

Arguments over Funding Increased Defense Expenditures

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Abstract

When defense expenditures are financed through taxation, it is usually done through ability-to-pay taxation. While financing the purchase of defense equipment through the issuance of government bonds may be considered a reasonable approach, it presents various practical issues that need to be addressed. Looking back through history, during the period of World War II (1939-1945), military expenditure was primarily financed through the issuance of public bonds, and the majority of new government bonds issued were directly underwritten by the Bank of Japan. Enacted after the end of the World War II, the Public Finance Act stipulated the principles of construction bonds and sound finance and prohibited the underwriting of government bonds by the Bank of Japan. Issued in December 2022, Japan's National Security Strategy announced that in FY2027, Japan will take the necessary measures to ensure that its budget for both the fundamental reinforcement of defense capabilities and complementary initiatives reach 2% of the current GDP. Japan will take the necessary measures to make the level of its budget, for both the fundamental reinforcement of defense capabilities and complementary initiatives, reach 2% of the current GDP. When the FY2023 Draft Budget was drawn up, it was indicated that the funds would be secured through the (1) reform of government expenditure, (2) utilization of settlement surplus, (3) Defense Buildup Funds, and (4) tax measures. Public opinion is wavering between various arguments on how to finance the increase in defense spending to 2% of GDP.

Introduction

In his policy speech during the 211th Ordinary Session of the Diet (opened on January 23, 2023), Prime Minister Fumio Kishida stated that, following the major turning points of the Meiji Restoration and the end of World War II (1939-1945), “we now stand at a

crossroads of history once again.” Citing the fundamental reinforcement of defense capabilities as a priority measure, he went on to announce that an additional JPY 4 trillion in new and stable financial resources would be needed every fiscal year from FY2027 onward. In this respect, he explained, “We will first make all possible efforts in administrative and fiscal reforms, including reforming our expenditures, utilizing budget surpluses, and securing non-tax revenues. Then, rather than passing the burden on to posterity, we who are alive at this moment will respond to the remaining shortfall of around a quarter of the total amount needed, leading up to FY2027, as a matter of responsibility towards future generations.”⁽¹⁾

Increasing defense expenditure⁽²⁾ in order to fundamentally reinforce defense capabilities⁽³⁾ and how to finance this increase, especially by increasing taxes as a measure to secure financial resources, was already expected to be one of the main issues at the 211th Ordinary Session of the Diet as of the end of last 2022.⁽⁴⁾ In the plenary sittings of the House of Representatives and the House of Councillors, the representatives of each faction posed questions in this regard. Meanwhile, the Budget Committee of the House of Representatives fielded basic questions about the draft budget for FY2023, including whether Japan should have an enemy base attack capability or not, the increase in defense expenditure, and how to finance such an increase.⁽⁵⁾

* The last date of access of online information referenced in this paper is March 8, 2023.

- (1) 「[第二百十一回国会における岸田内閣総理大臣施政方針演説](#)」2023.1.23. 首相官邸ウェブサイト (“Policy Speech by Prime Minister KISHIDA Fumio to the 211th Session of the Diet,” January 23, 2023. Prime Minister’s Office of Japan website).
- (2) 小槇祐輝「[防衛費増額をめぐる議論](#)」『調査と情報—ISSUE BRIEF—』1204号, 2022.9.6 (Komaki Yuki, “Discussion of Increased Defense Expenditure,” *Issue Brief*, 1204, 2022.9.6).
- (3) In this paper, expenses generally related to defense are described as “defense expenditure,” while expenses correspond to “national defense expenditure” (almost equal to the Ministry of Defense budget) in the major expenditure category of the budget are described as “national defense expenditure.”
- (4) For example, 「[解散シナリオ、難所続き 今月の通常国会、4月の統一選・補選…](#)」『朝日新聞』2023.1.5 (“Dissolution Scenario, Difficulties Continue: This Month in the Diet, Unified Election and Supplementary Election in April...,” *Asahi Shimbun*, 2023.1.5).
- (5) In a questions from members representing each faction in the House of Representatives, the three parties—the Constitutional Democratic Party of Japan, the Nippon Ishin (Japan Innovation Party), and the National Democratic Party—demanded that Prime Minister Kishida determine the people’s belief in his policy of raising taxes in conjunction with an increase in defense expenditure by dissolving the House of Representatives and holding a general election. 「[立民・泉氏、増税巡り衆院解散要求 国会代表質問始まる](#)」『日本経済新聞』2023.1.25, 夕刊 (“CDP Izumi Demand House Dissolution over Tax Increase, Parliamentary Representative Questions Begin,” *Nihon Keizai Shimbun*, 2023.1.25, evening edition). In addition, the Japanese Communist Party demanded that the House of Representatives be dissolved in respect to the possession of enemy base attack capability. 「[衆参代表質問の要旨](#)」『東京新聞』2023.1.26 (“Summary of Representative Questions from the House of Representatives,” *Tokyo Shimbun*, 2023.1.26). According to media reports, there was an opinion within the Liberal Democratic Party of Japan that the House of Representatives should be dissolved before the tax increase to finance increased defense expenditure, and that the people’s confidence should be polled (「[防衛増税前に衆院解](#)

This paper discusses appropriate sources of funds for defense expenditures (Chapter I), what kind of funds Japan used to finance military expenditures during World War II (Chapter II), restrictions imposed on the funding of defense expenditure under the Public Finance Act (Act No.34 of 1947) enacted after World War II (Chapter III), and current discussions on the method of funding increased defense expenditures (Chapter IV).

I What is the Appropriate Source of Funds for Defense Expenditure?

1 *Raising Financial Resources through Taxation*

Economists consider defense a typical public good (i.e., a pure public good).⁽⁶⁾ Indeed, in the eighteenth century, Adam Smith, the “founder of economics,” positioned national defense as the state’s primary responsibility in his seminal work, *The Wealth of Nations*.⁽⁷⁾ In this respect, Smith argued that the citizens of each country should support the coffers of the government, including defense expenditure, in proportion to the benefits they receive under the aegis of the state and relative to their individual ability to do so.⁽⁸⁾ Today, the former concept is known as benefit taxation, while the latter is known as ability-to-pay taxation. This raises a key question: should defense-related expenditure be financed through benefit taxation or ability-to-pay taxation?

According to the concept of benefit taxation, when the government provides defense services, a greater tax burden should be imposed on those citizens who enjoy more of the benefits of those services. However, it is both theoretically and practically difficult to determine the relationship between the attributes of individual citizens (e.g., income level) and the amount of defense services they enjoy in a way that is not arbitrary.⁽⁹⁾ Therefore in developed countries, defense services are financed by governments through

散必要 萩生田氏」『日本経済新聞』2022.12.26 (“House of Representatives must be dissolved before defense tax hike, says HAGIUDA,” *Nihon Keizai Shimbun*, 2022.12.26) etc.). In basic questioning at the House of Representatives Budget Committee, questions were concentrated on security, including increased defense expenditure, and measures to address the falling birthrate, with these two themes accounting for over 40% of the total time. 「衆院予算委の論戦、安保・少子化に4割集中」『日本経済新聞』2023.2.2 (“Debate at Lower House Budget Committee, 40% Concentrated on Security and Birthrate,” *Nihon Keizai Shimbun*, 2023.2.2).

⁽⁶⁾ Pure public goods are defined as goods and services that have the property of being simultaneously consumable by multiple persons (non-rivalness) and the property of being consumable even by those who do not pay (non-excludability) (林正義ほか『公共経済学』有斐閣, 2010, pp.141–142 (HAYASHI Masayoshi et al., *Public Economics*, Yuhikaku, 2010, pp.141-142)).

⁽⁷⁾ Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, An Electronic Classics Series Publication, 1776(2005), pp.564-579.

⁽⁸⁾ *ibid.*, p.676.

⁽⁹⁾ James Banks and Peter Diamond, “The Base for Direct Taxation,” James Mirrlees et al., eds., *Dimensions of Tax Design: The Mirrlees Review*, New York: Oxford University Press, 2010, p.554.

ability-to-pay taxation. In this respect, the design of taxation systems is based on the selection of the tax base (e.g., income, consumption) that most directly reflects the individual's ability to pay and which tax rate to apply to that tax base, often following a progressive tax -rate structure, while accounting for tax principles such as the “neutrality” and “equity” of the tax system.

2 *Raising Financial Resources through the Issuance of Government Bonds*

Defense equipment (e.g., aircraft, ships, tanks, firearms) is generally considered to have the same estimated duration of utility (i.e., useful life) as the machinery and buildings that make up private capital stock.⁽¹⁰⁾ The government provides defense services to the public by procuring defense equipment, deploying it, and operating it in combination with resources such as soldiers. In this regard, it is not unreasonable that the cost of defense services should be borne over the period during which the benefits of said services accrue.

In February 2009, the United Nations Statistical Commission adopted the 2008SNA as the new international standard for national accounts and treats defense equipment used for more than one year as fixed capital.⁽¹¹⁾

Considering the foregoing, it might be possible to see some validity in positioning the purchase of defense equipment at a certain point in time as an expense eligible for the issuance of government bonds, with the cost corresponding to the benefits of defense services to be paid in the future. Nonetheless, even if defense equipment is positioned as a good that contributes to the generation of defense service benefits over multiple years, there are various practical issues that need to be addressed, such as how to maintain objectivity in estimating its useful life and the extent to which the obsolescence of equipment due to advances in military technology should be considered.

⁽¹⁰⁾ For example, the average service life of major weapon systems in the United States is 25 years for bombers, 20 years for helicopters, 30 years for surface ships, 25 years for submarines, and 20 years for tanks. 国民経済計算次回基準改定に関する研究会「2008SNA 対応により新規に資本化する項目等に係る償却の考え方」（第9回国民経済計算次回基準改定に関する研究会 資料1）2014.4.21, p.7. 内閣府ウェブサイト (Study Group on the Next Revision of Standards for National Accounts, “Amortization Approach for Items to be Newly Capitalized in Response to 2008SNA.” (9th Study Group on the Next Revision of Standards for National Accounts, Document 1)). 2014.4.21, p.7. Cabinet Office website)

⁽¹¹⁾ 岩本康志「国民経済計算の2008SNA への対応—平成23年基準改定と今後の取組—」『レファレンス』818号, 2019.3, pp.27-51 (IWAMOTO Yasushi, “Implementation of 2008 SNA in Japanese National Accounts: Benchmark Year Revision of 2011 and Ongoing Progress,” *Reference*, No.818, 2019.3, pp.27-51); 小川雅弘「SNA方式における兵器（防衛装備品）」『大阪経大論集』71(2), 2020.7, pp.95-105 (OGAWA Masahiro, “Military Equipment in the SNA,” *Journal of Osaka University of Economics*, 71(2), 2020.7, pp.95-105).

II Financing War Expenditure during World War II

1 Overview of Wartime Finances

Japan developed a modern tax system following the Meiji Restoration to secure financial resources for a “Rich Nation and Strong Army.”⁽¹²⁾ Income tax was established in 1887 (Meiji 20), as a response to increased military expenditures following the Imo Incident,⁽¹³⁾ while inheritance tax was instituted in 1905, in order to raise funds for the Russo-Japanese War (1904-1905).⁽¹⁴⁾ During the First Sino-Japanese War (1894-1895), Russo-Japanese War, World War I (1914-1918), and World War II (referred to herein as the Second Sino-Japanese War and Pacific War), it was customary to establish a Special Account for Extraordinary Military Budget in one fiscal year from the beginning to the end of the war to cover temporary military expenditure separately from the General Account.⁽¹⁵⁾ Public debts have played a central role in the Special Account for Extraordinary Military Budget as a means of financing military expenditures.⁽¹⁶⁾

⁽¹²⁾ General descriptions in this chapter refer to 関野満夫『日本の戦争財政—日中戦争・アジア太平洋戦争の財政分析—』（中央大学学術図書 102）中央大学出版部，2021（SEKINO Mitsuo, *Financing Japan's Wars: An Analysis of the Financing of the Second Sino-Japanese and Pacific Wars*, Chuo University Library 102, Chuo University Publishing, 2021); 安藤良雄ほか編『昭和経済史』日本経済新聞社，1976（ANDO Yoshio et al. eds., *An Economic History of the Showa Period*, Nihon Keizai Shimbun, 1976). For the history of the tax system after the Meiji Restoration, see: 金子宏『租税法 第24版』（法律学講座双書）弘文堂，2021，pp.40-54（KANEKO Hiroshi, *Taxation Law*, 24th Ed, Law Lecture Series, Kobundo, 2021, pp.40-54), and 藤井大輔・木原大策編著『図説日本の税制 令和2-3年度版』財経詳報社，2022，pp.34-43（FUJII Daisuke and KIHARA Daisaku eds., *Illustrated Guide to the Japanese Tax System, FY2020-2021 Edition*, Zaikai Shohosha, 2022, pp.34-43).

⁽¹³⁾ In 1882 (Meiji 15), there was a large-scale uprising in Hanseong (Seoul) by soldiers against the government of the Min clan of the Joseon Dynasty and its backer, Japan, intensifying the Sino-Japanese conflict over Korea.

⁽¹⁴⁾ For the creation of the income tax, see 牛米努「明治20年所得税法導入の歴史的考察」『税務大学校論叢』56号，2007.7，pp.437-488（USHIGOME Tsutomu, “Historical Analysis of Individual Income Tax Adopted in 1887,” *The Journal of National Tax College*, No.56, 2007.7, pp.437-488). On the creation of inheritance tax, see 櫻井良治「日露戦争公債発行と返済のための相続税導入」『静岡大学経済研究』21(1・2)，2016.10，pp.25-49（SAKURAI Ryoji, “Introduction of Inheritance Tax in the Russo-Japanese War for Issue and Return of Public Loan,” *Economic Review Shizuoka University*, 21(1, 2), 2016.10, pp.25-49).

⁽¹⁵⁾ The Special Account for Extraordinary Military Budget was established under separate legislation. For example, the Special Account for Extraordinary Military Budget in the period of World War II was established in September 1937 (The Special Account Act for Extraordinary Military Budget (Act No.85 of 1937)). This legislation responded to the Rume Bridge Incident in July 1937, which triggered the Second Sino-Japanese War and the subsequent escalation of fighting between the two sides. As the war expanded from the Second Sino-Japanese War to the Pacific War, this account remained in existence until after the war ended until it was terminated in February 1946 (Imperial Ordinance concerning the Termination of the Special Account Act for Extraordinary Military Budget (Ordinance No.110 of 1946)).

⁽¹⁶⁾ The dependence on public debt for the Special Account for Extraordinary Military Budget was 51.9% for the First Sino-Japanese War, 82.4% for the Russo-Japanese War, 61.7% for the World

Tables 1 and 2 show the settlement figures of revenue and expenditure for the General Account and the Special Account for Extraordinary Military Budget during the period of World War II. Fiscal expenditures expanded rapidly during the war, especially military expenditures. Table 1 shows direct military expenditure for the 1944 fiscal year (Showa 19), which comprises the sum of General Account military expenditure⁽¹⁷⁾ and annual expenditure under the Special Account for Extraordinary Military Budget for the fiscal year.⁽¹⁸⁾ In Table 1, Column E shows that direct military expenditure for the 1944 fiscal year amounted to JPY 73.5 billion, an amount comparable to nominal Japan's gross national product (GNP) of JPY 74.5 billion for the same year (Column G in Table 1). When other sums corresponding to military expenditure—such as losses from foreign funds,⁽¹⁹⁾ donations for national defense,⁽²⁰⁾ and war-related expenditures in the General and Special accounts (e.g., conscription expenses under the jurisdiction of the Home Ministry)—are included, the total military expenditure from 1937 (Showa 12) to 1945 (Showa 20) are estimated to have amounted to approximately JPY 755.9 billion.⁽²¹⁾

War I, and 86.4% for the World War II. 大蔵省昭和財政史編集室編『昭和財政史 第4巻—臨時軍事費—』東洋経済新報社, 1955, pp.16-17 (Showa Fiscal History Editorial Office, Ministry of Finance eds., *Financial History of the Showa Period, Vol. 4: Extraordinary Military Expenses*, Toyo Keizai Inc., 1955, pp.16-17).

⁽¹⁷⁾ Total expenditures of both the Army and Navy Ministry.

⁽¹⁸⁾ The annual expenditure under the Special Account for Extraordinary Military Budget means the amount to be paid that is calculated for each fiscal year.

⁽¹⁹⁾ The foreign fund is a special financial institution established in February 1945 (Showa 20). In order to control the expansion of the budget for extraordinary military expenditure due to high inflation in the occupied territories, a mechanism was introduced whereby a small portion of the supplies and services expenses in the occupied territories were paid out of extraordinary military expenditure, with most of the remaining expenses adjusted (financed) by foreign funds. Financing methods used to raise funds in foreign currency included “borrow-and-deposit” between local financial institutions (a method of temporarily increasing deposits by depositing the same amount of money with each other without depositing cash) and the acceptance of donations and payments in the occupied territories. The foreign fund debts were enormous, and its dissolution in September of the same year by order of the GHQ resulted in a loss of JPY 524.7 billion. 大蔵省昭和財政史編集室編 前掲注(16), pp.367-387 (Showa Fiscal History Editorial Office, Ministry of Finance eds., *op.cit.*(16), pp.367-387).

⁽²⁰⁾ Money contributed by the people to the military for national defense in time of war. Most donations for national defense did not go into the treasury, and were considered outside the scope of extraordinary military expenditures. Making certain assumptions, the total sum of donations for national defense during World War II is estimated to have amounted to about JPY 2.7 billion. *ibid.*, p.367.

⁽²¹⁾ *ibid.*, pp.385-389.

Table 1. Changes in Settled Sums in the General Account and Special Account for Extraordinary Military Budget

(JPY, millions)

Fiscal year	General Account			Annual expenditures under the Special Account for Extraordinary Military Budget (D)	Direct Military Expenditure (E=B+D)	Net Expenditure (F=A-C+D)	Nominal Gross National Product (GNP) (G)	Direct Military Expenditure as % of Nominal GNP (E÷G)
	Total Expenditure (A)	Military Expenditure (B)	Transfer to the Special Account for Extraordinary Military Budget (C)					
1935	2,206	1,033	—	—	1,033	2,206	16,734	6.2%
1936	2,282	1,078	—	—	1,078	2,282	17,800	6.1%
1937	2,709	1,237	1	2,034	3,271	4,742	23,426	14.0%
1938	3,288	1,167	317	4,795	5,962	7,766	26,793	22.3%
1939	4,494	1,629	535	4,844	6,473	8,803	33,083	19.6%
1940	5,860	2,226	600	5,723	7,949	10,983	39,396	20.2%
1941	8,134	3,013	1,078	9,487	12,500	16,543	44,896	27.8%
1942	8,276	79	2,623	18,753	18,832	24,406	54,384	34.6%
1943	12,552	2	4,369	29,818	29,820	38,001	63,824	46.7%
1944	19,872	2	7,206	73,494	73,495	86,160	74,503	98.6%
1945	21,496	610	—	16,465	17,075	37,961	—	—

(Note) Due to rounding, the sum of the figures in each breakdown and the figures in the total column do not match in some cases.

(Sources) Created by the author based on 大蔵省財政金融研究所財政史室編『大蔵省史—明治・大正・昭和— 第2巻』大蔵財務協会, 1998, pp.370-391 (The Ministry of Finance Institute for Fiscal and Financial Studies, ed., *The History of the Ministry of Finance: Meiji, Taisho, and Showa*, Vol.2, Okura Zaimu Kyokai, 1998, pp.370-391); 経済企画庁『国民所得白書 昭和38年度版』1965, p.136 (Economic Planning Agency, *1963 White Paper on National Income*, 1965, p.136).

Table 2. Settlement Figures of Revenue and Expenditure in the General Account and Special Account for Extraordinary Military Budget

(JPY, millions)

Fiscal year	General Account						Special Account for Temporary Military Expenses			
	Total Revenues (A)	Taxation (B)	Stamp Revenues (C)	Government Business and Property Revenues (D)	Bonds and Borrowings (E)	Bond Dependency Ratio (F=E÷A)	Total Revenues (G)	Bonds and Diverted Borrowings (H)	Borrowings (I)	Bond Dependency Ratio (J=(H+I)÷G)
1937	2,914	1,432	93	455	605	20.8%	1,481	1,441	-	97.3%
1938	3,595	1,984	91	477	685	19.1%	3,812	3,672	-	96.3%
1939	4,970	2,495	112	550	1,298	26.1%	4,309	3,899	-	90.5%
1940	6,445	3,653	136	588	1,282	19.9%	6,334	5,046	-	79.7%
1941	8,602	4,257	146	692	2,406	28.0%	8,150	6,877	-	84.4%
1942	9,192	6,634	154	885	382	4.2%	15,888	12,564	-	79.1%
1943	14,010	8,455	204	1,503	1,886	13.5%	28,698	17,539	5,297	79.6%
1944	21,040	11,437	228	1,623	5,395	25.6%	59,688	23,810	34,219	97.2%
1945	23,487	10,337	162	1,595	9,029	38.4%	44,945	32,260	3,166	78.8%
Total amount	94,255	50,684	1,326	8,368	22,968	24.4%	173,306	107,107	42,682	86.4%

(Sources) Created by the author based on 大蔵省財政金融研究所財政史室編『大蔵省史—明治・大正・昭和— 第2巻』大蔵財務協会, 1998, pp.366-367, 380-381 (The Ministry of Finance Institute for Fiscal and Financial Studies, ed., *The History of the Ministry of Finance: Meiji, Taisho, and Showa*, Vol.2, Okura Zaimu Kyokai, 1998, pp.366-367, 380-381).

Meanwhile, as Table 2 shows, the bond dependency ratio for each fiscal year in the General Account was generally around 20—30%, while the bond dependency ratio for the entire fiscal year in the Special Account for Extraordinary Military Budget was 86.4%. During the war, the idea of limiting the issuance of Japanese Government Bonds (JGBs) to a certain threshold ceased to exist, and bonds became a means of financing military expenditure.⁽²²⁾

During World War II, the majority of newly issued bonds—including both the General Account and Special Account for Extraordinary Military Budget—were directly underwritten by the Bank of Japan (BOJ).⁽²³⁾ As direct underwriting by the BOJ would result in an increase in BOJ's banknotes in the market, potentially accelerating inflation,

⁽²²⁾ ANDO et al. eds., *op.cit.* (12), pp.153-154.

⁽²³⁾ The cumulative amount of newly issued bonds from FY1937 to FY1945 (Showa 12 to Showa 20) was JPY 128.3 billion, of which 65.9% was underwritten directly by the Bank of Japan, 29.6% by Ministry of Finance Deposit Department funds, and 4.4% by the Post Office. 大蔵省昭和財政史編集室編『昭和財政史 第6巻—国債—』東洋経済新報社, 1954, pp.342-343, 470-471 (Showa Fiscal History Editorial Office, Ministry of Finance eds., *Financial History of the Showa Period, Vol.6: Government Bonds*, Toyo Keizai Inc., 1954, pp.342-343, 470-471); SEKINO, *op.cit.* (12), pp.173-174.

most of the JGBs underwritten by the BOJ were sold to private financial institutions through the market operation, in order to immobilize BOJ's banknotes.⁽²⁴⁾ However, from the late 1930s, as private sector demands for funds increased, it became difficult to sell BOJ-underwritten JGBs to the market, and in 1937, the government instituted monetary control. In 1941, the government began to enforce a policy of systematic government bond JGB purchases for each financial institution business category, compelling JGB purchases.⁽²⁵⁾ It was also necessary to increase national savings to finance the market's consumption of BOJ-underwritten JGBs. The government launched a movement to encourage national savings in 1938. The government also began offering low-denomination government bonds at post offices and selling premium savings bonds, a type of savings bond for individuals, and patriotic bonds in order to promote sales of government bonds to individuals.⁽²⁶⁾

As discussed above, military expenditure during World War II was primarily financed through the issuance of bonds. However, taxes were also raised repeatedly to finance the drastically increased military expenditure, starting with the creation of special taxes, a temporary tax increase in 1937 (Showa 12), and annual tax increases from 1941 (Showa 16). In 1940 (Showa 15), major revisions were made to the income tax system, including (1) the separation of corporate income tax as independent from income tax; (2) the introduction of two types of income tax, namely, a "scheduler income tax," which imposed different proportional tax rates for each of the six income categories, and a "comprehensive income tax," which imposed a progressive tax rate (10–65%) on the excess amount when the total of various types of income exceeded JPY 5,000; (3) lowering of the earned income deduction; and (4) the introduction of withholding tax on earned income and retirement income, in addition to interest and dividend income. Subsequent large reductions in the basic income tax deduction led to a rapid increase in the number of taxpayers, and income tax became a mass tax. Income tax rates were also raised rapidly, such that the top combined scheduled and comprehensive income tax rates reached nearly 100% by 1945.⁽²⁷⁾

⁽²⁴⁾ SEKINO, *ibid.*, pp.174-175. The ratio of net sales of the JGBs to the market to the total amount of the BOJ-underwritten JGBs was generally 80-90% between 1937 and 1944. 日本銀行統計局『戦時中金融統計要覧—昭和12年から昭和20年(8月)迄—』1947, pp.9-10 (Bureau of Statistics, Bank of Japan, *Handbook of Wartime Financial Statistics -From 1937 to 1945*, 1947, pp.9-10).

⁽²⁵⁾ 中島将隆『日本の国債管理政策』東洋経済新報社, 1977, pp.76-102 (NAKAJIMA Masataka, *Japan's Public Debt Management*, Toyo Keizai Inc., 1977, pp.76-102).

⁽²⁶⁾ These measures to strengthen national savings were also intended to absorb the purchasing power of the people (curb private consumption expenditures) and control inflation during the war. SEKINO, *op.cit.* (12), pp.81-93.

⁽²⁷⁾ In Showa 20 (1945), the proportional tax rate for labor income in scheduler income tax was 18%, the proportional tax rate for real estate income was 23%, the maximum combined rate for income over JPY 500,000 in the comprehensive income tax was 74%, and the maximum rate for labor income was 92% and 97% for real estate income. 大蔵省昭和財政史編集室編『昭和財政史第5巻—租税—』東洋経済新報社, 1957, pp.706-708, 742-743 (Showa Fiscal History Editorial Office, Ministry of Finance eds., *Financial History of the Showa Period, Vol.5: Taxes*, Toyo Keizai Inc., 1957, pp.706-708, 742-743).

2 *Response in the Aftermath of World War II*

Following Japan's defeat in World War II, the country had to deal with the nationwide devastation resulting from air raids and the destruction of its production capacity. The Japanese economy was also suffering intensifying inflation as well as shortages of food and goods. Japan issued a significant number of JGBs to finance World War II, with outstanding government bonds amounting to some JPY 1,408 billion by the end of FY1945.⁽²⁸⁾ In 1946, the government introduced two measures to deal with its war debts and achieve fiscal consolidation. First, the government introduced the capital levy, a one-time levy on with an excess progressive tax rate of 25–90% on the value of capital property value (market value) on March 3, 1946. Second, the government introduced a war indemnity tax, and while the war indemnity owed by the government during the war was formally paid, a 100% tax was imposed on amounts paid. However, most of these tax revenues were actually used for transfers to the General Account (compensating for revenue deficits) rather than to redeem bonds.⁽²⁹⁾ Rather than the fiscal consolidation measures (tax increases) mentioned above, inflation was by far the most significant factor in the substantial reduction of the government's debt in the postwar period.⁽³⁰⁾

III Postwar Public Finance Act

1 *Principles of Construction Bonds*

After the war, a new Public Finance Act was enacted as a basic law to define the basic principles of fiscal management and the budget and settlement of accounts under the

⁽²⁸⁾ 大蔵省理財局編『国債統計年報 昭和 24 年度第 1 部』[1950], p.5 (Ministry of Finance, Financial Bureau, JGB Statistical Yearbook, FY1949, Part 1, [1950], p.5). The ratio of government debt to GNP reached around 189% (GNP is based on figures for FY1944 (Showa 19)). All government bonds issued during the World War II were issued as domestic bonds (SEKINO, *op.cit.* (12), p.170), and domestic bonds accounted for 99.4% of total outstanding government bonds at the end of fiscal 1945 (Ministry of Finance, Financial Bureau, *ibid.*).

⁽²⁹⁾ SEKINO, *ibid.*, pp.239-243.

⁽³⁰⁾ 小黒一正『預金封鎖に備えよ—マイナス金利の先にある危機—』朝日新聞出版, 2016, pp.189-190 (OGURO Kazumasa, *Preparing for a Deposit Freeze: The Crisis Waiting Beyond Negative Interest Rates*, Asahi Shimbun Publishing, 2016, pp.189-190). The ratio of government debt to nominal GDP dropped significantly, from over 200% to 62%, between 1944 and 1946 (小黒一正・服部孝洋「太平洋戦争の終戦前及び直後のシニョリッジ推計の試み」*PRI Discussion Paper Series*, No. 15A-1, 2015, pp.3, 14 (OGURO Kazumasa and HATTORI Takahiro, “Estimating Seigniorage Immediate Before and After the Pacific War,” *PRI Discussion Paper Series*, No.15A-1, 2015, pp.3, 14). The same paper also provides details on price indexes during and after the war.

Constitution of Japan. The main clause of Article 4, Paragraph (1) of the Public Finance Act defines the no-loan policy,⁽³¹⁾ and in the proviso of the same paragraph, stipulates “as concerns the financial source of the public work expenditure, the investments and the advances,” it is authorized to issue public bonds (construction bonds) and the like (Principle of Construction Bonds, Principle of Sound Finance).

Immediately following the enactment of the Public Finance Act, a commentary written by a Ministry of Finance official pointed out that Article 4 of the Act was a provision aimed at “preventing the risk of war through public finance.”⁽³²⁾ However, in responding to questions in the Diet and the like, the government repeatedly denied this view, stating that the purpose of the legislation was based on the overissuing of government bonds during the war, which caused inflation and other economic turmoil.⁽³³⁾ According to the *Financial History of the Showa Period*, compiled by the Ministry of Finance, the legislative intent of the provision was based on two perspectives: (1) the government’s reflection on the wartime overspending on public debt, which caused a crisis in Japan’s finances and economy, and (2) consideration of the policy dimension of adjusting the economy through government investment in capital. In this respect, it is noted that the provision “was enacted with an emphasis on the former.”⁽³⁴⁾

⁽³¹⁾ The principle that, in general, government expenditures should be financed by taxation. 小村武『予算と財政法 5訂版』新日本法規出版, 2016, p.97 (KOMURA Takeshi, *Budget and Public Finance Act*, 5th Ed, Shin-Nippon Hoki Publishing Co., Ltd, 2016, p.97).

⁽³²⁾ 平井平治『財政法逐条解説 3版』一洋社, 1949, p.37 (HIRAI Heiji, *Commentary on the Verbatim Public Finances Act*, 3th ed., 1949, p.37). HIRAI states Article 4 of the Public Finance Act “could be taken as an endorsement and guarantee of the Constitution’s renunciation of war” (*ibid.*, p.40.). HIRAI Heiji, the author of the document, was at the time an employee of the Ministry of Finance’s Budget Bureau at the time, and was involved in the planning and drafting of the Public Finance Act from the outset.

⁽³³⁾ See the reply by the then Minister of Finance FUKUDA Takeo in 第51回国会参議院予算委員会会議録第15号 昭和41年3月22日 p.2 (*Minutes of the Budget Committee of the House of Councillors during the 51st Session of the Diet*, No. 15 1966.3.22, p.2); Reply by the then Prime Minister MIKI Takeo in 第77回国会衆議院会議録第8号 昭和51年2月27日 p.124 (*Minutes of the House of Representatives during the 77th Session of the Diet*, No.77, 1976.2.27, p.124); Reply by the then Minister of Finance, TAKESHITA Noboru in 第101回国会衆議院大蔵委員会会議録第18号 昭和59年4月24日 p.5 (*Minutes of the Committee on Finance of the House of Representatives during the 101st Session of the Diet*, No.18, 1984.4.24, p.5). In his book, *予算制度 (The Budgetary System)*, KONO Kazuyuki, who was Deputy Director General of the Ministry of Finance Budget Bureau at the time of the Public Finance Act legislation, included a new chapter on “Public Debt” when the new edition was published in 1987 (Showa 62), arguing that even if the fact that military expenditure was raised by issuing vast amounts of public debt was an important motivator, the purpose of this article was to establish the principle of fiscal treatment for sound finance, and that it is not true that the legislative intent of this article was to prevent the risk of war. 河野一之『予算制度 新版』学陽書房, 1987, pp.124-125 (KONO Kazuyuki, *The Budgetary System: New Edition*, Gakuyou Shobo, 1987, pp.124-125).

⁽³⁴⁾ 大蔵省財政史室編『昭和財政史—終戦から講和まで— 第4巻 財政制度・財政機関』東洋経済新報社, 1977, pp.175-176. 財務省ウェブサイト (Fiscal History Editorial Office,

Furthermore, Article 5 of the Public Finance Act stipulates that it shall not be permitted to make the BOJ underwrite JGBs in general. As in Article 4, this provision is said to be a reflection of the issuance of public bonds before and during World War II, which was carried out against a backdrop of underwriting by the BOJ, caused severe inflation.⁽³⁵⁾

2 *Conventional Treatment of Defense Expenditures in Bond Issuances*

With regard to expenditure eligible for construction bond issuance, the Public Finance Act only stipulates that it “shall be subjected to the decision at the Diet every fiscal year” (Article 4, Paragraph (3)), without specifying a specific scope or content.⁽³⁶⁾ During debate in the Diet in February 1966, the Minister of Finance at the time, Fukuda Takeo, stated that it was appropriate to exclude defense expenditures from the expenditures eligible for construction bond issuance because they are consumptive in nature.⁽³⁷⁾ In fact, in each fiscal year’s budget, defense-related expenditures have been excluded from construction bond issuances (see IV2 for their treatment in the FY2023 Draft Budget).

IV Debate over Financing Increased Defense Expenditure

1 *Trends in Defense Expenditure Increases*

The debate over the pros and cons of increasing defense expenditure has been ongoing

Ministry of Finance eds., *Financial History of the Showa Period: From the End of the War to the Peace Treaty, Vol. 4: Fiscal System and Institutions*, Toyo Keizai Inc., 1977, pp.175-176. Ministry of Finance website)

⁽³⁵⁾ *ibid.*, p.176. See also the reply by KAN Naoto, the then Minister of Finance and Minister of State for Special Missions, in 第 174 回国会参議院予算委員会会議録第 16 号 平成 22 年 3 月 24 日 p.3 (*Minutes of the Budget Committee of the House of Councillors during the 174th Session of the Diet*, No.16, 2010.3.24, p.3).

⁽³⁶⁾ The scope of public works expenditure for each fiscal year is set forth in the general provisions of the budget, and is subject to the resolution of the Diet.

⁽³⁷⁾ 第 51 回国会衆議院大蔵委員会会議録第 14 号 昭和 41 年 2 月 25 日 p.5. (*Minutes of the Committee on Finance of the House of Representatives during the 51st Session of the Diet*, No.14, 1966.2.25, p.5).

In his reply, the then Minister of Finance FUKUDA states, “Almost every country conducts economic planning and national economy calculation, and when they do, defense expenditure is excluded from public works expenditures, or capital investment. I believe that defense expenditure should be excluded from public works expenditures in accordance with international norms.” Whereas, in the current 2008SNA, which Japan implemented in 2016 with the 2011 revision of the standard, defense equipment is treated as fixed capital (see I2).

for some time, intensifying with Russia's invasion of Ukraine in February 2022.⁽³⁸⁾ In the "Basic Policy on Economic and Fiscal Management and Reform 2022," known as "*honebuto hoshin*" ("big-boned policy outline"), which was approved by the Cabinet Decision in June 2022, the government stated that it would fundamentally reinforce Japan's defense capabilities within the next five years, and referred to the North Atlantic Treaty Organization (NATO) member countries' commitment to invest a minimum of 2% of their respective GDP in defense⁽³⁹⁾ each year (hereinafter, NATO's commitment).⁽⁴⁰⁾

The Advisory Panel to Comprehensively Discuss Defense Capabilities as National Strength (hereinafter, the Advisory Panel) was established in September 2022. The report compiled by the Advisory Panel in November noted the need to fundamentally strengthen defense capabilities within five years and advanced the need to take the necessary degree of budgetary measures.⁽⁴¹⁾ The report also stated that the financial resources for strengthening defense capability "should be shared by all generations alive today,"⁽⁴²⁾ and recommended that priority be given to raising financial resources through the reform of government expenditure, and that the public should be asked to shoulder the burden of any shortfall. The report further suggested that the issuance of government bonds should not be a precondition, and that efforts be made to bolster public understanding by clarifying that the burden should be spread across a wide range of tax items to prevent it from being distributed too unevenly.⁽⁴³⁾ Finally, the report asserted that specific measures should be promptly put into practice through the draft of the FY2023 Budget and Tax Reform.⁽⁴⁴⁾

2 *Specific Proposals for the Increase in Defense Expenditure and its Financing*

(1) Scale of Increase Presented in the Defense Buildup Plan

Confirmed in December 2022, the National Security Strategy of Japan stated that it

⁽³⁸⁾ For more details on the recent debate over increased defense expenditure, see: KOMAKI, *op.cit.* (2).

⁽³⁹⁾ This standard is used by NATO to calculate the scale of defense expenditures, which include pensions for veterans and other military personnel and expenses related to the Coast Guard and other services. For details, see *ibid.*, pp.8-9.

⁽⁴⁰⁾ 「経済財政運営と改革の基本方針 2022」(令和4年6月7日閣議決定) p.21. 内閣府ウェブサイト ("Basic Policy on Economic and Fiscal Management and Reform 2022," June 7, 2022, Cabinet Decision, p.21. Cabinet Office website)

⁽⁴¹⁾ 「国力としての防衛力を総合的に考える有識者会議」報告書」2022.11.22, pp.4, 8. 内閣官房ウェブサイト ("Report of the Advisory Panel to Comprehensively Discuss Defense Capabilities as National Strength," 2022.11.22, pp.4, 8. Cabinet Secretariat website). The report recommended that the NATO's commitment be used for reference, but not directly adopted, and that expenditures related to cross-ministry initiatives in R&D, public infrastructure, cyber security, and international cooperation be treated as expenditures that contribute to strengthening the comprehensive defense system (*ibid.*, pp.9, 14-16).

⁽⁴²⁾ *ibid.*, p.18.

⁽⁴³⁾ *ibid.*, pp.18-20. As a "lesson from history," the report cites postwar inflation, which occurred due to the large amount of government debt issued before the end of war (*ibid.*, p.19).

⁽⁴⁴⁾ *ibid.*, p.20.

will take the necessary measures to ensure that its budget for both the fundamental reinforcement of defense capabilities and complementary initiatives reaches 2% of the current GDP in FY2027.⁽⁴⁵⁾ The Defense Buildup Plan, confirmed at the same time as the National Security Strategy, calls for the buildup of its defense capabilities over the five-year period from FY2023 to FY2027 to approximately JPY 43 trillion (including JPY 40.5 trillion in defense-related expenditures associated with budget compilation for each fiscal year),⁽⁴⁶⁾ a significant increase from the level indicated in the previous Medium Term Defense Program (“Mid-term Defense Program”), FY2019-FY2023,⁽⁴⁷⁾ while the amount of defense-related expenditure for FY2027 was set at around JPY 8.9 trillion.⁽⁴⁸⁾

(2) Defense Expenditures in the FY2023 Draft Budget and Measures to Secure Financial Resources

The FY2023 Draft Budget (hereinafter, the Draft Budget) provides (1) specific direction regarding the financial resources for the increase in defense expenditure, and (2) a portion of defense-related expenditure arranged for the first time as expenses eligible for construction bond issuance.

Regarding (1), when the Draft Budget was released, the Ministry of Finance presented a chart titled “Securing Resources Related to New Defense Force Development Plan” (Figure 1).⁽⁴⁹⁾ According to this figure, the additional spending demand from FY2023 to FY2027 is estimated to be approximately JPY 14.6 trillion.⁽⁵⁰⁾ For this additional expenditure, (a) just over JPY 3 trillion will be secured through reform in government expenditure, (b) approximately JPY 3.5 trillion will be secured through utilizing settlement

⁽⁴⁵⁾ 「国家安全保障戦略」(令和4年12月16日国家安全保障会議決定・閣議決定) p.19. 内閣官房ウェブサイト (“National Security Strategy of Japan,” December 16, 2022, National Security Council Decision and Cabinet Decision, p.19. Cabinet Secretariat website)

⁽⁴⁶⁾ The remaining amount of approximately JPY 2.5 trillion is to be secured through the following measures: accelerating the improvement of SDF facilities considering the progress of each project (approximately JPY 1,600 billion), and utilizing additional settlement surplus in the General Account or reviewing projects of low cost-effectiveness, optimizing equipment procurement (approximately JPY 900 billion).

⁽⁴⁷⁾ The expenditure target for the implementation of the defense capability build-up described in this program amounts to approximately JPY 27,470 billion in FY 2018 prices. The annual defense budget target for the implementation of this program is expected to be around approximately JPY 25,500 billion over the next five years. 「中期防衛力整備計画(平成31年度～平成35年度)」(平成30年12月18日国家安全保障会議決定・閣議決定) p.28. 防衛省ウェブサイト (“Medium Term Defense Program (FY2019-FY2023)”, December 18, 2018, National Security Council Decision and Cabinet Decision, p.28. Ministry of Defense website)

⁽⁴⁸⁾ 「防衛力整備計画」(令和4年12月16日国家安全保障会議決定・閣議決定) p.30. 内閣官房ウェブサイト (“Defense Buildup Program,” December 16, 2022, National Security Council Decision and Cabinet Decision, p. 30. Cabinet Secretariat website))

⁽⁴⁹⁾ 「令和5年度予算のポイント」[2022.12.23], p.6. 財務省ウェブサイト (“Highlights of the FY2023 Draft Budget,” [2022.12.23], p.6. Ministry of Finance website)

⁽⁵⁰⁾ Defense-related expenditures (about JPY 40.5 trillion) minus expenditure subject to the Midterm Defense Buildup Program (JPY 25.9 trillion) for each fiscal year’s budget.

surplus, (c) JPY 4.6 trillion – just over 5 trillion will be secured through newly created defense buildup funds,⁽⁵¹⁾ and (d) the remainder will be secured through tax measures.

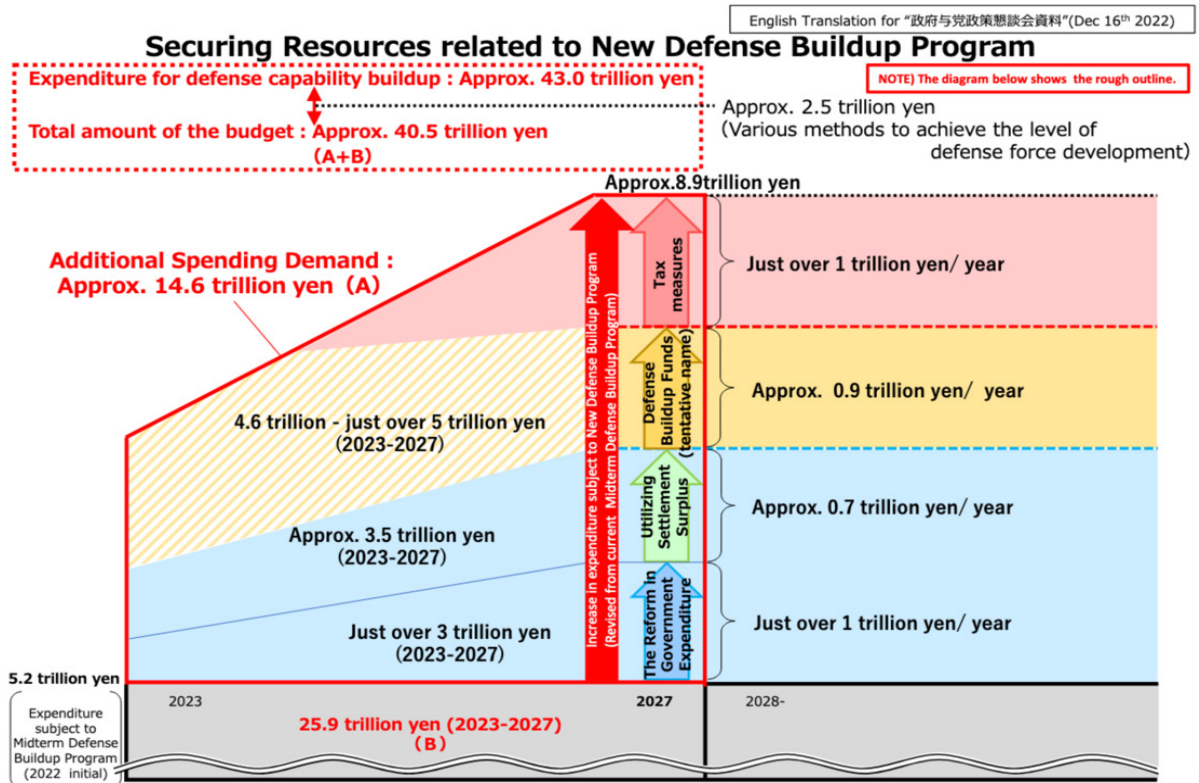
Furthermore, in FY2023, non-tax revenues (approximately JPY 4.6 trillion) were to be set aside to finance the defense buildup (Table 3). Approximately JPY 3.4 trillion, which exceeds the amount needed for that fiscal year, will be transferred to the defense buildup funds in (c) and used from FY2024 onward.

In respect to (2), in the Draft Budget, the expenditures of the Ministry of Defense and the Self-Defense Forces (the “SDF”) for facility improvement and shipbuilding—totaling some approximately JPY 434.3 billion—was included in the budget as expenditures eligible for construction bond issuance for the first time. The government has explained that this measure has been adopted based on the fact that the expenses of facility improvement and shipbuilding in the budget of the Japan Coast Guard and other agencies are considered as types of expenditure eligible for construction bond issuance.⁽⁵²⁾

⁽⁵¹⁾ The government submitted the Bill on Special Measures for Securing Financial Resources Necessary for the Fundamental Reinforcement of Japan’s Defense Capabilities, etc. to the 211th Diet session (2023 ordinary session) to establish the fund. According to the proposed legislation, the fund would be placed in the General Account and administered by the Minister of Finance (Article 7).

⁽⁵²⁾ 渡辺主計官「令和5年度防衛関係予算のポイント」2022.12, p.2. 財務省ウェブサイト (Chief Accountant Watanabe, “Highlights of the Defense-related Budget for FY2023,” 2022.12. p.2. Ministry of Finance website); 「鈴木財務大臣兼内閣府特命担当大臣臨時閣議後記者会見の概要 (令和4年12月23日 (金曜日))」同 (Summary of the Extraordinary Post-Cabinet Press Conference by Suzuki, Minister of Finance and Minister of State for Special Missions of the Cabinet Office, 2023.12.23, *ibid.*)

Figure 1. Securing Financial Resources for the New Defense Buildup Plan



(Sources) 「令和 5 年度予算のポイント」 [2022.12.23], p.6. 財務省ウェブサイト (“Highlights of the FY2023 Draft Budget,” [2022.12.23], p.6. Ministry of Finance website)

Table 3. Summary of Non-tax Revenues to be Secured in FY2023 to Finance the Defense Buildup

Item	Amount (JPYJPY, trillions)
Carryover from Special Accounts	
• Carryover from Foreign Exchange Funds	3.1
• Carryover from Fiscal Investment and Loan Program Funds	0.6
Return to national treasury of unused deposits and funds accumulated as the result of the budgets for COVID-19	
• Return to national treasury of unused deposits from the National Hospital Organization and Japan Community Health Care Organization	0.1
• Return to national treasury of expected unused funds for COVID-19 by Organization for Small & Medium Enterprises and Regional Innovation	0.2
• Return to national treasury of expected unused loan resources related to Temporary Loan Emergency Funds	0.1
Revenues from the sale of government-owned properties	
• Proceeds from the sale of government holdings in “Otemachi PLACE”	0.4
Total	4.6

(Sources) Created by the author based on “Highlights of the FY2023 Draft Budget,” 2022.12.23, p.7. Ministry of Finance website

(3) Tax Measures as a Means of Securing Financial Resources

Approved by the Cabinet on the same day as the Draft Budget, the Outline of the 2023 Tax Reform Proposals included the aforementioned (d) tax measures, which covered measures to increase corporate tax, income tax, and the tobacco tax (Table 4).⁽⁵³⁾ These measures are to be implemented in stages over a period of several years toward FY2027. In that same outline, the timing of implementation was limited to the phrase “the following measures will be implemented at an appropriate time in or after 2024.”

Table 4 Summary of Tax Measures to Secure Financial Resources for the Defense Buildup

Tax Item	Summary of Measures	Estimated Increase in Revenues ^(Note)
Corporation Tax	<ul style="list-style-type: none"> • Impose a new 4—4.5% surtax on corporation tax • Deduct JPY 5 million from the tax base for all companies considering the impact on small and medium-sized firms 	JPY 600 billion— JPY 800 billion
Income Tax	<ul style="list-style-type: none"> • Impose a new 1% surtax on income tax • Reduce the rate of special income tax for reconstruction from the Great East Japan Earthquake by 1% and extend the taxation period to secure the total amount of reconstruction funds. 	JPY 200 billion
Tobacco Tax	<ul style="list-style-type: none"> • Gradually increase tobacco tax equivalent to JPY 3 per cigarette 	JPY 200 billion

(Note) Estimated revenue increase is based on press articles (see Source).

(Sources) Created by the author with reference to 「令和5年度税制改正の大綱」(令和4年12月23日閣議決定) 財務省ウェブサイト(“Outline of the 2023 Tax Reform Proposals,” Cabinet Decision on December 23, 2022, p.109); 「防衛財源 3税1兆円確保へ」『読売新聞』2022.12.17 (“Defense Finance Source to Secure 1 trillion Yen from Three Taxes,” *Yomiuri Shimbun*, 2022.12.17); 「防衛財源に復興所得税案」『朝日新聞』2022.12.13 (“Proposed Reconstruction Income Tax to Finance Defense,” *Asahi Shimbun*, 2022.12.13).

3 Key Opinions on Funding for Increased Defense Expenditure

Various experts have expressed their views on the matter of financial resources for increased defense expenditure. Regarding moves to secure financial resources, some have questioned the approach of discussing the burden without examining the content,⁽⁵⁴⁾ while

⁽⁵³⁾ 「令和5年度税制改正の大綱」(令和4年12月23日閣議決定) p.109. 財務省ウェブサイト (“Outline of the 2023 Tax Reform Proposals,” Cabinet Decision on December 23, 2022, p.109. Ministry of Finance website) For details on tax measures, see 三浦啓「令和5年度税制改正案の概要」『調査と情報—ISSUE BRIEF—』1212号, 2023.1.26, pp. 3-5 (Miura Kei, “Overview of Tax Reforms for FY2023,” *Issue Brief*, No.1212, 2023.1.26, pp.3-5).

⁽⁵⁴⁾ 熊野英生「ちょっと待て、防衛予算」 *Economic Trends*, 2022.12.27. 第一生命経済研究所ウェブサイト (KUMANO Hideo, “Just a Minute, the Defense Budget,” *Economic Trends*, 2022.12.27. Dai-ichi Life Research Institute website)

others have opined that the government should tackle the debate over the public burden head-on.⁽⁵⁵⁾ As for the specific contents of the financial resources, some contend that the sale of state-owned property, the use of account surplus,⁽⁵⁶⁾ and additional taxes on corporate income tax warrant further discussion, as they are not stable financial resources. Others have suggested that the government be cautious about raising taxes at this time.⁽⁵⁷⁾

Experts have voiced both approval and disapproval of the decision to include a portion of defense expenditure in the draft budget as expenditure subject to the issuance of construction bonds. While some see nothing wrong with using government bonds to finance long-lasting vessels,⁽⁵⁸⁾ ports, government buildings, and so on, others regard it as an expansionary interpretation of the Public Finance Act and take a critical view of it.⁽⁵⁹⁾

Conclusion

Increases in defense expenditure are financed by spending cuts, tax increases, or government bond issues. From a standard economics perspective, administrative services that generate benefits for only a single year should be financed through taxation (or spending cuts), while government bond issues may be acceptable for administrative services that generate benefits for multiple years. In light of the purpose of Article 4 of the Public Finance Act, if the government attaches importance to the fact that the overzealous issuance of government bonds in wartime caused inflation and other economic turmoil, there may be doubts as to whether government bonds are an appropriate financial resource for increased defense expenditure. If we are to respect the views of the Advisory Panel, which transcends economic and fiscal boundaries, then all generations alive today should share the burden, with priority given to generating financial resources through the reform of government expenditure, and the public burden considered only for shortfall. The government should not be required to issue bonds, and a wide range of tax items should be

⁽⁵⁵⁾ 松倉佑輔「「負担」議論から逃げるな」『毎日新聞』2023.1.18 (MATSUKURA Yusuke, “Don’t Run Away from the ‘Burden’ Debate,” *Mainichi Shimbun*, 2023.1.18).

⁽⁵⁶⁾ 佐藤主光「経済教室 所得税、課税ベースの拡大を」『日本経済新聞』2022.12.28 (SATO Motohiro, “Economics Classroom: Income Tax, Expanding the Tax Base,” *Nihon Keizai Shimbun*, 2022.12.28); 同「財政健全化「黄信号」自覚を」『朝日新聞』2022.12.24 (*ibid.*, “An Amber Signal for Fiscal Health,” *Asahi Shimbun*, 2022.12.24).

⁽⁵⁷⁾ 田村秀男「防衛増税 国力再生のチャンス潰すのか」『産経新聞』2022.12.17 (TAMURA Hideo, “Defense Tax Hike: Will the Chance to Regain National Strength Be Lost?” *Sankei Shimbun*, 2022.12.17).

⁽⁵⁸⁾ 中里透「増額分用途 議論十分に」『読売新聞』2022.12.17 (NAKAZATO Toru, “Use of Increased Tax Revenues, a Thorough Discussion,” *Yomiuri Shimbun*, 2022.12.17).

⁽⁵⁹⁾ 関野満夫「増税検討に合理性 国債依存のツケは国民に」『朝日新聞』2023.1.16 (SEKINO Mitsuo, “Rationale for Contemplating the Tax Hike: The People Will Pick Up the Tab for the Dependence on Government Debt,” *Asahi Shimbun*, 2023.1.16).

used to ensure the burden is not unevenly distributed.⁽⁶⁰⁾ According to media reports, some Diet members—that is, representatives of the people—are of the opinion that the tax hike is acceptable, emphasizing the need to secure stable financial resources, while others believe that the tax hike should be financed by issuing government bonds rather than raising taxes.⁽⁶¹⁾ The Liberal Democratic Party is also discussing a review of the 60-year redemption rule⁽⁶²⁾ for JGBs.⁽⁶³⁾

Various public opinion polls indicate “wavering public opinion.”⁽⁶⁴⁾ In other words, although there was a high degree of public support for an increase in defense expenditure since the beginning of 2022, surveys conducted after the tax hike policy was announced in December 2022 showed waning support—with similar numbers in favor of and opposed to an increase in defense expenditure.⁽⁶⁵⁾ Regarding financial resources, while many seem to reject tax increases, there is also a sense of anxiety about the postponement of a decision

⁽⁶⁰⁾ 「国力としての防衛力を総合的に考える有識者会議」報告書」前掲注(41), pp.18-19. 内閣官房ウェブサイト (“Report of the Advisory Panel to Comprehensively Discuss Defense Capabilities as National Strength,” *op.cit.* (41), pp.18-19. Cabinet Secretariat website)

⁽⁶¹⁾ 「防衛増税 自民に反対論 年間1兆円 「拙速」「国債発行を」」『読売新聞』2022.12.10 (“Defense Tax Hike: Opposition in the LDP, ¥1 Trillion a Year, ‘Slap-dash’, ‘Issue Government Bonds’,” *Yomiuri Shimbun*, 2022.12.10).

⁽⁶²⁾ The 60-year redemption rule refers to the idea that JGBs as a whole, including refunding bonds, may be redeemed in 60 years. Specifically, the system is based on a certain standard to allocate cash from the fixed-rate transfer (1/60th or 1.6% of the outstanding JGBs) etc. and proceeds from the issuance of refunding bonds to finance the redemption of JGBs when they reach maturity. Each year, an amount equivalent to 1.6% of outstanding JGBs is transferred from the General Account to the Special Account for the Government Debt Consolidation Fund (GD CF), which was established to redeem JGBs and make interest payments. It has been reported that a simple calculation shows that a 20-year extension would secure a JPY 4 trillion source of revenue, the same size as the increase in defense expenditure (「国債返済ルール、見直し議論 自民、「60年償還」の廃止や延長想定 「増税なき防衛費拡大」の財源に」『朝日新聞』2023.1.12 (“Discussion on the Revision of Government Bond Repayment Rules: LDP Envisions Abolishing or Extending ‘60 Year Repayment’ to Provide Funds for ‘Increased Defense Expenditure without Raising Taxes’,” *Asahi Shimbun*, 2023.1.12). However, it also has been pointed out that extending the redemption period is the same as financing increased defense expenditure through increased government bond issuance (野口悠紀雄「日本国民は猿ではないぞ、無から有は生み出せない、国債償還期間延長のトリック」2023.2.12. 現代ビジネスウェブサイト (NOGUCHI Yukio, “The Japanese People Are Not Fools, You Can’t Create Something From Nothing: The Trick in Extending the Bond Redemption Period,” 2023.2.12. Modern Business website)

⁽⁶³⁾ 「防衛財源、増税以外を議論 自民特命委 国債償還ルール議題に」『日本経済新聞』2023.1.20 (“Discussions of Sources of Funding for Defense Besides Tax Increases, LDP Special Mission Committee, Bond Redemption Rules on the Agenda,” *Nihon Keizai Shimbun*, 2023.1.20).

⁽⁶⁴⁾ Presentation by Tsuruoka Michito, Associate Professor at Keio University. 鶴岡路人「日本の防衛費大幅増額が意味するもの：「増税」方針に揺れる世論」2023.1.13. nippon.com ウェブサイト (TSURUOKA Michito, “What a Large Increase in Japan’s Defense Expenditure Means: Public Opinion Wavered by the ‘Tax Increase’ Policy,” 2023.1.13. nippon.com website)

⁽⁶⁵⁾ For example, in an NHK poll conducted on May 6-8, 2022, 14% of respondents said defense expenditure should be “significantly increased,” 38% said it should be “somewhat increased,” 29% said it should “remain the same,” 4% said it should be “somewhat decreased,” and 3% said it should be “significantly decreased.” An NHK poll conducted on February 10-12, 2023, showed that 40% of respondents were in favor of increasing defense expenditure, while 40% were opposed. 「NHK 選挙 WEB」(NHK Election Web)

on financial resources. Moreover, the majority of respondents do not claim that it would be better to rely on government bond issuance.⁽⁶⁶⁾

In this context, the question once again emerges as to whether the increase in defense expenditure, to the scale of “2% of GDP,”⁽⁶⁷⁾ is appropriate in terms of scale, content, and financial resources. In a policy speech, Prime Minister Kishida stated that the government would take “measures to address the declining birthrate that are at a totally different level” and present a general framework designed to facilitate a future doubling of the budget for children and child-rearing by the time Basic Policies of the government are compiled in June.⁽⁶⁸⁾ There are a number of other measures jostling for massive financial expenditures, including GX (Green Transformation). Another point of contention will be which measures to prioritize when allocating financial resources. Human and material resources—the sources of economic growth—are finite, and the pros and cons of devoting them to something that is primarily consumptive, such as defense expenditure, may also be called into question.⁽⁶⁹⁾

⁽⁶⁶⁾ For example, in a poll conducted by Nihon Keizai Shimbun on December 23-25, 2022, 47% of respondents were in favor of increasing defense expenditure while 45% were opposed. Additionally, 50% said that postponing the decision on the start of the tax increase was “not appropriate” while 39% said it was “appropriate” (「防衛力強化「支持」55% 本社世論調査」『日本経済新聞』2022.12.26 (“55% Support Strengthening Defense Forces,” *Nihon Keizai Shimbun*, 2022.12.26)). According to a Jiji Press poll conducted on December 9-12, 2022, 35.5% of respondents were “for” increasing defense spending while 33.6% were “against” doing so. As for measures to secure the financial resources to do so, 38.1% of respondents who were “for” increasing defense spending supported “budget cuts other than defense spending,” 27.1% supported “issuing government bonds,” and 22.2% supported “raising taxes.” (「防衛費増額、賛否が拮抗＝財源確保策、「増税」は22.2%—時事世論調査」2022.12.15. 時事通信社ウェブサイト (“Defense Expenditure Increase, For and Against Evenly Split with 22.2% Supporting Tax Rises According to Jiji Poll,” 2022.12.15, Jiji Press website)) According to a public opinion poll by *Asahi Shimbun* on December 17 and 18 of the same year, 66% were “against” and 29% were “for” the tax increase to fund increased defense expenditure, while 67% were “against” and 27% were “for” issuing government bonds to increase defense expenditure (「敵基地攻撃能力「賛成」56% 年代別、18～29歳が最高 朝日新聞社世論調査」『朝日新聞』2022.12.20 (“56% ‘For’ Enemy Base Attack Capability, by Age, Highest Among 18 to 29-year-olds: Asahi Shimbun Public Opinion Survey,” *Asahi Shimbun*, 2022.12.20)).

⁽⁶⁷⁾ 森信茂樹「こども政策・GX・防衛費「財源3兄弟」先送りで浮き彫り、岸田政権の不安な総合力」2023.1.17. Diamond Online ウェブサイト (MORINOBU Shigeki, “Children’s Policy, GX, Defense Expenditure ‘3 Siblings of Financial Resources’ Postponement Highlights Kishida Administration’s Uneasy Collective Strength,” 2023.1.17. Diamond Online website); 「衆院予算委 立民「防衛費総額43兆円は数字ありき」首相は反論」2023.1.30. NHK ウェブサイト (“Lower House Budget Committee: CDP ‘Total Defense Expenditure of ¥43 trillion is based on numbers’ PM Refutes,” 2023.1.30. NHK website)

⁽⁶⁸⁾ “Policy Speech by Prime Minister Kishida at the 211th Diet Session,” *op.cit.* (1).

⁽⁶⁹⁾ 鎮目雅人「経済教室 財政政策と国債増発の行方(中) 経済力こそ国防の基盤」『日本経済新聞』2023.2.7 (SHIZUME Masato, “Economics Classroom: The Direction of Fiscal Policy and additional Government Bond Issues (2): Economic Power is the Foundation of National Defense,” *Nihon Keizai Shimbun*, 2023.2.7). Using the example of guns (military goods) and butter (civilian goods), Samuelson explains that when production resources are fully utilized, a competitive choice must be made as to production of which commodity resources should be

In his policy speech at the beginning of the 211th Diet session, Prime Minister Kishida explained why the English translation of the Japanese legislative assembly is “Diet” rather than “Parliament,” noting that the root of Diet is a Latin word meaning “day of gathering.” To this he added, “Politics is a process of careful discussion and consideration over time, followed by decisions, which are deliberated upon and then ultimately transitioned into execution by the people's representatives gathered in the Diet.”⁽⁷⁰⁾ At this crossroads in history, which path will our country take? The government is expected to provide explanations to the Diet and the public to ensure that the people are fully represented in the debate.

[List of authors]

Introduction	KAMAKURA Haruko
I What is the Appropriate Source of Funds for Defense Expenditures?	SATO Ryo
II War Expenditure Financing during World War II	SATO Ryo
III Postwar Public Finance Act	SEKO Yusuke
IV Debate Over Financing Increased Defense Expenditure	SEKO Yusuke
Conclusion	KAMAKURA Haruko

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⁽⁷⁰⁾ “Policy Speech by Prime Minister Kishida at the 211th Diet Session,” *op.cit.* (1).