

Article

FINANCIAL CRISIS in JAPAN

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At the beginning

Now having the honor of being introduced, my name is Kotani. I'm a special professor of Osaka University of Economics & Law, and Emeritus professor of Osaka City University.

Several days ago from 28 August to 30, I attended the 40th Congress of the International Institute of Public Finance in Innsbruck, Austria.

The general subject of this Congress was "Public Finance and Public Debt." As everybody knows, this subject now has become one of most important aspects in the world economy.

Bearing some debates in this Congress in mind, I would like to talk on developing of financial crisis of Japan, and to state my opinion on some points that I think important.

Through the period of high-growth of Showa 30's (about 1958 to 1965), Japan, our country, has become the second powerful nation in the capitalist world. In this period, Japan's annual growth rate was twice higher than the other developed countries. First of all, I would like to confirm this point.

Then, after the World War II, in 1947 (Showa 22), we established the new Public Finance Law, by whose fourth article (regulation) any national debt was to be prohibited severely.

Before the establishment of the Public Finance Law, GHQ (General Headquarters) gave a note that prohibited issuing any national bond as a rule. This note prohibited issuing any 'red ink' bond by acceptance of the Bank of Japan, which was constantly used by the Japanese government during the war. It also ordered to cut down expenditures as much as possible, and to cover any 'red ink' budget by accumulating peoples'

savings to the maximum level excluding short term loans, when raising national loan or borrowing is necessary to be covered.

On the basis of this spirit, the fourth article of the Public Finance Law provides that national expenditures should be covered by other resources than public debts or loans of money and as a proviso (conditional clause) as to resources of public enterprise expenditure, investment monies and loans, national bonds are to be issued or borrowing is to be made within the narrow limit of decision of the National Diet. This is the so-called 'Kensetsu Kokusai (construction bond)', which is approved exceptionally. But even in this case it is important that by the fifth article of this Law, the acceptance by the Bank of Japan of national bonds or borrowing from this Bank is strictly prohibited.

And then, the sixth article of this Law regulates that as to the surplus should be accumulated as resources to repay public loans or borrowed monies by two years with the exception of the case by other Laws. And it is to be said that by this article Japan's sinking fund system has been strengthened.

But with the progress of the recession from 1964 (Showa 39) to 1965 (Showa 40) a national loan (debt) policy against the balanced budget principle since Dodge line (1949) began anew and a transition to the so-called 'New Age of Public Finance' has arrived. Namely in the revised (supplementary) budget of FY 1965 (Showa 40) issuance of 'red ink' national bonds by a special law, in order to cover estimated decrease of tax revenue was approved and, in making the budget of FY 1966 (Showa 41) issuance of construction bonds by acceptance of city banks (Shichu Shoka) was introduced, by which we have become to witness developing of the first, real national debt policy after the war.

As for the issuance of the national bonds during several years since FY 1966 (Showa 41) the proportion of total revenue supplied by bonds

(Kokusai-bonds) declined gradually from 14% to 4.2% along with recovery from the recession, and it has been said by the Financial System Council in 1967, that this indicates the correct figure based on the demand of fiscal policy. But on the other hand, it can not be denied that it is in danger to bring about easy mood to depend on public finance ("図説日本の財政" 1982 (Showa 57) p.292) .

With the change of America's economic circumstances on 1971 (Showa 46), Japanese economy has been influenced by this change, and the so-called 'public finance at a turning point' occurred.

In 1970-71 America was faced with the first era of (so-called) stagflation (namely coexistence of stagnation and inflation) and especially through suspension of exchanging dollar for gold in 1971, Japanese Yen rate was raised to the rate of a dollar=308 yen instead of 360 yen until then, by which Japanese economy on the way to recovery intensified the phase of a recession.

Then in the supplementary budget of FY 1971 (Showa 46) a national debt policy was introduced positively, and Kensetsu (or construction) bonds have been raised in order to make business brisk by an increase of public investment. The proportion of total revenue supplied by bonds in FY 1971 was 12.4%, but become a considerable high level of 16.3% in FY 1972 (Showa 47).

By the first oil shock in 1973, Japan faced a typical stagflation (coexistence of rapidly rising prices and a great recession in the world), more correctly expressed, a trilemma of madly rising prices and big 'red ink' balance of payment and a depression. As a result of permeation of gross demand restraint policy in the original budget of FY 1974 (Showa 49), Japan has experienced the first minus growth rate (and that real) since the war, and tax revenues dropped sharply, the big shortage of tax revenues occurred. As a result of this issuance of 'red ink' bonds has been

forced in the supplementary budget of FY 1975 (Showa 50), which has informed us of coming of 'red ink' loan age developing from this year.

The proportion of total revenue supplied by bonds in FY 1976 (Showa 51) was 29.4%, and its proportion in FY 1977 (Showa 52) advanced to 29.7%, and furthermore to 32.9% in the fixed results that included the supplementary budget, and by this became beyond the moderate line of 30%. The proportion of total revenue supplied by bonds was 32% at the initial budget of FY 1978 (Showa 53) and this proportion increased up to 39.6% (that is the highest in the developed countries in the world) at the initial budget of following 1979 (Showa 54), by which '40% debts in public finance' came out. (But the proportion of both fiscal year declined a little in settling figures).

The proportion of total revenue supplied by bonds has declined a certain degree up to date since FY 1980 (Showa 55), but the outstanding national bonds has increased in considerably fast tempo, which pointed out an evolution of financial crisis. Then the amount of bonds issued reached more than ten trillion in FY 1982 (Showa 57), and as a result the outstanding long-term national liabilities at the end of the year amounted to 106 trillion 553 billion yen (of these internal national bonds 94 trillion 213 billion yen), and the rate of this to GNP is estimated to reach 38.4% (the rate of latter to GNP 34%).

And I want to add a little words, the estimated figures at the end of FY 1983 (Showa 59) were as follows (dut fined results).

outstanding long-term liabilities (A)	127 trillion 978.6 billion (yen)
of these internal bonds (B)	111 tril. 771.9 bill. (yen)
(A)/GNP (279,500.0)	45.8%
(rate of former to (estimated) GNP)	
(B)/GNP (")	40.0%
(rate of latter to (estimated) GNP)	

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Then the estimated figures at the end of FY 1984 (Showa 59).

outstanding long-term liabilities (A)	141 tril. 174.4 bill.(yen)
of these internal bonds (B)	124 tril. 326.4 bill. (yen)
(A)/GNP (296,000.0) (estimated) (rate of former to GNP)	47.7%
(B)/GNP (") (") (rate of latter to GNP)	42.0%

(¹図説日本の財政、59年度版 262頁)

By international comparison we know that our country, Japan is in a top class among developed countries in the world, both in the proportion of total revenue supplied by bonds and the rate of the expenditure of national debts to the general account. (Please do you see the paper previously distributed to you).

Progressive (cumulative) increase of outstanding national bonds has brought out many problems of issuance conditions, difficulties to accept national bonds, etc..

Here I want to state some comments only on conversion (refunding) of national bonds and suspension of transfer of a fixed rate to the sinking fund. By a report of a newspaper, Takeshi Sakurada, the chairman of the Public Finance System Council stated in relation to suspension of transfer of a fixed rate to the sinking fund on a press interview after the general meeting of the council at 27th October, the year before last, as follows;

Conversion of deficit-covering bonds ('special deficit-financing bonds') to be repayed by money up to this year should be scrutinized, because the balance of the sinking funds is estimated to become zero at the end of FY 1985 (Showa 60), and then in relation to suspension of transfer of a fixed rate to the sinking funds, a present repayment policy of national bonds is to be reconsidered totally.⁽¹⁾

(1) later this conversion and this suspension have been formally announced

by the authorities.

In this general meeting of the council, a decision was made to suspend transfer of a fixed rate (1.2 trillion yen) to the sinking fund as a measure against deficit of resources of FY 1982 (Showa 57) and to propose an amending bill of this law in the next ordinary Diet.

In relation to this point, it was reported that the president said as follows;

“It is absurd in the business world to accumulate the sinking fund through interest-payment by running into debt”.

“It is inevitable to suspend transfer of a fixed rate till fiscal reconstruction. Yet Kensetsu (construction) bonds are to be repayed totally during 60 years through issuing of new bonds for converting old bonds on a basis of the term of repayment, for instance, as for roads, but ‘red ink’ bonds are to be repayed by cash because these are no fortune, different from Kensetsu bonds”. Even in relation to this, the president said reportedly that ‘red ink’ bonds should not be considered as different from Kensetsu bonds, because of inevitability of these issuing.

But the Public Finance Law prohibits issuing of ‘red ink’ bonds, because of prewar bitter experience of excessive issue of wartime national bonds. At present ‘red ink’ bonds are issued as an exceptional measure by the government, but conversion of these bonds are prohibited strictly and it is pointed out that violating this leads to over-issue of national bonds. We should give attention to this warning.

But in this connection, January of this year (1984), the Public Finance system council proposed that conversion of ‘red ink’ bonds are to be approved, and according to this, the Resources Security Law (Zaigen-Kakuho-ho) has been established in the present Diet.

Here we want to point out some important problems in a rapidly developing financial crisis under stagflation of Japan.

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At first, as everybody knows, Construction national bonds under an increased issue since FY 1976 (Showa 41) have intensified adjustment of infrastructure of our country, Japan, which in the first half of high-growth period had been promoted in basis of fiscal resources of tax and Treasury investment and loan, and played a promoting role in intensifying the industry structure centering around heavy and chemical industries in Japan.

Second, we should pay attention to the relation between accumulation of 'red ink' bonds and increased national defence expenditure. In short, accumulation of 'red ink' bonds since FY 1975 has its important cause in increased defence expenditure. And this is true specially in the recent years, when by request from America defence expenditure of Japan have increased rapidly. While such increased obligatory expenditure as 'Konendo Futan' (liabilities in future years) in general account are provided with national debts (bonds), it is reported that defence expenditure takes near half these figures.

Third, in Japan dullness that has hung over the market is lifting up recently, but it remains some aspects of bad business. Attention must be paid to, for example, continuous bankruptcies of minor enterprises.

In this connection, the number of cases of bankruptcies in Japanese enterprises in May, 1984 (over ten million yen liabilities per case) amounted to 1,966 and this figure was the worst since the post-world war II.

But it is noteworthy that this number includes not only minor, but big enterprises.⁽²⁾ Recently in Japan (maybe also in America) bankruptcies in large-sized enterprises have come to the surface, and needless to say this is owing to severe competition due to innovation.

(2) for example, Rikker, a distinguished enterprise in a sewing machine industry, or some credit institutions for the salaried (men).

Until recently, the rate of operation in heavy industry sector was low and the rate of unemployment was high. The low rate of operation in our

industry has come from accumulated surplus capital in the High-growth period. The rate of operation in raw-iron production of our industry in a quarter year base of 1982 (10-12) was 59.8% owing to decrease of exports and stocks.

It was said that this figure dropped below the level of 60%, (“firstly since introduction of the present calculation method.”) And then the rate of operation in oil refinery in the first half of the year (1982) was 52.7%, namely 3.6% lower than the first half of the year before (1981) that dropped below the level of 60%. This was due to an unexpected decline of oil-demand owing to recession.

As everybody knows, the low rate of unemployment in Japan, which is the 2% level, has been brought forward as a witness of a good performance in Japan's economy. But the figure is not useful as one of the rate of prefect unemployment for international comparison. In relation to this point, Professor Taira (University of Illinois) demonstrated that Japan's rate of unemployment in reality is twice as high as the figure, calculated by American Method of calculation. This opinion of Professor Taira should be referred to by most economist in Japan.

By a report of 1982 for a public opinion about living conditions of people, the rate of middle class consciousness reached 89%, higher than the year before and besides the rate of middle of middle class consciousness was 55%, more than half, and only 7% replied, ‘My family belongs to the low class’.

But in spite of such conditions of consciousness, hardness and unrest of life in real living conditions of people have increased.

As everybody knows, by continuous rising prices of public utilities, non-consumption expenditures in household have increased and disposable part of income has decreased rapidly. A report of Tax Administration Agency for a research of the realities of private sector of

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FY 1981 told that an average year wage for salaried and office working women (part-time included) was 3.9 million yen, which showed lowest rate of rising of 4.9% during past 23 years. Meanwhile, the rate of tax burden (the share of income tax to annual income) increased 5.75% from the year before (1980), which showed the highest during past 17 years.

After all, there are a larger part of people, who behind prosperity of the high growth period have been overlooked as victims. We want to note that one of these important aspects of such conditions was already observed by government itself several years ago.

May 1975 the Administrative Management Agency (AMA) announced the fact that the applicable to the Livelyhood Protection Law would reach 24% of all people (by a research of the Ministry of Health and Welfare) and yet only a little more than 1%, (1.3 million persons, FY 1974) received any form of protection by this law. Why the rest of 23% received no benefit is a question. Whether this protection was not readily available or this meant not to be available? How was it possible, if 23% of people were living somehow without such assistance? These things should be made clear by an administrative survey.

Until now we have no reliable data to verify that such condition have been improved. (In this connection, in developed countries, for example in Great Britain, those whose resources amount to less than 140% of the basic rate of the National Assistance Board are classified as poor. Refer to the first trial calculation of the poor population done by Abel-Smith and Townsend in their book 'The Poor and The Poorest', 1965.)

And the advice for 1982 of the National Personal Authority (established in order to compensate for deprivation of the public servants rights to strike) has been freezed totally. It is no doubt that the first step since the establishment of this system has meant a kind of income policy.

At FY 1984 (Showa 59), before coming of the term of redemption (FY

1985, Showa 60), issuing of 'red ink' bonds should be made zero. Failing of this public promise of the government has been clear. Reportedly one of big banks of our country has announced the expectation that the issue amount of 'red ink' bonds for FY 1984 (Showa 59) will reach a little over 11 trillion yen, even if the annual expenditures shall be cut down along the report of the Rincho (the Special Administrative Observation Committee, Doko-Committee), The Rincholine of fiscal reconstruction without tax increase is gradually turning to a trend of introduction of national indirect tax, concretely expressed general consumption tax or value-added tax.

Provided that such Rincho-line finance as projection of defense expenditure, restraint of social welfare has been continued, it is not only doubtless that we are not to escape from stagflation, but also we will face 'national bankruptcy' by the intensified financial crisis of our country. At the same time, trend would not only increase the danger of a war, but also leads to complete destruction of national life.

How is our public finance to be reconstructed?

In order to change such a trend of present policies, we should realize a democratic reorganization of our industry and economy, namely transformation from the industrial structure with the heavy industry (military industry included) in a centre, to the democratic industrial structure in basis of adjustment of such living infrastructure like education, housing and welfare.

For this objective a strong democratic government, which has power to control various activities of the monopoly capital, should be established by the people of Japan.

To this end, concentration of wide range of democratic forces in our country is in great demand.

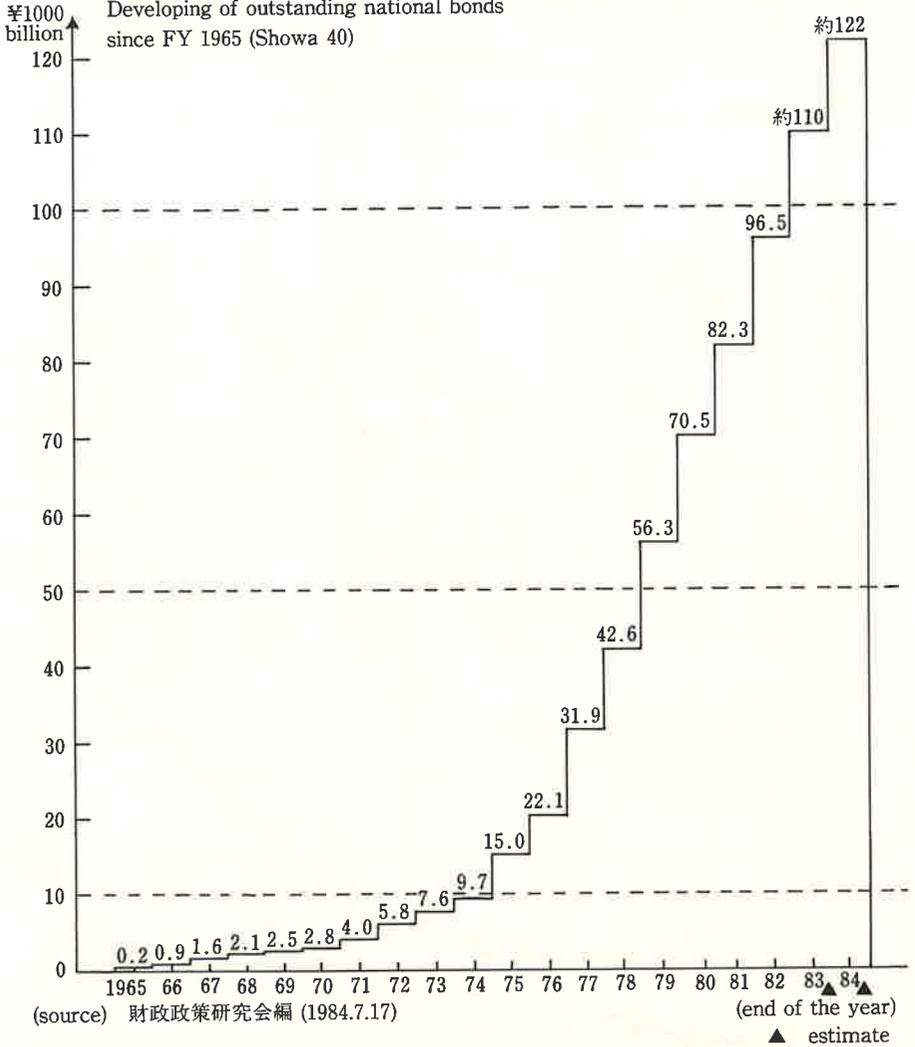
Here I will end my report. Thank you for your kind attention.

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Reference Data

Figure 1

Developing of outstanding national bonds since FY 1965 (Showa 40)



以上は、1984年9月5日アラバマ大学（アメリカ合衆国）で行った講演原稿に一部加筆したものである。

Figure II Long-term national liabilities

(1) international comparison of the rate of this to GNP

(2) international comparison of the outstanding liabilities per capita

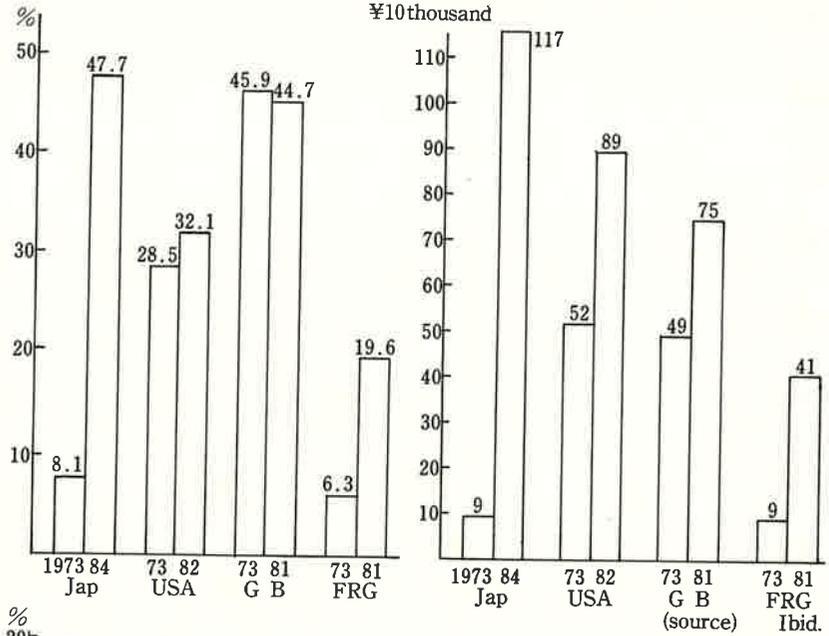
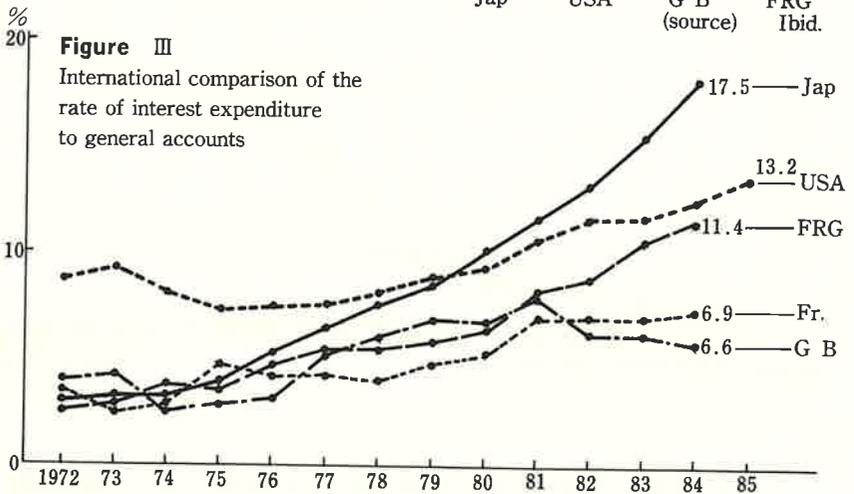


Figure III International comparison of the rate of interest expenditure to general accounts



(source) Ibid.

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Table I

Financial condition of some leading countries

%

		Jap	USA	G. B	FRG
<u>interest expend.</u>	1975	3.6	8.9	2.7	3.3
<u>annual expend.</u>	recently	18.1 (^{'84})	11.8 (^{'82})	7.7 (^{'81})	9.0 (^{'82})
<u>outstanding long-term bonds</u>	1975	9.9	27.1	39.0	9.4
<u>nominal GNP</u>	recently	39.4 (^{'83})	28.5 (^{'82})	45.1 (^{'81})	18.4 (^{'82})
<u>issued bonds</u>	1975	22.4	25.3	17.4	21.1
<u>annual expend.</u>	1983	26.5	22.5	8.1	16.3

(source) "Nihonkeizai" (4. Aug. 1984)

