

ACTA ASIATICA VARSOVIENSIA
NO. 27

ACTA ASIATICA VARSOVIENSIA

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ACTA ASIATICA VARSOVIENSIA
NO. 27

ASKON Publishers
Warsaw 2014

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Polish Academy of Sciences, Warsaw 2014

Printed in Poland

This edition prepared, set and published by

Wydawnictwo Naukowe ASKON Sp. z o.o.
Stawki 3/1, 00–193 Warszawa
tel./fax: (+48) 22 635 99 37
www.askon.waw.pl
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PL ISSN 0860–6102
ISBN 978–83–7452–080–5

ACTA ASIATICA VARSOVIENSIA is abstracted in
The Central European Journal of Social Sciences and Humanities,
Index Copernicus

To the memory of Professor Karin Tomala
Whom we lost for ever

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ANDREA REVELANT

Economic Growth and Tax Inequality in Japan: Evidence from World War I

Abstract

Tax systems are useful indicators of the economic and political conditions which concur to shape them. With respect to developing countries, an analysis of the tax burden can help to understand how the process of modernization is sustained through fiscal extraction from different social classes and productive sectors. This paper presents statistical evidence on the distribution of taxes in Japan around the time of World War I, which was a pivotal moment for both economic growth and political change. Sources indicate that government officials had a clear perception of inequality and its structural causes; the surveys examined here can therefore be considered a starting point for reform of the tax system, as discussed in the next twenty years.

Introduction

Income inequality is a major social problem in developing countries, especially as it appears that achieving an equitable distribution of wealth is not a necessary consequence of economic growth. As an early case of modernization in Asia, Japan has long been a favorite object of study to scholars interested in analyzing industrialization and its relationship with socio-political change in a comparative perspective. The literature on this country, however, has paid relatively scarce attention to the role fiscal policy may play as an instrument to redistribute income – with the exception of the land tax reform of the 1870s, which was a decisive passage in the dismantlement of the feudal system. This paper will discuss the structure of the tax burden in Japan by focusing on another turning point in the process of economic development, namely World War I. As is well known, the conflict created extraordinary market conditions that projected the country into a short but intense period of high-speed growth. While the boom determined a substantive upgrade of the national economy, it also brought about social dislocation and widened the urban/rural gap, leaving an unstable setting for domestic politics in the following years. It is against the background of these events that the issue of tax inequality acquired prominence, leading to discussion and the partial implementation of reform plans over the next two decades.¹

¹ For a general treatment of finance and politics in the 1910s, see Sakairi Chōtarō, *Nihon zaiseishi kenkyū* [A Study on the History of Japan's Public Finance], Sakai shoten, 1988, Vol. 2, Chapter 5.3–4; Vol. 3, Chapters 1–2. The place of publication of all works in Japanese cited in this article is Tokyo. As essential readings on tax policy in the interwar period (until 1940), see Ide

In order to evaluate the tax policy carried out in those later years, though, it is opportune to first gather adequate evidence on the distribution of the burden. A few attempts have been made to reach a comprehensive estimate by assessing the ratio between income and taxes in the main economic sectors.² However, one of the major limits of this approach is that it cannot shed light on the vertical distribution of taxes by income class. As a complement to the macro-economic method, therefore, sample surveys which the government and other institutions conducted at the time represent a precious source of information. The main purpose of this paper is to present in detail two such surveys compiled during the Great War. Although rather overlooked by researchers, these documents are fundamental to grasping how the state bureaucracy perceived the problem of structure unbalance at a pivotal moment of economic modernization – particularly as no other comparable sources are available for those years. The next section will outline the circumstances for the compilation of the surveys and illustrate their methodology. Then, data on different categories of taxpayers will be analyzed separately, with the addition of the necessary background explanations. Finally, through comparison of the tax burden between each category in the sample, this article will draw a general conclusion on fiscal inequality and its causes in modern Japan.

Sources

Although Japan's military involvement in the Great War was marginal, the outbreak of the conflict spurred a wave of interest throughout the country in the techniques of national mobilization. In government circles, in particular, the issue of state planning in the economic

Eisaku, 'Gendaiteki sozei shisutemu no kōzō to sono zasetu. Takahashi zaiseiki ni okeru sozei seisaku no genkai' [The Structure of the Modern Tax System and Its Failure. The Limits of Tax Policy at the Time of Takahashi's Finance], *Kaikei kensa kenkyū*, No. 33, March 2006, pp. 259–278; Ikegami Takehiko, 'Senkanki Nihon no zeisei seiri' [Tax Reform in Interwar Japan], *Niigata daigaku shōgaku ronshū*, No. 23, 1991, pp. 1–78; Jinno Naohiko, 'Baba zeisei kaikakuan (1, 2)' [Baba's Reform Plan of the Tax System], *Shōken keizai*, No. 127, January 1979, pp. 130–156; No. 128, May 1979, pp. 108–137; Jinno Naohiko, 'Shakai seisakuteki sozei seisaku no tenkai. 1920 nendai no sozei seisaku' [Tax Policy as a Social Policy: Japan's Tax Policy in 1920s], *Keizaigaku zasshi*, Vol. 86, No. 3, September 1985, pp. 15–48; Jinno Naohiko, 'Kindai Nihon zeisei no keisei katei (1, 2)' [A Birth of the Modern Tax System in Japan], *Keizaigaku zasshi*, Vol. 88, No. 2–3, September 1987, pp. 116–143; No. 5–6, March 1988, pp. 58–80; Jinno Naohiko, '1940 nen (Shōwa 15 nen) no zeisei kaikaku (1, 2)' [The Tax Reform of 1940 (Shōwa 15)], *Shōken keizai*, No. 135, March 1981, pp. 135–156; No. 136, June 1981, pp. 107–137; Kanazawa Fumio, 'Ryōzei ijōron tenkai katei no kenkyū' [A Study on the Development of the Debate on the Devolution of the Two Taxes], *Shakai kagaku kenkyū*, Vol. 36, No. 1, July 1984, pp. 67–145 (reprint in *Kindai Nihon chihō zaiseishi kenkyū*, Kanazawa Fumio, *Nihon keizai hyōronsha*, 2010, Chapter 1). A recent work on local taxation, largely descriptive but rich in data, is the series by Takayose Shōzō: *Taishō chihō zaiseishi* [History of Taishō Local Finance], 2 Vols, Kōjin no tomosha, 2008–2009; *Shōwa chihō zaiseishi* [History of Shōwa Local Finance], 2 Vols, Kōjin no tomosha, 2010–2011.

² See Tsunematsu Seiji, 'Nōgyō to zaisei no sayō' [Agriculture and the Working of Public Finance], in *Nihon no keizai to nōgyō: seichō bunseki* [Japan's Economy and Agriculture: Growth Analysis], Tōbata Seiichi and Ōkawa Kazushi (eds.), *Nōgyō sōgō kenkyūjo*, 1956, Vol. 1, pp. 365–385, 416–425; Jinno, 'Shakai seisakuteki...', pp. 17–23; Takayose, *Taishō...*, Vol. 1, pp. 60–63; *Shōwa...*, Vol. 1, pp. 38–39.

sphere and other policy areas became the object of careful study, prompting the creation of several research committees and provisional agencies.³ These developments gave impulse to the collection of statistical data, which policy makers would then use as reference when discussing important matters. It was in this climate that, in 1917, the Terauchi Masatake cabinet established in the Ministry of Finance a Temporary Research Bureau (*Ōkurashō rinji chōsa kyoku*). Headed by the vice-minister, the new agency would “conduct research related to tariffs and finance”.⁴ It would operate with a small but full-time staff of mid-ranking officials and their subordinates, organized in two sections: one under the chief of the Tax Bureau (*Shuzei kyoku*), the other under the chief of the Financial Bureau (*Rizai kyoku*). Active until a few years after the end of the war, the Research Bureau compiled reports on a wide range of topics, devoting much attention to the comparative study of the belligerent countries.⁵

Within the smaller production devoted to domestic affairs, there is a *Survey on the Tax Burden* printed in August 1918.⁶ Also, the end of that year saw the issuing of a *Gist of the Survey on the Situation of the Tax Burden by Profession*, which is a derivative work by the same editors.⁷ While the *Survey* consists exclusively of statistical tables, the *Gist* accompanies a synthesis of these data with explanatory notes, therefore providing precious insight into the view of government bureaucrats. Marked “Minister” on the cover, the original manuscript is preserved in the former collection of Shōda Kazue, who at the time held the top finance post. Sections of the survey are transcribed from the longer version, without indication of the source, in a scholarly essay on the Japanese tax system published in 1932.⁸ Later on, the economic historians Takahashi Makoto and Kanazawa Fumio have presented a shorter selection of data.⁹ The relation between the *Survey* and the *Gist* remains

³ For an outline of these initiatives, see Toshitani Nobuyoshi and Honma Shigeki, ‘Tennōsei kokka kikō-hōtaisei no saihei’ [Reorganization of State Mechanisms and Legal Structure of the Emperor System] in *Kindai II*, Nakamura Masanori (ed.), pp. 163–237, Vol. 5 of *Taikei Nihon kokkashi* [A Compendium of the History of the Japanese State], 5 Vols, Hara Hidesaburō *et al.* (eds.), Tōkyō daigaku shuppankai, 1975–1976.

⁴ Imperial ordinance No. 18/1917, http://www.digital.archives.go.jp/DAS/meta/Detail_F00000000000024968 (accessed 7.10.2013).

⁵ For the complete list, see the CiNii database, <http://ci.nii.ac.jp/books/search?sortorder=3&count=20&q=%E5%A4%A7%E8%97%8F%E7%9C%81%E8%87%A8%E6%99%82%E8%AA%BF%E6%9F%BB%E5%B1%80&p=2&advanced=false&type=0> (accessed 7.10.2013).

⁶ Ōkurashō rinji chōsa kyoku sozeibu naikokuzei gakari, *Sozei futan chōsho. Taishō rokunen kugatsu shirabe*, TōA insatsu. Hereafter *Chōsho T6*. Although unusually printed by a commercial publisher, the document bears the stamp ‘secret’ on the cover. At present, four copies are stored in different libraries of the Hitotsubashi, Tokyo and Kyoto Universities.

⁷ [Ōkurashō] Rinji chōsa kyoku sozeibu naikokuzei gakari, *Kakugyō betsu sozei futan jōkyō chōsa yōryō*, secret, December 1917, in *Shōda-ke monjo* [Papers of the Shōda family], Vol. 12, ‘Sozei ippan’ [Taxes General], No. 16. Published as microfilm in *Shōda-ke monjo*, Reel 8, Yumani shobō, 1987. Hereafter *Chōsa yōryō*.

⁸ Abe Isamu, *Nihon zaiseiron. Sozei* [Essay on Japan’s Public Finance. Taxation], Kaizōsha, 1933 (1st ed. 1932), pp. 360–369.

⁹ Takahashi Makoto, ‘Gendai shotokuzeisei no tenkai. Nihon shotokuzeisei shiron (3)’ [The Development of the Modern Income Tax System. Essay on the History of Japan’s Income Tax System], *Keizai shirin*, Vol. 28, No. 1, 1960, pp. 131–136; Kanazawa, ‘Ryōzei ijōron...’, pp. 91–93, 96.

unclear in these works: Kanazawa cites the former, Takahashi the latter; however, neither of the two scholars mentions that the digest of the report includes analytical passages. Moreover, both studies ignore another survey, preceding the one compiled by the Research Bureau by several years, and closely related to it. Issued by the Tokyo Supervisory Bureau of Taxation (one of the eight that oversaw tax offices across the country), this report is less sophisticated but sufficiently detailed for cross-checking some of the most significant evidence in two different samples.¹⁰

Let us first clarify the method used in either investigation.¹¹ The older survey, conducted in September 1914, collects information provided by each Supervisory Bureau chief about the previous fiscal year (April 1913 to March 1914). It compares aggregate data for 7211 “agriculturers” (*nōgyōsha*) resident in rural villages and 5252 urban “businessmen” (*eigyōsha*), both sampled throughout the country. The former are divided into four income classes, between 500 and 2000 yen per year; the other category has two additional layers, up to 10,000 yen. For each class, a breakdown of the average tax burden per person lists the main national direct taxes, the related additional rates levied by prefectures and municipalities, and the total sum paid in “special” (autonomous) local taxes at either of these administrative levels.

The sample of the second survey is smaller – 8791 households in all – but similarly spread across the country and more articulated: besides 3963 farmers and 3349 businessmen, it includes 1241 people “employed in the public sector” (*kōmu gyōsha*) and 238 “holders of an independent activity” (*dokuritsu gyōsha*). The latter expression is quite misleading, as it stands for persons whose main income consists of stock dividends and interest on securities (bonds and debentures) – in other words, financial rentiers. The arrangement of data, which refer to the fiscal year 1916, basically follows that of the previous survey with some omissions (such as the detail of surtaxes by level) as well as some notable additions, starting from the ratio between income and living expenses. The income range is extended upwards to 50,000 yen. It seems, all things considered, that the first survey served as groundwork for a more elaborate investigation at a three-year distance. Together, these two studies mark the starting point of a long series on the distribution of the tax burden, which in the next two decades underpinned legislative initiative for the achievement of a more equitable system of imposition.¹² Although the sample size falls short of the standard of postwar statistical methodology, these early works from the 1910s represent a remarkable effort of scientific accuracy; they actually surpass, both in scale and precision of detail, several of the surveys that government agencies carried out at a later stage.

The period of data collection is of particular interest for investigating the effects of the Great War on public finance, such as on the balance between state and local taxation.

¹⁰ Tōkyō zeimu kantoku kyoku, *Sozei futan chōsho. Taishō sannen kugatsu shirabe* [Survey on the Tax Burden. Survey of Taishō 3, September], secret, November 1915, TōA insatsu. Hereafter *Chōsho T3*. The printer is the same as for the 1918 survey. Two copies are kept at Hitotsubashi and Tokyo Universities.

¹¹ *Chōsho T3*, pp. 1–3; *Chōsho T6*, pp. 1–4.

¹² A review of these surveys will be the object of another article, currently in preparation. Here it may suffice to mention the apex of such production, namely the study edited by the Planning Section (Kikaku-ka) of the Tax Bureau in 1937. See Jinno, ‘Shakai seisakuteki...’, pp. 17–18; ‘Baba zeisei...(1)’, pp. 132–141.

Fiscal 1913 was a year of moderate economic growth, which then came to a halt when the outbreak of the conflict disrupted the regular flows of goods and currency. After this negative shock, in the spring of 1915 war overseas turned into a benign event for Japan. The second survey captures the phase of high growth that lasted until shortly after the end of the war, while domestic manufacturers could reap the benefits of the forced withdrawal of their European competitors from the domestic market, as well as from other parts of Asia.

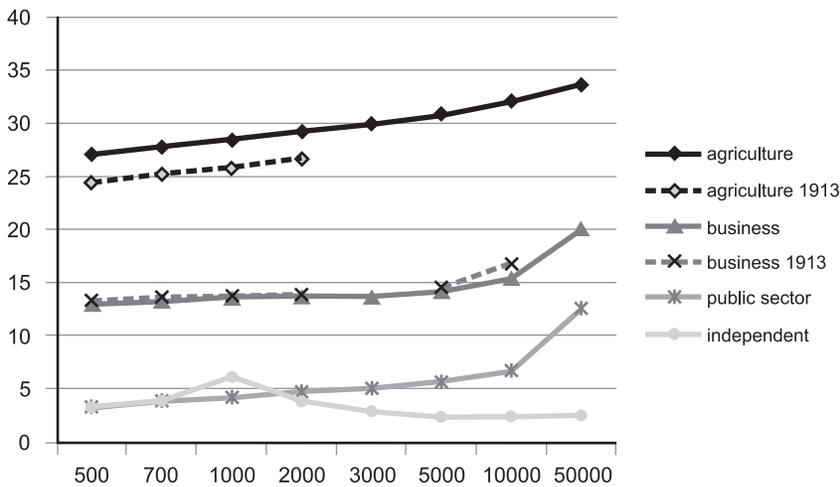
Concerning the social target of either study, it has to be acknowledged that their spectrum is restricted to mid-upper income classes, so that information on the largest part of the population can only be inferred indirectly. However, this limitation is common to almost all statistical attempts to define burden distribution in prewar times. More than political decisions, technical constraints are likely the cause of this reductive approach: on the one hand, as explained further, the main direct taxes hit property or income beyond the range of working-class people; on the other, indirect taxes with a broad base were intrinsically difficult to assess in relation to the individuals who bore their final cost. In order to obtain an approximate idea of the correspondence between social status and income layers considered in the surveys, we can refer to the daily wage of factory workers.¹³ In 1913, a male blue collar would earn about 65 *sen* (cents) per day, which on an annual basis makes for an amount well below 500 yen. The same applies to 1916, when the daily wage was 67 *sen*. The actual increase in purchasing power was a little higher, as prices had declined by 7 percent in the meantime. Wartime inflation would raise prices above 1913 levels only from the next year. This means that, in real terms, there is no marked difference between income brackets in the first survey and their counterpart in the second one. Having defined the object of government research and the method used to collect data, we can now proceed to examine the resulting evidence on the structure of the tax burden.

Overview of burden distribution

Figure 1 shows how the total tax burden varies as income increases in each kind of household sampled. Let us examine first the data for 1916, which encompass a broader range. It is evident at a glance that the burden of agriculturists is much heavier than that of other categories throughout the scale: compared to businessmen, it is more than double up to the second highest bracket and about 67 percent higher in the top one; the gap becomes even wider between farmers and the other two classes of taxpayers, who remain mostly below half the level of businessmen. From the standpoint of vertical distribution, rentiers represent an exception because of the reverse U-curve between 500 and 5000 yen, with a peak at 1000, and a flat line beyond. The burden of other categories increases across the scale at an extremely slow pace (the apparent surge at the upper edge being here merely the result of graphic compression). In particular, there is hardly any change for businessmen up to the 5000-yen bracket.

A comparison between the two surveys, limited to agriculturists and businessmen in the available range, indicates that the burden of the latter group did not rise by a significant

¹³ Statistics of the Ministry of Agriculture and Commerce, transcribed in Ōkawa Kazushi *et al.* (eds.), *Bukka/Prices*, 1967, Vol. 8 of *Chōki zeizai tōkei: suikei to bunseki/Estimates of Long-Term Economic Statistics of Japan Since 1868*, Tōyō keizai shinpōsha, 14 Vols, 1965–1988, p. 243. The data cited here are average figures for factories sampled in 18 different manufacturing industries.

Figure 1. Percentage of income paid in taxes, 1913/1916

There is no 3000 yen income bracket for businessmen in 1913.

Sources: *Chōsho T3*, pp. 154, 208; *Chōsho T6*, pp. 1, 9, 15.

degree over that span of time, while the former sustained an appreciable increase. All these observations suggest that at the beginning of the Taishō era (1912–26) there was marked tax inequality on both horizontal and vertical axes. Some of the structural causes of this general unbalance can be grasped intuitively, starting from the lenient treatment of financial capital vis-à-vis real property. However, for an accurate evaluation, it is necessary to delve into the details of the burden, as recorded in the same sources.

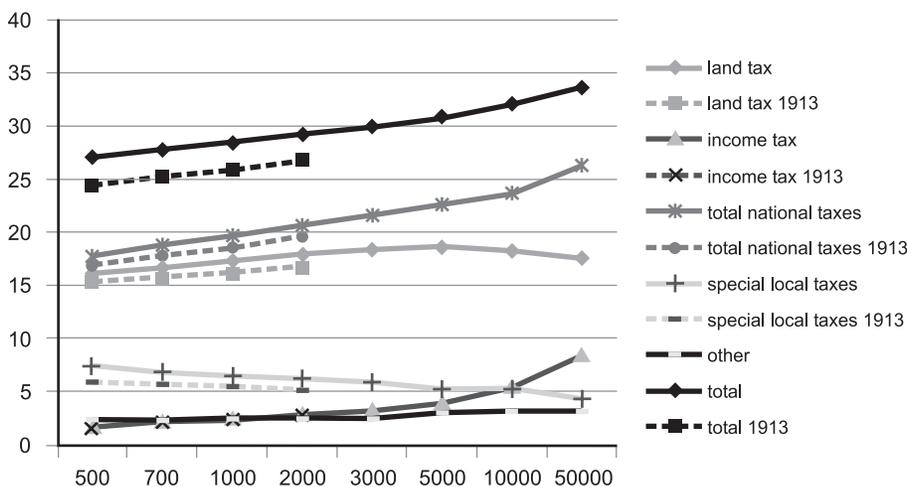
Agriculture

Taking the *Gist* of the second survey as the guiding thread, this section will review the composition of taxes paid by each category in the sample. Concerning those persons whose main income accrues from agriculture (Figure 2), compilers note the following:¹⁴

1. national taxes are on the whole progressive and present no imbalance;
2. in contrast, the sum of local taxes shows a regressive trend, which depends on the inadequacy of the *kosūwari* (household tax) and other special taxes;
3. up to the 3000-yen income bracket, local taxes exceed national ones; the causes of this improper ratio are the independent local taxes, again, and excessive rates on the land tax;
4. land tax progressivity is related to the fact that the share of land leased to tenants rises at each successive income bracket: because direct farming is more profitable than renting out, the burden is heavier on large landowners.

The first observation somewhat overstates the progressive character of national taxes, which is minimal. The rates of personal income tax, introduced in 1887 and then gradually revised, were still mild even in the upper range. The main redistributive mechanism, therefore, lay in the high threshold: 300 yen, raised to 400 in 1913.¹⁵ Moreover, dividends and interest

¹⁴ *Chōsa yōryō*, microfilm slides 105–106 (the original has no numbered pages).

Figure 2. Tax burden of farmers, 1913/1916

Land tax, income tax and total national taxes include the additional rates levied by local government.

The same in following figures.

Sources: *Chōsho T3*, pp. 153–154; *Chōsho T6*, p. 1.

on securities were taxed separately at flat rates. During the Great War, high-paced economic growth determined a strong natural increase in income-tax revenues, especially in the share paid by corporations. From the government perspective, it was in those years that income taxes finally replaced land tax as the most important instrument of direct imposition. While in 1913 their respective revenues was of 35 and 74 million yen, by 1916 the gap had shrunk to 51 against 73 million; the next year, the balance was reversed to 94 against 73 million yen.¹⁵ This was a telling sign of the relative decline of agriculture against the modern sectors of the economy. To the individual landowner, however, income tax remained a secondary concern; the chief levy was still that on real property.

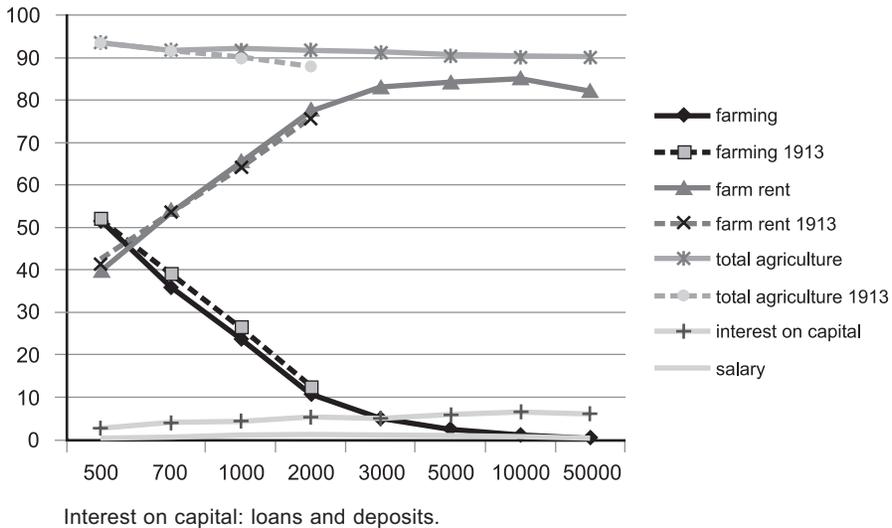
Irrespective of the actual profits of agriculture or other activities, land tax was assessed as a fixed percentage of cadastral value (4.7 for paddies and fields, then lowered to 4.5 in 1915). Therefore, the progressive trend recorded in Figure 2 is only apparent. As explained above at point 4, there is an inverse relationship between the size of the property and the portion cultivated directly by the owner. If land is rented out, at least half of the product remains to the tenant, but the tax still falls entirely on the owner. The economic incentive for renting out, then, derives from the technical limits to cultivation of a large area by a single household. Since hiring workers for labor-intensive agriculture, as typical in Japan,

¹⁵ The exemption point was further raised in 1918 (500 yen), 1920 (800) and 1926 (1200). The purpose of the first two revisions was chiefly to offset inflation, while the latter aimed to ease the burden of the middle classes.

¹⁶ All data on national tax revenue cited in this article are taken from *Ōkurashō shuzei kyoku, Shuzei kyoku tōkei nenpōsho* [Annual Statistical Report of the Tax Bureau], *Ōkurashō shuzei kyoku*, published since 1876. Local tax revenue is from *Naimushō chihō kyoku* (ed.), *Chihō zaisei gaiyō/Extracts from Local Finance of Japan*, *Naimushō chihō kyoku*, published annually since 1903.

becomes too onerous beyond a certain scale, tenancy represents the best solution to the needs of big landowners. The 1913 survey shows that the ‘natural’ limit of direct farming is around two *chō* (approximately two hectares), as all land in excess of that amount (4–14 *chō*) is rented out.¹⁷ Both documents also reveal that rent is the chief income of “agriculturers” above the 500 yen bracket (Figure 3).

Figure 3. Sources of farmers’ income, 1916



Sources: *Chōsho T3*, p. 153; *Chōsho T6*, p. 6.

According to the original comment, the problem with land taxation lies in the high additional rates. On an average of the 500–2000 income range, in both years the ratio between state and local rates is 100/69. The relative weight of surtaxes in the sample is therefore heavier than in aggregate revenue nationwide, which is 64 percent in 1913 and 62 percent in 1916. This discrepancy suggests that in rural districts the additional rates were higher than in urban areas, where administrators could rely on a more diversified endowment of fiscal resources.¹⁸ Since local bodies had to cope with rising expenditure without adequate support from the central government, in the Meiji period (1868–1912) the share of additional rates over total land taxation had already started to increase. This trend peaked in the years that immediately followed the surveys examined here: by 1922, with the land tax staying flat at 73 million yen, surtaxes had burgeoned to 128 million. While much of the

¹⁷ *Chōsho T3*, p. 153. In this light it can be better appreciated why in 1920, when a government advisory committee started discussing introduction of a property tax, the proposed threshold corresponded to the market value of about two *chō* of farming land. See Andrea Revelant, ‘Tax Reform as Social Policy: Adjusting to Change in Interwar Japan’, *Modern Asian Studies*, Vol. 47, No. 3, May 2013, p. 877.

¹⁸ For a comprehensive discussion of the urban/rural gap see Ikegami Takehiko, ‘Senkanki ni okeru chokusetsuzei futan no chiikikan kakusa’ [Interregional Differential of the Burden in Direct Taxes in the Interwar Period], *Niigata daigaku shōgaku ronshū*, No. 25, 1993, pp. 1–52.

political debate on fiscal reform in the interwar years converged on the issue of local taxes and the possible transfer of resources from center to periphery, the *Gist* tells us that Finance bureaucrats were well aware of this problem when it was still incipient. Points 2 and 3 of the above-cited passage, in fact, constitute an acknowledgment of the structural defects of local taxation as a whole. Additional rates, which simply replicate national taxes, are criticized for being too heavy. Special local taxes, on the other hand, are judged faulty in themselves.

The *kosūwari*, in particular, stands out in the text among the items that require amendment. Usually translated in period sources as “household tax”, it was a prefectural levy that lacked unified criteria of imposition at national level.¹⁹ Originally, prefectures would use it to fill the gap between planned expenses and ordinary fiscal resources, setting a revenue target and leaving to their dependent municipalities the task of defining in detail how to apportion the burden among residents. Different criteria could be used to assess the capacity of a family, such as the amount paid in national taxes, land property, size or value of the house. In many cases the municipal council would adopt a combination of two or more benchmarks. However, in towns and villages it was also a common practice to leave the final definition of the *kosūwari* to an arbitrary estimate of tax officials (*mitatewari*). The justification for this method was that in rural communities it would be relatively simple to verify the economic status of each household. For the opposite reason, city councils would often substitute the *kosūwari* with a house tax (*kaokuzei*), the definition of which also varied around the country. As can be easily guessed, this overall lack of uniform and objective criteria for assessment was a major cause of criticism. What made the situation less tolerable was the growing importance of *kosūwari* and house tax in local finance, particularly as additional rates levied at the municipal level. In 1913 the two taxes combined represented 24.0 percent of the total tax revenue of prefectures and 62.5 percent of that of municipalities. Compared to ten years earlier, i.e. before the war against Russia, it meant a respective increase of 4.5 and 15.2 points. The predominantly rural character of the *kosūwari* emerges clearly from the distribution of the additional rate on the territory (Table 1).

Table 1. Details of municipal tax revenue (in million yen)

	<i>kosūwari</i>				house tax			
	cities		towns–villages		cities		towns–villages	
1903	1.2	(9.9)	26.3	(54.3)	1.0	(8.3)	0.1	(0.2)
1913	2.2	(10.1)	60.0	(68.3)	5.4	(24.9)	1.2	(1.3)
1916	2.6	(11.0)	70.9	(77.4)	5.2	(22.1)	1.5	(1.7)

In brackets, percentage of total tax revenue of either Cities (*shi*) or Towns and Villages (*chōson*).

¹⁹ The development of this tax and related problems are outlined in several prewar essays, particularly Tanaka Kōtarō, *Chihōzei kosūwari* [Local Tax *Kosūwari*], Ryōsho fukyūkai, 1922; *Chihōzei kenkyū* [A Study on Local Taxes], Teikoku chihō gyōsei gakkai, 1928, pp. 205–228; *Chihō zaisei* [Local Finance], Nihon hyōronsha, 1930, pp. 146–170. For a general account among recent studies, see the relevant sections in Takayose, *Meiji...*, *Taishō...* and *Shōwa...*

Not surprisingly, measures on the *kosūwari* featured in the first plan for comprehensive reform of the tax system laid after the Great War. Implemented in 1921, the revision focused on the abolition of *mitatewari* and the adoption of unified criteria nationwide, with greater weight assigned to income. This proved insufficient to correct inequality, though, leading to some adjustments the next year and a thorough reorganization of both *kosūwari* and house tax in 1926.²⁰

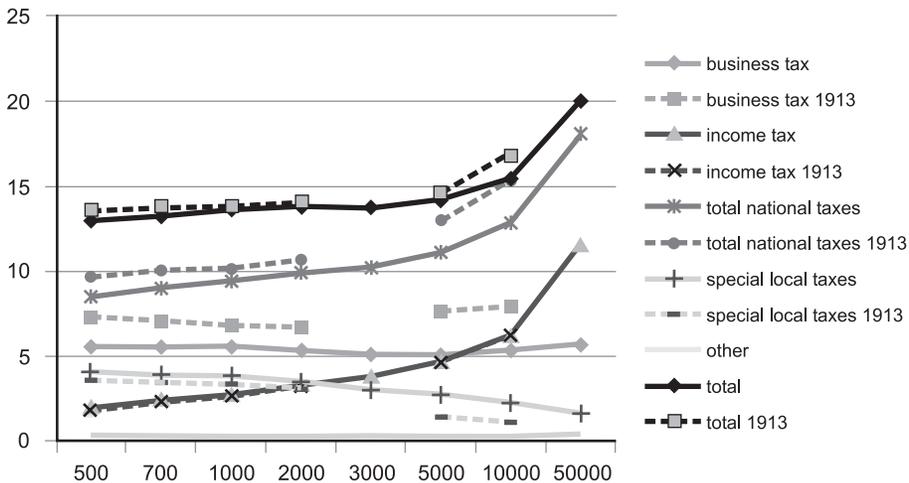
Other professions

Notes on urban entrepreneurs in the *Gist* follow the same order adopted for landowners.²¹

1. National taxes: on the whole progressive, with the exception of the business tax, which is disproportionately heavy in the lower brackets and light in the upper ones.
2. Local taxes: overall regressive, due to the combined effect of rates on the business tax, the *kosūwari* and other independent levies, such as the house tax.
3. Balance between national and local taxes: aside from the lowest income bracket, the former prevail. However, it has to be remarked that this gap decreases as income gets lower.

These comments draw attention on the fact that the tax burden, although much lighter than on landowners, does not have an equitable distribution (Figure 4). Moreover, while the core issue for the rural sample was local taxation, here we also find a dysfunction of the main national tax; the latter affects the additional rates, which amplify the problem.

Figure 4. Tax burden of businessmen, 1913/1916



Sources: *Chōsho T3*, pp. 215–216, 221–222, 227–228, 233–234, 239–240, 245–246; *Chōsho T6*, p. 9.

²⁰ See Mizumoto Tadateke, *Kosūwarizei no seiritsu to tenkai* [Establishment and Development of the *Kosūwari* Tax], Ochanomizu shobō, 1998, pp. 121–179.

²¹ *Chōsa yōryō*, slide 116.

The business tax (*eigyōzei*), originally levied by the Prefectures, was transferred to the central government in 1897 with the double aim of harmonizing its criteria of assessment countrywide and supporting the expansion of the national budget after the Sino-Japanese War. Instead of targeting profits, which were the object of income tax, it dealt with the ‘size’ of either individual or corporate business. The amount due depended on a mix of flat rates and lump sums on annual sales, capital, number of employees and other criteria.²² This method of computation, which from the viewpoint of administrators had the merit of curbing evasion, clearly favored big firms over small businesses. Always controversial, the tax gave rise to a movement of entrepreneurs calling for its abolition, which gained momentum precisely on the eve of World War I.²³ The two surveys considered here, therefore, provide valuable evidence on the reasons of that protest. Three years after undergoing revision in 1923, the business tax was suppressed to introduce a business profit tax (*eigyō shūekizei*), in the attempt to redistribute the burden in accordance with actual income. Furthermore, the single flat rate introduced at that time for individuals (2.8 percent of profits) was substituted by two in 1931, adding a touch of progressivity.²⁴ By comparing figures for either survey, one may note that the incidence of business tax and additional rates combined decreases in the interval, especially for the upper income brackets. This can be explained in part with the revision of national rates enacted in 1914, but also as a consequence of the wartime boom: since the tax was less elastic than income, a rapid increase of profits would reduce the burden. As already observed with respect to land tax, there is no significant variation in the national/local rates ratio, which on average of the 500–2000-yen income layer is 100/31 in 1913 and 100/32 in 1916. The local share, in other words, is less than half of that recorded for the land tax. Given the relative importance of agriculture and other economic sectors in either rural or urban context, the lower level of business surtaxes suggests that cities, in contrast to villages, did not need to rely heavily on a single resource. At the same time, however, restraint in taxing business was in compliance with government policy: the legal ceiling for additional rates was much lower than for land tax.²⁵ It can be noticed, however, that both land and business surtaxes exceeded these limits thanks to special government authorization, as provided by law in case of need. Exceptions had become common practice.

²² Law 33/1896, <http://kindai.ndl.go.jp/info:ndljp/pid/787999/33>.

²³ See Eguchi Keiichi, ‘1914 nen no haizei undō’ [The 1914 Campaign for Tax Abrogation], in *Taishōki no seiji to shakai* [Politics and Society in the Taishō period], Inoue Kiyoshi (ed.), Iwanami shoten, 1969, pp. 53–115; Eguchi Keiichi, *Toshi shōburujoa undōshi no kenkyū* [A Study on the History of Movements of the Small Urban Bourgeoisie], Miraisha, 1979, Chapters 1 and 3.

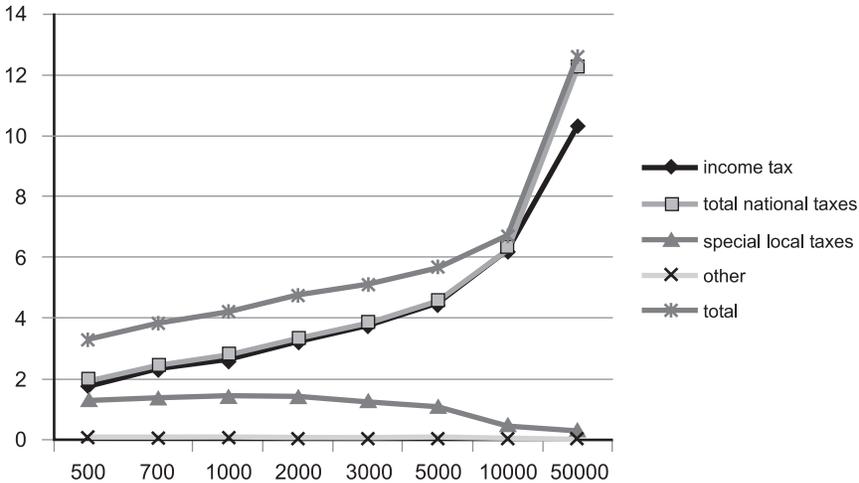
²⁴ The new rates were 2.2 percent of profits up to 1000 yen and 2.6 percent of the exceeding sum. For corporations, the rate decreased from 3.6 to 3.4 percent. See Laws No. 11/1926 and 47/1931, http://www.jacar.go.jp/DAS/meta/listPhoto?REFCODE=A03021584300&IS_STYLE=default&image_num=7; www.jacar.go.jp/DAS/meta/listPhoto?REFCODE=A03021795600&IS_STYLE=default&image_num=3 (accessed 7.10.2013).

²⁵ As a percentage of the national tax, at the time the municipal limit was 53 on land and 26 on business. The lowest ceiling was for income surtaxes, set at 19 percent. *Chōsa yōryō*, slide 133. See Laws 37/1908, 27/1910 and 32/1911, <http://kindai.ndl.go.jp/info:ndljp/pid/788058/56>; <http://kindai.ndl.go.jp/info:ndljp/pid/788070/96>; <http://kindai.ndl.go.jp/info:ndljp/pid/788076/165> (accessed 7.10.2013).

The third category of taxpayers, namely people employed in the public sector, has a simpler burden structure (Figure 5). Editors observe the following:²⁶

1. there is nothing in particular to note about national taxes, which consist almost entirely of income tax;
2. with the exception of the lowest income bracket, national taxes exceed local ones, as it should be;
3. however, local tax incidence drops above income of 3000 yen, because top earners live mainly in big cities, where they pay less in special local taxes.

Figure 5. Tax burden of public employees, 1916



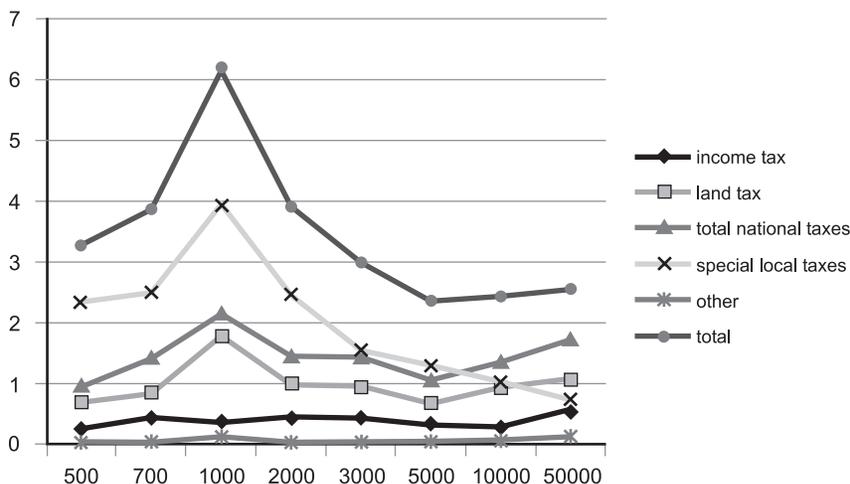
Source: *Chōsho T6*, p. 15.

The text does not specify what kinds of public employment are included in the sample. It is clear, however, that salary represents over 98 percent of income in all classes except the top, where ‘other’ sources make for 17 percent.²⁷ Taking as reference the salary scale for the civil service,²⁸ it results that income brackets up to 1000 yen correspond to the basic remuneration of clerical staff (*hannin* class); between 500 and 3000 yen, to that of mid-rank officials (*sōnin*); while the upper brackets are restricted to bureaucrats holding key posts (*chokunin*), such as vice-ministers and prefectural governors. The single person in the top bracket, with 18,300 yen earned in “salary, allowances and bonuses”, is likely the prime minister, whose basic pay was at that time 12,000 yen per year. The curve of income tax is similar to the one already drawn for landowners and businessmen. Considerably lower, instead, is the level of local taxes, which probably depends on the relative lack of landed property and other fixed assets. In addition, the remark on special taxes confirms previous observations on the higher burden imposed on residents by towns and villages.

²⁶ *Chōsa yōryō*, slide 122.

²⁷ *Chōsho T6*, p. 18.

²⁸ Imperial ordinances No. 6/1886, 36/1886, 134/1910, <http://kindai.ndl.go.jp/info:ndljp/pid/787968/258>; <http://kindai.ndl.go.jp/info:ndljp/pid/788070/336> (accessed 7.10.2013).

Figure 6. Tax burden of financial rentiers, 1916

Source: *Chōsho T6*, p. 21.

Finally, it remains to outline the situation of financial rentiers (Figure 6). In the *Gist*, it is noted that in this case national taxes do not follow a regular pattern; that local taxes, for the largest part of the independent kind, are regressive; and that such a regressive character prevails overall.²⁹ The peak of burden at around 1000 yen in income seems to depend on the greater weight of land property (directly as land tax, indirectly as special local taxes), but the reason for this feature is not clear. There is a peculiarity, however, in the definition of income for this type of taxpayers. In the other cases, the amount includes only individual earnings classified as “type 3” under income tax law, that is salary, business profits, net receipts from agriculture and other kinds of income subject to progressive rates. For rentiers, on the other hand, the amount is also comprehensive of income “type 1” (corporate income) and “type 2” (interest on financial assets),³⁰ both taxed at flat rates. From the viewpoint of individuals, type 1 income consisted of dividends received net of the tax paid by the firm. Personal income tax on dividends would be introduced in 1920, with a 40 percent deduction. Similarly, type 2 income was taxed at source, and not summed into other personal earnings. The big difference between rentiers and other categories in the survey, then, is that the former income includes all three types, but taxes refer only to type 3. Consequently, the total burden shown in the graph is lower than the actual one. For this reason, editors note that these data can serve only as an approximate reference.³¹

The above considerations on income assessment raise a broader question of the validity of the figures presented so far for each professional category. To what extent would the burden change if income other than type 3 were computed with related taxes? Although the information is not detailed enough to provide a precise answer, data are

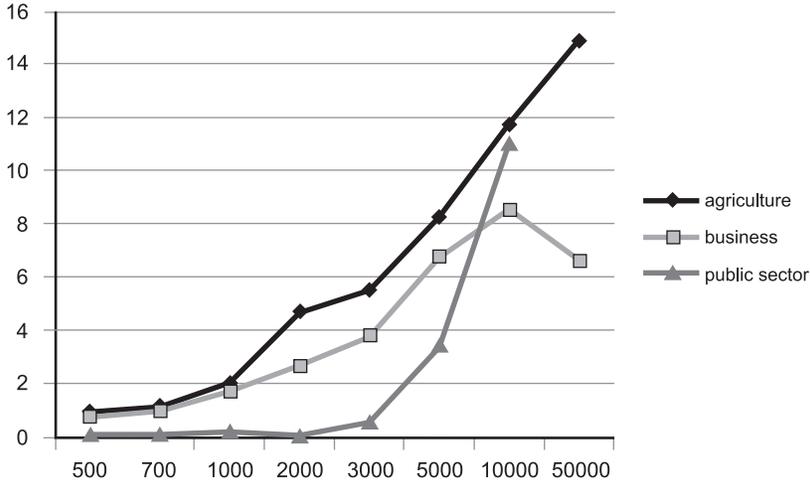
²⁹ *Chōsa yōryō*, slide 127.

³⁰ *Ibidem*.

³¹ *Ibidem*. On income classification, see Law 13/1913, http://www.jacar.go.jp/DAS/meta/listPhoto?REFCODE=A03020953200&IS_STYLE=default&image_num=16 (accessed 7.10.2013).

available on the ratio between either kind of income (Figure 7). Notwithstanding some differences, dividends and interest on securities represent an appreciable portion of total income for each profession from the 5000-yen bracket upwards. As a result, the redistributive efficacy of progressive income tax on individuals becomes even feeblér than as shown in the previous graphs.³²

Figure 7. Sum of income type 1 and 2 as a percentage of income type 3, 1916



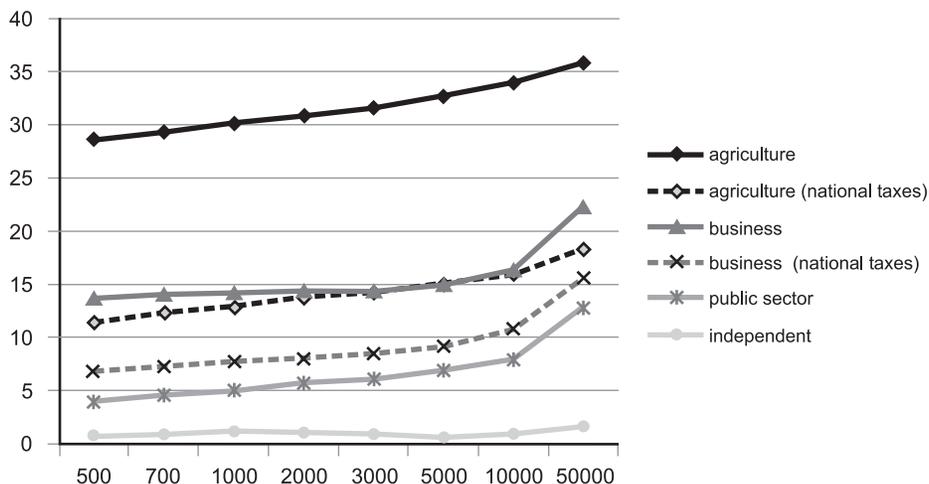
The figure for public employment in the 50,000 yen bracket (one person) is 767.18 (170,000 yen).

Source: *Chōsho T6*, pp. 6, 12, 18.

There is another adjustment to the final estimate of burden which editors carry out with scientific method. It consists of revising figures in accordance with the “real capacity” (*jishitsuteki futan nōryoku*) of either capital or labor income.³³ Moving from the assumption that the former is stable and durable, while the latter is uncertain, they assess a capacity ratio of 10 to 8. Next, the overall capacity of each segment in the sample is measured by taking into account the relative shares of capital and labor as sources of income (for example, in the case of landowners rent is treated as pure capital income, while farming as a combination of capital and labor). The revised frame (Figure 8) does not depart substantially from the initial estimate, aside from a slight reduction in the gap between agriculture and business, on the one hand, and a downgrade of the rentiers’ burden. The operation, however, deserves notice as it signals the concern of Finance bureaucrats for the gradation of taxes on the basis of income source. Although analysis in the *Gist* is not followed by policy recommendations, it implicitly points at the convenience of exerting a relatively heavier pressure on capital. Some steps towards implementation of this principle had been taken in 1913, with the introduction of the first deductions on labor income. More measures would follow in the next years, as in the

³² This is acknowledged in *Chōsa yōryō*, slides 106–107, 117, 123.

³³ *Ibid.*, slides 136–141.

Figure 8. Real tax burden, 1916

Source: *Chōsa yōryō*, slide 141.

revision of income tax (in 1920 and 1926) and the enactment of the tax on capital interest (*shihon rishizei*, 1926). Strengthening the distinction of treatment between capital and labor was also a key element of interwar plans that eventually saw the light, albeit in modified form, in the comprehensive tax reform of 1940.³⁴

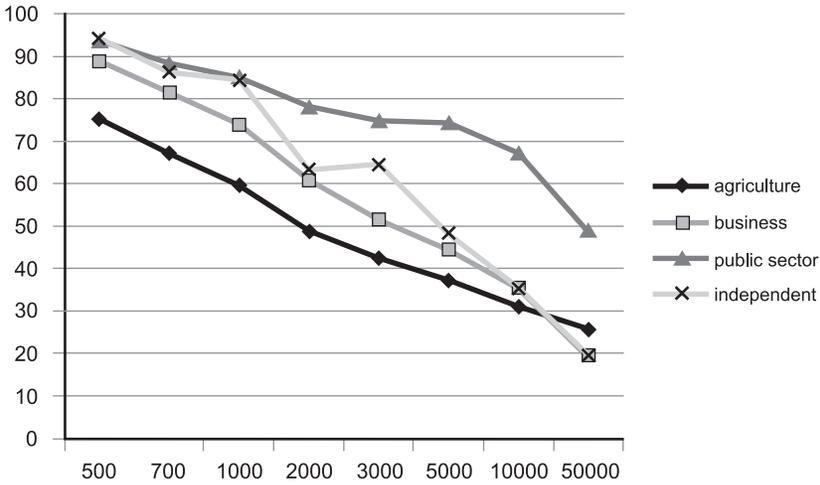
Conclusion: Setting the stage for reform

The data discussed up to this point shed light on tax incidence at different income layers and make a comparison among professions possible. As noted above, several deficiencies clearly emerge from the standpoint of equality. However, none of this tells us whether the burden is commensurate to the ability to pay of people at each income level in either category. If earnings barely suffice to cover the cost of living, then taxes equivalent to just 5 percent of income may be hard to bear. Conversely, if the household has a large income surplus, even a 20–30 percent share may pose no major problem. In order to understand the actual impact of taxation on a family, one has to look at the balance between income and personal outlays. This kind of information appears only in the second survey (Figure 9), which shows the steady increase of surplus as income rises. The following passage is to measure taxes as a share of income net of living expenses (Figure 10). It is evident that taxes weigh more in the lower range. The most striking fact is that both farmers and businessmen are running a deficit in the 500-yen bracket.³⁵ Although moving upwards there is a margin for savings, these are less than half the amount paid in taxes until the 1000-yen income class of businessmen and the 3000-yen class of landowners. In the

³⁴ In this respect, two early proposals that deserve particular mention are those for a property tax and a classified income tax, both first examined by policy makers in 1920–22. See Revelant, ‘Tax Reform...’, pp. 876–887.

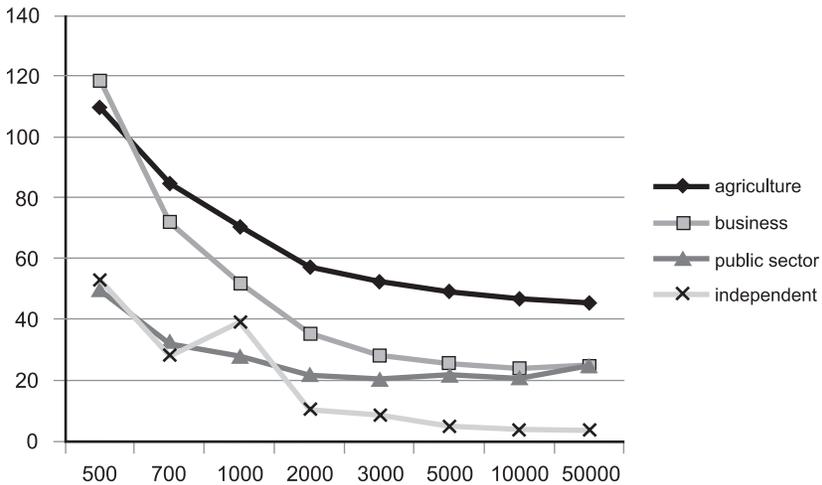
³⁵ *Chōsa yōryō*, slides 107, 118.

Figure 9. Percentage of income spent in living expenses, 1916



Source: *Chōsho T6*, p. 30.

Figure 10. Percentage of surplus (income minus living expenses) paid in taxes, 1916



Sources: *Chōsho T6*, p. 29.

compilers’ opinion, the burden placed on entrepreneurs as a whole is “not excessive”, while that of farmers is “not light”. They also acknowledge that indirect taxes, which are included in the expenses for personal consumption, contribute to making the burden of lower-class farmers excessive.³⁶

³⁶ *Ibid.*, slides 107–108, 118–119.

In conclusion, the Research Bureau extracts from the findings a comprehensive diagnosis of Japan's tax system.³⁷ These, in order, are the ills detected:

1. land and business taxes, especially the former, are excessive;
2. consequently, the burden on the lower classes is too heavy;
3. there is no taxation on movable assets, aside from those related to business;
4. income tax is not the real center of direct taxation, but plays only a complementary function to land and business taxes;
5. local taxes lack appropriate limits;
6. in particular, they weigh too much on land;
7. the criteria for imposition of special local taxes are not correct.

Concerning the last point, it is also specified that *kosūwari* and house tax are heavy in farming districts and light in business districts.³⁸ The editors can therefore state that, notwithstanding the effects of inflation and the economic cycle on the distribution of burden, the problems lie chiefly in structural faults; in order to achieve a well-balanced burden, "appropriate amendments" to the tax system are required.

Putting these comments in a broader historical context, some considerations can be made on the political causes of tax inequality and its persistence over time. As noted in the comparison between the two surveys, the economic boom triggered by the Great War was not at the root of the burden imbalance; rather, it accelerated its deepening, with tangible effects in the years which immediately followed the period examined here. Both the vertical and horizontal inequality recorded in the surveys were the long-term products of a government policy that encouraged investment in the industrial and financial sectors at the expense of distributive justice. Since the Meiji Restoration, the newly established oligarchy had striven to modernize the economy, consistently with its ultimate goal of turning the country into a power of international standing. In terms of fiscal extraction, this effort implied a transfer of resources from agriculture to other sectors; it also materialized as support for the larger and more competitive firms over small producers. Some of the negative consequences were predictable and accepted by the government as a necessary price to be paid on the path to development; others, such as the disorderly growth of local taxation, were unintended and perceived with increasing alarm. The two surveys presented in this paper prove that there was a clear awareness of structure problems in the Ministry of Finance by the 1910s, based on factual evidence. Each of the defects listed above became the target of legislative revision in the wake of the war, when the raised level of political and social conflict within the country put greater pressure to ease inequality on policy makers. The uneven pace and extent of actual reform, however, reflect the tension among the interests of different social groups and the successive shifts in their influence over state institutions. For these reasons, much can be learnt from the debate on taxation that unfolded between the two world conflicts about power relations in the domestic politics of that period.

³⁷ Ibid., slide 146.

³⁸ Ibid., slide 132.

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