offices in their public nature. The budget for these accounts total almost the same as the general account of the central government, a fact that has an important bearing upon the national economy. The revenue and expenditures of these organizations were budgets not formerly referred to the Diet for deliberation, but since 1949, have been subject to the same Diet review as the central government's budget. This came about after the Reconstruction Finance Bank, established immediately after the end of the war for the purpose of providing funds to key industries for reconstruction, issued large amounts of bonds, with the Bank of Japan as underwriter, and thus became one of the causal factors in the post-war inflation. Evidence of abuse in the handling of loan funds also came to light.

(4) Composite of Budget Receipts and Expenditures of Central National Finances

Table 9 lists the 1958 and 1959 budgets for the general account, special accounts, and quasi-governmental organization accounts.



Table 9 *Budgeted Receipts and Expenditures of National Finances*  
(Unit: 1000 million yen)

	1958		1959	
	Expenditures	Receipts	Expenditures	Receipts
General Account	1,312	1,312	1,419	1,419
Total of Special Accounts	2,995	3,137	3,223	3,399
Total (A)	4,307	4,449	4,642	4,818
Duplications (B)	1,577	1,577	1,694	1,695
Net Total [(A)—(B)]	2,730	2,872	2,948	3,123
Total Quasi-Governmental Organization Accounts	1,107	1,237	1,174	1,305

Table 10 shows the net total obtained by subtracting inter-organizational duplications from the receipts and expenditures in the national and local budgets for 1958.

Table 10 *Net Total Balances of National and Local Finances*  
(Unit: 1000 million yen)

	1958	
	Expenditures	Receipts
(1) General Account	1,312	1,312
(2) Total, Special Accounts	2,995	3,137
(3) Total, Quasi-Governmental Organization Accounts	1,107	1,237
(4) Total, National Finances Accounts [(1)+(2)+(3)]	5,414	5,686
(5) Duplications	1,967	2,084
(6) Net Total, National Finance Account [(4)—(5)]	3,447	3,602
(7) Total, Local Finances Accounts	1,237	1,237
(8) Total, National and Local Finances Accounts [(6)+(7)]	4,684	4,839
(9) Duplication in National and Local Finances Accounts	628	628
(10) Net Total, National and Local Finances Accounts [(8)—(9)]	4,056	4,211

#### IV. Public Finance and National Income

Table 11, which indicates the relationship between national income and expenditures from the general account of the central government, shows the position public finance occupies in the national economy.

Table 11 *State Expenditures and National Income*  
(Unit: 1000 million yen)

Fiscal Year	Central Government Expenditures (A)	National Income (B)	$\frac{A}{B}$	Local Governments Expenditures
1926	1.6	12.5	12%	1.5
1930	1.6	11.7	14%	1.7
1936	2.3	15.5	15%	3.0
1944	93.0	56.9	163%	3.9
1947	206.0	968.0	21%	93.0
1949	699.0	2,737.0	26%	391.0
1958	1,312.1	8,412.0	16%	1,237.0
1959	1,419.2	8,928.0	16%	1,334.0

Figures for 1944 denote net expenditures and were obtained by subtracting duplications from the total of the general account and the war costs special account. The same applies to all other tables. The fact that expenditures that year were 163% greater than national income indicates that war costs were met not only with national income for the year but also by consuming national assets accumulated in the past and by calling on foreign resources. The extent to which Japan utilized foreign economic strength during the year reached 34,000 million *yen*. See Table 15.

Although state expenditures have recently increased, in form as well as in substance (considering commodity price indices), their ratio to national income is still conspicuously low as compared to the period during World War II or the period immediately following the war. The proportion at present approximates that of the pre-war period.

#### V. Categories of Expenditures

Taking the end of World War II as a dividing point, the general account expenditures of the central government during the pre-and post-war years have been classified by economic functions as follows:

Table 12 *Categories of Expenditures before and during World War II*  
(Unit: 1000 million *yen*)

Fiscal Year	1926	1930	1936	1944
Imperial Household	0.004 (0.3%)	0.004 (0.3%)	0.004 (0.2%)	0.004 (0%)
Annuities and Pensions	0.13 ( 8%)	0.15 ( 10%)	0.18 ( 8%)	0.47 ( 0%)
National Debt, Principal and Interest	0.23 ( 15%)	0.27 ( 18%)	0.36 ( 16%)	3.11 ( 3%)
General Civil Administration	0.77 ( 49%)	0.69 ( 44%)	0.65 ( 29%)	16.29 ( 17%)
Military Affairs	0.43 ( 28%)	0.44 ( 28%)	1.08 ( 47%)	73.49 ( 79%)
TOTAL	1.60 (100%)	1.60 (100%)	22.82 (100%)	93.36 (100%)

The expansion of military expenditures and the reduction of general civil administration expenditures are the characteristics of expenditures during this period.

Table 13 *Categories of Expenditures after World War II*  
(Unit: 1000 million *yen*)

Fiscal Year	1947	1949	1958	1959
(1) Defense and Peace Treaty	67.3 ( 33%)	103 ( 15%)	176 ( 14%)	189 ( 13%)
U.S. Occupation Forces	67.3 ( 33%)	103 ( 15%)	—	—
Expenses for Defense Forces and Share of Expenses for U. S. Security Forces	—	—	150 ( 12%)	157 ( 11%)
Reparations and other Foreign Debts	—	—	26 ( 2%)	32 ( 2%)

(2) Transfers	32.6 (16%)	86 (12%)	397 (28%)	421 (30%)
National Debt, Principal and Interest	7.4 (4%)	13 (2%)	67 (3%)	55 (4%)
Annuities and Pensions	0.2 (0%)	3 (0%)	105 (8%)	116 (8%)
Distribution Tax to Local Bodies	25.0 (12%)	70 (10%)	225 (17%)	250 (18%)
(3) Subsidies and Aid	30.5 (15%)	196 (28%)	159 (13%)	182 (13%)
Price Adjustment	22.5 (11%)	170 (24%)	—	—
Social Security	8.0 (4%)	26 (4%)	159 (13%)	182 (13%)
(4) Economic Assistance	46.7 (22%)	213 (31%)	286 (22%)	310 (22%)
Promotion of Agriculture, Manufacturing, and Trade	27.9 (13%)	104 (15%)	99 (7%)	94 (7%)
Public Works	14.8 (7%)	62 (9%)	187 (15%)	216 (15%)
Government Investments	4.0 (2%)	47 (7%)	—	—
(5) General Administration	28.5 (14%)	101 (14%)	294 (23%)	317 (22%)
Operation of Governmental Organizations	17.9 (9%)	48 (7%)	68 (5%)	69 (4%)
Justice and Police	3.6 (2%)	17 (2%)	56 (4%)	61 (4%)
Education and Science	7.0 (3%)	36 (5%)	162 (13%)	179 (13%)
Reserve Fund	—	—	8 (1%)	8 (1%)
<b>TOTAL</b>	<b>206 (100%)</b>	<b>699 (100%)</b>	<b>1,312 (100%)</b>	<b>1,419 (100%)</b>
Negative Expenditures [(1), (2) & (3)]	131 (64%)	385 (55%)	732 (55%)	792 (56%)
Positive Expenditures [(4) & (5)]	75 (36%)	314 (45%)	580 (45%)	627 (44%)
<b>TOTAL</b>	<b>206 (100%)</b>	<b>699 (100%)</b>	<b>1,312 (100%)</b>	<b>1,419 (100%)</b>

When classified into negative and positive expenditures from the viewpoint of their effect on the national economy, such outlays have shown certain tendencies in past years. During the years immediately after the end of the war, expenditures for the U. S. Occupation Forces and for price adjustment were large, with the proportion of negative expenditures reaching 64% of the total in 1947. After that, these negative expenditures gradually decreased until their ratio became as low as 41% in 1951. National defense forces expenses, annuities and pensions, and distribution taxes to local governments have since increased, however, with the result that negative expenditures account for more than half of the total expenditures each year, at present.

In the future this proportion is expected to become larger, because of increased expenditures for such purposes as the national self-defense forces; reparations to the Philippines, Burma, Indonesia, and Viet Nam; repayment of economic aid received from the United States after the war under GARIOA and EROA; funds for foreign loans; annuities and pensions for former military personnel; aid to surviving families of the war dead; and social security. Latent here are many problems, even from a purely economic standpoint.

The next table shows a draft of the capital and current expenditures budget of the central government for 1958.

Table 14 *Capital Expenditures and Current Expenditures in the 1958 Budget*

(Unit: 1000 million yen)

	Capital Expenditures	Current Expenditures	Total
Defense Expenses	14 (9%)	136 (91%)	150 (100%)
Reparations and Other Foreign Debts	—	26 (100%)	26 (100%)
National Debt, Principal and Interest	44 (65%)	23 (35%)	67 (100%)
Annuities and Pensions	—	105 (100%)	105 (100%)
Distribution Tax to Local Bodies	—	225 (100%)	225 (100%)
Social Security	39 (25%)	120 (75%)	159 (100%)
Expenses for the promotion of Agriculture, manufacturing and Trade	51 (52%)	48 (48%)	99 (100%)
Public Works	175 (93%)	12 (7%)	187 (100%)
Administrative Expenses of Governmental Organizations	3 (4%)	65 (96%)	68 (100%)
Justice and Police	4 (7%)	52 (93%)	56 (100%)
Education and Science	23 (14%)	139 (86%)	162 (100%)
Reserve Fund	—	8 (100%)	8 (100%)
TOTAL	353 (27%)	959 (73%)	1,312 (100%)

#### VI. *Public Finance Equalization Fund*

A feature of the 1958 budget is that 44,000 million yen has been reserved as a public finance equalization fund from the 163,000 million yen of net surplus national treasury funds remaining after settling the 1956 accounts. Of this, 22,000 million yen has been held over as a "Fund for Strengthening Economic Foundations", to be utilized in the future for highways, ports and harbours, and general economic development. The remaining 22,000 million yen has been earmarked for various agencies for the development of medium and small enterprises, agriculture, forestry, fisheries, foreign trade, etcetera.

#### VII. *Investments and Loans by the State*

In analyzing public finances and the economy of present-day Japan, notice must be taken of the investment and loan of funds by the central government. These include (1) loans to such key private industries as shipping, coal, iron and steel, machinery manufacturing, import and export, and electric power; (2) loans to such under-developed areas as medium and small enterprises, agriculture, forestry, fisheries, and housing, for their development and for general social improvement; (3) loans for local agency activities; and (4) investments in such public enterprises as the Japan National Railways and the Japan Telephone and Telegraph Corporation. The most important source of these funds is the money collected

by the government through postal savings and postal insurance. There are, in addition, funds received from the general account and the special account for public investment in key industries as well as funds made available through loans effected by public enterprises. These funds are invested or loaned at low interest rates to enterprises and agencies either directly by the government or indirectly through the Export and Import Bank of Japan, the Housing Loan Corporation, or other banking facilities. The amount of these funds has ranged from 300,000 million to 500,000 million *yen* each year since 1950; it is 519,800 million *yen* in the 1959 estimate. During the period 1951-1955, 30% of all the plant equipment funds obtained by Japanese enterprises from sources outside their own particular enterprise was derived from these measures. This proportion has recently decreased to less than 10% as economic reconstruction progressed and private capital became more ample. The control of excessive investment and lending has even become necessary.

While expenditures from the general account of the state tend to include many items of an obligatory nature, the amount of these investment and loan funds can be either increased or decreased as circumstances require to accommodate existing economic needs of the country. Their handling consequently permits greater flexibility, and they thus reflect the economic and financial trends of the times much more sensitively than do the expenditures from the general account.

### VIII. *Types of Revenue*

The following table shows categories of revenue in the general account of the central government:

Table 15 *Classification of Revenue*

(Unit: 1000 million *yen*)

Fiscal Year	1926	1930	1936	1944	1947	1949	1958	1959
Taxes	0.89 (43%)	0.84 (52%)	1.05 (44%)	12 (15%)	146 (68%)	509 (67%)	987 (75%)	1,082 (76%)
Revenue from Stamps	0.08 (4%)	0.07 (4%)	0.09 (4%)	0.2 (0%)	1 (0%)	9 (1%)	39 (3%)	39 (3%)
State Monopoly Profits	0.17 (9%)	0.20 (13%)	0.22 (9%)	1 (1%)	42 (19%)	118 (16%)	117 (9%)	120 (8%)
Government Enterprises and Properties	0.28 (13%)	0.29 (18%)	0.09 (4%)	1 (1%)	2 (1%)	16 (2%)	26 (2%)	16 (1%)
Miscellaneous	0.06 (3%)	0.08 (5%)	0.26 (11%)	4 (5%)	19 (9%)	61 (8%)	43 (3%)	81 (6%)
Public Debt	0.03 (2%)	0.04 (2%)	0.61 (26%)	29 (36%)	—	—	—	—
Surplus from Preceding Fiscal Year	0.55 (26%)	0.09 (6%)	0.05 (2%)	1 (1%)	4 (2%)	46 (6%)	100 (8%)	81 (6%)
Borrowings from Foreign Banks	—	—	—	34 (43%)	—	—	—	—
TOTAL	2.1 (100%)	1.6 (100%)	2.3 (100%)	81 (100%)	214 (100%)	759 (100%)	1,321 (100%)	1,419 (100%)

Figures for 1944 revenue denote the net obtained by deducting overlapping duplications from the combined total of the general account and war costs special account. The same applies to all other tables.

A characteristic feature of revenue is that, whereas the relative importance of public bonds was great in pre-war years, such bonds have not been issued under the general account since 1947. The hard core of revenue in recent years has been tax receipts, with taxes in the broader sense (i.e., taxes plus revenue from government monopolies and revenue stamps) constituting nearly 90% of total revenue every year.

Taxes are the principal subject of the following chapter.

### IX. *Growth of Taxes*

The Japanese tax structure undergoes revisions of one sort or another every year with the changes in the political, economic, and social picture.

After the feudal system collapsed and a capitalistic socio-economic order was formed in the middle of the nineteenth century, taxation also took on a modern form. The new government established in 1868 after the revolution endeavoured to modernize the tax system on a gradual basis, first by introducing a change from payment in kind to cash payment of the land tax, which in those days was the principal tax. From the time of the revolution until the early twentieth century, agriculture was the main industry in Japan's economy. (Seventy-seven percent of the population were farmers in 1870). The land tax, therefore, had a pivotal position in the system of national taxes, and revenue from this source represented from 50% to 90% of total tax yield during the period from 1867 to the time of Sino-Japanese War of the late nineteenth century. Although the importance of the land tax as one of the nation's sources of revenue has since gradually declined, it maintained first place in national tax receipts until 1908.

The income tax was put into effect in 1887, but its position as a source of revenue was, at first, extremely low. It was only after Japan's economy took its long strides forward during World War I that the personal and corporate income taxes became increasingly important in the Japanese taxation system. The income tax (personal and corporate) has since long competed for first place with the alcoholic beverage tax, and finally topped the list of tax revenue sources in 1935, a position it has kept to date. It represents 50% of total national tax revenue each year.

The most important tax revenue sources in recent times have been the personal income tax, the corporation tax, the alcoholic beverage tax, and the tobacco and other state monopolies.

The national tax revenue of Japan may be classified as follows:

Table 16 *National Tax Revenue*

(Unit: 1000 million yen)

Fiscal Year	1936	1949	1958	1959
(A) Ordinary National Taxes				
Personal Income Tax	0.15 (11%)	279 (44%)	245 (21%)	272 (22%)
Withheld at Source		142	194	207
Self-Assessed		137	51	65
Corporation Tax	0.13 (10%)	61 (10%)	331 (29%)	341 (27%)
Revaluation Tax	—	—	4 (0%)	4 (0%)
Land Tax	0.06 (4%)	—	—	—
Business Profits Tax	0.07 (5%)	—	—	—
Capital Interest Tax	0.02 (1%)	—	—	—
Mining Tax	0.005 (0.4%)	—	—	—
Excess Profits Tax	0.04 (3%)	—	—	—
Inheritance Tax	0.03 (2%)	4 (0.6%)	8 (1%)	8 (1%)
Transactions Tax	—	34 (5%)	—	—
Securities Transfer or Sales Tax	—	1 (0.1%)	2 (0%)	3 (0%)
Stock and Commodities Exchange Tax	0.02 (1%)	—	0.6 (0%)	0.6 (0%)
Alcoholic Beverage Tax	0.22 (16%)	83 (13%)	196 (17%)	209 (17%)
Soft Drinks Tax	0.004 (0.3%)	2 (0.3%)	—	—
Sugar Excise	0.09 (7%)	1 (0.1%)	53 (5%)	32 (3%)
Textile Excise	0.04 (3%)	13 (2%)	—	—
Gasoline Tax	—	4 (0.7%)	55 (5%)	82 (7%)
Commodity Tax	—	21 (3%)	44 (4%)	48 (4%)
Playing Card Tax	—	—	0.3 (0%)	0.3 (0%)
Travel Tax	—	5 (0.8%)	3 (0%)	3 (0%)
Customs and Tonnage Duty	0.18 (13%)	1 (0.1%)	45 (4%)	80 (6%)
Revenue from Stamps (Stamp Duty, Registra- tion Tax, and Fees)	0.09 (7%)	9 (1%)	39 (4%)	39 (3%)
Revenue from State Monopoly Enterprises	0.22 (16%)	118 (19%)	117 (10%)	120 (10%)
TOTAL	1.36 (100%)	636 (100%)	1,143 (100%)	1,241 (100%)
(B) Local Allocation Tax				
Admission Tax	—	—	18	18
Local Road Tax	—	—	13	15
Special Tonnage Tax	—	—	1	1
TOTAL	—	—	32	34
GRAND TOTAL [(A) and (B)]	1.36	636	1,175	1,275

The local allocation tax, levied and collected by the central government, is national in form but is actually apportioned among local bodies according to population, road area, and other criteria. It is classified as a national tax in this report unless stated otherwise.<sup>4</sup>

<sup>4</sup> Hanya Ito, "Direct Taxes in Japan and the Shoup Report", *Public Finance* Vol. VIII, No. 4 (The Hague: N.V. Uitg. W.P. van Stockum en Zoon, 1953). This gives an outline of the Japanese tax system, and is also to be found in Hanya Ito, *Essays in Public Finance*, Tokyo, 1954. Also, see Ito, "Staatshaushalt und Finanzsystem Japans," *op. cit.*, pp. 446—451.

X. *Direct and Indirect Taxes*

National taxes may be divided into direct and indirect taxes as follows:

Table 17 *Direct and Indirect Taxes*  
(Unit: 1000 million yen)

Fiscal Year	Direct Taxes	Indirect Taxes	Total
1926	0.4 (34%)	0.7 (66%)	1.1 (100%)
1930	0.4 (34%)	0.7 (66%)	1.1 (100%)
1936	0.5 (37%)	0.8 (63%)	1.3 (100%)
1944	9.0 (66%)	4.0 (34%)	13.0 (100%)
1947	99.0 (52%)	90.0 (48%)	189.0 (100%)
1949	344.0 (54%)	292.0 (46%)	636.0 (100%)
1958	588.0 (50%)	587.0 (50%)	1,175.0 (100%)
1959	625.0 (49%)	650.0 (51%)	1,275.0 (100%)

The percentage of indirect taxes was larger than that of direct taxes during the pre-war years, while during the war the percentage of direct taxes was larger. After the war, the indirect tax again became larger. On the surface, this cannot be said to be a desirable trend, but it is an inevitable last resort taken to meet a situation in which the conditions for a progressive tax system in Japan had collapsed after the war in the economic chaos resulting from inflation, decline of productive capacity, deterioration of national morality regarding payment of taxes, and weakening of the tax authority.

It may also be worth noting that in post-war Japan the distinction between direct and indirect taxes lost the meaning it had had before. A series of circumstances and policies such as air raid damage, inflation, forced distribution of large farm lands among tenant farmers, a special capital levy, and the breakup of the "Zaibatsu" (powerful financial groups), all helped to equalize the distribution of national wealth in post-war Japan, in contrast to the opposite trend set in motion after World War I. It is commonly understood that, roughly speaking, direct taxes are mainly borne by the wealthy and indirect taxes mainly by the masses. In post-war Japan, however, the burden of both types of taxation fell, in most cases, on the same income bracket, thus giving direct taxes the colouring of mass taxation. In 1959, for example, the amount of self-assessed personal income taxes reported by persons with an annual income of less than 500,000 yen was estimated to be 48% of the 1,019,000 million yen total reported, and the number of such persons was 73% of the 2,014,000 total reporting. Analysis of taxable wage and salary incomes shows that the percentage of annual incomes less than 500,000 yen was an estimated 81% of the total taxable number of 9,118,000 or 61% of the total taxable amount of 3,340,000 million yen. If adjusted by the wholesale price index, 500,000 yen would come to 1,400 yen in terms of the value



of the currency in 1936. Considering the fact that personal incomes of 1,200 *yen* or less were tax exempt at that time, it could be said that the majority of those in the present less than 500,000 *yen* a year bracket apparently would not have been liable to income tax in 1936. In 1936, the number of persons paying personal income tax was some 1 million out of a population of 68 million; whereas, in 1959, the number was 10 million out of 92 million. The sum of incomes in excess of 2 million *yen* was only 4% of total taxable income in 1957, while in 1935 it was 41%, in terms of present currency values. This is one of the factors supporting the proposal currently heard in Japan that the direct tax on low incomes be reduced and the burden transferred to a consumption tax.

### XI. Taxation and National Income

The ratio of revenue from national and local taxes to national income is shown in the following table:

Table 18 *Taxation and National Income*

(Unit: 1000 million *yen*)

Fiscal Year	National Taxes*	Local Taxes	Total Taxes (A)	National Income (B)	$\frac{A}{B}$
1926	1.1	0.7	1.8	12.5	14%
1930	1.1	0.6	1.7	11.7	15%
1936	1.3	0.7	2.0	15.5	13%
1944	13.0	1.0	14.0	56.9	24%
1947	189.0	20.0	209.0	968.0	22%
1949	636.0	142.0	778.0	2,737.0	29%
1958	1,175.0	511.0	1,686.0	8,412.0	20%
1959	1,275.0	541.0	1,816.0	8,928.0	20%

\* Local allocation taxes are included in national taxes.

The ratio of taxes to national income rose to a peak of 29% in 1949 but has dropped since, and currently stands at 20%.

The Japanese standard of living after the war has been appreciably lower than before the Chinese Incident of 1937. The proportion which food expenses represented in the household budget of city wage earners, for instance, was 34% in 1936, 65% in 1947, 60% in 1949, and 41% at present. If, with these Engel coefficients as a basis, free income is computed by deducting estimated food expenses—which may be considered the minimum living expenses—from national income, the ratio of taxes to this balance, which is regarded as the maximum taxable capacity, comes to 19% for the years before 1936, 51% for 1947, 72% for 1949, and 34% at present. Thus, at present, the tax burden is almost twice as heavy as in pre-China Incident days.

## XII. *The Tax System and Capital Accumulation*

The special measures employed in the present tax structure are to lighten the tax burden with a view to the promotion of economic development. The most important ones are described below:

### (1) Special Treatment of Income from Interest

In the Japanese income tax structure since 1899, income from interest in the broad sense, such as from bank deposits, public bonds and debentures, and dividends from trusts, has not been included among objects of general, comprehensive, graduated (progressive) income taxation, but has been separated from other types of income. It has been taxed at a proportional rate and withheld at the source upon payment. The system has been constantly criticized as unfair, since it spares those who have large incomes from interest from an otherwise heavy tax burden which they would have to bear should a progressive rate be applied. Suspended for three years, from 1950 to 1952, this system was reinstated in 1953 as a temporary measure, with the term of validity and enforcement limited to a few years. Interest income was totally exempted, furthermore, in 1955 and 1956. Although some changes were made later, the 1959 revisions provided for a proportional tax of 10% on interest incomes. One argument in favour of these measures is their real contribution in actual fact toward the encouragement of savings, although there is no denying their unreasonableness viewed from a standpoint of the equitable distribution of tax burden.

### (2) The Lightening of the Tax Burden on Enterprises

Principally as special measures with periods of enforcement limited to a few years, reduction of, or exemption from, taxation has been extensive and common in Japan with regard to many types of taxes, especially income and corporate taxes. This tendency became pronounced above and beyond the exemption of income from interest in 1950, and the year 1956 saw the adoption of the following special measures primarily concerning enterprises: 1) For the purpose of promoting the accumulation of enterprise capital, when corporations issued new stock, the amount of dividend up to 10% of the new capital was exempted from corporation tax. 2) For the purpose of keeping enterprise profits within the enterprise, taxation was deferred for several years on portions of profit reserved for bad debts, price fluctuations, and retirement allowances. 3) For the purpose of encouraging investment in plant equipment and modernization, accelerated depreciation was allowed on machinery and equipment in key industries including steel and iron, on vessels plying international lines, and on costs to trading companies in setting up overseas branch offices. Heavy machinery was also exempted from import duty. 4) For the purpose of encouraging export, certain portions of traders' incomes derived from exports were made tax exempt. 5) For the purpose of fostering key industries, such industries and enterprises as electric power,

copper mining, coal, petroleum, chemical fertilizers, and synthetic fibers were exempted from income tax for three years after establishment. A tax reduction was given on income from quota-delivery of rice sold to the government by farmers. Aviation gasoline was exempted from excises. It is estimated that the taxes waived through these measures totaled 105,000 million *yen* (62,000 million for corporations and 43,000 million for private individuals) in 1957. This sum was well over 20% of all personal and corporation income tax revenue (500,000 million *yen*) at the time. Ostensibly, the benefits applied equally to all enterprises, but in actual fact the principal beneficiaries were corporations, especially large corporations, and many of them found from 40% to 60% of their income exempted under these provisions.

While these tax exemptions or reductions all undoubtedly contributed in some way to Japan's economic development, they upset the balance of distribution of the tax burden among the people, and were, therefore, the subject of constant controversy until the 1957 tax reform did away with nearly half of the exemptions. However, there still remain many special reductions on income from exports and other fields.

### XIII. *Public Debt*

In view of the fact that the indiscriminate floating of public loans underwritten by the Bank of Japan for non-productive purposes or for the purpose of supplementing revenue deficits had caused inflation in the past, the following restrictions were placed on the issuing of national bonds by the Public Finance Law of 1947: 1) Borrowing or the issuing of public bonds shall be permitted only when they supply funds for public works, capital financing, and loans; 2) The Bank of Japan shall not underwrite public bonds and debts as a rule, though it may, under special circumstances, within certain limits, and with Diet approval.

As stated earlier, public bonds have not been issued in Japan for the purpose

Table 19 *Outstanding Public Debt*

(Unit: 1000 million *yen*)

Fiscal Year	Central Government (A) (Domestic Loans Only)	National Income (B)	$\frac{A}{B}$	Local Loans
1926	3.7	12.5	30%	1.5
1930	4.4	11.7	38%	2.4
1936	9.2	15.5	60%	3.6
1944	107.0	56.9	188%	5.0
1947	209.0	968.0	22%	21.0
1949	291.0	2,737.0	11%	72.0
1958	393.0	8,412.0	5%	860.0
1959	382.0	8,928.0	4%	925.0

Figures are as of the end of each fiscal year.

of creating financial resources for the general account of the central government since 1947. They are issued every year, however, under the special accounts of the central government and the quasi-governmental organizations, and by local bodies.

Table 19 shows the amount of unredeemed public debt in national and local finances.

Among the debts of the central government, there are at present, besides those previously mentioned, outstanding foreign debts amounting to 80,700 million *yen*, unpaid war reparations totaling 364,000 million *yen*, and loans from the United States under GARIOA and EROA totaling 1,863 million dollars.

#### XIV. Local Finance

At present, there are some 3,700 local government units in Japan. Total receipts and expenditures of these bodies, as classified under recent fiscal plans, are shown in the following two tables.<sup>5</sup>

Table 20 *Expenditures of Local Bodies*

(Unit: 1000 million *yen*)

Fiscal Year	1958	1959
(1) Consumption Type Expenditures	782 (63%)	835 (63%)
Wages and Salaries	473 (38%)	515 (39%)
Pensions	22 (2%)	24 (2%)
Supplies and Other Expenses	287 (23%)	297 (22%)
(2) Public Debt, Principal and Interest	83 (7%)	82 (6%)
(3) Investment Type Expenditures	372 (30%)	417 (31%)
Public Enterprises	296 (24%)	339 (25%)
Unemployment Relief Projects	34 (2%)	36 (3%)
Property Maintenance and Repair Expenses	42 (4%)	42 (3%)
TOTAL	1,237 (100%)	1,334 (100%)

Table 21 *Receipts of Local Bodies*

(Unit: 1000 million *yen*)

Fiscal Year	1958	1959
Local Taxes	511 (41%)	541 (41%)
Local Allocation Tax	32 (2%)	33 (2%)
Distribution Tax	224 (18%)	249 (18%)
Subsidies and Other Funds from the National Treasury	309 (25%)	343 (26%)
Public Debt	45 (4%)	50 (4%)
Fees	40 (3%)	42 (3%)
Other Revenue	76 (6%)	76 (6%)
TOTAL	1,237 (100%)	1,334 (100%)

<sup>5</sup> There are many difficult problems yet to be solved in local finances in present-day Japan. See Hanya Ito, "Staatshaushalt und Finanzsystem Japans," *op. cit.*, pp. 443-446.