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**Kyoto University**  
**Economic Review**

MEMOIRS OF  
THE DEPARTMENT OF ECONOMICS  
IN  
THE IMPERIAL UNIVERSITY OF KYOTO

VOLUME X  
1935

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PUBLISHED BY THE DEPARTMENT  
OF ECONOMICS IN  
THE IMPERIAL UNIVERSITY OF KYOTO

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## THE PIVOT OF LOCAL FINANCE REFORM

### 1. LOCAL FINANCE OF VARIOUS KINDS AND VARIOUS LOCAL FINANCE REFORM PLANS

The reform of local finance forms the main subject for debate in the National Policy Council, and consequently it is now receiving the earnest study of the Enquiry Bureau of the Cabinet. In Japan, local finance means prefectural, municipal, town and village finance, and, therefore, the question of the reform of local finance covers a very wide field, so that different methods of settlement can be devised to suit different cases.

Prefectural finance is organised comparatively uniformly all over the country, but municipal, town and village finance is organised on fundamentally different lines according as it is urban or rural. Urban finance—especially the finance of big cities—centres around enterprises. In revenue, incomes from enterprises, including items of fees and rents, constitute no small portion of the total, while in expenditure also, defrayals on account of enterprises, which take the form of expenses in connection with the supply of gas and electricity, etc., account for the major part of the total. Thus, both in revenue and in expenditure, enterprises form the nucleus of the finance of big cities. This remark is, of course, made in reference to the gross revenue and expenditure. As regards pure revenue, the incomes from municipal taxes constitute a large proportion, while the educational expenditure forms an important item of pure expenditure. In rural finance, that is, in the finance of towns or villages, little or no financial significance attaches to enterprises. In it, the educational expenditure more or less matches the revenue from town or

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village taxes, and so the pure expenditure of the educational cost is met by the pure revenue in the shape of incomes from town or village taxes. There are few items, such as enterprises, that contribute both to revenue and to expenditure. Rural finance, which centres in compulsory collective economy, and urban finance, in which compulsory collective economy and private economy operate conjointly, must be dealt with differently in the matter of financial reform. Again, the question of the special municipality system claims much attention in considering the reform of urban finance. Far be it from me to judge of the merits or demerits of any administrative organisation merely on the basis of the relative administrative cost involved, but the fact that the six big cities (Tokyo, Osaka, Kyoto, Kobe, Yokohama and Nagoya), whose total expenditure in the fiscal year 1934-1935 amounted to ¥669,000,000 (in both general and special accounts), are placed under the supervision of the six prefectures (Tokyo, Osaka, Kyoto, Hyogo, Kanagawa and Aichi), the total expenditure of which in the same fiscal year was ¥158,000,000 (which, though, represents general accounts only) cannot but make me feel that there is something abnormal about the present system. As local finance, as already mentioned, is not similarly constituted, it would be of little practical value to urge the reform of local finance without sufficient discernment, since such reform could not be achieved by one and the same method. Different plans must be devised for the reform of differently constituted local finances.

The reform of local finance—an issue which is now prominently to the fore—does not by any means aim at the detection of defects common to all kinds of local finance and at their removal by common methods. Regarding urban finance—the finance of big cities especially—public utility enterprises, which are proving intolerable burdens on the treasuries of the big cities in Japan, ought to claim priority of attention. In exclusive reference to the six big cities, the introduction of the special municipality system calls for

a good deal of attention in connection with financial reform. It is regrettable to observe that these phases of the problem are not attracting the attention of the National Policy Council or the Enquiry Bureau of the Cabinet at all.

The keynote of the reform of local finance is the establishment of an equilibrium between urban and rural financial burdens. The projected reform aims at the removal of any inequality that may be found in the burden of taxation between rural districts, chiefly inhabited by farmers, and urban districts, whose inhabitants are largely merchants and industrialists. In Japan, local finance in variety of reform plans are conceivable, but the fact remains that the establishment of an equilibrium between urban and rural tax burdens forms the pivot of the reform of local finance.

## 2. CONCENTRATION OF POPULATION AND WEALTH IN BIG CITIES

How is it that the present unfairness in the incidence of the burden of taxation has arisen between urban districts chiefly inhabited by merchants and industrialists and rural districts whose inhabitants are mainly farmers, for the elimination of which many people are now advocating the introduction of a new system of grants-in-aid for the adjustment of local finance? The answer to this question is that, as a result of the revolutionary changes in economic life, the centre of Japanese economic power has shifted from rural to urban districts. This has caused a remarkable loss of balance between urban and rural economic power, with the result that whereas financial life in urban districts with enormous economic power is easy, small towns and villages with limited economic power are in financial straits, despite the imposition of heavy taxes and public imposts. Such being the case, if the question of the reform of local finance is to be tackled properly, all phases of this disproportions between urban and rural economic power must first of all be probed.

1. Concentration of population in big cities. The dominant factor in economic life being human, it is necessary to study the question of population in considering the problem of inequality between urban and rural economic power. We find that, on the dates given in the table, Japan's population was distributed among the rural districts, the six big cities, and the other cities as follows:

Table No. 1  
Distribution of population between urban and rural districts.

	Total population			Per mille			
	Oct. 1, 1920	Oct. 1, 1925	Oct. 1, 1930	Oct. 1, 1920	Oct. 1, 1925	Oct. 1, 1930	
Rural districts	45,866,295	46,839,972	49,005,705	820	784	760	
Urban districts	Six big cities	5,479,086	6,608,992	7,604,954	98	111	118
	All other cities	4,617,672	6,287,858	7,839,346	82	105	122

It is indisputable that there is a steady increase in both urban and rural population and that rural population is very much larger than urban. But another noteworthy fact is that the percentage of urban population has steadily become higher. It is worth mentioning in this connection that whereas in the case of most prefectures in Japan, the number of people who leave their prefectures to settle down elsewhere is larger than the number who migrate into them, just the contrary is the case with the six prefectures (Tokyo, Osaka, Kyoto, Kanagawa, Hyogo and Aichi prefectures) in which the six big cities are located, and with Fukuoka prefecture, the Hokkaido and Miyazaki prefecture. With regard to the Hokkaido and Miyazaki prefecture, this phenomenon is accounted for by the fact that they are both sparsely populated and therefore afford room for colonisation. Regarding the influx of population into the other prefectures referred to, it illustrates the concentration of population in big cities. As the settlers are mostly those in the prime of life, the prefectures which they desert lose

many people of productive capacity, while the prefectures into which they migrate gain these able-bodied people. Classified according to ages, the population of the six cities, as compared with that of the other cities, shows the following interesting figures (the figures given are for 1930):—

Let the vertical lines denote scales of age, with the number of men and women of the corresponding ages recorded horizontally on either side of the vertical lines, and then we find that the population of the Japanese Empire shows itself in the shape of an isosceles triangle, or in the so-called pyramid of population. If we compare the population of the six big cities with that of all other districts, interesting phenomena manifest themselves. In the case of six big cities, the number of men is larger than that of women, and in the pyramid, the part representing the full-age class distends, while in the case of the districts other than the six big cities, the number of men and women is fairly equal and the portion of the full-age class in the pyramid shows a contraction. It must be noted that the results of the census merely show the state of the distribution of the population on the night of the census; they represent the population in a static state. In order to visualize the population in a dynamic state, it is necessary to find how it is distributed in the day-time. The diagram given shows the day-time population in the central part of Tokyo. It indicates that the number of men disproportionately larger than that of women. Old people and children constitute only a small fraction, while full-age adults of both sexes figure prominently. This shows that full-age men and women constitute the major part of the day-time population in the central part of Tokyo. Local peculiarities come out clearly when the population is studied in the light of age classification. Of the total population children under 14 represented 29.7 per cent. in the six big cities in 1930, citizens of productive ages between 15 and 59 years 65.8 per cent., and those over sixty 4.5 per cent. In the districts other than the six big cities, the children formed 37.6 per cent., people of

Table No. 2. Population, as classified by ages.

(a) Total population.

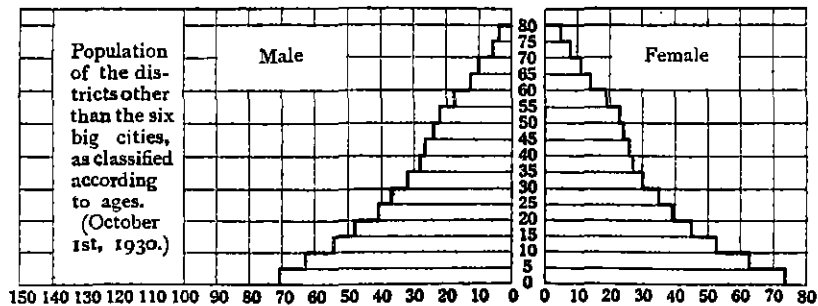
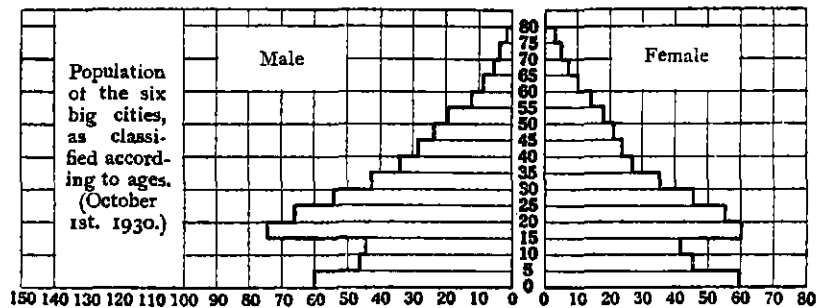
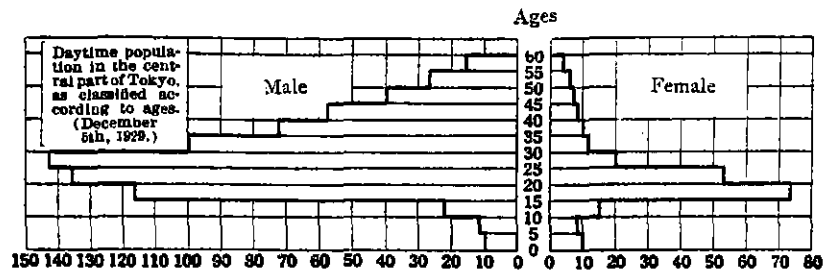
Ages	Oct. 1, 1920				Oct. 1, 1925				Oct. 1, 1930			
	Six big cities		Districts other than six big cities		Six big cities		Districts other than six big cities		Six big cities		Districts other than six big cities	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
0-4	287,796	283,207	3,464,831	3,421,881	381,230	372,047	3,779,249	3,732,057	458,858	448,821	4,009,142	4,127,179
5-9	262,050	254,029	3,205,106	3,135,735	284,931	277,765	3,206,240	3,155,496	354,118	345,233	3,542,882	3,498,767
10-14	292,000	250,498	2,797,225	2,761,844	342,249	309,864	3,068,742	3,014,175	343,679	309,655	3,071,381	2,992,345
15-19	407,564	301,972	2,341,458	2,368,063	501,354	390,033	2,487,016	2,506,873	572,780	459,347	2,708,880	2,531,653
20-24	351,728	286,374	1,964,751	2,006,457	439,836	356,402	2,134,963	2,129,326	505,177	420,631	2,304,983	2,221,389
25-29	284,267	227,531	1,723,738	1,688,413	354,981	285,941	1,901,521	1,851,028	414,957	339,962	2,094,373	1,973,078
30-34	236,311	196,616	1,597,132	1,579,391	274,668	220,593	1,645,509	1,575,317	327,866	269,764	1,821,094	1,673,266
35-39	199,672	173,938	1,508,099	1,529,029	235,250	192,549	1,533,288	1,488,290	257,089	209,489	1,555,781	1,519,531
40-44	174,474	150,943	1,465,780	1,452,567	197,819	170,418	1,426,405	1,427,123	217,315	180,557	1,520,885	1,463,473
45-49	128,875	113,435	1,211,529	1,204,728	166,606	148,815	1,369,882	1,366,846	178,355	159,662	1,380,115	1,385,358
50-54	98,411	93,193	1,023,829	1,019,329	119,875	109,004	1,103,956	1,118,068	147,982	138,961	1,290,098	1,290,039
55-59	71,264	71,253	840,821	856,755	85,237	86,652	895,998	922,930	100,577	100,932	1,014,793	1,077,068
60-64	54,983	62,242	748,050	790,530	56,192	62,106	697,808	752,235	66,203	76,876	738,317	811,124
65-69	35,218	47,645	579,261	650,413	38,200	47,714	563,275	643,151	39,816	51,337	546,354	627,663
70-74	18,249	30,307	381,291	466,771	21,336	34,447	382,219	481,178	23,625	36,774	347,415	480,226
75-79	7,218	15,515	191,035	268,244	8,880	18,261	204,752	291,121	10,787	21,266	212,213	296,734
80-	2,710	7,598	87,459	152,422	3,246	9,491	97,396	174,396	4,145	12,349	112,846	221,651
Total	2,912,790	2,566,296	25,131,395	25,352,572	3,514,890	3,094,102	6,498,219	26,629,611	4,023,338	3,581,616	28,271,552	28,190,544
Grand Total	5,479,086		50,483,967		6,608,992		53,127,830		7,604,954		56,462,096	

(b) Ratios of population (per 10,000)

Ages	Oct. 1, 1920				Oct. 1, 1925				Oct. 1, 1930			
	Six big cities		Districts other than six big cities		Six big cities		Districts other than six big cities		Six big cities		Districts other than six big cities	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
0—4	525	517	686	679	577	564	712	701	604	589	710	731
5—9	478	464	635	621	431	420	604	593	466	453	627	620
10—14	533	457	554	547	518	469	578	567	452	406	544	530
15—19	744	552	464	469	758	591	468	471	754	603	480	448
20—24	642	523	389	397	665	540	402	400	665	551	408	393
25—29	519	415	341	334	537	432	358	348	546	446	371	349
30—34	431	359	317	313	416	334	310	296	431	353	323	296
35—39	364	317	299	303	356	291	289	280	338	274	275	269
40—44	319	275	290	288	299	258	269	269	286	236	269	259
45—49	235	207	240	239	257	225	258	257	235	210	245	245
50—54	180	170	203	202	181	165	206	211	195	181	228	228
55—59	130	130	166	170	129	131	169	174	132	143	180	191
60—64	101	114	148	157	85	94	132	142	87	101	131	144
65—69	64	87	115	129	58	75	106	121	52	67	97	111
70—74	33	55	75	92	32	52	72	91	31	48	62	85
75—79	13	28	38	53	13	28	39	55	14	28	38	52
80—	5	14	17	30	5	14	18	33	5	16	20	39
Total	5,316	4,684	4,977	5,023	5,317	4,683	4,990	5,010	5,293	4,707	5,008	4,992
Grand Total	10,000		10,000		10,000		10,000		10,000		10,000	



productive ages 54.6 per cent., and the aged 7.8 per cent. In the central part of Tokyo in 1929, children under 15 constituted 7.9 per cent., citizens of productive ages between 16 and 60 years 90.3 per cent., and those over 61 years 1.8 per cent. Classified according to sexes, it is found that of



the total number of men and women of productive ages in the six big cities, men of these ages represented 35.8 per cent. of the population and women 30 per cent., a fairly wide disparity being thus observable between them. In the districts other than the six big cities, on the other hand,

men and women of these ages were 27.8 and 26.8 per cent. of the total population respectively—only a slight difference. The disparity is marked between the male and female population in the central part of Tokyo, where the percentage of the entire population was 71 for men and 19.3 for women.

In short, the tables and diagram given above clearly show that a large number of men in the prime of life have moved from their agrarian villages to big cities—the six big cities especially—and that the population of those cities has increased more than may be accounted for by the extension of their areas through the inclusion of the neighbouring towns and villages.

There is a concentration of population in big cities. Since most of those who move from their agrarian villages to big cities are people in the prime of manhood, it is quite natural that wealth should concentrate in big cities. It is difficult to determine whether the concentration of wealth is due to the concentration of population or whether concentrated wealth induces the concentration of population, but the fact is undeniable that there exists a close connection between the two, each operating on the other either as cause or as effect, with the result that both population and wealth continue to concentrate in big cities.

2. Concentration of wealth in big cities. Whereas it is easy to find the extent of the concentration of population by statistical means, a variety of means must be employed in order to make clear the extent of the concentration of wealth. In Japan, persons with an annual income of ¥1,200 or more are required by the income tax law to pay the C-class income tax, which provides for progressive rates according to the amount of income. By finding the percentage of the tax-paying households, it is possible to discover the minimum number of persons with an annual income of ¥1,200 or more, while by making use of the figure available concerning the tax-payers to whom different progressive rates are applied, the gulf between the rich and poor can be gauged. The figures obtained in reference to the fiscal year

1933-1934 are given in the following table:—

	Households	Households which pay C-class income tax	Percentage of tax-paying households	$\alpha$ of the Pareto line	$\gamma$ , Simpson's actual relative average difference
Six big cities	2,554,670	221,265	8.7	1.5338	1.005193
All other districts	10,426,647	348,320	3.4	1.7600	0.817109

While in the six big cities, 8-7 per cent. of the total households are paying the C-class income tax, only 3.4 per cent. are paying it in the districts other than the six big cities. This shows that the level of incomes for the inhabitants of big cities is much higher than that for the inhabitants of rural districts. It can also be inferred from  $\alpha$  of the Pareto line, which shows the extent of the gulf between the rich and poor inversely, and from  $\gamma$  of the Simpson plan, which shows it in direct proportion, that the gulf between the rich and poor is wider in the six big cities than in the districts other than the six big cities.

In order to see the trend of the concentration of wealth in big cities, I have looked into the total revenues from the C-class income tax in the eight years following 1926 inclusive. The results are given in the following table:—

	1926	1927	1928	1929	1930	1931	1932	1933
Whole country (In ¥1,000,000)	2,731	2,585	2,491	2,553	2,469	2,023	1,835	2,007
Six big cities (In ¥1,000,000)	817	814	837	878	846	732	837	904
Percentage of six big cities to whole country	29.9	32.5	33.6	34.4	34.3	36.2	45.6	45.1

It will be seen from the above table that the revenue from this tax in the six big cities, which represented less than 30 per cent. of the total revenue in 1926, went on growing year after year until its percentage rose to 45 per cent. in 1933.

Needless to say, the C-class incomes embody the incomes of such persons only as earn ¥1,200 or more a year; they do not include the incomes which fall short of the taxable point. Nor do they include interest on public bonds, debentures or bank deposits. In any case, the fact that the percentage of the revenue from the C-class tax in the six big cities, which, in 1926, was less than 30 per cent. of the total revenue from this source, was in excess of 30 per cent. in 1927 and later years and rose to 45 per cent. in 1932 and in 1933, eloquently testifies to the concentration of wealth in the six big cities. When it is remembered that the population of the six big cities is 10 per cent. or thereabouts of the total population of Japan, it will be seen that the concentration of wealth is more marked than the concentration of population in these cities.

### 3. HOW THE BALANCE IS LOST BETWEEN URBAN AND RURAL ECONOMIC POWER

In the preceding chapters, attention has chiefly been directed to the investigation of the relative economic position of the six big cities and the districts other than the six big cities. Now, the economic power of individual local districts must be looked into. To this end, it is advisable to gauge the economic power of cities, towns and villages, but since the number of the cities, towns and villages on April 1st, 1933, was no fewer than 12,663, I have decided to defer an inquiry into their respective economic power to a future occasion. My present inquiry into inequality in the economic power of different districts is confined to the 47 administrative districts into which the country is divided, that is, the Hokkaido and 46 prefectures.

1. Prefectural economic power of various descriptions. Local economic power can be made clear through investigation by various standards. Table No. 3 shows population, the rental value of land, private property, C-class incomes, and direct national tax charges, as classified according to prefectures.

Table No. 3.

Prefectural economic power of various descriptions.

(a) Actual numbers.

Prefectures	Population	Rental value of land	Private property	C-class incomes	Direct national tax charges
		(In ¥1,000)	(In ¥1,000,000)	(In ¥1,000)	(In ¥1,000)
Hokkaido	2,812,335	25,887	3,553	71,668	6,882
Aomori	879,914	19,722	850	10,609	1,705
Iwate	975,771	19,988	1,102	11,736	1,887
Miyagi	1,142,784	30,027	1,252	20,610	2,997
Akita	987,706	31,942	1,240	13,552	2,814
Yamagata	1,080,034	34,979	1,358	16,009	3,282
Fukushima	1,508,150	38,003	1,633	17,129	3,067
Ibaraki	1,487,097	45,894	2,076	18,155	3,266
Tochigi	1,141,737	34,080	1,605	19,899	2,991
Gumma	1,186,080	27,978	1,502	20,676	2,658
Saitama	1,459,172	41,550	1,851	22,217	3,487
Chiba	1,470,121	46,106	1,922	22,818	3,726
Tokyo	5,408,678	180,428	9,933	478,016	81,714
Kanagawa	1,619,606	38,146	2,481	63,404	8,405
Niigata	1,933,326	64,298	2,624	32,612	6,552
Toyama	778,953	27,369	1,036	16,705	2,791
Ishikawa	756,835	23,506	1,062	15,286	2,232
Fukui	618,144	18,870	951	11,180	1,786
Yamanashi	631,042	13,147	688	9,729	1,290
Nagano	1,717,118	42,947	2,321	24,692	3,750
Gifu	1,178,405	32,966	1,844	19,032	2,859
Shizuoka	1,797,805	38,978	2,791	34,958	4,545
Aichi	2,567,413	72,595	4,176	88,498	13,108
Mie	1,157,407	32,795	2,047	23,459	4,350
Shiga	691,631	26,048	1,089	14,799	3,743
Kyoto	1,552,832	41,569	2,131	90,383	9,787
Osaka	3,540,017	108,498	4,796	250,384	38,995
Hyogo	2,646,301	79,636	4,198	165,049	20,212
Nara	596,225	16,303	982	13,288	2,021
Wakayama	830,748	18,017	1,134	15,917	2,243
Tottori	489,266	13,913	655	8,445	1,154
Shimane	739,507	22,050	1,008	12,777	2,031
Okayama	1,283,962	41,544	1,835	30,963	4,406
Hiroshima	1,692,136	40,931	2,271	47,521	5,480
Yamaguchi	1,135,637	33,924	1,885	30,838	3,835
Tokushima	716,544	17,873	783	8,534	1,288
Kagawa	732,816	20,387	737	10,807	1,883
Ehime	1,142,122	26,679	1,464	22,632	3,067
Kochi	718,152	16,584	988	10,546	1,417
Fukuoka	2,527,119	60,582	4,452	81,614	10,277
Saga	691,565	23,518	1,043	10,333	1,890
Nagasaki	1,233,362	21,728	1,766	27,623	3,017
Kumamoto	1,353,993	40,163	1,632	33,317	3,991
Oita	945,771	26,381	1,335	19,802	2,363
Miyazaki	760,467	18,479	914	11,880	1,590
Kagoshima	1,556,690	33,200	2,021	20,658	2,692
Okinawa	577,509	4,488	411	2,632	329
Average	1,371,277	36,909	1,946	43,051	6,359

(b) Index numbers (with prefectural average as 100).

Prefectures	Population (%)	Rental value of land (%)	Private property (%)	C-class incomes (%)	Direct national tax charges (%)
Hokkaido	204	70	182	167	109
Aomori	64	54	44	25	27
Iwate	71	54	57	27	30
Miyagi	83	81	65	48	47
Akita	72	87	64	32	44
Yamagata	79	95	70	37	52
Fukushima	110	103	84	40	48
Ibaraki	109	124	106	42	29
Tochigi	83	92	83	46	47
Gumma	87	76	77	48	42
Saitama	107	113	96	52	55
Chiba	108	125	99	53	59
Tokyo	393	487	510	1,106	1,295
Kanagawa	118	103	127	147	133
Niigata	149	174	135	76	104
Toyama	57	74	53	39	44
Ishikawa	54	64	55	36	35
Fukui	45	51	49	26	28
Yamanashi	46	36	36	23	20
Nagano	126	116	119	57	59
Gifu	86	89	95	44	45
Shizuoka	132	106	143	81	72
Aichi	186	197	213	206	208
Mie	85	89	105	55	68
Shiga	51	71	56	34	43
Kyoto	114	113	110	210	155
Osaka	257	293	245	580	616
Hyogo	192	216	215	384	320
Nara	44	44	51	31	32
Wakayama	61	49	59	37	35
Tottori	36	38	34	20	18
Shimane	54	60	52	30	32
Okayama	94	113	95	72	69
Hiroshima	124	111	116	111	86
Yamaguchi	83	92	97	72	60
Tokushima	52	48	40	20	22
Kagawa	53	55	38	25	30
Ehime	83	72	76	53	48
Kochi	52	45	51	25	22
Fukuoka	184	164	228	190	163
Saga	51	64	54	24	30
Nagasaki	90	59	91	64	47
Kumamoto	99	109	84	77	63
Oita	69	72	69	46	37
Miyazaki	56	50	47	28	54
Kagoshima	114	90	104	48	25
Okinawa	42	12	21	6	5
Average	100	100	100	100	100

Population claimed my first attention, as economic life of all kinds is based on it. The figures of population adopted are those of the census taken by the Statistical Bureau of the Cabinet on October 1st, 1930. The rental value of land is a datum necessary for the appraisal of the revenue accruing from privately-owned land. The figures here used are those revealed by the inquiry made by the Taxation Bureau of the Finance Department. They represent the rental value ruling on April, 1st, 1926. The figures for private property are those obtained by the Statistical Bureau of the Cabinet in its inquiry into the national wealth at the end of 1930. The C-class incomes and the direct national tax charges given in the above table are those for the fiscal year 1931-1932. Since the C-class incomes represent the incomes of individuals, they are of value in an inquiry into the incomes of the inhabitants of various districts. The C-class incomes in this table do not embody the taxable incomes only; they also include the "amount deducted, on account of loss" the "amount deducted under Articles 15 of the Tax Law", and the "amount deducted under Article 16 of the Tax Law." By the direct national taxes are meant eight taxes, viz., income, land, business profit (business tax), interest on capital, succession (death duties), mining, and Exchange business taxes. The economic power of all prefectures has been investigated under these five items. In order to show the characteristic features of individual prefectures, all calculations have been made on the basis of the index number which takes the arithmetic average as 100. In the first place, both the maximum and the minimum were found, and the upper quartile, the lower quartile, and the median were added. Further, in order to see the form of local inequality, the skewness from quartiles  $\frac{q_2 - q_1}{q_2 + q_1}$  was calculated, while the mean deviation and the standard deviation (which is the same as the coefficient of variation because it is the index number) were additionally shown so as to make clear the extent of local inequality. Table No. 4 gives the details:—

Table No. 4.

Inequality of Prefectural economic power.

	Max.	Q <sub>3</sub>	M	M <sub>1</sub>	Q <sub>1</sub>	Min.	$\gamma'$	$\sigma$	S
Population	393	114	100	83	54	36	43	64	+0.033
Rental value of land	487	113	100	87	55	12	45	76	-0.103
Private property	510	110	100	83	53	21	49	80	-0.053
C-class incomes	1,106	76	100	46	30	6	94	179	+0.304
Direct national tax charges	1,295	69	100	47	30	5	94	200	+0.128

The above table shows that skewness is smallest in population (+0.033) and biggest in the C-class incomes (+0.304), these two offering a singular contrast with each other. Deviation is also smallest in population (mean deviation: 43; and standard deviation: 64). It is somewhat bigger in the rental value of land (mean deviation: 45; and standard deviation: 76) and in private property (mean deviation: 49; and standard deviation: 80), which represent wealth most closely associated with the localities concerned, while it is biggest in the C-class incomes (mean deviation: 94; and standard deviation: 179), which embody wealth most closely connected with the inhabitants of the localities. In consequence, the deviation in direct national tax charges (mean deviation: 94; and standard deviation: 201) is also big.

2. Changes in inequality in prefectural economic power. Let me now proceed to make clear whether the loss of balance between prefectures in economic power has grown or diminished with the lapse of time. Of the five items mentioned in the above table, I have left out, in this particular study, the rental value of land and private property as we have hitherto had only one official investigation regarding them. The item of direct national tax charges is also left out, since it embodies the results of the taxing of



Table No. 5. Prefectural population and incomes.

(a) Actual numbers.

Prefectures	Population in 1920	Population in 1925	C-class in- comes in 1921 (In ¥1,000)	C-class in- comes in 1926 (In ¥1,000)
Tokyo	3,699,839	4,485,144	412,707	492,542
Osaka	2,587,847	3,059,502	225,097	284,598
Hokkaido	2,359,183	2,498,679	72,532	89,999
Hyogo	2,301,799	2,454,679	141,888	185,162
Aichi	2,089,762	2,319,494	102,835	111,349
Fukuoka	2,188,249	2,301,668	115,159	114,852
Niigata	1,776,474	1,849,807	78,629	88,235
Shizuoka	1,550,387	1,671,217	54,099	58,095
Nagano	1,562,722	1,629,217	61,297	65,944
Hiroshima	1,541,905	1,617,680	61,437	60,661
Kanagawa	1,323,390	1,416,792	78,567	65,069
Kagoshima	1,415,582	1,472,193	29,914	31,910
Kyoto	1,287,147	1,406,382	84,955	103,320
Fukushima	1,362,750	1,437,596	39,321	34,778
Ibaraki	1,350,261	1,409,092	41,662	37,693
Chiba	1,336,155	1,399,257	41,380	37,557
Saitama	1,319,261	1,394,461	42,772	39,257
Kumamoto	1,233,233	1,296,086	58,976	59,910
Okayama	1,217,698	1,238,447	51,058	46,796
Nagasaki	1,136,182	1,163,945	42,372	41,164
Gumma	1,052,610	1,118,858	39,439	37,668
Gifu	1,070,407	1,132,557	36,034	35,575
Mie	1,069,270	1,107,692	42,440	37,608
Miyagi	961,768	1,044,036	32,490	35,521
Ehime	1,046,720	1,096,388	34,397	36,865
Tochigi	1,046,479	1,090,428	45,426	38,293
Yamaguchi	1,041,013	1,091,544	57,235	47,960
Yamagata	968,925	1,027,297	38,482	35,085
Akita	898,537	936,408	33,536	31,134
Iwate	845,540	900,984	20,230	21,306
Oita	860,282	915,136	39,105	33,406
Aomori	756,454	812,977	19,119	19,213
Wakayama	750,411	787,511	23,155	23,876
Toyama	724,276	749,243	30,262	29,345
Miyazaki	651,097	691,094	19,231	20,559
Ishikawa	747,360	750,854	26,877	24,131
Shimane	714,712	722,402	28,243	24,164
Kagawa	677,852	700,308	21,542	19,128
Kochi	670,895	687,478	16,497	17,475
Tokushima	670,212	689,814	16,763	14,132
Shiga	651,050	662,412	23,995	22,909
Saga	673,895	684,831	26,418	22,296
Yamanashi	583,453	600,675	17,332	17,886
Fukui	599,155	597,899	22,713	18,486
Nara	564,607	583,828	23,096	17,816
Okinawa	571,572	557,622	5,463	4,084
Tottori	454,675	472,230	19,737	16,432
Average	1,190,703	1,275,252	55,233	58,111

(b) Index numbers (prefectural average taken as 100).

Prefectures	Popula- tion in 1920 (%)	Popula- tion in 1925 (%)	Popula- tion in 1930 (%)	C-class incomes in 1921 (%)	C-class incomes in 1926 (%)	C-class incomes in 1931 (%)
Tokyo	300	352	393	744	844	1,106
Osaka	216	239	257	405	488	580
Hokkaido	198	195	204	132	155	167
Hyogo	193	192	192	256	318	384
Aichi	175	181	186	186	192	206
Fukuoka	183	180	184	208	198	190
Niigata	148	144	140	143	118	76
Shizuoka	131	138	132	98	100	81
Nagano	132	127	126	111	114	57
Hiroshima	130	126	124	111	104	111
Kanagawa	111	111	118	143	112	147
Kagoshima	119	116	114	54	55	48
Kyoto	108	110	114	154	178	210
Fukushima	115	113	110	71	60	40
Ibaraki	114	111	109	76	65	42
Chiba	112	110	108	75	65	53
Saitama	111	109	107	78	68	52
Kiumamoto	104	102	99	107	103	77
Okayama	103	97	94	93	81	72
Nagasaki	96	91	90	77	71	64
Gumma	88	89	87	72	65	48
Gifu	90	89	86	65	61	44
Mie	90	88	85	77	65	55
Miyagi	81	83	83	59	61	48
Ehima	88	87	83	62	64	53
Tochiki	88	87	83	82	66	46
Yamaguchi	88	87	83	104	83	72
Yamagata	81	82	79	70	60	37
Akita	76	74	72	61	54	32
Iwate	71	71	71	37	37	27
Oita	72	72	69	71	58	46
Aomori	64	64	64	35	33	25
Wakayama	63	62	61	42	41	37
Toyama	61	59	57	55	51	39
Miyazaki	55	55	56	35	35	28
Ishikawa	63	59	54	49	42	36
Simane	60	57	54	51	42	30
Kagawa	57	55	53	39	33	25
Kochi	56	54	52	30	30	25
Tokushima	56	54	52	30	24	20
Shiga	55	52	51	44	39	34
Saga	57	54	51	48	38	24
Yamanashi	49	48	46	31	31	23
Fukui	50	47	45	41	32	26
Nara	47	46	44	42	31	31
Okinawa	48	44	42	10	7	6
Tottori	38	37	36	36	28	20
Average	100	170	100	100	100	100

economic power rather than reflecting economic power itself, and as, moreover, the progressive rates are applied. Thus, calculations have been made, in respect of all prefectures, about the two items of population (as it stood on October 1st of 1920, 1925 and 1930, when censuses were taken) and C-class incomes (in 1921, in 1926 and in 1931).

It is for two reasons that, in the calculation, in the C-class incomes, the figures for the year following that taken for population have in each case been selected. One reason is that dividends came to be taxed as C-class income in and after the fiscal year 1921-1922, and the other reason is that the actual revenues for the previous year, instead of the budgetary estimates, have been taken as the standard of calculation.

In order to show how local inequality in population and in incomes has changed during the past ten years, I have prepared Table No. 6 on the basis of the index number given in Table No. 5.

Table No. 6.

Inequality in prefectural population and wealth.

	Max.	Q <sub>3</sub>	M	M <sub>1</sub>	Q <sub>1</sub>	Min.	$\eta$	$\tau$	S
Population in 1920	309	115	100	88	60	38	39	53	-0.018
1925	352	113	100	87	57	37	41	58	-0.071
1930	393	114	100	83	54	36	43	64	+0.033
C-class incomes in 1921	744	107	100	71	42	10	64	117	+0.108
1926	844	103	100	61	38	7	73	137	+0.292
1931	1.106	76	100	46	30	6	94	179	+0.304

Table No. 6 shows that the skewness of population is changing for minus (-0.018) to plus (+0.033) and that the skewness of the C-class incomes is steadily adding to its plus status (from +0.108 to +0.304). Again, both in mean

deviation and in standard deviation, population and the C-class incomes are both steadily on the increase, the tendency to increase being more marked in the C-class incomes (in which mean deviation was 64 in 1921, 73 in 1926, and 94 in 1931; and standard deviation 117 in 1921, 137 in 1926, and 179 in 1931) than in population (in which mean deviation was 39 in 1920, 41 in 1925, and 43 in 1930; and standard deviation 53 in 1920, 58 in 1925 and 64 in 1930).

It can thus be proved by figures that inequality in prefectural population has increased during the last ten years and the inequality in prefectural incomes has grown even at a greater rate during the interval.

#### 4. UNFAIR INCIDENCE OF THE TAX BURDEN AND REMEDIAL MEASURES

The concentration of wealth in big cities produces far-reaching financial effects—especially as regards the burden of taxation. I shall study its effects on national taxes, direct and indirect, and on local taxes.

1. The loss of balance in the incidence of direct taxes. The incomes, the land, and the business profit taxes form the three principal direct national taxes. The A-class income tax is levied on the incomes of juridical persons, and as juridical persons are largely concentrated in big cities, the revenues from this source are especially large in big cities. The B-class income tax is collected at the source, and therefore it is not clear where the tax-bearers live, but so far it is obvious that it does not bring much revenue to the local finance of rural districts. In the C-class income tax, the taxable limit is fixed at an income of ¥1,200, and owing to the marked decline in the incomes of farmers because of the fall in the prices of rice and cocoons, the payers of this tax are mostly inhabitants of big cities. The business profit tax is undoubtedly an urban tax, as it is imposed on merchants and industrialists. On the other hand, the land tax is primarily rural by nature. Whereas it ought to fall

chiefly on rural districts, however, it is gradually losing its characteristic as an impost on farmers. This is partly because the land tax is reduced in agrarian communities on account of the system of tax exemption, under which it is remitted in favour of yeoman farmers, and partly because the rental value of land, which furnishes the basis of assessment, amounted to ¥292,750,000 in the six big cities on April 1st, 1926, or 17 per cent. of the total amount for the whole country, viz., ¥1,734,710,000. In so far as direct national taxes are concerned, the incidence of taxation is thus comparatively fair, the burden being lighter in rural districts than in urban.

The *saké* tax and the Tobacco Monopoly profit constitute the two principal indirect national taxes in Japan. As indirect taxes are levies the burden of which is shifted by tax-payers to the shoulders of tax-bearers, the places where these taxes are paid are not identical with the places where those who actually bear them live. Consequently, the relations of the incidence of the burden are not clear. On a general view, however, it is obvious that as men in the prime of life are the chief consumers of *saké* and tobacco, the burden of indirect national taxation increases in the six big cities where there is an increase in the number of such people. Statistics, indeed, testify to this tendency. Seeing, however, that excise duties are poll-taxes, so to speak, and, unlike direct taxes, carry no provisions for taxable limits, progressive rates and deduction rules, they fall comparatively more heavily on rural people than on the inhabitants of big cities.

Direct national taxes weight less heavily on rural districts than on urban, and it is fair to conclude that it is indirect rather than direct national taxes under which agrarian communities are groaning. It is, however, local taxes which press particularly hard on farmers. I shall, therefore, explain how these taxes, prefectural and municipal, town or village, bear on them.

One of the most important of prefectural taxes is the house tax, which is assessed on the basis of rental value.

The figures for 1931 show that the six big cities account for 26 per cent. of the total rental value of houses, and the other districts for 74 per cent. But although the six big cities thus account for a large proportion of the total rental value of houses, all prefectures are eager to derive as much revenue as possible from the house tax. For this reason, the house tax falls more heavily on rural districts than on urban. As other prefectural taxes may be mentioned the miscellaneous tax, the special land tax, and the business tax. In addition, surtaxes are imposed on various national taxes. These taxes also fall comparatively lightly on the inhabitants of the prefectures in which the big cities are located.

The most important of the municipal, town and village taxes is *kosuwari* (household rate). It is a well-known fact that this particular levy is heavier in rural districts than in urban. National and prefectural surtaxes also fall most lightly on the inhabitants of the six big cities, and they bear less hard on the inhabitants of other cities than on rural inhabitants, who are thus taxed most heavily.

As it is impossible to examine the total amount of tax burden in respect of each district, I have confined my attention to the burden of direct taxes only, to the exclusion of indirect taxes. The figures in the following table show the amount of tax burden in the six cities, in the other cities and in the rural districts, respectively, as regards direct national taxes, prefectural taxes, and city, town and village taxes :—

Table No. 7. Burden of

	Total amount of burden (In ¥1,000)				
	Direct national taxes	Prefectural taxes	Municipal, town and village taxes	Total	
Rural districts	120,854	161,917	210,494	493,266	
Urban districts	Six big cities	129,684	37,865	64,569	232,119
	Districts other than six big cities	48,335	35,417	49,005	132,758

If we take the burden of direct national taxes as 100 and on this basis work out the burdens of prefectural taxes, city, town or village taxes, and the total direct taxes in percentages, interesting facts emerge. Basing my calculations on the figures for 1931, I find that the prefectural taxes borne by the six big cities were 29, the municipal taxes 50 and all direct taxes 179 as against 100 for direct national taxes. That is to say, they bore in that year local taxes corresponding to about 80 per cent. of direct national taxes. With regard to the other cities, the percentages are 73 for prefectural taxes, 102 for municipal taxes, and 275 for all direct taxes. In other words, they bore local taxes equivalent in amount to 170 per cent. of direct national taxes. The percentages for rural districts are 134 in prefectural taxes, 174 in town or village taxes, and 408 in all direct taxes. That is to say, rural districts bore in that year local taxes three times the amount of direct national taxes. Supposing that direct national taxes are fair in incidence and accord with the economic capacities of individual districts, the incidence of local taxes is obviously abnormal, for there are vast differences between the proportion of local taxes borne by the six big cities, the other cities and rural districts respectively. The first-mentioned bear local taxes which are lower than direct national taxes; the second-mentioned bear about twice as heavy a burden of local taxes as direct national taxes; and the last-mentioned bear local taxes of about three times the amount of direct national taxes. This

direct taxes in 1931.

Ratios (%)			
Direct national taxes	Prefectural taxes	Municipal, town and village taxes	Total
100	134	174	408
100	29	50	179
100	73	102	275

unfair incidence of tax burdens tends to accentuate the tendency for rural inhabitants to move to the six big cities. Some people complain that for this reason many provincial landowners transfer their places of residence to big cities, instead of living where they own land, but before attacking these landowners, it is well for such critics to study earnestly the ways and means of removing defects in local finance—in the local taxation system especially—which are responsible for the increase in the number of landowners who desert their native provinces.

As it is thus clear that the incidence of taxation in the provinces is far from fair, effectual remedial measure must of necessity be devised. In the present article, I shall study three remedial plans, namely, the adjustment of local economic power, defrayal out of the national treasury of the expenditure in which local autonomous bodies are involved for the transaction of the business entrusted to them by the State, and grants-in-aid for the adjustment of local finance.

1. Adjustment of local economic power. The fundamental cause of the unfairness in the incidence of the burden of taxation between urban and rural districts is to be found in the inequality of their economic power. In consequence of the concentration of population—chiefly people in the prime of life—in big cities, and also of the concentration, even to a greater degree, of wealth in such cities, the balance of economic power between urban and rural districts was lost, and this inequality in economic power led to unfairness in the incidence of the burden of taxation. Whereas the burden of national taxes is uniform throughout the country, the incidence of local taxation is unfair, as already indicated. In such circumstances, it is only human that individuals or juridical persons should try to transfer their abodes or factories to districts where local taxes are relatively low. For one thing, local landowners often leave their ancestral estates to live in big cities. It is said that the consideration of local taxes has considerable weight with a big company in its choice of site for a new factory. In this way, districts with



weak economic power, where heavy local taxes are imposed, lose sources of revenue which centre in other districts with strong economic power, where the burden of local taxation is light. The result is the accentuation of the disparity in the incidence of the burden of taxation between urban and rural districts. Such being the case, if inequality in local finance is to be remedied fundamentally, it is necessary to restore the balance of economic power between urban and rural districts. To be more exact, either urban economic power must be reduced or rural economic power increased. Or the reduction of the former and the increase of the latter must be effected simultaneously. But it is well-nigh impossible for such plans to be carried out effectually.

Whereas it is impossible to adjust local economic power by such direct and drastic means, it is possible to achieve the end to a certain extent by reorganising the units of local finance, viz., prefectures, cities, towns or villages. What I mean is to harmonise regionalism in politics with regionalism in economics. The boundaries of prefectures, cities, towns and villages were, in their essentials, fixed in the Meiji era and are consequently, in many respects, hardly in keeping with the requirements of the present day. There can be no two opinions as to the need for reorganisation. Some people advocate the amalgamation of prefectures with economy of expenditure in view, but the reorganisation which I urge here is not from such motives: it aims at the re-demarcation of administrative districts in a manner which accords with the actual economic capacity of the districts concerned. Some prefectures may deem it advisable to amalgamate. Necessity may also suggest the merger of towns and villages or the creation of new villages. The idea of adjusting local economic power through the reform of the local administrative organ deserves attention.

2. Defrayal out of the national treasury of the expense involved in the transaction of the State business entrusted to local autonomous bodies. Although it is desirable that through the above-mentioned re-assignment of administrative

districts, an equilibrium should be restored in local economy and the fair incidence of the burden of local taxation secured, the work is obviously supremely difficult. This consideration has engendered the idea of re-examining the present division between national and local expenditure. One of the causes of the present distress of local finance is the heavy expenditure involved in the transaction of the business entrusted by the State. The outlay on this head constitutes the major part of the local expenditure, so that only a little money is left available for the transaction of the business which is purely local. Such being the case, it is urged in some quarters that either all or a large proportion of the cost involved in the transaction of State business should be defrayed out of the national treasury so as to relieve the local treasuries. This suggestion has been discussed a good deal in the past. According to rough estimates for the fiscal year 1934-1935, the cost to prefectures of the transaction of business bearing on State administration amounted to ¥440,000,000 (73.8 per cent. of the total prefectural expenditure) and the cost to cities, towns and villages was ¥988,000,000 (42.1 per cent. of the total city, town and village expenditure). The cost of transacting the business entrusted or the cost of transacting State business is not very clearly definable, but the cost which clearly falls into this category amounted in the fiscal year 1934-1935 to ¥195,000,000 (32.8 per cent. of the total prefectural cost) in prefectural estimates and ¥306,000,000 (23.5 per cent. of the total city, town and village expenditure) in city, town and village estimates, making a total of ¥502,000,000 (26.5 per cent. of the total local expenditure). It is a matter calling for remedy that the cost of State business entrusted to local autonomous bodies bears, as at present, so hard on local finance, on town and village finance especially, but when we come to consider the question of the proper proportion in which the State and local autonomous bodies should bear such cost, it is no easy take to devise concrete plans.

3. Grants-in-aid for the adjustment of local finance.

The re-organisation of the administrative districts and the defrayal out of the national treasury of the cost involved in the transaction of the State business entrusted to local autonomous bodies are both plans the execution of which involves much time and difficulty. As an emergency and practical plan, therefore, it is now proposed that grants-in-aid should be allowed for the adjustment of local finance. This plan is not concerned with the remedy of the present irrational administrative organisation and the present inequality in local economic power. Nor does it propose to remove, in a direct way, the present pressure on local finance of the cost involved in the transaction of State business entrusted to local autonomous bodies. It is an expedient aiming at the removal, without undue delay, of the unfair incidence of tax burden, arising from inequality in local finance. As this question of grants-in-aid now forms the nucleus of the reform of local finance, I shall deal with it further in the next chapter.

#### 5. GRANTS-IN-AID FOR THE ADJUSTMENT OF LOCAL FINANCE

This plan was originally the private scheme of certain Home Office officials, but it has gradually gained such wide support that it now predominates and constitutes the main subject for discussion both in the National Policy Council and in the Enquiry Bureau of the Cabinet.

1. Contents of the plan. The proposed grants-in-aid are funds to be supplied by the State to the local autonomous bodies for the purpose of remedying the unfair incidence of the burden of local taxation. In order to provide the necessary money, the State is to increase national taxes or to create a new tax, the resulting increased revenue being handed over to the local autonomous bodies. In distributing grants-in-aid among these bodies, care is to be taken to see that the poorer bodies receive more than those in more affluent circumstances.

As suitable sources of revenue from which to finance the grants-in-aid, a 50 per cent. increase in the B-class income tax (¥12,627,000), a 100 per cent. increase in the tax on interest on capital (¥14,903,000) and a 100 per cent. increase in the death duties (¥28,983,000) are suggested. The advisability of creating a new tax on proceeds is also considered in some quarters, but the present plan does not include it. The taxes mentioned above would not be unduly burdensome, for, unlike other taxes on profits, no local surtaxes are levied on such taxes for reasons connected with taxation technique. Such being the case, they naturally claim first attention whenever the question of increasing national taxes is on the *tapis*, let alone the present instance of providing a new source of revenue for financing grants-in-aid for the adjustment of local finance. And it is with good reason that they are fixed upon as the suitable sources of revenue.

Grants-in-aid for the adjustment of local finance ought to be devoted to the reduction of local taxes. According to the latest edition of the "Summary of Local Finance," the highest, the lowest and the average rates of prefectural taxes imposed in different prefectures in the fiscal year 1934-1935 were such as are given in the following table:—

	Land surtax	Special land tax	Business profit tax	Income surtax	House tax
Highest	1.724 (Okinawa pref.)	0.654 (Okinawa pref.)	0.794 (Miyagi pref.)	0.410 (Miyagi pref.)	1.830 (Oshima, Kagoshima pref.)
Lowest	0.570 (Tokyo pref.)	0.111 (Osaka pref.)	0.465 (Tokyo pref.)	0.240 (Chiba pref.) (Osaka pref.)	0.065 (Tokyo pref.)
Average	1.337	0.501	0.710	0.374	0.422

It certainly is a deplorable phenomenon that the incidence of local taxation should be as unfair as is shown in the above table, and it is only proper that the grants-in-aid should be devoted to the reduction of local taxes, that is, prefectural

taxes (the reduction of imposts of all kinds in excess of legal limits, and the reduction of the house tax, the business tax and the miscellaneous tax) and city, town and village taxes (the reduction of the household rate, or the house surtax which is collected in some districts in lieu of the household rate, the reduction of the imposts of all kinds in excess of legal limits, and the reduction of surtaxes on prefectural taxes in consequence of reduced prefectural taxes).

As to the manner of distribution, it is so arranged that two-fifths of the total should be allotted to the prefectures and the other three-fifths to the cities, towns and villages. The funds for distribution are of two categories, ordinary and special. As the special fund represent less than one-tenth of the total amount of the funds for distribution, the ordinary funds embody the major proportion. The special funds are intended for prefectures or cities, towns or villages which are reduced to dire straits by special circumstances and are to be distributed in due consideration of these special circumstances. These funds are rather exceptional by nature. The ordinary funds are given to all districts without exception, and consequently the merits or demerits of the grants-in-aid may largely be judged by the standards by which these funds are distributed. The total of the ordinary grants is divided into three categories. One category has for its standard of distribution the incidence of taxes (distribution for prefectures to be made on the basis of the amount obtained by multiplying the amount by which the average per head of direct national taxes in the prefecture concerned falls short of the average per head of these taxes throughout the country by the prefectural population, while distribution for cities, towns and villages to be on the basis of the amount obtained by multiplying the amount by which the average per head of direct national taxes and prefectural taxes in the city, town or village concerned falls short of the average per head of such taxes throughout the country by the population of the locality concerned). Another category has for its standard of distribution the amount of

surtax (distribution for prefectures to be made on the basis of the amount obtained by multiplying the amount by which the average per head of surtaxes on direct national taxes in the prefecture concerned falls short of the average per head of such surtaxes throughout the country by the prefectural population, while distribution for cities, towns or villages to be made on the basis of the amount obtained by multiplying the amount by which the average per head of surtaxes on direct national taxes and prefectural taxes falls short of the average per head of such surtaxes throughout the country by the population of the locality concerned). The other category has population for its standard of distribution (distribution for prefectures, or cities, towns or villages to be made on the basis of their respective populations). In short, the increased revenue from national taxes is to be given back, not uniformly, but at different rates, that is, in a larger proportion for those prefectures or cities, towns or villages which have limited economic power. In other words, districts with strong economic power are to be taxed for the relief of those with small economic power. It is for the successful attainment of this end that rather complex standards of distribution have been adopted. In this respect, the proposed grants-in-aid plan has points of similarity with the State subsidy for compulsory education, and consequently both have common merits and demerits.

Now I have explained the object, the source of revenue and the standards of distribution in regard to the grants-in-aid for the adjustment of local finance and shown that this plan has good ground to stand upon. Though commendable in conception, its execution deserves most careful study. As it embodies an epoch-making innovation in the Japanese financial system, the utmost circumspection must be used in carrying it out.

2. Practicability of the projected grants-in-aid for the adjustment of local finance. The plan of grants-in-aid for the adjustment of local finance under discussion is not intended as a temporary expedient which operates for a

year or two. It is to constitute a permanent burden on the national finance as a sort of ordinary expenditure. There must, therefore, be a sure source of ordinary revenue to finance it. It is for this reason that an increase is contemplated in the B-class income tax, that is to say, in the tax on interest, on capital and on inheritance. Whether or no the plan can be put through depends, therefore, on the possibility of increasing these taxes. But it would be too hasty to conclude that the possibility of such increase is the only condition of the realisation of the scheme. It is essential that the increased portion of these taxes should not be employed for the defrayal of national and other local expenditure. Only when the two conditions—the increase of taxes, and the non-employment of the increased portion of taxes for other purposes—are fulfilled can the plan of grants-in-aid for the adjustment of local finance be carried out.

## 6. CONCLUSION

All economic discussions in Japan for about a dozen years after the World-War turned on the axis of class strife. In the discussion of economic life in Japan, nobody took the trouble to compare urban life with rural. All discussions centred on the relative positions of the propertied and non-propertied classes, regardless of regional considerations. There was hardly any economic argument which made no reference to rivalry between the bourgeoisie and the proletariat and to class strife. In financial discussions also, attention was confined to the rival existence of the two classes of people, the propertied and the non-propertied. Distinctions between cities and villages, between farmers and merchants and industrialists, or between Japan and other countries, weighed little with theorists in whose eyes there existed the above-mentioned two classes of people and nothing else. This offers a striking contrast to what is now taking place.

Now the chief interest attaches to the comparative study

of economic life in urban and rural districts and the incidence of the burden of taxation on farmers and on merchants and industrialists. On the other hand, the question of class strife has receded into the background altogether. Thus, the reform of local finance is being strongly urged and the question of grants-in-aid for the adjustment of local finance is attracting a good deal of public attention. The question of the reform of local finance covers a very wide field. Big cities have many problems the settlement of which is long overdue, such as, for example, public utility enterprises and the introduction of the special municipality system. Even confining attention to the adjustment of unfairness in tax burdens in urban and rural districts, many remedial measures may be suggested, such as the reform of the administrative organisation, the defrayal out of the national treasury of the expense involved in the transaction of the State business entrusted to local autonomous bodies, and the reduction of the burden of indirect taxation. The grants-in-aid plan for the adjustment of local finance is merely one of the many remedial measures possible. While, no doubt, it marks an advance that the vague discussion of class strife has been discarded in favour of the more practical debate on the question of giving grants-in-aid to local governments for financial adjustment, the fact remains that there are many measures, besides this particular one, for the reform of local finance.

It is usual that inequality in the burden of taxation in urban and rural districts suggests to many minds the victimisation of one by the other, but this sweeping generalisation is wrong. For instance, it was not by the victimisation of rural interests that urban roads have been improved markedly in recent years. The money required for their improvement has been raised by the special town-planning tax and by the special contributions made by beneficiaries. About 60 per cent. of the Tokyo and Osaka citizens hail from rural districts, and these people are benefiting rural districts directly or indirectly. In drawing up detailed plans



of grants-in-aid for the adjustment of local finance, therefore, it is desirable that drafters should go about their work in the spirit of promoting the common prosperity of urban and rural districts. According to the mood in which this question is handled, the proposed grants-in-aid may either accentuate or alleviate the sense of rivalry or antagonism between urban and rural districts.

Although the question of grants-in-aid for the adjustment of local finance is now chiefly under discussion in the direction of the reform of local finance, there are many other problems calling for attention for the attainment of the end in view. Again, there are many conditions which must be fulfilled before the plan of grants-in-aid can be carried out. It is to be hoped that the National Policy Council and the Enquiry Bureau of the Cabinet will keep these facts in mind and work out reform plans which can bring State and local finance into harmony, so that true accord between urban and rural people can be achieved.

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