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# TREASURY AND MONEY MARKET IN JAPAN

by Yasuhiko SHIMA\*

## I The Development of Planned Administration of Treasury

The Treasury is a body corporate of state, subject of financial and economic behavior. The state often becomes a subject of economic behavior in this sense. For example, it becomes the subject of action such as, the administration of properties, the buying and selling of goods and services and the taking charge of monetary revenues and expenditures. What influences the money market among these, is needless to say, the monetary revenues and expenditures. This is called "The Fiscal Payments and Receipts" in Japan and has long been regarded as a factor wielding a great influence on the national economy.

The reason why the Treasury has had such a great influence on the national economy can be explained by the modern history of Japan. The Japanese government has tried every possible means to encourage the growth of modern industries since the Meiji Restoration. Therefore, the Treasury includes not only the general accounts financed by tax revenues, but also the special accounts used for government enterprises, government banks and various funds. The constitution of the Treasury is very complicated. It is reported that as many as 95 factors, including all kinds of government accounts, those of Public Corporations and Public Finance Corporations, etc. are regulating the fiscal payments and receipts. Consequently, the influence of the fiscal payments and receipts on the Japanese money market is extensive and involved.

For example, absorption of money by the Treasury presents various other factors of different nature than the compulsory absorption of money in the mere form of taxation. As the Japanese government runs a savings bank, the people's money is also absorbed in the form of savings. When government enterprises issue public loan bonds, money is absorbed in the form of investment. The influence of fiscal payments is likewise involved. As mentioned before, various factors constituting the fiscal payments and receipts, the relation of payments and receipts among various accounts, public corpo-

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rations and each fund is also diverse. The financial policy of the Japanese government has had a strong and extensive influence on her whole national economy. However, the people have not been able to grasp clearly the relation between the Treasury and the general public and the payments and receipts within the Treasury. This involved construction of the Treasury may have given rise to the abuse of public money. Thus, the general grasp of the fiscal payments and receipts has had an important meaning on the administration of the Treasury.

For a comparatively long period, people have made efforts to clarify the monetary movements between the general accounts and the special accounts and those within the special accounts. They were able to first grasp the relation of payments and receipts of money among respective accounts, then deducted duplications and finally figured up the net amount of estimated revenues and expenditures. This was a method to determine the true scale of the budget, adding up the general account and all the special accounts. But during the World War II, various special accounts and government agencies again increased with the extension of government economic controls. The monetary influence of fiscal payments and receipts became all the greater and determination of the scale and movement of fiscal payments and receipts and of its economic effect became increasingly difficult.

The structure of the Treasury during the war, though changed in form continued through the post-war days. This was because strong economic control was maintained by the government to overcome the crisis in the Japanese economy caused by the defeat and so there was no possibility of simplifying the structure of the Treasury.

The trial of determining synthetically the complicated postwar fiscal payments and receipts was conducted by Mr. Dodge under the Occupation. The purpose of Mr. Dodge's policy was to steer clear of the financial expansion and cause of inflation, such as loans of the Recovery Finance Corporation and subsidies for advancement of prices from the original accounts. For these intricate relations between fiscal payments and receipts had to be adjusted.

The collective balance of payment and receipts including the general accounts, special accounts, various government agencies was made public for the first time. Taking advantage of this opportunity, statistics of the fiscal payments and receipts came to be adjusted. The readjustment of the statistics of the fiscal payments and receipts is very significant, because this will clarify definitely, the state of execution of the government. Budget supplies us with materials showing the increase and decrease of government Deposits, the relation between procurement funds and government refunds and also fluctua-

tions of fiscal payments and receipts as well as the increase and decrease of Bank of Japan notes. Based on these materials, estimates of the government receipts and the payments on the open market came to be made in Japan. Comparing the total reserves of the general accounts, that is revenues from taxes and the government monopoly enterprises, you will have the balance of the accounts. This will show the the difference in the outflow and inflow of money of the general accounts. To this added the difference in revenues and expenditures of all special accounts. The amount calculated shows the balance of the total fiscal payments and receipts and the real condition of the government receipts from and payments to the open market. In other words, this shows any excess payment or excess receipts of the government on the money market and an increased issue of currency caused by financial reasons. If otherwise, a decrease of currency is brought about by finance. By adding up the increase and decrease of loans by private banking organizations and deposits, there will be aggregate increase and decrease of currency and its cause is also clarified.

This may be put into the following formula: excess of government payments (or receipts) + increase (or decrease) of loans — increase (or decrease) of deposits = increase (or decrease) in currency. In this manner, the adjustment of statistics of the fiscal payments and receipts together with that of private banking organizations helps to clarify the effects of the fiscal payments and receipts on price fluctuations and on the increase and decrease of currency, and the significance of the Treasury administration on the national economy came to be proved.

## **II Seasonal Fluctuations of Fiscal Payments and Receipts**

What is important in the planned administration of the Treasury is to adapt the fluctuations of the fiscal payments and receipts to the conditions of the money market. The fluctuation of the fiscal payments and receipts is not always favorable factor in the money market, but on the contrary, more often a disturbing factor in it. This is due to the fact that the fiscal payments and receipts fluctuate because of reasons based on government policy and its system of organization.

There are certain patterns in the seasonal fluctuations of the government receipts from and the payments to the open market. The fundamental pattern is as follows: small excess of payments in the first quarter of a year, small excess of receipts in the second quarter, big excess of payments in the third quarter and big excess of receipts in the fourth quarter. Such a pattern is a collection of fluctuations in all payments and receipts, accounts and funds constituting the fiscal payment and receipts. Accordingly, the aggregate

fluctuations in payments and receipts can be explained by the movements of the main funds and accounts. The main factors causing this pattern of fluctuation are the payments and receipts of the general accounts and the special accounts for Food Stuffs Control. Therefore, I will explain these two accounts at first and then refer to the factors of secondary importance.

#### ( a ) General Accounts

As to the tax revenues of the general account, the date of tax payment is fixed by law according to the kind of taxes. This fact constitutes a factor which cause fluctuations of payments and receipts of the general account. Though collections at the source of personal income taxes by and large is made equally every quarter of a year, the total tax revenues show a tendency to be collected mainly in the fourth quarter, which is the last period for tax payment. The period of payment of corporation profit taxes is set to the term for the settlement of accounts. As most corporate bodies settle accounts at the end of March and September, revenues from bodies corporate are concentrated in June and December, with a time lag of three months. As revenues from corporation profit taxes surpass those of personal income taxes the fluctuations of the former taxes somewhat tend to modify that of the latter.

There are some items of which the period of expenditure is fixed under the system in the general accounts. But the main feature of the expenditures is that the main items such as the expenditures for public works and for National Defense etc, are either concentrated in the end of the fiscal year or carried over to the next fiscal year. This fact causes excess receipts and excess payment in the first quarter mainly due to fluctuations in expenditure.

#### ( b ) Special Account for Foodstuffs Control

This is a special account established for the government to administer the foodstuffs controls since the War. This account operates so as a fixed controlled price in the harvesting season and sells them to consumers at a controlled selling price. Consequently, the fluctuations in payments and receipts of this account tend to show a big excess of payment in the quarter of the harvest period and an average excess of receipts in the remaining quarters by selling the rice. In order to offset the seasonal unbalance of this seasonal unbalance of this account, the Foodstuffs Certificates are issued and accepted by the Bank of Japan. The fluctuations of payments and receipts of this account has a great influence on the fluctuation of the fiscal payments and receipts.

Particularly, the money paid to farmers in exchange for rice at a time

in the third quarter, will have a wide spread effect upon the rural farm economy affecting seasonal fluctuations of Japanese economy as a whole. Under such circumstances, advance payment of a part of the rice crop is tentatively effected to level off to a certain degree the fluctuations of the Foodstuffs Control Account.

### (c) **Special Account for Foreign Exchange Fund**

This account was necessitated by the foreign trade control under the Occupation after the War. Even now, foreign exchange is concentrated in the hands of the government and the expenditures are controlled by the budget. The Foreign Exchange Fund is a pool of Yen funds established for the purpose of facilitating sales and purchases of foreign exchange by the government. Payments and receipts of the account is effected in this manner. The foreign exchange acquired by export from our country will be sold to this account causing an efflux of Yen funds of this account to private enterprises. The foreign exchange to be paid to foreign countries in exchange for imports are purchased from this account causing an influx of funds from private enterprises. To sum up, if exports exceed imports, this account shows an excess payment and if otherwise, an excess receipt. Consequently, the fluctuation of this account reflect the seasonal fluctuation of foreign trade itself. That is excess receipts in the first and third quarters and excess payments in the second and fourth quarters. However, the foreign trade of our country is most influenced by business cycles which rise and fall extending over a period of years. Therefore, long term fluctuations of such nature matter in this account. At the time of the Korean War (1950), our exports increased and this account showed a heavy excess of payment. Accordingly, this helped strengthen the inflationary trend at home. But, at the time of recent prosperity, (1956-57) there was a sharp increase in imports and the receipts of this account greatly increased. Thus, this account operated to mitigate inflationary effects. The merits and demerits of this account have not yet been fully investigated.

### (d) **Postal Savings**

Postal savings are the people's savings deposited with 15,000 Post Offices scattered throughout the country. This is accumulated as funds for the Fund Operation Bureau and becomes the biggest of the Government Funds. The growth of the postal savings shows a fairly seasonal pattern. In June and July, in Oct, in Dec, and Janu, the savings grow, reflecting increased income respectively in the form of summer bonuses, payments of rice crop and year end bonuses. On the contrary, the savings decrease in March and

April reflecting the increased demand for farm preparations and for the new school term.

As postal savings constitute the biggest source of government investment, attention is paid to its increase and decrease.

### **III Reformation of the Treasury System**

The Treasury still suffers from inefficiency inherent in its system. The purpose of the reformation of the system of the Treasury is to improve the system to make it more efficient and harmonious with the movement of the money market. Let me pick out some examples of reforms which have been previously made. There are short-term loans issued by each account and each fund. They are made to facilitate temporary finances of each account. The fact that the public subscription of government short-term loans has been granted is a sign of progress. By establishing a practice of the sales and purchase and retention of government short-term loans by the money market, the gulf between the Treasury and the money market will be narrowed to some extent.

Another example of the reform measures is that diverted use of surplus funds of the Treasury for each account has been granted. The surplus funds exceeding a certain amount of the Treasury, which is deposited with the Bank of Japan as government deposits, can be loaned to each account and fund without interest. Although this is a reform within the Treasury having no direct bearing on the general public, this is remarkable from the view-point of an efficient use of Treasury funds.

Furthermore, the problem of the system of the Treasury awaiting reform at present is the depositing of Treasury funds with private banking corporations in order to lessen the range of fluctuations of the fiscal payments and receipts. This is under study especially in regard to tax revenues which are concentrated and show the biggest excess receipts at the end of the fiscal year. Private banking corporations expressed their demand that the Treasury should deposit tax revenues with them. However, the problem also lies in the government short-term loans itself. At present, the sale of short-term loans in the open market is permitted and private banking corporations will buy them when the money market is suffering from a plethora of money. Nevertheless, the market operation by these short-term loans is not going well. If private banking corporations request the Treasury funds to be deposited with them at the time of excess receipts, they must, in turn, be ready to buy government short-term loans at the time of excess payments. Although, in order to attain the smooth working of the operation, considerations must be given to interest rate of loans.

As the present system of the Treasury was set up in 1922, there are many factors which do not comply with postwar conditions of the money market. Nevertheless, movement of fiscal payments and receipts have come to have a growing influence on the money market and this is why the reform of the system of Treasury is a matter of the greatest importance.

Note: This thesis has been written in accordance with the main theme of the 15th Congress of "Institut International de Finances Publiques" to be held from the 23rd to 25th of September 1959 at Barcelona, Spain.

The main theme of the Congress is "La Gestion du Trésor Publique."

The following are the names of the chief delegates and the titles of the reports to be given:

1. Le Trésor et le Budget  
(Prof. Alain Barrere-France)
2. Le Trésor et le Financement de l'Economie Publique.  
(Prof. Sureda-Espagne)
3. Le Trésor et le Marche de L'Argent et des Capitaux.  
(Prof. Harris-U.S.A.)
4. Le Trésor en Economie Collectiviste  
(Prof. Kurowski-Pologne)