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THE INCIDENCE OF TAXATION UPON THE RURAL POPULATION UNDER WAR CONDITIONS

By SABURO SHIOMI

1. WARTIME FINANCE AND THE TEMPORARY WAR EXPENDITURE SPECIAL ACCOUNT

1. Features of wartime finance. The prosecution of a modern war involves the consumption of enormous quantities of war materials. For this reason all countries are taking special measures to store large quantities of such war materials in times of peace in order to provide for possible national emergencies. When war does break out, however, the quantities of war materials stored in times of peace never prove sufficient and it soon becomes necessary to obtain additional supplies either at home or abroad. Consequently countries engaged in war expend huge sums to ensure an adequate supply of war materials, either through the expansion of productive power at home or through a development of the heavier imports.

The expansion of domestic productive power, designed for the efficient employment of war expenditure, takes place chiefly in the heavy industries. Consequently, the major part of the State expenditure appropriated for ensuring an increased supply of war materials is disbursed in the larger urban centers in which large plants are located. Although the State disbursements thus made in these urban centers eventually find their way into all parts of the country, the process of diffusion takes time. It follows, therefore that so-called munition booms makes their first appearance in the areas in which large munition works are located.

Various sources of revenue have been suggested to

provide the funds required to defray these enormous wartime expenditures, but the issue of new public bonds and the increase of taxes constitute the two main sources of revenue. The increase of taxation may be effected with a minimum of displacement providing that it can be so arranged as to absorb the enhanced purchasing power of the districts which are enjoying the munition boom. The situation, however, is too complex to be dealt with in a summary manner. Any tax increase is, of course, bound to augment the financial burdens of the nation.

One prominent feature of wartime finance is that the increase of purchasing power arising from the disbursement of an enormous expenditure and the absorption of purchasing power through the sale of public bonds and through tax increases take place simultaneously and on a nationwide scale. Stability in wartime finance is secured by adjusting the expansion and the absorption of purchasing power. By such means alone can urban financial life and rural financial life be properly correlated. For the sake of convenience, I shall refrain in this enquiry from undertaking a general survey of wartime finance, confining my attention rather to the burden of taxation borne by the agricultural population in the present emergency.

2. Revenues out of which the temporary war expenditure special account is financed. The hostilities in China have an intimate bearing on all phases of national and local finance, but the temporary war expenditure special account directly concerns the financial aspects of the "affair." The temporary war expenditure special account estimates, namely, the original estimates approved by the 72nd session of the Diet, the supplementary estimates approved by the 73rd session of the Diet and the sums transferred from the general account, all put together total some ¥7,400,000,000, comprising the temporary Army expenditure account amounting to some ¥5,000,000,000, the temporary Navy expenditure account amounting to about ¥1,500,000,000, and the reserve fund amounting to ¥900,000,000. A considerable

portion of this expenditure is disbursed at home, while the rest is either expended in Manchoukuo and China or devoted to the importation of war materials. It is, however, difficult to discover exactly what percentage of the ¥7,400,000,000 is expended at home or in what districts of the country the expenditure chiefly takes place.

This temporary war expenditure is financed from new bond issues amounting to some ¥6,900,000,000, tax increases amounting to about ¥400,000,000 and revenues from other sources which amount to some ¥100,000,000. The rate at which issues are being absorbed in different localities is an important problem for study, but in the present article attention will be confined to the problem of increased taxation.

Three or four months before the outbreak of the Sino-Japanese conflict, the temporary tax increase law and the new tax laws were enacted. Following the outbreak of the conflict, the North China affair special tax law was promulgated, and as the "North China affair," as the Sino-Japanese conflict was called in its initial stages, developed into the "China affair," as it is now called, the China affair special tax law supplanted the North China affair special tax law. The financial life of the Japanese nation was affected in no small measure by the operation of the above-mentioned temporary tax increase laws, namely the North China special tax law and the China affair special tax law. Let us now proceed to consider the burden of taxation resulting from the present emergency situation.

2. NATIONAL AND LOCAL TAXATION

1. Alterations in national taxation. The national taxation system of Japan involves, so to speak, a three-storied structure. In addition to the basic tax laws, the temporary tax increase act and the China affair special tax act are now in operation.

The tax increases arising out of the China "affair"

amounted to some ¥300,000,000 in the fiscal year 1938-1939. Tax revenues for the same period totalled some ¥2,100,000,000, or, to be more explicit ¥1,897,000,000 from ordinary revenue sources (comprising such revenues as accrue from income tax, land tax, business profit tax, tax on interest on capital, tax on the capitals of juridical persons, succession taxes, mining taxes, special taxes on bonds in foreign currencies, the sake tax, the aerated drinks tax, the sugar excise, the textile excise, the gasoline tax, the Exchange tax, the tax on the transfer of negotiable instruments, Customs duties, tonnage dues, stamp duties, registration tax and Monopoly profits; and some ¥228,000,000 from extraordinary revenue (comprising the revenues from the temporary profit tax, the tax on dividends, the tax on public bonds and debentures, the transit tax, the admissions tax, the special admissions tax, and the commodity tax). As the natural increase in tax revenue is estimated at some ¥200,000,000, the total revenue from national taxation reached ¥2,300,000,000. In short, the nation's tax burden was increased by some ¥500,000,000, of which ¥300,000,000 represents the increase in national taxes and ¥200,000,000 embodies the natural increase in tax revenues. In the fiscal year 1939-1940, the Government proposes to further increase taxation by some ¥200,000,000, though the matter has not been definitely decided at the time of writing.

One noteworthy fact is that despite this ¥500,000,000 increase in the national burden of taxation, there have actually been some sectional reductions, though of limited extent, in national taxation. In the first place, the land tax assessed upon agricultural and fishing communities has been reduced by 20 or 30 per cent. through the revision of the rental value of land. In the second place the reduction of the immovables registration tax, which has also been put into operation has operated to lighten the burden on the inhabitants of agricultural and fishing villages. In view of the fact that a general increase has taken place in national taxes in connection with the present emergency it is note-

worthy that these reductions have been realised, though they are necessarily on a small scale.

2. The reduction in local taxation due to the temporary grants-in-aid for the relief of local finance. The need of reducing the burden of taxation which falls on the farming and fishing populations has long been recognised. In the four fiscal years 1932-1933, 1933-1934, 1934-1935 and 1935-1936, a temporary State subsidy was granted for ordinary primary school (*jinjo shogakko*) education; in the fiscal year 1936-1937, a temporary grant-in-aid was set aside for aiding town and village finance; and in the fiscal years 1937-1938 and 1938-1939, a temporary grant-in-aid was made for the relief of local finance. The sums involved in these grants have been progressively increased, as follows: ¥12,000,000 in the three fiscal years of 1932-1933, 1933-1934 and 1934-1935; ¥9,000,000 in the fiscal year 1935-1936; ¥20,000,000 in the fiscal year 1936-1937; ¥100,000,000 in the fiscal year 1937-1938; and ¥130,000,000 in the fiscal year 1938-1939. These grants have been applied to the reduction of local taxation.

Local taxation weighs on farmers and fishermen more heavily than national taxation, and the principal items of this burden are land surtax, special land tax, special land surtax, household assessment (*kosuwari*), and the miscellaneous tax. There have been substantial reductions in these taxes. The household assessment has been reduced by nearly 50 per cent.

3. THE INCIDENCE OF THE BURDEN ON THE POPULATION OF AGRICULTURAL, MOUNTAINOUS AND FISHING COMMUNITIES

1. A detailed investigation into the incidence of the burden in agricultural, mountainous and fishing communities. As has already been stated, the Government has been trying in recent years to reduce the burden of local taxation on behalf of the inhabitants of agricultural and fishing

villages by means of increments in the grants for the relief of local finance. Further reductions were made the national land tax assessment and the immovables registration tax in the fiscal year 1938-1939. Let us now examine in detail the actual results of these tax reductions as exemplified in the case of the following typical agricultural, sericultural, mountainous and fishing communities of Osaka, Kyoto, Shiga, Nara and Hyogo prefectures:—

Prefec- tures	Agricultural villages	Sericultural villages	Mountain villages	Fishing villages
Osaka	Sankamaki-mura, Mishima-gun	—	Toyono-mura, KitaKawachi-gun	—
Kyoto	Tomimoto-mura, Funai-gun	Kimi-mura, Ikaruga-gun	Hanase-mura, Otagi-gun	Ine-mura, Yosa-gun
Hyogo	Tanito-mura, Shikama-gun	Shigura-mura, Hikami-gun	Ochitani-mura, Kanzaki-gun	Nushima-mura, Mihara-gun
Nara	Heiwa-mura, Soegami-gun	Nakasho-mura, Yoshino-gun	Kurotaki-mura, Yoshino-gun	—
Shiga	Hirata-mura, Gamo-gun	Kamikusano- mura, Higashi Asai-gun	Mitani-mura, Takashima-gun	Omatsu-mura, Shiga-gun

I propose now to survey the incidence of the land tax on the above-mentioned 17 typical villages by comparing the old with the new rental values of the land itself. I shall follow with analysis of the burden of incidence of local taxation with reference to the question of grants-in-aid for local financial relief.

2. The reduction of the national land tax. The land tax in Japan was imposed over a considerable period under the Land Tax Regulations enacted as early as 1873. In 1931, these Regulations were abolished and the new Land Tax Law was promulgated. Under the new Land Tax Law, the tax is assessed on the basis of the rental value of land, instead of on the absolute value of land, on which the land tax was formerly assessed. The new law also stipulates that official investigations into the current rental value of land should be carried out every ten years so that legisla-

tion may parallel the course of local development. The old rental values of land were thus duly revised and the new rental values came into force in the fiscal year 1938-1939. As these new rental values were worked out on the basis of the depreciated price of rice, they have been fixed at a rate some 30 per cent. lower than the old rental values. A comparison of the old and new rental values of land in respect of the foregoing 17 villages shows that the new rental value is lower than the old in every case.

	Total for five farm villages	Total for four sericultural villages	Total for five mountain villages	Total for three fishing villages
Old rental value	¥797,956	¥212,271	¥226,707	¥126,091
New rental value	¥559,849	¥154,079	¥176,611	¥ 93,103

As will be seen from the above table, the rental values of land in these typical villages shows a decline of 20 to 30 per cent. Consequently, the land tax for the fiscal year 1938-1939, which was assessed on the basis of the new rental value of land, was lower than the land tax for the previous fiscal year by just this 20 to 30 per cent. The land tax constitutes the largest item of national taxation levied on the population of rural districts, and it is certainly worthy of special note that this tax has been reduced, in view of the present emergency situation.

3. The reduction of local taxes. As regards the burden of local taxation for the fiscal year 1938-1939, it is impossible to ascertain the exact extent to which these taxes have been remitted, as certain rough estimates alone were made public. Under the circumstances, I can only infer the extent of the reduction from the following comparison of the grants-in-aid which typical agricultural, fishing and other villages received during the past five years. The grants-in-aid for financial relief during the past five years for these village communities are as follows:—

Fiscal years	Total for five farm villages	Total for four sericultural villages	Total for five mountain villages	Total for three fishing villages
1934—1935	¥2,026	¥4,075	¥5,268	¥2,369
1935—1936	998	3,366	2,769	1,808
1936—1937	940	13,631	16,305	4,929
1937—1938	16,809	27,926	26,188	16,015
1938—1939	28,310	30,114	29,001	19,114

From the foregoing table it will be seen that whereas increases in grants-in-aid were irregular in the fiscal years 1934-1935, 1935-1936 and 1936-1937, the figures for the fiscal years 1937-1938 and 1938-1939 show increases, without exception, over the three preceding years. An increase in grants-in-aid indicates a proportionate reduction of the burden of local taxation.

4. CONCLUSION

In order to secure an adequate survey of the state of agricultural finance under prevailing war conditions, it is necessary, in the first instance, to estimate the proportion of State expenditure disbursed to rural communities, thus inevitably increasing their purchasing power; and in the second instance, to estimate now much of this purchasing power is absorbed by the purchase of public bonds and in taxation. In so far as the burden of taxation is concerned, then the financial life of the farming population under present war conditions may be regarded as being very favourably circumstanced. In the days prior to the outbreak of the Sino-Japanese conflict, the farming population was quite heavily taxed, and this in spite of the fact that the prices of primary products, including rice and cocoons, were very low, and that rural financial distress had to be relieved by budgetary grants. Since the outbreak of the Sino-Japanese conflict, however, the prices of rice, cocoons and other farm products have gradually advanced, while the burden of taxation falling on the farming population

has been partially lifted, so that the farmer's life has now been rendered considerably easier. Not only have grants-in-aid of various kinds served to counterbalance increases in local taxation but household assessment, the miscellaneous taxes, and the land surtax have actually been reduced. It is particularly noteworthy that the temporary grants-in-aid for the relief of town and village finance have been expanded in scope into the grants-in-aid for the relief of local finance and that the amounts disbursed under this heading have increased. As regards the burden of national taxation, the lowering of the rental values of land, on which the land tax is assessed, has led to an improvement in the financial life of the rural population.

In the Budget for the fiscal year 1939-1940, the temporary grants-in-aid for the relief of local finance are fixed at ¥130,000,000, that is, at the same level as in the previous Budget. It is possible, of course, that while the burden of direct taxation has been reduced, there have been some increases in the form of indirect taxation on the agricultural and fishing communities and in the "conference expenses" involved in enterprises for the relief of the families of soldiers at the front, etc. On the whole, however, it must certainly appear as a most encouraging fact to these communities that, under present war conditions, in which one tax increase after another become necessary, their own burden of direct taxation has been reduced, though perhaps not to any great extent. This must come as an agreeable surprise to the older folk in rural districts who, in view of their experience during the Sino-Japanese and the Russo-Japanese Wars, were convinced that war involved an inevitable increase in the land tax and an addition to the farmer's burden. This lightening of the burden of taxation enables agrarian communities to discharge more successfully their important functions as the chief sources of man power and foodstuffs.