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COMMENTS

HIROMITSU ISHI

The first paper presented by Prof. Nakatani develops the very good discussion on the role of Japan in the world economy with significant fact findings. He often presents provocative remarks on the current economic issues facing us, and his paper is also very provocative. Partly I agree with his view, but partly I disagree with him.

The first comment is concerned with his fact findings. He defines the U.S. tax system as anti-saving and pro-investment, in sharp contrast with the Japanese tex system, which has pro-saving and anti-investment. As is well known, the Japanese tax system contains preferential tax treatment of savings, in which the Maruyū system is a typical example. Similarly, the U.S. tax system has IRA (Individual Retirement Account) on savings. Now there is one view presented by Prof. Noguchi, my colleague, that the U.S. has more or less pro-saving tax system as well as Japan, stressing the importance on the present role of IRA with special reference to the U.S. lower saving ratio. How do you feel about such an opposed view?

Second, I wonder why the tax can play so important role in explaining the recent current account surplus or deficit problems between the U.S. and Japan. There are several hypothesis as regards this point, as is mentioned by the Teranishi's paper. It seems to me that Prof. Nakatani is responsible for clarifying the reason why the tax system can become a crucial factor in comparison with other hypothesis. In my view, the tax factor is not so significant in determining the saving rate. So far we have not found any meaningful results to show the close relation between tax and saving by any means. Tax might be one of minor factors in the formation of saving. Prof. Nakatani admits the significant effect of tax on saving on an a priori basis, but he should convince us further on the basis of empirical evidence. On this point, I agree with Prof. Moriguchi's comment.

Third, most important, basically I am skeptical of his idea to propose the tax summit mainly for two reasons. For one thing, the tax system is changed in principle by a nation's sovereignty independently of other countries. If some trouble happens between two countries in the area relevant to taxation, they should be solved by the tax treaty on a bilateral basis. The other reason is that external imbalance is only one issue facing us, even if it is important at present. We have now a number of other issues than balance-of-payment. The change of tax system cannot be related to only the macroeconomic disorders, such as current account imbalances. The tax policy has more important objectives in domestic matters like income redistribute, the financing of public service, the equitable tax burden among various taxpayers, etc. Therefore, the tax system in any country cannot be manipulated only to adjust for external imbalances.

Moreover, in both the U.S. and Japan each government is very keen to reform the current tax system from a standpoint of tax equity and neutrality. It must be admitted that to use the tax system for a specific policy goal like Nakatani's idea has to become trade-off with basic direction of current tax system.

To sum up, I have a very critical view to a basic proposal in Nakatani's paper, although I evaluate his analytical contributions. My view is really based upon public finance specialists. I know quite well his view is supported by macro-economists like Prof. Moriguchi. I think there is a wide gap between two groups of economists.

Turning to the second paper presented by Prof. Teranishi, I think it is written very well as a review of financial system before and after the "catching-up process" of our economy. We can learn a lot from his paper.

Frankly speaking, however, I feel it a little bit unsatisfactory especially when I would like to hear something about more positive view on the role of the Japanese economy in the global context, which is the topic itself in this session. In comparison with Prof. Nakatani's innovative or grandiose idea, Prof. Teranishi's presentation is a little modest and reserved. Based upon such an impression, let me raise the following three questions, rather than comments.

First, Prof. Teranishi referred to the important role played by nations, segmentation or regulation in the financial markets before the completion of catch-up process. It seems to me, however, that he does not try to appraise the past policy performance totally in any positive manner. Each policy option must have had both good and bad sides, or merits and demerits. I wonder how he evaluates overall on the specific policy package unique to Japan in the financial markets.

Second, he emphasizes the recent phenomenon of Japan as a capital exporter. It was controversial whether the position of capital exporter has structually been fixed in Japan. In retrospect, this topic used to be discussed on "white paper" of EPA two or three years ago. Given the huge amount of current account surplus in recent years, it seems to me that Japan's position as a capital exporter has been established at present. Is it true? If so, Prof. Teranishi might add to comment on the direction of Japan's future tasks as a capital exporter in the world in more details. What forms, direct or security investment, should be taken? What role or responsibility should Japan take?

Third, as the last question, I would like to hear what kind of view or prediction he has on the basic direction of Japan's future. To what extent and how speedy will the so-called "liberalization" of financial system and interest rates proceed? Especially when Japan is faced to the request of open-door from overseas, the speed and extent of internationalization becomes more important, closely tied with the liberalization of financial markets.

Please clarify these questions, although they are a bit broad-based and may be difficult to answer briefly.

HITOTSUBASHI UNIVERSITY