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# FISCAL POLICY FOR PROMOTING GROWTH IN JAPANESE ECONOMY IN THE POST-WAR PERIOD

By Jun IKEGAMI\*

## Intoroduction

If we study fiscal policy for promoting growth in contemporary capitalism, Japanese case looks like a kind of 'ideal' model because it realized high rate growth in the post-war period.

Up to now, most of economists often pointed out that partnership between government and big company in Japan can promote high rate growth through monetary and fiscal policies that may support accumulation of capital. They are special tax reductions through special finance, reserve for retirement allowance and reserve for fluctuation etc.; cheap money policy through overloan supported by central bank; public investment in social overhead capital for promoting accumulation of capital.

Concentration of economic powers through 'partnership' can promote growth under the condition of free trade system. Because 'partnership' offers special convenience for finance, technology, information, rationalization of industry etc. But effect of 'partnership' for promoting growth will finish when industrial protectionism spreads to other countries.

In this paper, I want to investigate another element that is the most important for promoting growth through examining Japanese economy in the post-war period.

Straight forwardly speaking, this element is composed of 'scrap and build' system with mobilization of land and labor. Mobilization of land and labor means the process that promotes to change land and labor ability into materials for capital accumulation.<sup>1)</sup> Scrap and build in industries through monetary and fiscal policy looks impossible without mobilization of land and labor.

If this system had been developed under the conditions of economic democracy and democratic planning, Japan would have realized balanced and even growth. But as Japanese economy faced a lot of difficulties for developing economic democracy, scrap and build system with mobilization of land and labor has been developing at the expence of potentiality of land and labor. For instance, land speculation and aggravation of struggle for existence (about employment, education, housing, aged life after retirement etc.) have been the most fundamental features in Japanese economy.<sup>2)</sup>

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\* Professor. This paper appeared on the Fourth Issues in Working Group III. International Institute of Public Finance, Tokyo, 1981 and was revised for editor of Kyoto University Economic Review.

1) 'Mobilization' here means to put some elements into movement of capital accumulation.

2) Walter Thomas Mills, *The Struggle for Existence*, International School of Social Economy, California, 1904. Jun Ikegami, *Public Expenditures that Occasion Struggle for Existence*, (in Japanese), Yuhikaku, 1974.

If land becomes object of speculation, it may be very difficult for us to use land for people's life (including both production and consumption) by developing its potentiality (e.g. increase of labor mobility through rising prices of land, environmental pollution and disruption etc.).

And if labor becomes tools of capital accumulation keeping pace with struggle for existence, we may not develop potentiality of labor in spite of maturity of precondition about fully developed human beings.

It is impossible for us to continue economic growth without potentiality of land and labor. But capitalistic development of potentiality is only executed for profit at the expense of development of potentiality in the long run (e.g. development of adaptability at the expense of creative ability, decrease of children in nuclear families, increase of suicide of aged people etc.).

If our economy introduces economic democracy and democratic planning, the situation may be changed by regulation of land or welfare system.<sup>3)</sup>

The subject will be examined as under;—

- a. Background of scrap and build system with mobilization of land and labor. (first precondition of mobilization)
- b. Scrap and build system through public finance. (second precondition of mobilization)
- c. Mobilization of land and labor by means of infrastructure. Social overhead capital and labor mobility.
- d. Limit of growth under the system.  
Land speculation and struggle for existence.

## I Background of Fiscal System

### —Economic Democracy and First Precondition of Mobilization—

#### 1. Economic Democracy and Concentration of Economic Power

Two factors that have been characterizing post-war Japanese economy are the following:—

1. Economic democracy introduced by General Head Quarter of Allied Nations<sup>4)</sup> (dissolutions of the Zaibatsu-old form of concern with family holding company, freedom of labor movement, equalization of education, agrarian reform, democratization of security business, prohibition of issues of deficit bond etc.).

2. Concentration of economic power allied with U.S.A., who claims continuous sharing of military cost in proportion with increase of G.N.P. in Japan.

Economic democratization introduced better conditions for competition to Japanese

3) G. D. H. Cole, *A Plan for Democratic Britain*, Labour Book Service, 1939. Sidney and Beatrice Webb, *A Constitution for the Socialist Commonwealth of Great Britain*, First published in 1920. Jun Ikegami, *Fiscal Crisis and Autonomy of Inhabitants*, (in Japanese), Aoki-shoten, 1976.

4) That does not mean that thought of economic democracy was introduced by Allied Forces at first. Shigeaki Maruoka had translated 'A Constitution for the Socialist Commonwealth of Great Britain', By S. & B. Webb into Japanese in 1925.

economy through increase of independent peasants (agrarian reform), small business, well-educated young people etc. These situations mean increase of people who can be free from land ownership and community in family or local society. Under such situations if big economic powers appear in the economy, they may have free hand to transact land and to employ new labor forces.

After 1947, U.S. Government suggested reconstruction of Japanese economy as a ordinance department in Asia and stopped policy of economic democracy gradually. Japanese big banks were escaped from dissolution and became commander of business concentration (revival of the Zaibatsu). This new situation changed a lot of product by economic democracy into first precondition for mobilization of land and labor.

Above all, as a result of agrarian reform, monopolistic groups can expand their business and factories without check by the landed owning class who had had strong power in rural areas in the pre-war period. On the other hand, companies in Japan can employ a lot of white colours and laborers who have excellent abilities to apply new technology and business system through reform in educational system followed by increase of ratio of student who go on to schools of high grade (the ratio in 1978 from middle school to high school: 93.5 per. from high school to university or college: 38.4 per.). If Japanese government had attempted to succeed economic democracy, he could have support a lot of peasants and small business through public sectors including public ownership in key industries. But occupied forces commanded dissolutions of key industries that owned by government during World War II such as powers, iron and steel, petroleum etc.

On this-background, monetary and fiscal policy in Japan can always carry out 'scrap and build' led by export-centered industry.

## 2. Pattern of Capital Accumulation—Export Biased Progress—

In 1949, Mr. Dodge established the fundamental pattern of capital accumulation in Japan 1. decision of single exchange rate (1 dollar: 360 yen) 2. super-balanced budget and redemption of bond to banks 3. promoting capital accumulation 4. improvement trade through imported technology and raw materials.

In Korean War, improvement trade system in Japanese economy was the most effective for U.S. military procurement in Asia.<sup>5)</sup> But this system forced for Japan to change industrial structure according with changes of the export-import structure. Such a change is promoted by cheap money policy that had been produced by central bank. Japanese companies cut off the grant in aids by Dodge Plan were obliged to depend on loan from bank. Consequently, Japanese banks can finance cheap money that come from central bank to companies. Thus balanced budget in current account kept pace with overloan promoted by banks. This meant supply of a kind of inflationary money.

Under condition of cheap money policy, export biased progress was promoted by adapting Japanese industry foreign demand. Consequently, whenever main export-centered industry was scrapped and another one was build, all the related industries used

5) Jun Ikegami, *State Monopoly Capitalism in Japan*, (in Japanese), Chobunsha, Fourth Edition, 1976, Chap. III.

to face the reorganization and concentration on a large scale with support of cheap money policy.

Most of people in Japan are forced to adapt such unstable situation. They must move from industry to industry and from region to region. And if anyone wins the stable seat in big company or government agency, he pledges loyalty to the company etc. Conditions of small businessmen also are unstable because of subcontracting system and reorganization of commerce. Farmers face difficulties when they are separated from their own land as we will examine next chapter.

Struggles for existence in Japan are so severe that most of people wish to be middle class and climb up the ladder for higher education to take better seat in which they may sit down.<sup>6)</sup>

## II Scrap and Build System through Public Finance

### 1. Industrialization and Class-differentiation of Peasantry

To separate independent peasants from their own land is the most important moment that promotes mobilization of land and labor. To this purpose, Japanese government prepared two machineries through public finance

1. Food management system or agricultural price support system.
2. Policy on agricultural structure through government finance.

Originally these two machineries were functioned as parts of economic democracy. But scrap and build policy led by export-centered industry changed them into machineries for promoting class-differentiation of peasantries. The change also is connected with change of composition in public finance after 1956.

### 2. Change in Composition of Public Finance and Scrap and Build System

With the growth of export-centered industry, composition of public expenditures and treasury investment and loan began to change from farmers-related spending or financing to manufacture-related one (including change of allocation about s. o. c.)<sup>7)</sup> under the condition of balanced budget. Above all, after 1960 farmers' producer prices were drawn to the level in which marginal farmers could not be payable. So, class-differentiation of peasantry led to increase of peasants who received grant in aids for changing their occupations and were dropped out of agriculture.

On the other hand, farmers standing still on their own land used to obtain money for improving productivity and land improvement or loan from government finance corporation for agriculture etc. Thus, scrap and build in agriculture could be carried out through public finance connected with policy on agricultural structure. Consequently, number of families of peasant by profession were 1,853 in 1960 and fell by 743 (unit. 1,000) in 1972.<sup>8)</sup>

6) Jun Ikegami, Competition for Survival among Inhabitants and Fully Developed Human Beings, *The Kyoto University Economic Review*, Vol. 46, No. 1-2, April-October 1976.

7) Jun Ikegami, Social Overhead Capital and Public Finance, *The Kyoto University Economic Review*, Vol. 36, No. 1, April 1966.

8) Economic Planning Office, *Survey of Japanese Economy*, (in Japanese), 1973, p. 113.

We can understand fiscal machineries for promoting scrap and build: 1. change of composition in public expenditure, 2. loan for improvement of agricultural productivity, 3. grant in aid for promoting labor mobility. Policies promoting economic growth in Japan were always linked with not only policy on agricultural structure but also policy on other industrial structure (e.g. small business, declined export industry and coal industry etc.). But policy on agriculture is the most important because it prepared second precondition of mobilization of land and labor.

### III Mobilization of Land and Labor through Infrastructure

#### 1. Mobilization of Land

There are two preconditions for mobilization of land and labor. One is produce of small independent producers under the condition of concentration of economic power. The other one is to separate farmers from land or community. On these preconditions, construction of infrastructure by public finance can mobilize land and labor.

Generally speaking, the more quickly, industrial structures change, the more quickly we should invest in infrastructure or social overhead capital that means capitalistic form of infrastructure. Because changes of industrial structures usually promote reallocation of factories, establishment of new transportation systems and regional development etc.

As Japan has been experiencing dramatical change in industrial structure, Japanese government is always obliged to perform fixed capital formation in high level. For instance, average percentage of fixed capital formation by government to G.N.P. was 9.4 per year in 1973-75 (U.S.A.: 3.6, U.K.: 8.0, F.R.G.: 3.7, France: 3.4).<sup>9)</sup> So, scrap and build system demands high level capital formation in infrastructure.

At the same time, this process means mobilization of land as following-:

1. Land formation for factories performed by local bodies with support of central government finance. It was promoted by law about authority's right of eminent domain in Metropolitan areas. Local bodies often recovered land from sea or collected land cultivated by farmers. That was sold for big business or business groups on the condition of tax exemption (about real estate) for 5 years. Reduction of revenue in local bodies used to be compensated by shared tax from central government. Concentration of land ownership to big business through support of public finance promotes mobility of land.

2. Procurement of land for public works—road, railway, water development urban renewal, school, hospital, house etc. This means that speculators find it easy to make surprising profit from buying up land predetermined by government. Thus, land procurement for public works changes seashore, cultivated land, building land, waste land etc. into objects or properties for speculation.

3. Own house policy led by private developers supported by housing loan through public finance. Private developers often mediate between small landowners and new customers. So, prices of land have advanced higher and higher. Of course, construction of infrastructure promotes rising prices through urbanization.

<sup>9)</sup> Japanese Treasury, Bank Office, *Material about Economic and Financial Structure in Japan*, (in Japanese), Dec. 1975.

These three factors have changed land on which people live or work into objects of speculation (e.g. index of land price in urban areas: 100 in 1955; 399 in 1961; 1395 in 1970; 2977 in 1979).<sup>10)</sup>

This means that people are obliged to separate from land. And once they separate from land, they can hardly have their own land even if very narrow or far from city centre. Consequently mobilization of land promotes mobilization of labor.

## 2. Mobilization of Labor

Laborers who come from rural areas always change their mode of life to adapt their new conditions. New family who moves to urban area usually makes a living as a 'nuclear family' if he has been member of traditional big family consisted of three or four generations together in order to engage in farm work on their own land. Thus mobilization of labor produces a lot of nuclear families who often do working together and consist of three or four members. Nuclear family and new mode of life occasion surprising change of monetary and fiscal system.

In Japanese tax system, this situation means that taxpayers of personal income tax increase quickly. Taxpayers of personal income tax in 1970 were more than twice in 1960 (from 13,880,000 to 29,280,000) and in 1970, 98.7 percent of them were composed of non-farm wage earnings (84.7 percent) and non-farm business earnings etc. (14.0).<sup>11)</sup>

On the other hand, nuclear families want to save more proportion of their disposal incomes that can increase by working together (e.g. women employee: 20,720,000; about 38 percent of all employee in 1979)<sup>12)</sup> in order to buy their houses or to pay cost of education in high level for winning struggle for existence. In Japanese financial system, they often prefer save in post office or banks to hold stocks or securities because of tendency to speculation and instability in stock and security market.<sup>13)</sup>

In Japan, postal saving has been the most important resource of treasury investment and loan (postal saving as resource of it: 177.1 billion yen in 1961; 464.5 b.y. in 1965; 1,420.1 b.y. in 1970; 7,900 b.y. in 1980).<sup>14)</sup> Of course, this situation can promote scrap and build system with mobilization of land and labor.

Ratio of savings to disposal income is about 20 percent in Japan and this level is higher than ratio in European countries in 1973 (e.g. U.K.: 7.7, F.R.G.: 14.1, FRANCE: 13.5, U.S.A.: 8.5)<sup>15)</sup> because of working together, savings for accident, education, housing, aged life etc. under the limited level of social securities.

We can say that increase of nuclear families as a result of mobilization of land and labor can produce more personal income tax and high rate of savings. This means that the very results of mobilization cause better conditions for further scrap and build with mobilization.

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10) Institute of Real Estate in Japan, *Price Index of Domestic Urban Areas*, (in Japanese), 1980.

11) *White Paper on Japanese Economy*, (in Japanese), 1972, p. 166p.

12) Department of Labor, *Basic Examination of Structure of Employee*, (in Japanese), Oct. 1979.

13) Economic Planning Office, *Survey of Japanese Economy*, (in Japanese), 1973, p. 73.

14) Statistical Office of Government, *Statistics in Japan*, (in Japanese), 1980, p. 228.

15) Bank of Japan, Examination Office, *Financial System in Japan*, (in Japanese), 1976, p. 63.

Another effect of increase of nuclear family is that it demands new service and public employee. When families live in communities connected with land—family community in rural area or sometimes in local community—, functions of mutual aid in members are supported by labor of community members for education, medical care, housework, cooking, cleaning, nurture, etc. without cost. But in nuclear families, it is impossible for them to support each other because their unit is too small to aid mutually for their nurture etc. once they begin to do working together.

Consequently labor done in family must be done by public workers or employees of service industry. This means a kind of socialization of labor that was done within family independently.

Thus, increase of nuclear family may produce new demand for public expenditure, social security and service industry. Above all, public workers—education, nurture etc.—in local bodies and public pension fund tend to increase quickly.

Mobilization of land and labor reproduces scrap and build system on one hand and on the other hand demands new public services that claim reorganization of fiscal system. If new sources resulted from development can be used to new public services, life of nuclear family may be better.

But under the system of scrap and build with mobilization, increased funds as the result of increase of nuclear family are often allocated for promoting reproduction of the system at a large scale. Consequently, demand for new public service cannot be fulfilled and claims for higher wage of public workers often face difficulties by cutting off.

This tendency may be moderated with degree of development of economic democratization through alliance between people mobilized and public workers.<sup>16)</sup>

#### IV Limit of Growth Under the System

##### 1. Land Speculation and Stagflation

If scrap and build system with mobilization of land and labor produces increase of landspeculation and insufficiency of public welfare, these two factors may weaken potentiality of land and labor. Short of potentiality of land appears in tendency not to use land for production or enjoying life. If this situation proceeds extremely, stagflation will appear because investors prefer speculation to production in the depression and if there are excess currencies in banks or other financial institutions, this tendency will be promoted further. This is limit of growth concerning mobilization of land.

##### 2. Struggle for Existence

Change in industrial structure occasions uneven development of industry and area, or overpopulation in urban area and underpopulation in rural area. This situation reflects aggravation of struggle for existence about employment. As increase of labor mobility, inhabitants and local community face a lot of difficulties to regulate land use for their own sake because of struggle for existence about employment, chance of education, housing, health, and providing for the aged under the conditions of limited level social security.

16) J. O'Connor, *Fiscal Crisis of the State*, St. Martin's Press, 1973.



So, struggle for existence in scrap and build system supported by public finance means a kind of poverty.<sup>17)</sup> Under the condition of insufficiency of welfare, this situation means accumulation of fatigue in people and limit of growth owing to short of potentiality of labor.

After 1973, Japanese economy experienced low rate growth. Index of mining and manufacturing production fell by 21.1 percent from peak in 1973 to trough in 1975. Deficit financing grew and went up one-third of general account.

Only way to escape from depression and fiscal crisis looks like increase of export. But in this case we may again reproduce scrap and build system with mobilization of land and labor for promoting land speculation and struggle for existence. If we try solve problem in another way, we should reform the system. This means that bureaucratic and monopolistic rigidity should be reformed and economic democracy in post-war period should be revived. Above all, change of priority in public expenditure and treasury investment and loan will be necessary for development of potentiality of land and labor. In order to such development, we may try to scrap and build the state monopoly system in Japan to adapt Japanese industry to domestic market that will be supported by new demand for fully developed human beings and democratic regional development. In this case, economic democracy in Japan will be reconstructed on the base of high productivity in the post-war period.<sup>18)</sup>

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17) Jun Ikegami, State Monopoly Capitalism and Organisation of Struggle for Survival, *The Kyoto University Economic Review*, Vol. 41, No. 2, Oct. 1971.

18) Jun Ikegami, The Modern State, (in Japanese), Aokishoten, 1980, G. D. H. Cole, *The Machinery of Socialist Planning*, The Hogarth Press, 1938.