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NUMBER I

ON THE BUDGET FOR THE FISCAL YEAR 1938—1939

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1. AN EPOCH-MAKING BUDGET

The expansion of expenditure is a phenomenon common to the finances of modern States—so common, indeed, that a new term, “the law of the expansion of expenditure,” has lately come into use. This tendency of rising expenditure is particularly in evidence in Japan’s national finances. The settled accounts for the fiscal year 1933–1934, totalling ¥2,254,000,000, once the peak figure for annual national expenditure, were exceeded by the settled accounts for the fiscal year 1936–1937 (¥2,282,000,000); while the Budget for the fiscal year 1937–1938 (¥3,488,000,000) and that for the current fiscal year (¥3,514,000,000) surpassed these earlier figures by a wide margin. It is true that the Budget for the fiscal year 1937–1938 includes ¥517,000,000 which was later transferred to the temporary war expenditure special account. Even with this amount deducted from the total,

however, the balance still reaches the enormous figure of ¥2,981,000,000. The Budget for the current fiscal year was reduced by ¥133,000,000 through the compilation of a working Budget, yet the total expenditure still stands at the stupendous figure of ¥3,380,000,000. If to this is added a Supplementary Budget, the introduction of which is anticipated during the 74th session of the Diet, the total expenditure for the current fiscal year will really be epoch-making.

I have so far confined my attention to the general account estimates. There are, however, many special accounts to be taken into consideration. The number of special accounts has steadily increased in recent years, and there are now no fewer than 39 of them. Classified according to the Departments under whose jurisdiction they fall, these special accounts, with the exception of the temporary war expenditure special account, are as follows:—

Foreign Office.....(1) Cultural enterprises for China.

Finance Department.....(2) Mint, (3) Printing Bureau, (4) Monopoly Bureau, (5) Deposits Department, (6) Educational fund, (7) Consolidated fund, (8) Public loans, (9) State-owned property adjustment fund, (10) Educational reform and agrarian development fund, (11) Gold fund, (12) Kwantung Bureau.

War Office(13) Army Arsenals, (14) Senju Woollen-Cloth Factory.

Navy Department.....(15) Naval Arsenals, (16) Naval Powder Mills, (17) Naval Fuel Works.

Education Department..... (18) Imperial Universities, (19) Government Universities, (2) Schools and libraries.

Department of Agriculture and Forestry.....(12) Rice supply regulation, (22) Raw silk price stabilisation, (23) Forestry fire insurance, (24) Fishing-craft re-insurance, (25) Cattle re-insurance.

Department of Communications.....(26) Communications business.

Railway Department.....(27) Imperial railways.

Department of Overseas Affairs.....(28) Government-General of Korea, (29) Korean railway materials fund, (30) Korean simple life insurance, (31) Government-General of Formosa, (32) Formosan Government railway materials fund, (33) Karafuto (Japanese Saghalien) Government, (34) South Seas (mandated territory) Government.

Department of Public Welfare.....(35) Health insurance, (36) Labour disaster relief insurance, (37) Simple (State) life insurance, (38) Postal pensions.

When the expansion of expenditure in these special accounts is considered in conjunction with the above-mentioned growth of expenditure in the general account, it will be realised that there has been an enormous increase in national expenditure. Particularly noteworthy is the temporary war expenditure special account, which was inaugurated on September 10th, 1937. The estimates so far made in this particular special account total ¥7,390,000,000, of which about ¥4,850,000,000 represents the amount to be defrayed with in the current fiscal year. Positive finance characterises this special account, which is provided on a scale sufficient to ensure the unhindered activity of the Japanese expeditionary forces.

In August, 1938, the Government compiled working estimates both for the general and for the special accounts in order to reduce the expenditure already voted for the current fiscal year. There are two circumstances in which a working Budget is compiled, namely, when the failure of the Budget to pass the Diet compels the Government to revert to the Budget for the previous fiscal year, and when the Government is faced by the necessity of reducing expenditure already approved by the Diet. It was due to the latter circumstance that the Government was induced to compile the working Budget for the current fiscal year, which thus reflects what we might call a negative financial policy.

It will thus be seen that the estimates for the current

fiscal year may be said to present both positive and negative features. I shall first examine the Budget estimates for the current fiscal year, exclusive of the items appropriated in the temporary war expenditure special account. I shall review the contents of this temporary war expenditure special account, and follow with a study of the working Budget; concluding with a consideration of the prospects for the next fiscal year.

2. THE BUDGET FOR THE FISCAL YEAR 1938—1939

The Budget for the current fiscal year, passed by the 73rd session of the Diet, consists of the General Budget, including the special accounts estimates, and three Supplementary Budgets. Of the total of some 40 accounts constituting the Japanese national finances, the general account forms the nucleus. I shall, therefore, begin with a study of the general account.

Table No. 1 indicates the general account estimates for the current fiscal year, classified according to Departments, and including a comparison with the revised estimates for the previous fiscal year (i.e. the Budget for the fiscal year 1937-1938, with the amount transferred to the temporary war expenditure special account deducted).

Compared with the revised Budget for the previous fiscal year, the Budget estimates for the current fiscal year which total some ¥3,514,520,000, show an increase of ¥532,830,000, that is an increase of ¥238,660,000 in ordinary expenditure and an increase of ¥294,160,000 in extraordinary expenditure. The estimates of individual Departments show the following increases or decreases compared with the previous year.

The Foreign Office estimates (¥49,840,000) show an increase of ¥910,000 in ordinary and a decrease of ¥4,650,000 in extraordinary expenditure, compared with the previous fiscal year.

Table No. 1.

The general account estimates for the fiscal year 1938-1939,
classified by Departments. (¥1,000)

	Ordinary expenditure		Extraordinary expenditure		Estimates for current fiscal year
	Estimates for current fiscal year	Compared with the revised estimates for previous fiscal year	Estimates for current fiscal year	Compared with the revised estimates for previous fiscal year	
Civil List	4,500	—	—	—	4,500
Foreign	18,950	+ 914	30,898	— 4,652	49,849
Home	45,151	— 702	233,942	+ 5,683	279,093
Finance	732,719	+225,193	417,619	+350,935	1,150,338
War	165,848	—51,955	400,906	—109,554	566,755
Navy	294,093	+20,139	386,290	—23,714	680,383
Justice	47,003	+ 3,118	3,788	+ 391	50,792
Education	133,843	+ 707	12,707	— 144	146,550
Agriculture & Forestry	39,086	— 738	90,457	+ 4,543	129,544
Commerce & Industry	7,306	+ 582	45,341	+13,611	52,647
Communications	200,337	+14,923	28,819	+ 6,313	229,156
Overseas Affairs	2,413	+ 110	28,713	— 2,395	31,127
Public Welfare	76,192	+26,370	67,588	+53,146	143,780
Totals	1,767,446	+238,665	1,747,074	+294,165	3,514,521

The Home Office estimates (¥279,090,000) show a decrease of ¥700,000 in ordinary and an increase of ¥5,680,000 in extraordinary expenditure. These estimates include the temporary grants-in-aid for local finance which amount to ¥130,000,000—an increase of ¥30,000,000 compared with the previous fiscal year—, various subsidies aggregating ¥175,580,000, and the share of the Home Office in local police expenditure which amounts to ¥24,950,000. If these items are left out of account, the Home Office expenditure in the narrower sense is only ¥70,000,000.

The Finance Department estimates (¥1,150,330,000) show an increase of ¥225,190,000 in ordinary and an increase of ¥350,930,000 in extraordinary expenditure. If, however,

the loan service expenditures amounting to ¥581,790,000, the disbursements on behalf of the temporary war expenditure special account which amount to ¥317,160,000, various subsidies amounting to some ¥4,940,000, and the reserve funds totalling ¥80,000,000 are deducted from this total, the Finance Department expenditure in the narrower sense will be found to approximate ¥160,600,000.

The War Office estimates (¥566,750,000) show a decrease of some ¥51,950,000 in ordinary and a decrease of some ¥109,550,000 in extraordinary expenditure, while the Navy Department estimates (¥680,380,000) show an increase of ¥20,130,000 in ordinary and a decrease of ¥23,710,000 in extraordinary expenditure. At first sight, it may appear strange that there should be a decrease both in the War Office and in the Navy Department estimates when these are compared with the expenditures of the previous fiscal year. Similarly it might strike the casual observer as somewhat peculiar that the War Office estimates should be smaller than those of the Navy Department. These decreases are due however to the fact that all expenditures connected with the hostilities are taken care of in the temporary war expenditure special account. The same method of accountancy was adopted during the Russo-Japanese War, when, as in the present instance, there was a marked decrease in war expenditure in the general account. The temporary war expenditure special account, therefore, deserves special attention.

The Department of Justice estimates (¥50,790,000) are practically the same as those for the previous fiscal year.

Nor does the expenditure of the Department of Education (¥146,550,000) show any marked divergence from that for the previous fiscal year. As it includes the State subsidy for compulsory education which amounts to ¥85,000,000 and various other subsidies totalling some ¥14,800,000, the Department of Education expenditure in the narrower sense is less than ¥50,000,000.

The estimates of the Department of Agriculture and

Forestry (¥129,540,000) show a decrease of ¥730,000 in ordinary and an increase of ¥4,540,000 in extraordinary expenditure, as compared with the estimates of the previous fiscal year. As they include subsidies amounting to some ¥76,300,000, the departmental expenditure in the narrower sense totals approximately ¥50,000,000.

The Commerce and Industry Department estimates (¥52,640,000) show a marked increase over the previous fiscal year—an increase of ¥580,000 in ordinary and an increase of ¥13,610,000 in extraordinary expenditure. When it is remembered that the *laissez-faire* policy formerly adopted towards commerce and industry has been supplanted by a policy of control, arising from the necessity of expanding the nation's productive power, of balancing overseas receipts and payments and of adjusting the demand and supply of materials, it is no wonder that the expenditure of this Department should have witnessed a marked increase. It may be mentioned that of the total extraordinary expenditure of the Department amounting to ¥45,340,000, a large proportion, namely some ¥30,000,000, represents defrayals in the form of subsidies.

The Communications Department estimates (¥229,150,000) show an increase of ¥14,920,000 in ordinary and an increase of ¥6,310,000 in extraordinary expenditure. It is worthy of note that these estimates include subsidies involving a total expenditure of some ¥22,000,000. Even more significant is the fact that disbursements in annuities and pensions have reached the enormous figure of ¥195,190,000. If these items are deducted, the balance does not exceed ¥13,000,000.

The estimates of the Department of Overseas Affairs (¥31,120,000) show an increase of ¥110,000 in ordinary and a decrease of ¥2,390,000 in extraordinary expenditure. About a third of the total, viz. ¥11,570,000, represents subsidies.

The Department of Public Welfare was established during the last fiscal year. As it is chiefly concerned with measures for the relief of the families of the soldiers and

sailors, killed, wounded or serving at the front, the expenditure for the current fiscal year naturally shows an increase. There is here an increase of ¥26,370,000 in ordinary and an increase of ¥53,140,000 in extraordinary expenditure. Of the expenditures of the Department for the current fiscal year, totalling some ¥143,000,000 in all, military relief expenditures represent ¥54,190,000, subsidies for the support of men on active service ¥17,000,000, and expenses arising from the care of wounded and sick soldiers some ¥35,300,000, making a total of ¥106,500,000. These figures testify to the great importance of the measures undertaken by the Department in the present emergency. It may be added that of the total expenditure of the Department, some ¥40,100,000 is defrayed in the form of subsidies.

I have now briefly surveyed the estimates of each Department in the general account, and I may say that this examination leaves the impression that there is little room for economies in Departmental estimates, as a large portion of the total Budget which amounts to some ¥3,514,520,000 comprises expenditures of a kind which the Departments concerned are not in a position to revise. I shall now examine the special accounts for the current fiscal year. There are 39 special accounts in all. Among these the temporary war expenditure special account will be left for separate treatment later on, since it is entirely different in nature from the other special accounts. My attention for the present will, therefore, be confined to the remaining 38 special accounts. Inasmuch as the general account and these 38 special accounts are closely related a mere summary will prove nothing. It is for this reason that I have worked out the net totals of the estimates for the current fiscal year, which are given in Table No. 2 with a comparison with the Budget estimates for the previous fiscal year.

It will be seen from the above table that whereas the general account for the fiscal year 1938-1939 amounts to some ¥3,514,520,000 and the 38 special accounts to ¥14,001,360,000, making a total of ¥17,515,880,000, the net total

Table No. 2.

Net totals of the estimates for the fiscal year 1938-1939, including a comparison with the totals for the previous fiscal year (yen).

	Expenditure for 1938-1939	Estimates for previous fiscal year	Compared with previous fiscal year
General account	3,514,521,415	3,488,899,458	+ 25,621,957
38 special accounts	14,001,364,902	13,269,076,668	+ 732,288,234
Totals	17,515,886,317	16,757,976,126	+ 757,910,191
Amount deducted owing to duplication in the general and the 38 special accounts	3,219,532,709	3,390,851,976	- 171,319,267
Amount deducted owing to duplication as the afore- mentioned accounts and the temporary war expenditure special account	6,244,072,253	2,707,005,552	3,537,066,701
Amount deducted in respect of items of conversion and redemption of national bonds, rice purchase notes and silk yarn purchase notes owing to recurrence in the revenue and expenditure accounts	1,959,805,743	4,857,298,688	-2,897,492,945
Net budgetary totals	6,092,475,612	5,802,819,910	289,655,702

expenditure stands much lower at ¥6,092,470,000. In working out the net total, duplicated elements, namely, the items which appear both in the general and in the special accounts must be properly adjusted. In the present calculation, the items which are duplicated, as between the temporary war expenditure special account on the one hand, and the general account and the 38 special accounts on the other, have been recalculated; while the converted or redeemed national bonds, the rice purchase notes and the silk yarn purchase notes, which appear both on the revenue and on the expenditure sides of the Budget have been similarly adjusted. In this way, we find that the net total of the national estimates for the current fiscal year, not including temporary war expenditure, is ¥6,092,470,000. Assuming that local finance

involves a total expenditure of ¥2,000,000,000 and that some ¥300,000,000 of this total overlaps in national and local accounts, we arrive at the figure of ¥7,800,000,000 which may be said to comprise the total dimensions of Japan's finances, national as well as local. By the same method of calculation, we arrive at the figure ¥7,500,000,000 for the fiscal year 1937-1938. This means that Japanese finance, national and local, exclusive of the temporary war expenditure special account, has expanded from ¥7,500,000,000 in the fiscal year 1937-1938 to ¥7,800,000,000 in the current fiscal year.

I shall now undertake an analysis of the temporary war expenditure special account.

3. THE TEMPORARY WAR EXPENDITURE SPECIAL ACCOUNT

The temporary war expenditure special account is based on the following Law:—

The Temporary War Expenditure Special Account Law.
(Law No. 85 of the Twelfth Year of Showa)

Article 1. The accounts of the temporary war expenditure relative to the China affair shall be specifically settled, separately from the general revenue and expenditure, with the entire duration of the affair as one fiscal year.

Article 2. The North China affair expenditure under the jurisdiction of the War Office and the Navy Department, the North China affair reserve fund No. 1 under the jurisdiction of the Finance Department, and the revenue provided to cover these outlays, shall be transferred from the general account to the present special account.

Additional Instruction.

The present Law shall come into force upon the date of promulgation. (This Law was promulgated on September 10th, 1937.)

In contrast with the general account and all other special accounts, whose fiscal year is fixed at one calendar year, the fiscal year of the temporary war expenditure special account comprises the whole period of hostilities. We have a parallel case in the "temporary war expenditure relative to the 1914 emergency." In that case, one fiscal year covered a period of some eleven calendar years. Another point worthy of note is that the North China affair expenditure under the jurisdiction of the War Office and the Navy Department, the North China Affair special fund No. 1, and the revenue provided to meet these outlays were transferred from the general account to this special account. When the North China incident occurred the requisite expenditure was defrayed in the form of a Supplementary Budget, with the approval of the 71st session of the Diet. But when the North China "incident" developed into the China "affair," a temporary war expenditure special account was inaugurated in the 72nd session of the Diet. At the same time an arrangement was concluded for the transfer from the general account to this new special account of all expenditures relative to the "affair" which had already been approved by the previous session of the Diet. That is to say, the expenditures approved by the 71st session of the Diet were added to the temporary war expenditure special account estimates which were passed by the 72nd session of the Diet. Again, in the 73rd session of the Diet, the supplementary estimates of this special account were introduced and approved.

The allocations and sources of revenue involved in the estimates of the temporary war expenditure special account, and approved by successive Diet sessions, are given in Table No. 3. On the whole, the estimates approved by the 71st and 72nd sessions of the Diet may be said to represent the expenditure for the fiscal year 1937-1938, while those passed by the 73rd session of the Diet cover the expenditure for the fiscal year 1938-1939.

Table No. 3.

Comparison of sources of revenue and allocation of items in the temporary war expenditure special account estimates, passed by various Diet sessions (In ¥1,000).

	Amount transferred from general account (71st Diet session)	Estimates approved by 72nd Diet session	Estimates approved by 73rd Diet session	Total
(a) Employed as:				
Army expenditure	313,306	1,422,712	3,257,000	4,993,019
Navy expenditure	104,100	349,958	1,043,000	1,497,058
Reserve fund	100,000	250,000	550,000	900,000
Totals	517,406	2,022,671	4,850,000	7,390,077
(b) Sources of revenue:				
Public loans	411,383	2,022,671	4,453,489	6,887,544
Temporary loans	36,591	0	0	36,591
Transferred from other accounts:				
General account	0	0	318,301	318,301
Kwantung Bureau	165	0	4,590	4,755
Communications business	0	0	16,000	16,000
Imperial railways	0	0	40,000	40,000
Government-General of Korea	1,583	0	26,977	28,561
Government-General of Formosa	1,065	0	14,537	15,601
Karafuto Government	68	0	2,671	2,740
Totals	2,883	0	423,078	425,961
North China affair special tax	66,548	0	9,023	75,571
Public contributions to the war fund	0	0	1,000	1,000
Totals	517,406	2,022,671	4,886,591	7,426,668

While in all other special accounts as well as in the general account expenditure is minutely itemised, the temporary war expenditures, as might be expected from their nature, are very roughly classified. They are listed simply under the headings of temporary army expenditure, temporary navy expenditure and reserve fund. The estimates passed by the 73rd session of the Diet comprise army

expenditures amounting to ¥3,257,000,000, navy expenditures amounting to ¥1,043,000,000 and reserve fund items totalling ¥550,000,000. In order to assess war expenditure properly, the War Office estimates (¥566,750,000) and the Navy Department estimates (¥680,380,000) in the general account must be considered in conjunction with these disbursements in the temporary war expenditure special account.

On the revenue side, bond issues, which constitute by far the most important source of revenue, total ¥6,887,540,000, while tax revenues amount to some ¥445,530,000. The latter consist of the sums transferred from the general account and the special accounts of the Kwantung Bureau, from the Government-General of Formosa, the Government-General of Korea and the Karafuto (Japanese Saghalien) Government, and the revenue from the North China affair special tax. To this must be added the revenue from Government enterprises amounting to ¥56,000,000, which has been transferred from the Imperial railways and the Communications business special accounts. Thus, it will be seen that the China affair expenditure is financed by revenues derived from bond issues, from current taxes which have been scaled up, and from new taxation. The revenue from these increased and newly authorised taxes is roughly twice the sum of the interest payments on the recently issued national bonds.

I have now explained the circumstances connected with the creation of the temporary war expenditure special account, the uses to which its appropriations are put and the sources from which the requisite revenue is derived. I must next attempt to define the position which this special account, which now claims an annual expenditure of something like ¥4,850,000,000, occupies in the national finances. Some people are under the impression that the general account totalling some three thousand million yen represents the limits of Japan's peace-time finances. They are accordingly inclined to take a very grave view of the temporary war expenditure special account in view of its enormous

dimensions. On the contrary, there are others who seem quite oblivious to its implications. It is, of course, wrong to regard this special account with indifference, for it is by no means easy to secure revenue amounting to ¥4,900,000,000 annually or to expend it properly. But it is equally wrong to take too serious a view of the situation. Japan's normal financial power is not, as a matter of fact, so limited as some people seem to think. The truth is that, granted sufficient co-operation within the nation, the extra funds required by the present emergency situation will be available. The proportions of Japan's national finances, as revealed by the budget estimates for the fiscal year 1938-1939, are shown in the following table:—

(a) General account	(b) General account plus 38 special accounts	(c) Total of general account, 38 special accounts and local finance	(d) Total of general account, 38 special accounts, local finance and temporary war expenditure special account
¥3,514,521,415	¥6,092,475,612	¥7,800,000,000	¥12,700,000,000

As will be seen from the above table, the general account (¥3,514,521,415) does not comprise the whole of the national finances. It is therefore wrong to conclude that a normal national finance figure totalling ¥3,514,521,415 has been augmented by ¥4,850,000,000 through the creation of the temporary war expenditure special account. As a matter of fact the ¥7,800,000,000, given under (c) in the foregoing table, represents the true proportions of Japan's normal annual finances. The correct interpretation of the situation is, therefore, that ¥4,850,000,000 has been added to a normal national expenditure of some ¥7,800,000,000. In other words, Japan's national expenditure has increased, not by 150 per cent., but by 60 per cent. For this reason I cannot agree with those who take an excessively serious view of the temporary war expenditure special account for example, the writer of the article in the *Economist* "Japan pays for war," October 29th, 1938.

4. ECONOMIES EFFECTED IN THE WORKING BUDGET

Although it is not likely that the temporary war expenditure special account will produce reactions so serious as are feared in some quarters, it is equally wrong to treat the matter in too light-hearted a manner. In view of the fact that this special account is of vital importance in the attainment of the objectives of the war, it must be operated successfully; and in order to provide the money required for its operation, as many economies as possible must be effected in other directions. It is for this reason that the imposition of strict economy is essential in the general account and in all other special accounts.

In compiling the Budget for the current fiscal year, the Government, while striving to provide adequately for all enterprises connected with the prosecution of the war, took care to exclude any items of expenditure that were not urgently needed. The Budget compiled along these lines and subsequently approved by the Diet underwent a further downward revision. That is to say, at the Cabinet meeting held on June 28th, 1938, it was decided to compile a working Budget to effect a further economy of expenditure so that the demand and supply of materials might be better adjusted and the ratio of consumption more drastically restricted.

According to the explanation offered by the Finance Department authorities, office and other maintenance expenses were cut down, in addition to the suspension and postponement of enterprises which would require large quantities of important materials or which were not directly connected with the prosecution of the war. On the other hand, no cuts were made in expenditures directly concerned with the prosecution of the war. Nor were the expenses necessary for the expansion of the nation's productive power or for the development of the export trade reduced. Three different procedures were adopted in effecting these econo-

mies. One was to strike out certain items of expenditure altogether. Another was to postpone certain enterprises for the time being. Whether or not these deferred enterprises should be launched in future was to be considered when the rough estimates for the next fiscal year were drawn up. The third method was to defer payment to the next fiscal year. The amounts realised by these economies are given in Table No. 4:—

Table No. 4.

Economies realised in the general and special accounts for the fiscal year 1938-1939 (In ¥1,000).

Description of account	Amount of retrenchment	Amount deferred	Amount of payments deferred	Totals
General account	65,782	47,978	20,080	133,841
Special accounts	153,714	119,280	28,227	301,222
Mint	20,541	0	0	20,541
Monopoly Bureau	9,030	0	0	9,030
Communications business	4,231	19,640	1,735	25,607
Imperial railways	5,046	12,554	7,402	25,002
Government-General of Korea	5,889	10,442	1,747	18,079
Government-General of Formosa	3,262	4,527	0	7,790
Miscellaneous accounts	105,712	72,116	17,341	195,170
Totals	219,497	167,259	48,307	435,064
Total of duplicated items				182,835
Economies realised				252,228

The economies effected in the general account amount to ¥133,841,000, while the net amount saved in both general and special accounts totals ¥252,228,000. The retrenchments in the general account, classified by Departments, is given in Table No. 5.

Table No. 5.

Retrenchments in general account expenditure, classified by
Departments. (In ¥1,000).

Foreign Office	1,378	Department of Agriculture & Forestry	9,211
Home Office	13,743	Department of Commerce & Industry	2,775
Finance Department	27,943	Department of Communications	3,754
War Office	40,237	Department of Overseas Affairs	1,233
Navy Department	30,174	Department of Public Welfare	2,007
Department of Justice	283		
Department of Education	1,279		
		Total	133,841

It is true that a reduction of ¥133,841,000 in the general account estimates, which total ¥3,514,521,000, means only a four per cent. saving. When it is remembered, however, that the general account estimates include the loan service expenditure, the pension and annuity bill, various subsidies, the items for transfer to the temporary war expenditure special account, the military relief expenditure, the fund to provide against fluctuations in the exchange rate, and the treasury reserve fund, all of which admit of no retrenchment, it will be realised that the curtailment of the total expenditure by ¥133,841,000 was a task which called for the greatest exertions on the part of the Finance Department and of the other Departments as well. The reduction of expenditure involves a diminution in the purchasing power of the Government, and this reduced purchasing power is bound to influence the course of prices to a certain extent.

5. A PREVIEW OF THE BUDGET FOR THE FISCAL YEAR 1939-1940

The Budget for the current fiscal year is epoch-making in its magnitude when we consider the expenditures involved. The methods adopted in compiling it were highly complex. While the temporary war expenditure special

account estimates were drawn up on the lines of positive finance, all other special accounts as well as the general account estimates were compiled on the basis of a negative finance with a view to minimising the undesirable reactions arising from an expanded finance. A Budget is not in itself very important; What really matters is the degree of success attending its operation. Half the current fiscal year has already passed, and we are happy to look back and find that, thanks to the measures adopted by the Government for the adjustment of the supply of materials and other measures of control, a sharp rise in prices has been checked, and the expenditure budget has so far operated smoothly. Nor is there any occasion for anxiety regarding the revenue budget. Aided by the thrift encouragement movement, the absorption of national bond issues has been satisfactory while the tax revenue has witnessed a large natural increase.

The compilation of the Budget for the next fiscal year depends on future developments in the war situation. It is nevertheless fairly certain that, like the Budget for the current fiscal year, it will be compiled on the basis of priority for items of expenditure connected with the China affair, and of revenues to be drawn largely from bond issues. It is inevitable that ordinary expenditure will increase connection with such items as interest payments on national bonds, annuities, pensions, military relief, etc. How to find normal sources of revenue to meet increased ordinary expenditure is an important problem which will confront the framers of the Budget for the next fiscal year. In this connection, the question of renovating the tax system in order to secure increased revenues necessarily claims attention. The development of the ordinary sources of revenue will also facilitate the absorption of national bond issues.

In wartime finance, two forms of tax increase are conceivable. One is the creation of special taxes designed to increase tax revenues so enormously that these increases will in themselves provide for a large proportion of the war

expenditure. The other is to scale up ordinary taxes so as to provide permanent sources of revenue for the redemption of war loans. Both methods have their merits and demerits, but it will be the increase of taxation in the latter sense, namely by the scaling up of ordinary taxes, that will claim special attention in compiling the Budget for the fiscal year 1939-1940.

The present tax system embraces, in addition to the fundamental tax laws, five special tax laws—the temporary additional tax law, the North China affair special tax law, the China affair special tax law, the revised temporary profit tax law and the temporary tax devices law—which have been promulgated during the past year and a half. Of these, the last-mentioned law need not be considered here, and the North China affair special tax law may also be ruled out, as it has already been abolished. In the national tax system actually in vogue at the present time the fundamental taxes, the temporary additional tax, the China affair special tax and the temporary profit tax are so intricately interwoven that no one, other than an expert, can correctly estimate the exact distribution of the burden of taxation throughout the nation. In my opinion, the wartime taxation system ought to be built on the permanent fundamental tax laws and on the China affair special tax; and the regulations relative to the temporary additional tax, which is semi-permanent by nature, ought to be incorporated in the laws governing basic taxation. If a radical tax revision is to be carried out in the next fiscal year, the temporary additional tax law will, of course, be abolished. If, on the contrary radical tax revision is to be deferred for the present, it is nevertheless advisable that the temporary additional tax law should be abrogated as a first step in the direction of a final disposition of all improvised special taxes.

Various suggestions could be made as to how the Budget for the fiscal year 1939-1940 should be compiled, but the tax question will certainly figure as one of the most important of the many problems which will claim the attention of our statesmen.
