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## A Note on the Demand of the Firm for Credit

*by Toshio Murai*

The object of this short note is to make another approach to the monetary economics than those usually accepted. That is, an attempt for mathematical reformulation of cash budgeting in the field of business finance. It is universally known that in the world of neoclassical school there was no concept of finance.

In the article the writer constructs a model under following assumptions:

- (1) The production function is homogeneous of the first degree.
- (2) Purchase condition has an uniquely distributed lags in the sense of vector.
- (3) Sales condition has an uniquely distributed lags in the sense of vector.
- (4) The firm has its own constraint of a line of credit.
- (5) The firm behaves rationally.

With these assumptions, the writer can get a sequence of credits needed. He can get a proposition that the firm's production plan depends on both the money rate of interest and a line of credit, namely availability of credit.

## An Evaluation of Japanese Corporation Income Tax (I)

*by Seiji Furuta*

The total tax liabilities of Japanese corporations were significantly affected by the remarkable development of corporation activities after the World War II. A variety of proposals were made every now and then for substantial modification of the present corporate tax structure, particularly as the writer sees them, they are on two respects. In the first place, the avowed intent of most of these proposals for revision of the tax was to avoid the double taxation on corporate and personal incomes. The problem seems to be related to the horizontal equity among individuals in the sense that people in equal income positions should be treated equally regardless of

their sources of income. In the second place, the high corporation income tax is said to have undesirable effects upon corporation activities, such as investment, pricing, output, wage, and so on. This impact of the tax upon business behaviors should be examined either by way of industrial or by way of size of firm classification.

While it is almost universally recognized that the personal income tax cannot be applied directly to all corporate incomes, there are two distinct approaches with respect to the desirable treatment of this income. The first, impersonal entity point of view, will disregard the existence of the corporate business firms so far as possible and attempts to place the same tax upon income earned by noncorporate firms. There are two arguments on this point of view. It is argued that the existence of the corporate form should not be allowed to obscure the fact that tax burdens ultimately rest upon individuals, and principles of ability must be interpreted solely in terms of personal burdens.

On the basis of horizontal equity, it is pointed out that there is no reason to tax income earned through the corporation, more or less heavily than that earned in other ways. Secondly, it is maintained that there is no need to tax firms according to the form of business organization if the taxation must be completely neutral and avoid adverse economic effects. This approach, while adopted in the Japanese corporation tax system, requires close integration of the corporation and personal income taxes, along the line indicated in the British income tax system.

The second approach, which dominated and was practiced in Japan mainly for pre-war period, treats the corporation separately, the corporate net income being regarded as a suitable base for taxation, irrespective of tax paid on dividends by individuals. The corporation is regarded as a separate entity for tax purposes, divorced from the individuals, and thus it is distinct from its owners, with an identity of its own. From this point of view, there was hardly any substantial adjustment made on the double taxation before 1949.

First of all, we are bound to admit that the two approaches on income tax treatment of corporations should be interpreted as conflicting philosophies against each other. Adopting one philosophy would fail to see the merits of another, and vice versa. On the equity point of view, however, it is almost certain that the separate entity approach has serious limitations to the extent that the approach would fail to take into consideration not only the

horizontal but also the vertical equity among different individuals. Dividends that are received by low-income stockholders are subject to income tax from which, on the basis of the exemptions of the personal income, tax should be free. While the undistributed profits of corporations owned by persons in high-income brackets are subjected to lighter tax burden than that to which they would be subjected if the personal income tax rates were applied to this income. Therefore, in defense of the corporate tax on an equity basis, it may be argued that, on the whole, the tax should be distributed according to the method suggested by the impersonal entity approach.

Further discussion on the equity of the present tax structure requires a knowledge of the extent to which the tax is shifted and thus the final incidence of the tax. No precise answers can be given to this question with the present state of knowledge, but we have to examine to what extent our view on the corporate tax can be modified with or without the shifting. To the extent that the corporation income tax is shifted forward to consumers, the burden of this tax is distributed among income groups in somewhat the same manner as the burden of excise taxes. In the recent study on the distribution of the total tax burden, Professor R. A. Musgrave distributed the shifted portion (one-third in his study) of the corporation tax among income groups on exactly the same basis as the burden of excise taxes, namely the distribution of total consumer expenditures by income classes. Professor M. Kimura also distributed the shifted portion (almost half of the tax in his study) to obtain the distribution of the tax payment by income classes in Japan.

The next table shows the distribution of the corporation income tax burden when it is allocated among income classes on the basis of four different assumptions on the extent of the shifting; (1) that the tax falls entirely on stockholders, (2) that one-third of the tax falls on consumers and two-thirds on stockholders, (3) that half of the tax falls on consumers and half on stockholders, (4) that the tax falls entirely on consumers. If it is assumed that the corporation tax falls entirely upon consumers, the burden (on the basis of 1960 data) would amount to 3.7 percent of income for spending units (families) with income over ¥ 1 million per month, as compared with 13.5 percent for those with income under ¥ 200,000. On the other hand, if the corporation tax is assumed to fall entirely on stockholders, the burden on high income groups would be much heavier--- 17.1 percent of income for families with income over ¥ 1 million.

Thus differences in the assumptions used in shifting this tax radically alter the degree of regression in the distribution of this tax, insofar as it can be estimated from available data. The assumption that the tax is born by stockholders makes the burden to appear as if it were progressively distributed.

The assumption that the tax is shifted to consumers makes the burden to appear as if it were regressively distributed. Other assumptions can make the burden to appear as if it were distributed in proportion to income at least up to ¥ 1 million income level. Our conclusion derived from the above considerations can be summarized as follows; both of the approaches, separate and impersonal entity, have to be maintained right or wrong in view of equity basis after certain definite position can be obtained on the extent of shifting of the corporation income tax.

Another attempt was made to assess the extent to which the corporation income tax distorts the structure of Japanese economy. The corporation income tax, as we know, is definitely not neutral. It taxes only the return on corporate equity capital, while it misses the return on corporate borrowed capital, and the return on capital outside the corporate sector. Though no

Table  
Estimated Distribution of Corporation Income Tax Burden on Spending Units  
by Income Class on Selected Shifting Assumptions, 1960.

Spending Unit Income Class	Allocation Bases	Percentage of Allocated Tax to Income of Spending Units with					
		Percentage Distribution of Consumer Expenditures	Percentage Distribution of Dividends	Total Tax Allocated on Bases of Dividends	One Third of Tax Allocated on Consumer Expenditures and Two-Thirds on Dividends	Half of Tax Allocated on Consumer Expenditures and Half on Dividends	Total Tax Allocated on Bases of Consumer Expenditures
	(million)	%	%	%	%	%	%
Under	¥0.2	17.0	0.1	0.1	4.6	6.6	13.5
Over	0.2	15.0	0.3	0.2	2.7	3.8	7.8
"	0.3	17.3	1.0	0.4	2.7	3.7	7.3
"	0.4	14.3	1.9	0.9	2.9	3.8	6.9
"	0.5	16.5	4.4	1.7	3.3	4.0	6.4
"	0.7	9.3	6.2	3.7	4.4	4.7	5.8
"	1.0	10.6	86.1	22.9	17.1	16.8	3.7
Total		100.0	100.0	6.8	6.8	6.8	6.8

consensus has been reached as to the degree of shifting of the corporate tax, the assumption of forward shifting of the tax was made to ascertain the "excise-tax effects" (named after the terminology of Professor A.C. Harberger) of the tax among industrial sectors of the corporations. These effects shall be analyzed fully in the another paper expected to appear in later issue of this same journal.

### Malthus as a Bullionist

—In Comparison with Ricardo—

by Mitsuko Nakanishi

David Ricardo, who laid the foundation of the Classical Economics had contributed to the development of economics and left great achievements in the history of economics, but when we consider the influence of the Classical Economics on the modern economics we should not neglect Thomas Robert Malthus as well as Ricardo. Specially since the birth of the Keynes' Economics, Malthus' theory became as important as Ricardo's theory that had prevailed for a long time, and had attracted people's attention. John Maynard Keynes praised Malthus as "the founder of the Cambridge Economics" and declared that the Cambridge School was indeed the legitimate successor of the Classical School,—accordingly, Malthus. Whether his claim was right or wrong, Ricardo and Malthus were different in the substances of their theories and the ways of their approaches. We can find this fact in their controversy that appeared in their letters. Though they held different views in the major part of their issues, they were intimate friends. Accordingly their friendship played an important part in establishing Ricardo's theory. One of the most important economic problems in their time was whether the depreciation of paper currency at the time was caused by the suspension of specie payments by the Bank of England. As Ricardo played an active part as an champion of the Bullion Controversy, they repeatedly discussed the currency problems of the time and their friendship became deeper. Thus Malthus as well as Ricardo was obliged to take part in the Bullion Controversy.

Although it is generally said that the Bullion Controversy was a Controversy of the bullionists with the anti-bullionists, most bullionists were

opposed to each other in their views. We shall find the example in the controversy on currency problems between Ricardo and Malthus. For instance, Ricardo denied that any influence except the monetary situation could affect the exchange rates and the prices of bullion. He considered that the fall in the exchanges and the rise of the price of bullion were caused only by excess issue of paper currency. While Malthus recognized the importance of subsidy payments and trade changes besides monetary situation. Also it has been frequently said that Ricardo played a major part in securing the appointment of the Bullion Committee and in forming the doctrinal framework of the Bullion Report, but recently some scholars for instance, F. W. Fetter declared that there were important differences between Ricardo's views and the views that were expressed in the Report, and there were some faults in Ricardo's view in comparison with some other bullionist's views.

In order to understand the Bullion Controversy clearly, we must consider the Ricardo's view in contact with other bullionists' views.

The purpose of this paper is to examine the Malthus' monetary theory as a bullionist who influenced Ricardo's view by making comparison with Ricardo's monetary theory. I hope that the factors which caused the depreciation of paper currency of the time will become clearer by this study.