

Appendix

HISTORICAL ESTIMATES OF JAPANESE NATIONAL INCOME AND PRODUCT

It was not within the specific terms of reference of the Statistical Mission to investigate or evaluate the various estimates of Japanese national income made in the past. Nevertheless it was necessary and desirable to become reasonably familiar with the sources and estimates in order to obtain more balanced perspective on the current situation.

Some attempts at the estimation of national income in Japan go back to the mid-1920's. The first serious estimate, with official status, was for the year 1930; it was prepared by the Cabinet Bureau of Statistics in the early 'thirties. It is probably the best work that has been done in Japan on the subject, and has been utilized as a take-off point for extrapolation to later years by a number of later investigators ^{1/}.

The approach used by the Cabinet Bureau was that of estimating for each major industry segment of the country the net product (or income) originating. The total net national product is another variant of "national income," essentially different in statistical sources and methods, but definable conceptually to yield a total equivalent to the national income at factor cost (in terms of distributive shares).

Actually the net product approach--the so-called "indirect method" of estimating national income--could be applied only for certain industry sectors, viz. agriculture, aquatic industries, mining and manufacturing, and commerce (including trade and finance). In these areas it was possible from Census materials and other sources to obtain estimates of the gross value of production or sales. From this gross value it was necessary to deduct the estimated costs of materials, fuel, and services purchased from other industry sectors in order to obtain the "net value added" and avoid duplication in the national total. To put the estimates on a "net" basis it was also necessary to deduct an appropriate charge for depreciation of fixed capital equipment. For the service and professional trades, domestic service, and transportation the "direct" income approach was used, albeit extremely crude.

Aside from errors and confusions in concepts, resulting also in some duplication in the figures the Cabinet Bureau of Statistics estimate for 1930 was based on weak statistics for most industries, involving many arbitrary estimates, particularly for the cost and depreciation items. But the extrapolations that have been made of this 1930 base figure by several Japanese students, using various production and price data, tax series, etc. are even weaker, and involve still more arbitrary and untenable assumptions ^{2/}.

^{1/} For an extensive and fairly critical examination of this and other estimates made in Japan down to 1939 see National Income of Japan 1930-39, the Japan Economic Federation, East Asia Economic Intelligence Series No. 1, Tokyo, 1939.

^{2/} For a quite thorough review of this and all previous Japanese national income studies see the draft report National Income of Japan, U.S. Department of State, R & A 2636 October 1945 (done by Harry Oshima).

The other major serious effort at estimating Japan's national income was made privately by Professor Hijikata; he constructed a series of annual estimates, 1919-1930, and 1931-35, the strongest figure being for 1930.

The approach used by Hijikata was to attempt direct estimates of the various income (distributive) shares--wages, entrepreneurial income, profits of corporations, net interest etc.--for the various industrial sectors. However, for agriculture and the aquatic industries he found it either necessary or preferable to use the "indirect" method of gross value of output minus costs.

Other investigators have been sharply critical of Hijikata's work, both on grounds of conceptual clarity and of statistical sources and methodology. It seems clear therefore that they represent at best quite crude approximations.

In his quite extensive study made during the war, Oshima critically examined and revised both the Cabinet Bureau of Statistics figures for 1930, on the net national product basis and Hijikata's estimate of the national income at factor cost. He indicates, however, that though he utilized the sources quoted by Hijikata, and many others not used or available to him, Hijikata's estimates as such were thrown out as almost worthless both on conceptual and statistical grounds, Oshima himself attempted to construct careful estimates of national income for 1930 and 1937, comparing them with the corresponding estimates he developed using the gross value-minus-cost method applied by the Cabinet Bureau of Statistics. It is incidentally Oshima's finding that owing to the relative abundance and better quality of production statistics in Japan as contrasted with income statistics, the "indirect" net-product approach is more satisfactory than the income shares approach. Though this is probably still the case currently, it is probably most desirable that the Japanese National Income estimators turn their attention first and foremost to the development of sound income statistics, at the same time as the government statistical agencies as a whole strive to improve the basic statistics on production.

No effort will be made here to pursue further the investigation of other estimates based directly for the most part either on the Cabinet Bureau of Statistics or Hijikata's work. They are adequately treated in the two sources already referred to ^{1/}.

During the war years the Japanese government developed a rather weird set of estimates termed the National Savings Fund; it appears to have been a confused mixture of elements of national income, gross national product and individual asset holdings. Apparently, its chief use was as a propaganda instrument by which the government urged on the public the necessity for diminishing consumption and increasing current savings. The estimates appear to be worthless.

^{1/} See Japan Economic Federation, op. cit. pp. 11-22; and Oshima, State Department R & A 2636, pp. 111 et. seq.

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Mention ought to be made of the attempt--the first ever made--by the United States Strategic Bombing Survey to Japan to develop a series of gross national product estimates for Japan for the years 1940-1945 ^{1/}. The concept used was essentially that adopted by the United States Department of Commerce in the recent major revisions of the estimates for the United States ^{2/}. Although the Report states that, except for business inventories, reasonably satisfactory source materials were found for all other components, it would appear to the present writer that this is a somewhat optimistic appraisal. Nevertheless the estimates represent a workmanlike job given the time and materials available and are far superior to anything the Japanese have done themselves.

In summary, it is possible to gain some perspective on the composition and movement of broad major sectors of the Japanese economy through examination of existing national income estimates for the years 1930-40; and some idea of the over-all nature of Japan's war economy from the United States Strategic Bombing Survey study. But, though perhaps adequate for rough order-of-magnitude purposes, all of the estimates involve grossly inadequate statistics, conceptual unclarities, and many arbitrary assumptions. It will be necessary and useful for the National Income Unit in the Finance Ministry to turn as soon as possible to the task of developing a more authoritative and careful set of estimates for the period 1930 to date, utilizing critically the work of previous investigators. This is one of the projects in their program of work submitted to SCAP and the Statistical Mission.

^{1/} See The Effects of Strategic Bombing on Japanese War Economy, Appendix B, the United States Strategic Bombing Survey, December 1946, pp. 83-96.

^{2/} Special Supplement on National Income, Survey of Current Business, July 1947.

WORKING PAPER ON JAPANESE FINANCIAL STATISTICS

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July 11, 1947

SUMMARY AND RECOMMENDATIONS

The work of the Statistical Mission to Japan in the field of financial statistics was focused particularly on statistics of government receipts and expenditures. Some attention was also given to other aspects of fiscal data as well as to statistics of private financial institutions.

Definite progress is being made under the stimulus of SCAP toward improving government financial practices affecting the availability of good fiscal data. As part of this general effort the Mission has made concrete progress toward a useful current series on treasury receipts and expenditures. Banking and related financial statistics appear to require less attention, though the Mission has not been able to appraise them in any thorough fashion.

Several major recommendations are offered.

1. That negotiations on the current report on governmental receipts and disbursements be pursued with the objective of obtaining a publishable monthly summary within the very near future. (See page 11.)

2. That the limited staff time now available in SCAP to guide the Japanese in the highly technical work of reviewing and revising governmental financial practices be supplemented by the services of one or more American specialists in this field. (See page 14.)

3. That a thorough inventory of banking and related financial data be taken as a first step toward appraising these statistics and making necessary improvements. (See page 14.)

4. That in the work on financial reporting programs, recognition be given to the need for a coordinated attack by the Research and Statistics Division and the operating staff, taking into consideration immediate needs of the Occupation, the long run needs of the Japanese, and the pattern of existing reports. (See page 15.)

INTRODUCTORY

General context of the Mission's work in public finance

The Mission was asked to direct its efforts in the field of finance toward developing useful data on government receipts and expenditures. These efforts are best understood in terms of the broader problem of government financial administration, including the budget structure, financial procedures, accounting procedures, and related matters.

During the period of the Mission's work, developments were under way in the field of Japanese governmental financial administration at various points. Negotiations were under way, at the time of our arrival, in connection with the form of presentation of the 1947-48 budget, and this budget

appeared during our stay. A group of financial laws implementing the new constitution were being reviewed by SCAP personnel, and the Mission participated in this review at certain points where the proposed laws touched most directly on the problem of financial data. The laws included the Financial Administration Law and the Accounts Law. Included in this proposed legislation was a provision for a special commission to review the governmental accounting system. Work was under way toward the improvement of accounting practices in special accounts, and the Japanese were planning certain other changes in their internal financial and reporting procedures.

Data on receipts and expenditures were unsatisfactory. The Finance Division of the Economic and Scientific Section was receiving, at its own request, tardy monthly data showing expenditures by months by ministries and functions. These data were of limited value. A monthly revenue report, at one time forwarded to the Finance Division, had been dropped, and plans were under way to revive it. Although other data on receipts and expenditures were available from the Bank of Japan and the Finance Ministry, the Research and Statistics Division was receiving nothing which it saw fit to publish in the monthly bulletin of economic statistics along with other important series covering the Japanese economy.

In this general setting the work of the Mission was directed especially toward an improved current statement of treasury receipts and expenditures.

The budget structure

Data on government receipts and expenditures are related to the budget structure, which they in part reflect. Passing mention is given to the budget prior to a discussion of receipts and expenditures as such.

The defects of the Japanese budget in recent years are well explained in the Military Government Technical Manual on The Administration of Japanese Public and Private Finance. (For an earlier comment see the Brookings study, Japan, by H. G. Moulton, 1931.) Since the surrender, SCAP efforts have been directed toward improving the budget. Two memoranda (designated SCAPIN 1080 and 1093) were issued in the summer of 1946 in connection with 1946-47 estimates and directed the Japanese government to make improvements with respect to terminology, the use of special accounts, and presentation. The 1947-48 budget appeared during our stay.

A systematic appraisal of the new budget in comparison with earlier ones would require a more careful study than the Mission has been able to make. However, certain observations regarding the use of special accounts and the classification system are presented in Appendix A.

Financial procedures and records

Current data on government receipts and expenditures reflect also the procedures established for the receipt and disbursement of government funds. Any attempt to improve such data, or even to understand them, must be based on a general understanding of the flow of funds and financial instruments, and the keeping of financial records within the government.

No attempt will be made here to outline these procedures in detail. During our stay in Japan there was completed a report by Mr. Hattori of the Research and Statistics Division, prepared under the supervision of Mr. Eggers and Miss Eyre, entitled The Procedure of Receipts and Disbursements of Treasury Funds and the Process of Making Reports of Actual Accounts. A supplementary report, prepared in part at our suggestion, dealt in more detail with financial reports and is entitled Explanation of Documents to be Submitted to Finance Ministry by the Bank of Japan. Cross-referenced with this is a collection of the actual report forms used by the Bank of Japan in making these reports, with English translations interpolated. We have obtained also a set of report forms used by the Osaka Branch of the Bank of Japan (and presumably by all branches) in reporting on government financial matters to the head office in Tokyo. These materials are on file in the Financial Statistics Branch of the Research and Statistics Division. Additional, though less current, material on government financial procedures is of course available in the Military Government Technical Manual on public and private finance.

A few general observations concerning financial procedures, relevant to the problems under consideration here, are presented in Appendix B.

During our stay in Japan the Japanese officials were planning certain reforms in the financial system to take effect soon. From the point of view of current fiscal data, one important innovation is a plan for a new procedure for handling certain interaccount transactions. Many inter-account transfers have been easily recognizable and reported as such, but some have not. Thus, for example, purchase of products of the prison industries by other agencies of the government have not shown up in the daily reports as interaccount transactions. The new system will involve a special instrument for such transfers which will allow the elimination of some double-counting which now appears in the Bank of Japan data.

Among the other items in the proposed reform is a system for more rapid internal reporting of government transactions. There has been some indication of fuller detail to be available in the Bank of Japan receipts and expenditure data, but our information is incomplete as to just how this will affect the current reports. Attention was being given to the problem of a budget apportionment by obligations. Under the existing system no central accounts by obligations are kept and apportionment is by expenditures. Attached as Appendix C is a statement furnished by the Bank of Japan in response to our inquiry dealing with several reforms in the budget and in financial practices.

Remarks on procedure

The work on financial statistics has involved considerable dependence on others, including staff members of the Research and Statistics Division and the Finance Division as well as Japanese officials of the Finance Ministry and the Bank of Japan.

For convenience in following up the negotiations under way, the names of the more important of our contacts are here included. At the Bank of Japan Mr. Niwa of the Treasury Bureau has been the principal negotiator on the revision of the current report on treasury receipts and expenditures. Mr. Shinohara, Chief of the Statistics Department has participated in this discussion and has been consulted on banking statistics. Mr. Dan, liaison representative between the Bank and the Research and Statistics Division, has arranged contacts and is well informed on the problems. At the Finance Ministry, Mr. K. Ishihara of the Budget Bureau is well informed on budgetary problems and is a good general contact. Mr. Aichi, Chief of the Executive Office, has been helpful in arranging meetings within the Ministry.

In the Public Finance Branch of the Finance Division of E.S.S., our chief contacts have been with Messrs. Reed, Walter, Shavell, and Baron. In the Money and Banking Branch, Mr. Beplat, Lt. Col. Ruhlin, and other members of their staff have been consulted. In the Research and Statistics Division, Miss Eyre has been a colleague in the work as time has permitted her. Of the Japanese staff, we have relied chiefly on Messrs. Takahashi, Matsuda Sen, Hattori, and Ishibashi. Messrs. Takahashi and Matsuda have served as consultants and have been relied on for contacts with Japanese officials and as interpreters. Mr. Hattori has prepared reports on financial procedures and reporting practices within the government and has developed good sources of information within the government. Mr. Ishibashi has an intimate working knowledge of governmental financial data.

Language has been a serious obstacle. In spite of the services of able interpreters and an apparently earnest desire on the part of Japanese officials to cooperate, discussion has been often frustrating. The limited availability of basic materials in English and the elusive translations often supplied have added to the difficulty. Partly because of these problems, the understanding arrived at of the problems of fiscal data seems in retrospect hardly commensurate with the time and effort expended. We have failed to find out much that is germane to these problems, while much has no doubt been actually misunderstood.

CURRENT STATEMENT OF TREASURY RECEIPTS AND EXPENDITURES

Problems and objectives

In attacking the assignment of developing a useful series on government receipts and expenditures, it was necessary to define the general objective. In the Japanese system, as in our own, there is a possibility of choice in the selection and presentation of current fiscal data. Detailed surveillance of the execution of the budget may call for one type of data; day-to-day administration of the treasury may call for another type; general fiscal analysis still another. Such differences in objective may have a bearing on the accounting basis on which data are collected (e.g. "checks issued" vs. "checks cleared"), the degree of detail desired, the degree of promptness demanded, the inclusiveness of the statement, and the treatment of government enterprises or other special accounts.

It was decided that what was wanted was a prompt measure of government financial activity for general fiscal analysis, which would reflect expenditures, receipts, changes in the public debt, and the position of the treasury roughly in the way that our Daily Treasury Statement does. Such a report could indicate the general impact of government activity on the economy. It should contain as much useful detail as is consistent with promptness.

It was decided to see what could be done with the data available currently from the Bank of Japan on the "current cash basis." Such data have the advantage of promptness. Current data of this sort should meet the needs of the Research and Statistics Division and would supply a series suitable for monthly publication. It would certainly not serve all needs for financial data and other reports would be necessary. But an intelligible current treasury report at any rate is an important ingredient of a complete system of fiscal data, regardless of other needs.

Attention was concentrated particularly on certain reports now prepared from Bank of Japan records, particularly the daily statement. This is published under the auspices of the Finance Ministry, and is based on data submitted to the Ministry by the Bank. Judged by the standards of our own Daily Treasury Statement, it would appear to be a somewhat less than ideal statement of government finances. It involves a confusing mixture of general and special account transactions, interaccount transfers, and transactions within and outside the budget, without a clearcut segregation of borrowing from other types of transactions. Totals in which transfers among budget accounts are intermixed with net budget transactions and transactions outside the budget would seem to have little meaning. A debt operation may involve a series of interaccount transactions such as temporarily to inflate abnormally the "outside budget" column, giving an illusion as to the trend of government operations. The statement does not tie together the revenue and expenditures figures so as to show a current surplus or deficit and resolve this into its effects on the public debt and the treasury balance.

Quite a different approach is used in another report prepared on a monthly basis by the Japanese. It is characterized by separate sections dealing with government deposits, public debt operations, transactions between the treasury and the Bank, receipts from the public, expenditures to the public, and transactions of the Deposit Bureau. Still another monthly report, prepared by the Bank and submitted to the Finance Division, gives expenditures by ministry, with further subclassification. It was being submitted tardily, the October report having been received at about the time of our arrival in January. It is prepared on the basis of transactions occurring at the branches rather than at the head office of the Bank and thus, is on a different basis from that of the daily report.

None of these reports appeared to meet the need for a prompt, intelligible, integrated summary of current government financial operations.

Negotiations

Without any rigid ideas as to the ultimate form which a current report should take, we presented to the Japanese a written statement for discussion, entitled "Suggestions for Current Statistics on Government Receipts and Expenditures." It emphasized the need for a balanced statement showing the fundamental relationships among receipts, expenditures, surplus or deficit, changes in the public debt, and changes in the treasury balance. It urged a clear separation between borrowing and debt retirement operations, on the one hand, and revenue and expenditures proper on the other hand. It considered the problems arising from the extraordinary time lag in obtaining reports of transactions from agencies and branches and the effect of this on the current record in the Tokyo office. It considered the problem of distinction between ordinary government functions and government commercial operations, and the problem of integrating the statements for such operations with that for the budget proper. It urged comprehensive coverage of the government's finances without duplication from interaccount transfers. It suggested a breakdown of receipts by type and of expenditures by organization and function. This memorandum is attached as Appendix D.

Further discussion followed in which the emphasis was on clarification of issues. The Japanese seemed desirous of formulating a report which would meet our requirements. Their efforts culminated in the presentation to us of a report covering February 1947, in a new form entitled "Monthly Statement of Receipts and Expenditures of the Japanese Government," which is attached as Appendix E. This report is an integrated statement and apparently involves a consolidation of the various accounts and elimination of interaccount transfers so far as this is currently possible. It consists of three sections. The first section shows receipts and expenditures proper; the second shows borrowing and debt retirement; the third shows the treasury balance at the beginning and end of the month. A balance of total receipts and expenditures, added to opening and closing balances, is shown. Changes pending at the time of our discussions promised a more complete elimination of transfer transactions and possibly a fuller classification.

This proposal appeared to be a definite step in the right direction and to constitute a good concrete basis for further discussion. We requested that it be filed monthly with the Research and Statistics Division, subject to such modification as might develop in further discussion. (Some changes in the form have already been made.) In order to clarify the basis of the report and the meaning of the entries, we presented to the Japanese a further memorandum, attached as Appendix F, suggesting that they formulate a precise statement of the basis of the report and clarify various terms, and raising certain additional questions. As the Mission wound up its activities it was assumed that further negotiations with the Japanese could proceed on this basis.

Appraisal

In appraising the outcome of the work to date, it would seem that some definite progress has been made. The form proposed by the Japanese certainly recognizes in a way that the published daily statement does not show the fundamental interrelationships of the fiscal data. It is encouraging that the Bank of Japan intends to prepare a report for its own use along lines similar to the one proposed for us. Perhaps there has also been some intangible benefits from the prolonged discussion of the problem of reporting and some greater appreciation of the importance of putting out intelligible government fiscal data. But the results so far fall far short of the goal. The proposed new report is full of ambiguities and will require much further discussion.

The needs of the Finance Division of ESS for detailed data will apparently not be met by the type of treasury statement likely to come out of these negotiations. As noted above, the Finance Division has been receiving a monthly statement of expenditures, with detail under each ministry. This has been tardy, and the classification has been at times ambiguous. It has been compiled by the Bank of Japan but on a different basis from that used in the daily statement. New procedures may bring improved classifications and the Japanese say the report is to be available with a one and one-half months time lag. A detailed revenue report, formerly submitted, is to be revived, and will be based on Finance Ministry data. (The Bank of Japan feels no need for detailed revenue data; see the statement on the problem of obtaining such data in Appendix G.) The March revenue report was expected to be available with a three-months time lag. Those working on the integrated treasury report project should be in touch with any negotiations on the reports to the Finance Division, and should render what assistance they can. We have already asked that the plans for the revenue report be submitted to Research and Statistics for comment.

Discussions on the integrated treasury report should be continued with the object of obtaining the best prompt report consistent with Bank of Japan records without requiring any extensive special analysis of data which might be criticised as unnecessarily duplicating the work involved

in the expenditure report to the Finance Division. These discussions should disclose any serious defects in the Bank's records or procedures which may interfere with providing the type of prompt fiscal data reasonably to be expected of a government treasury. This knowledge will be useful in any discussions of fundamental changes in government procedures. In any such discussions, of course, the Finance Ministry should be considered along with the Bank of Japan as a source of fiscal data.

Relative to the proposed new monthly report form and the possibility of its improvement, several concluding comments are offered. First, the memorandum of suggestions which in part occasioned the Japanese proposal may have been too ambitious in terms of the present records and procedures of the Bank, and a statement as useful as the memorandum envisages may not be forthcoming.

Attention was given in the memorandum to the problem of time lag within the Bank of Japan organization. The flow of reports from the outlying agencies and branches is so slow under current postwar conditions that a given daily report compiled at the head office in Tokyo may include transactions taking place within the last few days in nearby areas and two weeks or more previously in outlying areas. In the absence of any clearly practicable remedy for such a time lag, however, it seems wise to pass over this problem with the realization that as conditions improve the reports will be more prompt. Actually, of course, government transactions are not considered to have occurred until notice is received in Tokyo.

The handling of government enterprise data in the new report presents a problem. In general, it would seem that the choice lies between showing the net effect of enterprise operations on the position of the treasury through net receipts or expenditures during the month, or, alternatively, showing those transactions which arise from transfers of profits or capital or subsidy between the enterprise and the budget proper. The former of these alternatives seems the better choice. Little can be said for the practice followed in the proposed new monthly report of including the gross receipts and disbursements of the railway and communications enterprises even though these do not all flow through the Bank.

The substitution of net for gross figures for the government enterprises may suggest some improvement in the physical form of the report. The proposed set-up, involving parallel columns for receipts and expenditures and a consolidation of all explanatory items into a single stub, is somewhat awkward.

Further inquiry should be made into the validity of the approach whereby General Account, special account, and outside-budget transactions have apparently been consolidated into one statement.

OTHER ASPECTS OF PUBLIC FINANCE

The current Japanese system of quarterly budget apportionment is in terms of expenditures. Although agencies presumably keep records of obligations, there is no central accounting for them. The Budget Bureau was, during our stay, considering the problem of instituting a system of apportionment by obligations. The Japanese were puzzled as to how they could keep their present apportionment system and add the new one to it. They were eager for advice. We spent some time with Mr. Ishihara of the Budget Bureau and made available to him, directly or through the Finance Division, textual data on American government practices and material related to reporting on the status of appropriations under Executive Order 8512.

It appeared that not only in connection with this particular problem but generally in the field of financial and accounting practices it would be well to provide more guidance than the staff time then available. This seemed particularly appropriate in view of the projected review of the accounting system by a Japanese commission. The procurement of one or two additional experts in the field to advise the Japanese would be well worthwhile, and is strongly recommended.

BANKING AND RELATED FINANCIAL DATA

Banking and related private financial statistics appeared to be normally among the better developed areas of the Japanese statistical system, and to require less attention from the Mission. Nevertheless, it seems desirable to take inventory of statistics of banks and other financial institutions, and we have discussed such a project with Matsuda Sen of the Financial Statistics Branch. The inventory should show what reports are being collected from banks and other financial institutions, and for each report should show what part of the universe it covers, the contents, the frequency, the channel of reporting, the content of published tabulations, and the sources in which they may be found. This would serve as a basis for appraising the adequacy of present programs in this field.

Such an appraisal would involve not only the discovery of gaps in the data. It should include also an appraisal of the validity of the statistics. The report forms and instructions, if any, furnished to the respondents should be reviewed for clarity, consistency and feasibility in the light of bank record-keeping systems. The breakdown of new loans by industry, for example, should be regarded with some skepticism until it is known whether bankers understand just what is wanted and are able to supply actual figures from their records, and are willing to do so. Some study of forms and instructions and a few interviews at banks might throw considerable light on such reporting problems.

Passing mention may be made of the absence in Japanese financial statistics of any bank debits series or of a series combining currency circulation and bank deposits. Some attention should be given particularly to the possibility of developing a combined currency and deposits figure -- a rather complicated problem in the present situation where to the normal array of deposit types is added the breakdown of deposits by degrees of restriction. Another problem worth some attention is the admitted practice of banks writing down the value of securities.

SCAP must be concerned not only with obtaining from Japanese sources, data needed for surveillance of financial institutions during the current period of reorganization. It must consider also the long run needs of the Japanese nation for data on banking and related matters, and the relationships to these needs of the regular Japanese financial reports and of the data collected on behalf of SCAP.

APPENDIX A

Observations on the Budget Structure

The budget still divides itself into a statement for the General Account and the various special accounts. The number of special accounts has declined from 40 in 1944-45 to 24 in the 1947 budget. The present special accounts (listed below) include accounts for government enterprises, for certain "funds," for a variety of government insurance systems, and miscellaneous other purposes. Three special accounts were abolished during the session of the Diet to which this budget was submitted. The Finance Ministry considers the present array satisfactory with the possible exception of the Gold Fund, which may be abolished. Abolition of special accounts must be by statute, encounters resistance from the ministries under whose jurisdiction they fall, and accordingly is not easy.

The problem of interaccount transactions must still be coped with in handling Japanese fiscal statistics. The budget documents which we found available in English are not wholly clear with respect to interaccount transfers. However, it would appear that the difficulty which has in the past resulted from the abuse of the special account device has been greatly reduced.

In the budget document prepared to be acted on as an appropriation bill by the Diet, the revenue of the General Account is cross-classified by ministry and by type, the latter in terms of about 40 categories. (Public borrowing is still listed as a type of revenue.) Appropriations for the General Account are cross-classified by organizational unit (down to the bureau level) and by a functional, but not purely functional, classification. The latter (shown below) includes 20 "Parts" of which "Administration" and "Health and Sanitation" are examples. Parts are subdivided into "Titles" and these are further subdivided into "Items." In a supplementary document not available to us in English there is a further breakdown according to an object classification (shown below), which includes a basic breakdown by 23 categories, such as salaries of officials, traveling expenses, equipment, etc. In the special account budget acted on by the Diet, revenues and appropriations for each account are classified by "Title" and "Item."

Special accounts, 1947 budget

Allotment of Local Allocation Tax	Demand and Supply Adjustment of
Mint	Charcoal and Firewood
Printing Bureau	Agriculture and Livestock Reinsurance
Monopoly Bureau	Forest Fire Insurance
Deposits Bureau	Fishing Boat Insurance
Debt Consolidation Fund	Special Measures for the Establish-
Gold Fund	ment of Landed Farmers
Receipts by Capital Levy and	Finance for Settlers
the Like	State Forest Service
Welfare Insurance	Alcohol Monopoly
Relief Insurance Liability for	Trade Fund
Laborers in Case of Accident	State Railway
Compensation Insurance for	Communication Service
Laborers in Case of Accident	Simple Life Insurance and Postal Annuity
Foodstuff Control	

"Parts" of General Account Classification, 1947 budget

Imperial Household	Public Works
Diet	Adjustment of Prices
Organs under the Imperial Constitution	Adjustment Affairs of Commodities and Prices
Judicial Establishments	Common Administration
Administration	Local Finance
Justice and Police	Annuities and Pensions
Education and Culture	Government Investments
Social and Labor Facilities	National Debt
Health and Sanitation	Termination of War
Industries and Economy	Contingent Expenses

Object Classification, 1947 budget

Salaries of Representatives or Councillors	Materials
Salaries of officials	Commodities
Salaries of employees	Facilities
Allowances and other pay	Reparations and refunds
Wages	Interest and discount
Social expenses	Indemnities and supplements
Compensations	Subsidies and grants
Travelling expenses	Insurances
Articles for consumption	Transfers to other accounts
Services	Loan
Equipment	Investments
	Expenses for betterment of pay

APPENDIX B
Observations on Financial Procedures

The Bank of Japan is the official depository of government funds. Taxes flow directly or indirectly into the Bank. Disbursing officials of the various ministries and agencies draw checks against the Bank, and notify the bank of these checks drawn. Sometimes these checks make funds available to subordinate "accounting officials" by whom ultimate disbursement to the public is made. Not all government receipts and disbursements, however, are reflected in deposits at or checks against the bank. Thus, the government railway enterprise handles funds independently of the Bank, and its deposits at and withdrawals from the Bank represent only a part of its activity.

There are, generally speaking, two important sources of current data on government receipts and disbursements. The first of these is the Bank of Japan itself. The transactions at the Bank for the treasury account furnish a record of government receipts and disbursement on a "checks cleared" basis. Reports of transactions occurring at the numerous agencies of the Bank are submitted to its branches. A combined report covering the branch and the agencies in its area is reported by each branch to the head office in Tokyo. Transactions are not considered to have occurred until the head office, where the government accounts are kept, is notified. On the basis of this information the Bank of Japan makes reports to the Finance Ministry, as explained in the Hattori reports, cited above.

In theory, it is the Financial Bureau of the Finance Ministry which requires these reports of the Bank and specifies their content. However, one receives the impression that the Finance Ministry staff leans heavily on the Bank of Japan for advice, and that it is to the Bank that one must turn primarily for expert knowledge of the reports. Of course the Bank of Japan receives only that information which comes to it as a byproduct of the general financial procedures of the government. Any fundamental change in the data available to the Bank would involve changes in procedure which would probably go beyond the Bank's jurisdiction.

The second source of data is the Budget Bureau of the Finance Ministry which maintains records based on reports from the various government agencies. In the "Account Book" is kept a record of the status of appropriations on an expenditure basis including budget expenditures classified by Ministry and down to the budget "items." This expenditure record is on a "Checks issued" basis. (The notices of checks drawn which are sent to the Bank of Japan might possibly serve as a source of prompt data on a checks issued basis.) In the "Revenue Book" is kept a record of all budget revenue, classified by type.

An important distinction is drawn in the accounting system between transactions affecting budget accounts and transactions "outside" the budget. The rationale of this distinction is discussed by Hattori in his report on Procedure. The actual transactions recorded as "outside" the budget in the published daily statement of receipts and expenditures

seem to include, but are not limited to, those relating to: deposits in the Deposit Bureau; deposits in the name of "accounting officials"; temporary borrowings; reserve funds of special accounts; bond flotations; and repayment of and interest on bonds. The "outside budget" accounts have been described generally as suspense accounts.

The problem of current data on receipts and expenditures is complicated by the operations of the so-called Deposit Bureau of the Ministry of Finance. This bureau receives postal savings deposits and invests in government securities. It also receives deposits of surplus funds from the various government accounts and makes loans. Its operation gives rise to a network of transactions involving deposits, loans and investments and interest payments. These transactions are additionally complicated by the fact that postal savings deposits of the public are not received directly by the Bureau but flow first through the General Account.

A further interesting feature is the relationship between the post offices and the Bank of Japan. The current inflow and outflow of cash from the Bank to the post offices reflects temporary needs or surpluses. The funds that flow arise from the deposit-withdrawal transactions of depositors, from the regular operations of the post office, and from its role as a tax collection agency. A classification of these funds is not immediately available to the Bank but must await a later report through other channels.

APPENDIX C

Statement Received from the Bank of Japan on Reforms in Budget and Financial Practice

(A) Reform of the Treasury System

With the view to apprehending accurately the actual conditions of receipts and payments of public finance in connection with the national economy, the reform of the current treasury system are now under investigation along the following lines:

1. The system of payments budget:

The items of budgets shall be classified according to the nature of revenues or purposes of expenses in connection with the national economy, abolishing the current system of classification by ordinary and extraordinary, or departments in charge, which have been practiced chiefly for administrative purposes, and the payments budget at the Bank of Japan shall be classified only by the big items and the classification by small items shall be carried on the part of funding officers. The Bank of Japan shall daily undertake to calculate figures concerning receipts and payments by big items at its Head office and thus always clarify the actual conditions of receipts and payments of public finance.

2. Separate accounting for transfer:

For the purpose of making payments and receipts of public finance funds reflect their actual conditions upon the phase of receipts and payments of government deposits, the receipts and payments on government deposits shall as a principle be limited to such transactions as to cause movement of funds as in the case of general banking business, and the other receipts and payments transfer within the treasury causing no movement of funds shall be accounted separately without being carried in receipts and payments of government deposits, and the current figures concerning settlements of accounts shall be made out by amalgamating both the receipts and payments on government deposits and that of separate accounting as referred above.

3. Adjustment and amalgamation of special accounts and items of accounting of the treasury:

Such special account as are unable to maintain their independent management financially or having little value of existence as special accounts shall be amalgamated with general or other special accounts, and the methods of investments or raising of funds by each special account shall be unified as quickly as possible. The regulations concerning special accounts shall also be unified into a single regulation.

Such items as having the nature of suspense account which blur out the actual conditions of receipts and payments of public finance funds shall be adjusted and amalgamated.

4. Treasury remittance:

The exchange system within the treasury by means of the current payment notice of expenditure funds which is the means of payment peculiar to treasury shall be abolished and the remittance system by means of general banking or postal exchange shall be instead instituted.

5. Increase of efficiency and simplification of business of treasury funds:

The efficiency in business shall be increased by such means as abolishment or simplification of complex and difficult system of accounting peculiar to treasury business; simplification of languages peculiar to it and adoption of the method of adjusting items of accounting and of budget departments by coding. Besides, after investigating into the degree of necessity and utility of the current reporting items necessary for settlement of accounts by government in connection with accounts investigation and verification of disbursements, the making out of reports and detailed statements shall be curtailed as much as possible, thus contributing to the planned management of public finance as well as speeding up of settlement of accounts.

(B) Investigation concerning Amounts of Tax Revenue by Classification of Taxes

The following methods should be followed in order to investigate into the amounts of tax revenue by classification of taxes at the Bank of Japan:

1. Taxes are not always classified in papers of tax payments to the Bank of Japan; it is therefore necessary to mention it in all papers of tax payments to the Bank of Japan; for example it is necessary to make out payment papers by tax classification used for transferring to the Bank of Japan taxes received at post offices and by receiving officers of tax bureaus. (At present, even such classification between taxes and other revenues not effected.)
2. The controlling offices of the Bank of Japan should daily report to the Head office tax receipts by tax classification beside by revenue collectors (number of tax bureaus 385) as current to-day. (At present reports made as general accounts revenue totaling both taxes and other revenues.) By adopting the above methods, the Head Office of the Bank of Japan may be able to figure out daily receipts of taxes by classification. However, as this may not represent the actual daily receipts due to time lag, unless figures enroute adjusted, the actual daily figures of receipts cannot be ascertained. It may, however, require considerable time to adjust figures enroute under the present communication conditions and it is impossible to verify the correctness of adjusted figures enroute, because all receipts and payments of treasury funds are carried in government deposits only after

the arrival of reports to the Head office. Accordingly it is conceivable that to figure out such data by the Bank of Japan is not so much useful for making such troubles, due to the delay in adjusting figures and inability of verifying correctness. It is, therefore, more desirable to expand and complete the following method of investigation:

(1) Investigation of tax receipts in revenue carried daily in government deposits which are checked by the Bank of Japan (despite the time lag, it is possible to grasp general tendency of receipts).

(2) Investigation of monthly receipts and amount uncollected by taxes, which are checked by the Tax Bureau of the Finance ministry on the reports sent by local tax bureaus. (Before the war, this could be compiled by 20th day of each following month, but at present this cannot be compiled even after two months due to the dislocation of communication and its inefficiency.

(C) Investigation concerning actual budget payments by nature and purpose of expenditures and by bureaus

Under the current budget and account system, although it is possible to investigate into amount of payments by items of budgets, it has little actual value. However, at the materialization of the reform concerning items of budget which is expected to begin from next fiscal year, the Bank of Japan intends to undertake such investigation. But the daily calculation by the Head office shall be limited to payments by such items as (expenses for stabilization of public life or expenses for government bonds, etc.) and as to figures by bureaus or other detailed matters, it shall make out every month on the reports sent from branches and agencies.

APPENDIX D

Suggestions for Current Statistics on Government Receipts and Expenditures

This memorandum contains suggestions relative to the current statistics on government receipts and expenditures which will be available from the Bank of Japan under the budget and accounting system now under revision. It is unofficial and tentative. Although it reflects the present views of individuals within ESS, it is prepared simply as a basis for discussion with representatives of the Finance Ministry and the Bank of Japan.

The suggestions reflect the needs for data not only by SCAP but in the writer's opinion by the Japanese government and the Japanese public as well. They are intended to insure that the necessary data be available currently for general fiscal analysis showing the impact of national financial operations on the national economy and indicating the current flow of funds by major sources of revenue and major types of expenditures. The statistics here discussed will of course not satisfy all needs for government financial data, such as those required for detailed budgetary control. Moreover, these suggestions are concerned with minimum requirements and are not intended to limit the amount of data to be made available by the Bank of Japan.

The suggestions follow:

(1) The basis of the current statistics should be receipts by the Cash Office and payments by the Treasury.

(2) The statistics should give as clear and current a picture as possible of the receipts and expenditures for the specific time period covered. The present daily report of the Bank of Japan is defective in that it shows those receipts and expenditures of which the head office receives notice on a particular day, although the transactions themselves have occurred over a two-week period. Consideration should be given to means of overcoming this defect. Could each Branch, for example, summarize the transactions at all agencies in its territory and report the results by telegraph to Tokyo?*

(3) The statistics should be in such form as to show clearly the relationships between receipts, expenditures, public debt, and the government's cash holdings, as in the following equation:
Receipts - Expenditures = Surplus (or deficit) = Decrease (or increase) in the public debt \pm Increase (or decrease) in the cash balance.

(4) The statistics should distinguish between receipts and expenditures in connection with ordinary government functions and those of government commercial enterprises or other relatively autonomous operations. It is suggested that this may be done by presenting the

receipts and expenditures of each enterprise in a separate supplementary schedule and including in the main presentation of receipts and expenditures only net figures representing the contribution to or drain on the general budget by each such enterprise.

(5) Receipts from the flotation of government securities and expenditures for the retirement of government securities should not be included among other receipts and expenditures. They should be presented in a supplementary table with receipts and expenditures shown separately, classified by type of security.

(6) Except as provided above for the government enterprise and public debt accounts, the main presentation of receipts and expenditure should in general include all items of revenue and expenditure without any duplication arising from interaccount transfers.

(7) This presentation should show revenue classified by major taxes or other sources, using perhaps ten classifications.

(8) It should show expenditures classified by ministries or other organizational units, with sufficient functional classification to distinguish such items as subsidies and interest on the public debt.

(9) Current figures should be supplemented by cumulative figures for the fiscal year and comparative figures for the previous fiscal year.

(10) Revisions made in Bank of Japan reports to meet present needs for data should be regarded as subject to amendment in the light of data which may become available from other government sources at a later time.

Prepared by Edward T. Crowder, Member of the Special Statistical Mission to the Economic and Scientific Section.

March 4, 1947

[* The branches do in fact summarize the data for the agencies in their respective districts and report to Tokyo.]

APPENDIX E
MONTHLY STATEMENT OF RECEIPTS AND EXPENDITURES
OF THE JAPANESE GOVERNMENT
(February 1947)

	(Unit ¥1000,000)			
	Receipts		Expenditures	
	This Month	Fiscal Yr. 1946 to Date	This Month	Fiscal Yr. 1946 to Date
General Account				
Taxes Revenue	2959.			
Other Receipts	888.			
Expenses for Salary			1438.	
Subsidies			801.	
Investments			--	
War Termination Cost			995.	
Railroad Enterprises	512.		1195.	
Communications Enterprises	--		215.	
Monopoly Enterprises	712.		110.	
Foodstuff Control	2011.		1295.	
Local Financial Expenses	--		85.	
Insurances and Annuities	61.		--	
Property Tax, etc., Receipts	212.			
Other Special Accounts	142.		120.	
Foreign Trade Fund	69.		580.	
Payment of Interests on Government Bonds			57.	
Advances to Accounting Officials	299.		82.	
Post Offices	1285.		1958.	
Deposit Bureau Deposits Utilization of Deposit Bureau Fund	3387.		899.	
Others	331.		448.	
Total	12868.		10276.	
Long-term Government Bonds	9888.			
Medium-term Government Bonds				
Financial Ministry Bills	8973.		8000.	
Foodstuff Certificates	3789.		1428.)	
Loans	200.		5199.)	
Total	22850.		9253.	
Amount Outstanding of Current Deposits				
End of Preceding Month	1493.			
End of This Month			3056.	
Grand Total	37211.		37211.	

APPENDIX F

9 April 1947

MEMORANDUM FOR THE FILE

From: Edward T. Crowder, Member, Special Statistical Mission to ESS

Subject: Form Proposed by Representatives of the Bank of Japan for a "Monthly Statement of Receipts and Expenditures of the Japanese Government"

In connection with the report for March, to be submitted at my request to this office on the proposed form, certain explanatory material is necessary. This should include a general statement of the basis of the report and brief explanations of the meaning of specific items.

The following illustrates the type of general statement which is desirable. The Bank of Japan representatives should be invited to supply the missing information and to rewrite, revise, or supplement the statement as they may think advisable.

"This report, except as noted below, shows receipts and payments by the government as reflected in the Treasury accounts at the head office of the Bank of Japan.

"When funds are disbursed first to the deposit accounts of 'Accounting officials', and payments to the public are made subsequently from these accounts, it is the latter payments which are reflected in this report.*

"The report consolidates the general and special accounts so far as currently available records permit. Interaccount transactions reflected in the budget are eliminated, but many interaccount transactions, amounting to perhaps _____% of total annual expenditures cannot be eliminated and cause some duplication. The public debt held by the Deposit Bureau is eliminated.

"The breakdown of receipts and expenditures for the general and special accounts is not shown exactly by available records and is in part estimated. For certain special accounts, namely _____, not all receipts and expenditures flow through the Bank of Japan, and the figures shown are based on reports to the Bank."

In addition to a general statement such as the above, there should be brief definitions or explanations of those items the meaning of which is not obvious to the ordinary intelligent reader. These include such items as "advances to accounting officials", "payment warrants", "Deposit Bureau", and "others". Where the need for an explanation can be avoided by the substitution of a different title, this should be done. The Bank of Japan representatives should be asked to use their own judgment as to which items need explanation or rewording.

The report in its present form raises certain serious questions. While continuing to request reports in this form pending any changes which may be agreed to, we should consider and discuss with the Bank of Japan representatives such points as the following:

1. The breakdown of the general account expenses is ambiguous. Are all types of expenses covered under the four items listed? What about non-salary items associated with normal government functions?*
2. Should not the report show net rather than gross figures for government commercial enterprises? Is there any meaning, for economic analysis, to a figure which adds together receipts from the sale of railway tickets and receipts from taxes or other essentially governmental sources?
3. Since railway and certain other special account data are based not on transactions at the Bank of Japan but on reports to it, there is some question whether they are on precisely the same accounting basis as the other data in the report.
4. Consolidation of the Deposit Bureau with the other accounts results in elimination of that part of the public debt held by the Bureau. This might be justified if the corresponding debt of the government to the postal savings depositors were shown. But the present form results in an understatement of the actual public debt. What is the solution to this? Should the Deposit Bureau perhaps be regarded as outside the government for the purposes of this report?

[* This point is questionable.]

[**This point reflects bad translation in part.]

APPENDIX G

Statement Received from the Bank of Japan

Re: Investigation of Tax Revenue by Items

1. The Government has established the Taxation Offices for management of whole taxation business, such as decision of assessment, collection of tax and process against default or delay of tax payment, while the Bank of Japan is only receiving the tax payments, as a part of the Treasury business, without adjusting those taxes by items. The Taxation Bureau of Finance Ministry, the Provincial Finance Bureau (formerly called as the Taxation Superintendence Office) and the Taxation Office are conducting the business concerning the investigation of those amount of taxes collected, uncollected or uncollectable, and these organizations are also conducting the investigation business of tax revenue by items, as one of the matters under their jurisdiction. Therefore, it will be more proper and efficient to have those organizations survey the matter in question, taking advantage of their existing function.

2. From the point of view mentioned above, the accurate investigation of tax revenue by items should leave to the hands of those organizations listed in the preceding paragraph. However, if the Bank of Japan is also asked to undertake that business, the following methods should be adopted.

- (1) to investigate by means of vouchers to be brought daily to the head office, in accordance with the order of their arrival date, without adjusting those not yet arrive. (If the non-arrival vouchers are to be taken into account, the existing accounting system will have to be thoroughly revised.)
- (2) to classify taxes into four items of Income Tax, Juridical Person Tax, Wine Tax and Others without according to existing classification of taxes.
- (3) to have the revenue officers of the Taxation Offices and post offices add the classified items mentioned above on the space of vouchers to be sent by them to the Bank of Japan.
- (4) About thirty persons will be needed more to undertake this business, while post offices will also have the difficulties more or less.

(Remarks: The Bank of Japan (including its head office, branches, agencies and agencies on the national taxation business) handles about five million cases of tax payments during one year.)

3. Because of considerable time taken for transferring tax payments withdrawn from the national economy to the Bank of Japan from the tax collecting organizations in cities, towns and villages, the daily figures on tax revenue in the Bank of Japan do not always represent the accurate daily amount withdrawn in connection with the national economy.

- (1) Those taxes collected by the city, town and village offices are transferred to the Treasury within seven days after the term for payment (approximately one month) has expired.
- (2) The collection of taxes by the post offices is reported to the Bank of Japan through the designated post offices located in the places of the taxation offices under whose jurisdiction those taxes fall.
- (3) It takes fifteen days, in the latest case, before the revenue officers would have transferred the taxes which they collected directly from the payers.
- (4) Tax on communication collected by the Railway Account, or other transportation companies or agents is transferred to the Bank by the tenth day of next month.
- (5) The payers of salaries and allowances collect the Classified Income Tax and pay it into the Treasury by the tenth day of next month.

4. It takes considerably long time before the taxes, which were received and adjusted as the Revenue by each office of the Bank of Japan, are transferred to the Government Deposit Account at the head office of the Bank of Japan. For example, about twenty days, in the latest case, are taken before the taxes, which were paid to the agents on the national taxation business of the Bank of Japan, are transferred to the head office of the Bank of Japan through its agents and branches.