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Economic Growth and Structural Change of Medium-Small Business (1)

by Taikichi Ito

This paper is aiming at to analyse, first, the factors contributed for the miracle of Japanese economic growth rate which is the highest in the world during past ten years. Then, the writer analyses the process of structural change of medium-small business under the economic growth, limiting the factor for the growth to the sector of medium-small business in Japan's dual-economy which is characteristic feature of her development. Third, he tries to point out the facts that the dual-economy changed to be adverse factor since 1961 instead of being then encouraging factor, through the analysis on the causes of slow down of the growth. Fourth, he discusses the problems of government perspectives and policies for dissolution of dual-economy and examines the nature and effect of "Principal Act for Medium-Small Business" and related policies of government.

The main contents of this section of the paper are as follows:

- I The miracle of economic growth in Japan and its problems
- II Mechanism and limitation of high rate of growth
 - i Types of economic growth and Japanese type
 - ii Factor analysis of high rate growth
 - iii Limitation of factors
 - iv Adjusting process and its impact on medium-small business
- III Analysis of medium-small business structural change
 - i Types of medium-small business sectors (composition of subsectors, independent or subcontract) and change among them (developing or declining)

Effects of Tax Policy on Business Activities

by *Seiji Furuta*

One of the significant economic developments after the World War II has been the change that has taken place in the Japanese tax system. Taxation on the increasing scale cannot fail to have important economic effects. This paper dealt in this point of view with those tax consequences that appeared to have the most significance for business activities. The contents of this paper are divided into five parts as follows: (1) The Growth of Firms and their Tax Burdens, (2) The Impact of Taxes on Business Decisions (3) The Effects of Taxes on Investment Decisions, (4) The Effects of Corporation Income Tax on the Capital structure and (5) The Effects of Taxes on the Formation of Final Demand.

The ratio of total taxes to national income has declined steadily through the postwar period until it recorded 20.5 per cent in fiscal 1960. Although the ratio is lower than similar figures in western countries, this still represents a high rate of tax burden as compared with the prewar period. What is more, the ratio of corporation income tax revenue to national tax was, in the same year, about 29.2 per cent in Japan, while the ratio in the U. S. was about 27.5 per cent that seemed to be commonly considered the highest in the world. The ratio of corporation tax to corporate income was about 43.4 per cent that was also considered relatively higher than the one which the business firms could bear. In viewing the present corporation income tax system, there is hardly any need of explanation as to why we should single out for consideration those effects of taxes that are reflected in business decisions and activities.

The most intangible type of announcement effect of high income taxes is seen in the impact that such levies may have upon investment incentives. Following an increase in corporation income taxes, investment that formerly looked attractive may appear unpromising. High corporation taxes are said to have an undesirable effect on investment incentives. From the writer's point of view, however, the disincentive effect of high taxes has been overcome by high rate of growth observed in the fact that 15 years after the war's end it still continues to be maintained 17 per cent in the fiscal year of

1959. The high taxes also can affect the ability of business to expand production when they deprive business firms of a large part of the funds needed to carry out the operations. This is perhaps the most serious problem with which the firms in general are now confronted in Japan. Although many kind of exemptions and allowances are provided to them to offset the undesirable effect of high taxes, the corporation income tax law provided the alleged discrimination against equity financing in the way that it places a substantial premium on debt financing and a penalty on financing with equity. Considering the perspectives of economic growth, the capital structures of business firms may be remained as bad as the ones we see now.

With respect to the taxes on business profits, it has been thought that they are borne by the owners of the enterprise. The reasoning underlying this proposition was not developed fully here, but it is consistent not only with conventional economic theories of price determination but also with a statistical investigation made by use of linear regression analysis on the assumption of profit shares approach (c.f. his article: The Shifting and Incidence of the Corporate Income Tax in Japan, this journal, Sept., 1962). Further considerations will be needed, however, if we conclude that corporation taxes are one of the determinants of business behaviors and that they are nothing more and nothing less.