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Worker's Self Control and Market System (1)

by Yoshimatsu Aonuma

In the sense that self regulating market system had been controlling almost all the social life, 19th century society had an exceedingly economic character. But the situation began to change as the social disaster caused by this socially unregulated system was disclosed. "The End of Laissez-faire" was declared, and the necessity of conscious control of economy has been emphasized.

With the decline of economic liberalism, the function of the state which had been passive turned into active. Beyond just coordinating passively the opposition between social interests, the state would actively intervene the social life and adjust the economy to the social needs. The socialism which is characterized by Stalinism would appear on the extension of these tendencies. What Hayek criticized as it would bring about "the Road to Serfdom" was this kind of socialism.

Stalinism bore the bureaucratic state which is characterized by the centralization of authority. When the state takes possession of the whole society, there will be no room left for individual freedom to exist. It is contrary to the western transition which distinguishes between the state and civil society, and tries to enlarge the society which has been freed from the state. Civil society is a concept which is in contrast with that of bureaucracy. Similar to the latter, the former is not a specific concept of capitalism, but it is a concept which can be applied to other social systems.

In the early stage of capitalism, civil society came into being as an immature form, which was commercial society. But in the course of development of capitalism, civil society didn't transform itself from immaturity to maturity, and the problem of monopoly arose.

In "the New Industrial State", the existence of civil society has become very vague, and the bureaucracy in form of Technostructure came to the surface. In this way, capitalism and socialism came to have the common denominator. For capitalism to solve the troubles it's facing, and for socialism to grow out of Stalinism and move onward to maturity, the reconstruction and reinforcement of civil society is necessary. The independent public supports this

society. We must await their awareness, and then worker's self control will become possible.

The Patterns of the Corporate Income Tax System and Their Economic Effects

by Seiji Furuta

Taxation of corporate income continues to be controversial. Some people believe that taxation of the corporation as a separate entity is justified. Others, however, regard taxation of total profits under the corporation tax and of distributed profits under the personal income tax as inequitable. As Pechman in his 'Federal Tax Policy' pointed out, whether something needs to be done depends on an evaluation of the economic issues and on the effect of the proposed changes on the distribution of tax burdens.

From this viewpoint, this paper deals with the patterns of the corporate income tax system and their economic effects upon private saving and investment. The patterns of the system include the separate entity, the split-rate, the imputation and the full integration system.

Under the separate entity system, it is easily recognized that it tends to discourage distribution of dividends relative to the other systems. The double marginal tax rate upon the distribution imposed by the corporate and personal income taxes are computed as follows:

$$(1) Y_c = (1 - t_c) Y_c'$$

$$(2) D = d(1 - t_c) Y_c$$

$$(3) R = (1 - d)(1 - t_c) Y_c'$$

$$(4) T_i = t_i d(1 - t_c) Y_c'$$

$$(5) \text{The double marginal tax rate} = t_c + d \cdot t_c \cdot t_i$$

where Y_c' = corporate income (profit) before tax

Y_c = corporate income (profit) after tax

D = dividend payed out to stockholders

R = corporate retained income

T_i = personal income tax liabilities

t_c = corporate income tax rate

d = propensity to distribute dividend

t_i = marginal rate of personal income tax

The separate corporate tax has been strongly criticized for the distortions it produces in the operation of the domestic economic system. It is confirmed in this paper that it tends to shift resources from high to low rate-of-return uses by placing larger tax burdens on industries in which the corporate form has important economic advantages. It also favors debt over equity financing by corporations, discourages capital-intensive methods of production, and makes corporate stock ownership relatively less attractive to those in lower income groups.

Under the split-rate system, following relationships are hold:

$$(6) \quad t_c = t_r(1-d) + t_d \cdot d$$

$$(7) \quad t_c = \frac{t_d}{1 - (t_r - t_d)}, \quad \text{if } d + t_c = 1$$

where t_r = corporate income tax rate upon retained earnings

t_d = corporate income tax rate upon dividend payed out to stockholders

t_c = combined rate of the corporate income tax rate upon the retained earnings and the dividend

By utilizing these relationships, so-called merits and demerits of the split-rate system are counted especially compared with those of the separate entity system.

Under the imputation system, all or a portion of the individual income tax is regarded as having been paid at the source through the corporate income tax. The imputation system achieves the same result as the split-rate system does but is more likely to discourage corporate saving. This disadvantage frequently makes the imputation system less attractive to the firms with the fact that it is more difficult to understand and would also complicate the personal income tax return. Under the 'full gross-up method', the personal income tax burden can be computed as follows:

$$(8) \quad T_i = t_i \{ (1 - t_c) D' + t_c D' \} - t_c D' \\ = (t_i - t_c) D'$$

where D' = payout dividend before tax

Under the general case including the 'half gross-up method', the personal income tax burden can also be calculated as follows:

$$(9) \quad (1-g) D^* = d(1-t_c) Y_c'$$

$$(10) \quad Y_c' = \frac{D^*(1-g)}{1-c}, \quad \text{if } d=1$$

$$(11) \quad \frac{\frac{(1-g)D^*}{1-t_c} - (1-g)D^* - gD^*}{\frac{(1-g)D^*}{1-t_c}} = \frac{t_c - g}{1-g}$$

where D^* = dividend received under the gross-up method

g = rate of tax credit for the dividend

As Byrne and Sato pointed out in their paper (Public Finance Quarterly, July 1976), the effective rate on distributions under the imputation and the split-rate systems is the same if $(t_r - t_d)$ and g are equivalent;

$$(12) \quad t_c = \frac{t_r - (t_r - t_d)}{1 - (t_r - t_d)} = \frac{t_c - g}{1 - g}$$

$\left(\begin{array}{l} \text{effective rate of the} \\ \text{personal income tax} \\ \text{under the split-rate} \\ \text{system} \end{array} \right)$

 $\left(\begin{array}{l} \text{effective rate of the} \\ \text{personal income tax} \\ \text{under the imputation} \\ \text{system} \end{array} \right)$

The most far-reaching solution of the double taxation of corporate and personal income is obtained by the full integration system. This system regards the income of corporations as belonging to their stockholders in the year in which it is earned, regardless of whether the earnings are distributed or not. The corporate income tax as such would be abolished, but a tax would be retained at the corporate level as a withholding device for the personal income tax. Stockholders would pay personal income tax on their prorated share of the earnings of corporations in which they held stock and would receive credit for the amount of tax withheld at the source.

Stockholders personal income tax burdens receiving dividends under the full integration system can be calculated as follows:

$$(13) \quad T_i = t_c Y_c' + t_i Y_c' - t_c Y_c' \\ = t_i Y_c'$$

The Canadian Royal Commission on Taxation devised a new procedure that would approximate the effect of the full integration (partnership) method and avoid its liquidity problems. The only difference between this procedure and the original partnership method is that the allocation of earnings by corporations to stockholders would not be mandatory.

The corporate income tax ranks second in the Japanese national tax system despite continued criticism. Even if it were agreed that something needs to be done about double taxation, there should be no easy solution.

At the latter part of this paper, it is examined whether alternative patterns of corporate income taxation do impose distortional effects upon allocation of private saving and investment. However, we do not have definite answer what concerns these problems.

Development of Children's Welfare in Japan—1908~1918—

by Ryuji Komatsu

This thesis is centered on the development of children's welfare in Japan. Children's welfare during the period from the establishment of Capitalism to Industrial Revolution seen in early part up to middle part of Meiji era was taken up in this Mita Gakkai Zasshi in October, 1976 and March, in 1978 issues.

This thesis is centered on the period of Kanka-kyusai-jigyo (children's juvenile delinquency and social works) seen during the period from end of Meiji to WWI. Both social works in general and children's welfare developed at this passing stage from charity works to social works. Charity organization movement particularly showed its development and the national responsibility increased.

Generally speaking, however, development of social welfare was not sufficient. In this regard, we can say that children's welfare shows the outstanding activities, particularly in the field of juvenile delinquency and the helping of orphan children.

This thesis discusses these characteristics and development in detail. It is after 1919 that we see those characteristics fully developed, which is the period called the age of Social Works.

A Theory of Incentive Contracting : Summary

by Iwao Nakajima

The production processes in our time might very well be characterized by technological interdependency. Successive processes, which follow immediately in time and place, represent the most typical production processes in some manufactures. It will be noted that the final cost and/or performance is subject to uncertainty involved in those processes, which entails transactional failures in the operation of markets for some goods. In such circumstances, economic agents must act outside the traditional market or create market to deal with the resource

allocation problems associated with these goods. In this nonmarket situation, one may suggest the introduction of an incentive contract, which implies the selection by a buyer of a contractor using a competitive bidding process. In reality, an incentive contract poses what is commonly referred to as the adverse selection problem, which exists in circumstances where one of the parties to a contract is much better informed than is the other regarding underlying conditions germane to the production cost, and the second party cannot achieve information parity except at great cost.

J. McCall and D. Baron analyzed the effect of certain types of production cost incentive on the behaviour of private firms bidding for government contracts. But their findings are based on rather peculiar constraints imposed on the behaviour of government and firms.

In this paper, we provide a generalized analysis of the efficiency aspect of an incentive contract by assuming explicitly the possibility of adverse selection and incorporating an alternative constraint on the behaviour of government and firms.