

THE INCOME DISTRIBUTION IN JAPAN

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In this paper the author has attempted to clarify the characteristic of the changes in the income distribution in post-war Japan, in particular from the viewpoint of income equalization. The problem of equalization in income distribution is the most important one for every welfare state, and in the case of Japan, there is a willingness to create a welfare state, whether the trend of income distribution tends towards equalization or not is attracting increasing attention among the authorities and among persons having an interest in Japanese affairs. The results of the author's analyses show an equalization trend up to 1949; an unequalization trend after 1950; and again an equalization trend from around 1965.

INTRODUCTION

There are two different aspects in the problem of income distribution. The first is the distribution of profits and wages corresponding to capital and labour as factors of production, which in Marxist economics has been discussed as the problem of the surplus value rate and in modern economics as that of the distribution of labour income. The second is the problem of the distribution of incomes by the size of income, arguing that portion the high-income classes or the low-income classes gain out of the total national income, or whether the portions swaying in favour of the low-income classes, that is to say, whether the income distribution is tending towards equalization. This second point has generally been treated as the problem of income distribution. The equalization of income distribution is an important issue in the welfare state. No matter how the level of income or of consumption of the average person may rise, the life and welfare of a nation cannot be said to have improved unless matters stand otherwise than that the distribution of wealth and income is so unequal that the rich are ever richer and the poor are all the more tied to poverty. Again, even though the income of the poor may rise, dissatisfaction will grow more severe if the incomes of the rich rises so much as to result in an increase in income differentials.

This paper intends to inquire into the actual conditions of the size distribution of income in Japan, questioning whether it tends towards equalization, and, if so, looking into its causes.

However, the statistical data indicating the actual conditions are so insufficient, and there is much difficulty in the statistical treatment of the minimized returns, either of corporation-retained profits or of the capital gains, that how to approach the actual conditions for overcoming such difficulties will remain an important point of issue.

I. STATISTICAL METHODS AND CLASSIFICATION OF INCOME DISTRIBUTION

The statistical data concerning income distribution in Japan are quite insufficient. The only investigation covering all households at present is the "Shūgyō kōzō kihon chōsa" (Employment Status Survey) executed by the Bureau of Statistics, the Prime Minister's Office in 1956, 1959, 1962, and 1965. This research was made only in respect to income in cash.

Sample surveys of incomes covering all households are the "Shotoku saihaibun chōsa" (Income Redistribution Survey) in 1952 and the "Shakai hoshō kiso chōsa" (Basic Survey of Social Security) in 1962, both carried out by the Ministry of Health and Welfare. Both are single-year surveys. The Income Redistribution Survey, in particular, is quite different from the Employment Status Survey in that the former was made not in respect to income but in respect to expenditures.

As for the distribution of expenditures, the "Kōsei gyōsei kiso chōsa" (Basic Welfare Administration Survey) has been carried out by the Ministry of Health and Welfare every year from 1953 on in respect to a one per cent sample of all households, which is to be compared with the Employment Status Survey.

Surveys of income distribution not in respect to all households are made annually by the following two series. The one is the "Nōka keizai chōsa" (Farm Households Economy Survey) carried out by the Ministry of Agriculture and Forestry, and the other the "Kakei chōsa" (Family Income and Expenditure Survey) carried out by the Prime Minister's Office. Both of these surveys are made in respect to households with more than two members, excepting single person households, and are "sample" researches. The Farm-households Economy Survey covers farm households with more than 10 acres of cultivated land and includes income in kind. A change of samples in 1957 rendered the figures before and after it incomparable. Meanwhile the Family Income and Expenditure Survey has been carried out without interruption since 1951, but it excludes households with more than 10 acres of cultivated land. Regarding the income distribution this survey had been made only in respect to workers' households until 1962, but since 1963 it has been made in respect to other non-farm-households as well. Until 1962 the area of investigation had been limited to the 28 cities with a population of more than 50,000.

In the same series as this survey is the "Zenkoku shōhi jittai chōsa" (National Survey of Family Income and Expenditure) operated by the Prime Minister's Office. This survey was put in force on a large scale in respect to non-farm households all over the country in 1959 and 1964.

As for the income survey on an individual basis, the Prime Minister's Office is producing the "Rōdōryoku chōsa, rinji chōsa" (Special Survey of the Labour Force). This survey has dealt with the incomes of employees including directors of companies, and those of private enterprisers, in March every year since 1952, but the samples are small.

Other surveys of wages are the "Kojin-betsu chingin chōsa" (Individual Wage Survey) in 1948 and the "Chingin kōzō kihon chōsa" (Basic Survey of Wage Structure) after 1954 by the Ministry of Labour. The scope of these surveys is limited to the places of business, exclusive of petty and small enterprises. The Tax Administration Agency's "Minkan kyūyo jittai chōsa" (Research on the Actual Conditions of Non-government Wages) covers only non-governmental enterprises. Since such enterprises as have no tax obligations are excluded from the research, the income distribution of the whole nation was not represented here.

A complaint against these surveys of incomes is that there was no nationwide survey made before 1952 except the one family income and expenditure survey carried out since 1951 in respect to workers' households. But the surveys of 1951 and 1952 show that the income levels of the lowest two classes by the five-grade classification are below that of the government-protected households in Tokyo, which seems to be the result of minimized returns. Therefore, the findings of these surveys after 1953 alone are trustworthy.

The only available survey regarding the period before 1952 is the Tax Administration Agency's income survey of final-return reports, though the scale is limited. The amendment of the Tax Law in 1949 made it difficult to compare the findings of the survey before 1949 and those after 1950, but a rough general situation may be grasped from them.

The pre-war statistical data are less sufficient. The only pre-war survey of income distribution is one made in respect to taxpayers. It covered only 6.8% of all households, the total incomes of which were as little as 16.7% of gross income. In order, therefore, to compare the pre-war conditions and the post-war conditions we must content ourselves with the following two methods: (1) to find out the portion occupied by the same percentage of households before the war out of gross national income, and (2) to compare the change in distribution within the same percentage of households.

The change in income distribution based on the classification by size of income does not indicate the ratio of distribution in the national income, whether it is the nominal amount or real amount. Mr. Gabriel Kolko, the author of *Wealth and Power in America*, pointed out the following two points of the same aspects of the issue saying that the inflation brings about an increase of money income and a rising trend in the distribution without a rise of real income, and for another the real income of a certain class can rise while its portion of the national income decreases.¹

Therefore, the most important problem concerning income distribution is to find out what percentage in the gross national income occupied by a certain percentage of all households and how the ratio has changed. For this purpose we can most appropriately apply the five-grade classification or ten-grade classification. Or we can limit the number of households or individuals of the highest class to one-twentieth (5%) or even to one-hundredth (1%) of the whole, that is, divide the households or persons into 20 or 100

¹ New York, Frederick A. Praeger, 1962, pp. 10-11.

classes. Still further, we can render the average income level of the highest class the figure 100, and observe the differentials of the average income levels of each class below. These two methods will be used jointly in this paper.

II. THE POST-WAR INCOME DISTRIBUTION

1. *The Income Distribution Before 1952—Unequalization After 1950—*

The only available survey made before 1952 is the Tax Administration Agency's one based on final-return income earners. The data show that during the period from 1947 to 1949, 42-45% of all income earners were covered by the survey. Therefore, it will not be improper, if insufficient, to surmise the distribution of all income earners from this survey. By grading the findings of the survey into ten classes, we can see that the income of the highest class decreased from 30.5% in 1947 to 23.5% in 1949 while the income

Table 1. THE CHANGES IN THE INCOME DISTRIBUTION OF
THE FINAL-RETURN INCOME EARNERS (percentage)

	1947	1949	1950	1952	1953	1957	1959
Ratio of Samples to the All Income Earners*	44.5	42.1	12.1	12.0	8.6	7.2	6.3
First Grade	2.5	3.3	5.0	3.7	3.5	4.2	3.3
Second Grade	4.1	5.0	6.0	5.9	4.5	5.1	4.7
Third Grade	5.5	5.9	6.9	6.9	5.7	6.2	5.5
Fourth Grade	6.3	6.7	7.0	7.0	6.5	7.3	5.9
Fifth Grade	7.2	7.9	7.1	7.1	7.0	6.8	6.7
Sixth Grade	8.4	8.6	7.7	7.6	8.2	8.4	7.9
Seventh Grade	9.8	10.0	9.1	8.9	9.4	9.5	8.6
Eighth Grade	11.3	11.6	10.9	11.0	11.2	10.0	10.4
Ninth Grade	14.4	17.5	13.8	13.8	14.3	12.9	13.5
Tenth Grade	30.5	23.5	26.4	28.1	29.7	29.1	33.5

Note: (*) This ratio is calculated assuming together the numbers of individual enterprisers and that of employees given in the Special Survey of the Labour Force as the total number of income earners.

Source: Calculated from the Tax Administration Agency & Tax Bureau, *Shotokuzei hatten no kiroku* (Records of Income Tax Administration in Japan), Tokyo, 1957.

of every other class increased. In this period such measures were taken for the purposes of economic democratization as the dissolution of the *zaibatsu*, the agrarian reform, and the institution of a property tax. These factors may be regarded as the main reason why the income of the higher-income classes was relatively let down. On the other hand, the serious blow the economic stabilization policy of the so-called Dodge Line gave on the class of people who had profited from inflation and blackmarkets might be another influential element.

As for the period from 1950 to 1952, only the above-mentioned survey

made by the Tax Administration Agency gives us information. Out of all the income earners 42.1% had been covered by the survey in 1949, but the amendment of the Tax Law caused the percentage to decrease as low as 12.1% in 1950. I shall therefore direct my attention to the income distribution after 1950, examining its conformity with other statistics.

First, the income distribution of the final-return income earners indicates that the income of the highest class rose from 23.5% in 1949 to 26.4% in 1950 and to 28.1% in 1952, while that of the lowest two classes went down in 1952, although it had risen from 1949 to 1950. This means, consequently, that the income distribution moved in the direction of unequalization from 1949 to 1952.

Other indicators to back this up show a considerable increase of property income concentrated in the higher-income classes. For example, private property income increased by 2.5 times from 1949 to 1952, its rate exceeding greatly the increase of 1.8 times in the gross national income, and the corporation property income increased by 2.28 times from 1949 to 1950 while the national income increased only by 23.5%. Its component ratio in the gross national income amplified from 5.3% to 9.9%. This is proved also by the fact that the ratio of the capital income concentrated in the higher-income classes, is greatly increasing, while the distribution ratio of labour income is decreasing both in the distribution ratio* of national income and in industrial value added. Another index to back this up is the amplification of the differentials between the high-income classes and the low-income classes in respect to labour income. The level of living of the nation immediately after the war went down so low that the wage differentials within an enterprise contracted to a great degree, but they began to amplify along with the rise in real wages. Also the wage differentials between the large and the small enterprises, which is a problem peculiar to Japan, amplified rapidly as demobilization discharge of employees from munitions factories, repatriation of personnel just after the war, and, further, unemployment due to the rationalization of enterprises in accordance with the Dodge Line, accumulated to form an excess population. According to the average wage differentials by scale of business as figured in the Census of Manufactures, the wages in small enterprises with 5-29 employees were as low as 68% of those in large enterprises with more than 1,000 employees in 1947, and went further down to 56.8% in 1953. Judging from the trend these indices show, the rate of income increase of the high-income classes exceeded that of the low-income classes at this period, and as a whole the income distribution evidently tended towards unequalization. This period was limited to the early stage of economic rehabilitation after the war on into the intermediate stage, during which Japan's economy made rapid progress based on a bulky excess population and underemployment but during which the unequalization of income distribution

* remuneration of employees

corporate income + property income + the surplus of the government and public enterprises + remuneration of employees

became more distinct, as is seen in the cases of the wage differentials between small enterprises and large enterprises and of the labour-income distribution.

There is only one index that shows a trend otherwise as this period. It is the Family Income and Expenditure Survey by the Prime Minister's Office. Its five-grade classification shows that the rate of income increase of the lowest two classes was so rapid as to exceed that of all other classes in 1952 and 1953, which proves a trend towards equalization in the income distribution. But the income level of the lowest class at this period is as low as 60-70% of the incomes of the government-protected households in Tokyo. It leads one to assume that returns were minimized, so the income distribution of the Family Income and Expenditure Surveys of 1951 and 1952 should not be regarded as indicative of actual conditions.

2. *The Income Distribution After 1952*

a) Unequalization until 1962; Signs of Equalization in 1965

We can observe the change in incomes after 1952 from the findings of the surveys made in respect to all households or income earners. But these surveys differ in methods and content, and so we cannot compare the conditions from 1952 up to now in one series of investigation.

Table 2. THE CHANGES IN THE INCOME DISTRIBUTION OF ALL HOUSEHOLDS (Including Single Person Households) (percentage)

Classification	1952	1956	1959	1962
First Grade	2.0	1.8	1.5	1.4
Second Grade	4.8	3.8	3.3	3.3
Third Grade	6.2	5.1	4.6	4.7
Fourth Grade	6.5	6.4	5.9	5.9
Fifth Grade	8.0	7.6	7.2	7.2
Sixth Grade	8.5	9.1	8.8	8.6
Seventh Grade	11.0	10.9	10.5	10.3
Eighth Grade	12.5	12.6	12.8	12.6
Ninth Grade	14.8	16.0	16.3	16.2
Tenth Grade	25.7	26.7	29.1	29.8

Notes: (1) Figures for 1952 are calculated by the author based on the Income Redistribution Survey carried on by the Ministry of Health and Welfare. This survey was made only in respect to expenditures.

(2) Figures for 1956, 1959, and 1962 are calculated by the author based on the Employment Status Survey, but this survey covers money income alone.

There is the Income Redistribution Survey made by the Ministry of Health and Welfare in 1962, which was carried out on a household basis, but it was made not in respect to income but in respect to expenditures, lacking, moreover, the distribution of the households with more than two members. As for the conditions in 1956, 1959, 1962, and 1965, the Employment Status Survey of the Prime Minister's Office is available, which is an income

survey on a household basis with an exception in respect to the distribution of single person households in 1965. Consequently, the trend in the income distribution on a household basis of the gross households including single persons can be traced from 1952 up to 1962. The trend up until 1965 has to be surmised in comparison with the households with more than two members excepting single person's, from 1956.

The change in incomes of all households, including single persons, is shown in Table 2 by ten-grade classification. This table covers a period of 11 years from 1952 to 1962. This ten-grade classification was calculated by the author. The table shows that the ratio of the income of the highest class rises constantly from 25.7% in 1952 to 29.8% in 1962. That of the lowest-income class falls from 2.0% in 1952 to 1.4% in 1962. As for the classes in between, the eighth and the ninth had risen as well as the highest up to 1959 but fell in 1962. The four classes from the second to the fifth had tended to fall constantly up to 1959 but remained at the same level in 1962. These changes reveal that the general income distribution had coursed towards unequalization but in 1962 occurred a partial change, though the general tendency remained the same. No income distribution of gross households, including single persons, in 1965 is obtainable.

Table 3 shows the income distribution of general households with more than two members in 1965 according to the Employment Status Survey.

Table 4 figures the non-agriculture-forestry employees' households (including company directors) specially selected from all the households.

Judging from the result given in Table 3 alone, it seems that the income

Table 3. THE CHANGES IN THE INCOME DISTRIBUTION OF GENERAL HOUSEHOLDS
(in yen and percentage)

Classification	1956	1959	1962	1965
First Grade	58,848 (2.4)	61,727 (2.0)	92,406 (2.0)	145,000 (2.2)
Second Grade	104,760 (4.2)	115,000 (3.6)	182,000 (3.9)	281,000 (4.2)
Third Grade	132,000 (5.3)	155,500 (4.9)	242,000 (5.1)	367,000 (5.5)
Fourth Grade	159,600 (6.6)	198,500 (6.3)	297,500 (6.3)	445,000 (6.7)
Fifth Grade	192,000 (7.7)	241,500 (7.7)	353,500 (7.5)	509,000 (7.6)
Sixth Grade	226,800 (9.1)	284,500 (9.0)	414,000 (8.8)	591,000 (8.8)
Seventh Grade	266,800 (10.6)	336,000 (10.6)	483,000 (10.2)	686,000 (10.3)
Eighth Grade	318,000 (12.7)	404,500 (12.8)	578,000 (12.2)	813,000 (12.2)
Ninth Grade	399,000 (15.9)	515,500 (16.3)	732,280 (15.5)	1,019,000 (15.2)
Tenth Grade	645,996 (25.8)	843,428 (26.7)	1,352,276 (28.6)	1,826,000 (27.3)

Source: Calculated from the Employment Status Survey.

Table 4. THE CHANGES IN THE INCOME DISTRIBUTION OF NON-AGRICULTURE-FORESTRY EMPLOYEES' HOUSEHOLDS
(General Households) (in yen and percentage)

Classification	1956	1959	1962	1965
First Grade	90,912 (3.2)	102,944 (2.7)	153,702 (2.8)	227,580 (3.1)
Second Grade	135,000 (4.7)	168,000 (4.4)	249,596 (4.6)	358,350 (4.8)
Third Grade	169,200 (5.9)	214,000 (5.6)	309,276 (5.6)	441,000 (5.9)
Fourth Grade	199,200 (6.9)	257,000 (6.8)	365,000 (6.7)	507,100 (6.8)
Fifth Grade	229,200 (7.9)	301,000 (7.9)	422,135 (7.7)	580,510 (7.8)
Sixth Grade	263,400 (9.1)	345,000 (9.1)	477,280 (8.7)	661,000 (8.9)
Seventh Grade	320,400 (10.5)	394,000 (10.4)	551,200 (10.1)	753,500 (10.1)
Eighth Grade	350,400 (12.2)	460,000 (12.1)	653,760 (11.9)	876,000 (11.8)
Ninth Grade	424,800 (14.7)	568,000 (15.0)	815,400 (14.9)	1,088,400 (14.6)
Tenth Grade	718,452 (24.9)	982,310 (26.0)	1,476,921 (27.0)	1,943,550 (26.2)

Source: Calculated from the Employment Status Survey.

Table 5. THE CHANGES IN THE DIFFERENTIALS OF INCOME LEVEL BY CLASSIFICATION (General Households) (in yen and percentage)

Classification	1956	1959	1962	1965
First Grade	645,996 (100.0)	843,428 (100.0)	1,352,276 (100.0)	1,826,000 (100.0)
Second Grade	399,000 (61.7)	515,500 (61.1)	732,280 (54.2)	1,019,000 (55.8)
Third Grade	318,000 (49.2)	404,500 (48.0)	578,000 (42.7)	813,000 (44.5)
Fourth Grade	266,800 (41.2)	336,000 (31.8)	483,000 (35.7)	686,000 (37.6)
Fifth Grade	226,800 (35.1)	284,500 (33.7)	414,000 (30.6)	591,000 (32.4)
Sixth Grade	192,000 (29.7)	241,500 (28.6)	353,500 (26.1)	509,000 (27.9)
Seventh Grade	159,600 (24.7)	198,500 (23.5)	297,500 (22.0)	445,000 (24.4)
Eighth Grade	132,000 (20.4)	155,500 (18.4)	242,000 (17.9)	367,000 (20.1)
Ninth Grade	104,760 (16.2)	115,000 (13.6)	182,000 (13.5)	281,000 (15.4)
Tenth Grade	58,848 (9.1)	61,727 (7.3)	92,406 (6.8)	145,000 (7.9)

Source: Calculated from the Employment Status Survey.

distribution revealed a slight sign of equalization from 1962 to 1965: the income of the highest class in 1965 survey fell from 28.6% in 1962 to 27.3% in that year and so did that of the ninth class to some degree, while the income of each class from the lowest to the fifth more or less increased and that of the classes from the sixth to the eighth followed a crab-like course. This sign is more distinct in the case of the non-agriculture-forestry employees' general households, first appearing in 1962 when the income of the lowest two classes rose a little. In 1965 the income rate of each class from the first up to the sixth increased, while the seventh class remained on the same level and the classes above saw the income rates fall. The decrease rate of the income of the highest class was particularly great.

Table 6. THE CHANGES IN THE DIFFERENTIALS AND THE INCOME LEVELS BY CLASSIFICATION (Non-Agriculture-Forestry Employees' General Households) (in yen and percentage)

Classification	1956	1959	1962	1965
Tenth Grade	718,452 (100.0)	982,310 (100.0)	1,476,921 (100.0)	1,943,550 (100.0)
Ninth Grade	424,800 (59.1)	568,000 (57.6)	815,400 (55.2)	1,088,400 (56.0)
Eighth Grade	350,400 (48.1)	460,000 (46.6)	653,760 (44.3)	876,000 (45.1)
Seventh Grade	320,400 (42.1)	394,000 (39.9)	551,200 (37.3)	753,500 (38.8)
Sixth Grade	236,400 (36.7)	345,000 (35.0)	477,280 (32.3)	661,000 (34.0)
Fifth Grade	229,200 (31.9)	301,000 (30.5)	422,135 (28.6)	580,510 (29.9)
Fourth Grade	199,200 (27.7)	257,000 (26.1)	365,000 (24.7)	507,100 (26.1)
Third Grade	169,200 (23.6)	214,000 (21.7)	309,276 (20.9)	441,000 (22.7)
Second Grade	135,000 (18.8)	168,000 (17.0)	249,596 (16.9)	358,350 (18.4)
First Grade	90,912 (12.7)	102,944 (10.4)	153,702 (10.4)	227,580 (11.7)

Source: Calculated from the Employment Status Survey.

Tables 5 and 6 show the income differentials with 100 as the index number of the highest class. The differentials of the classes, the index number of the average income level of the highest class being 100, had steadily increased up to 1962 but in 1965 turned to decrease.

The above results indicate steady unequalization after 1950 until 1962 when the first sign of trend towards equalization appeared.

b) The Characteristics of Distribution by Income Classification

I shall now make clear what form of income showed signs of equalization of distribution.

The most typical of all the business statuses of households was in the non-

Table 7. THE CHANGES IN THE DISTRIBUTION OF LABOUR INCOME
(Non-Agriculture-Forestry Employees' General Households) (in yen)

Classification	1956	1959	1962	1965
First Grade	84,960 (3.1)	93,828 (2.6)	143,042 (2.8)	209,070 (3.0)
Second Grade	128,628 (4.7)	156,440 (4.3)	236,467 (4.6)	340,000 (4.8)
Third Grade	161,214 (5.9)	205,091 (5.7)	297,493 (5.8)	424,000 (6.0)
Fourth Grade	189,995 (6.9)	246,327 (6.8)	352,444 (6.5)	484,000 (6.9)
Fifth Grade	218,680 (8.1)	288,262 (8.0)	407,440 (7.9)	554,000 (7.9)
Sixth Grade	251,310 (9.2)	330,510 (9.2)	460,284 (8.9)	626,000 (8.9)
Seventh Grade	289,790 (10.7)	376,597 (10.5)	528,876 (10.3)	726,000 (10.3)
Eighth Grade	336,069 (12.3)	440,393 (12.2)	624,080 (12.1)	844,000 (12.0)
Ninth Grade	401,593 (14.8)	555,596 (15.5)	775,928 (15.0)	1,036,000 (14.7)
Tenth Grade	660,384 (24.3)	908,092 (25.2)	1,347,987 (26.1)	1,800,850 (25.6)

Source: Calculated from the Employment Status Survey.

Table 8. THE CHANGES IN THE INCOME IN MONEY OF WORKERS'
HOUSEHOLDS BY THE FIVE-GRADE CLASSIFICATION
(Monthly Average) (in yen)

	Average	First Grade	Second Grade	Third Grade	Fourth Grade	Fifth Grade
1951	16,532	5,516	11,107	14,830	19,428	31,781
1952	20,822	7,188	14,150	18,744	24,397	39,630
1953	26,025	10,459	17,829	23,372	30,478	47,987
1954	28,283	10,950	19,070	25,039	32,928	53,419
1955	29,219	11,487	19,723	26,009	33,931	54,950
1956	30,923	12,439	21,073	27,426	35,494	58,209
1957	32,758	12,799	22,032	28,782	37,445	62,733
1958	34,753	13,421	23,394	30,734	40,108	66,124
1959	36,954	14,573	25,022	32,974	42,566	69,634
1960	41,020	16,194	27,763	35,940	46,690	78,514
1961	45,292	17,513	30,167	39,635	51,859	87,285
1962	51,009	20,535	35,220	45,668	58,686	94,937
1963	56,893	23,189	39,188	50,761	65,450	105,877
1964	63,676	26,535	44,099	56,730	72,757	118,260
1965	68,618	28,671	47,879	61,585	78,781	126,173
1966	75,372	32,058	53,012	68,104	86,740	141,139

Source: Family Income and Expenditure Survey, cities with more than 50,000 population.

agriculture-forestry employees' households. In 1965 they accounted for 58% of the gross households including single person's; viz., numbering 15,008,000 out of 25,860,000, and 56% of 21,166,000 general households excluding single person's; viz., numbering 11,879,000.

As for the composition by income classification of the non-agriculture-forestry employees' households, earned income accounts for the largest percentage, and property income is the second largest. These together form 97% of gross income. The income distributions of these two forms are figured in Tables 7 and 8.

The distribution of earned income: The earned income of the lowest three classes had already increased in ratio by 1962, although at this stage the distribution of earned income cannot be said to be equalizing because the ratio of the income of the highest class also increased. But in 1965 the ratio of the income of each class below the fourth increased, while that of the fifth, sixth, and seventh classes remained almost the same and that of the highest classes decreased. That is, there is an evident equalization in the distribution of earned income.

A similar trend is shown by the Family Income and Expenditure Survey of the Prime Minister's Office. According to the five-grade classification in the above, the differentials of the average income levels of the lowest two classes to that of the highest class are such that while the highest (the fifth grade) is 100 the lowest class declined from 21.4 in 1953 to 20.1 in 1961, began to increase in 1962, and then went upward to 22.7 in 1966. The second lowest class coursed a similar way, figuring 36.4 in 1953, 34.6 in 1961, and 37.6 in 1966 (See Table 9).

Table 9. THE CHANGES IN THE DIFFERENTIALS OF INCOME BY THE FIVE-GRADE CLASSIFICATION (percentage)

	Average	First Grade	Second Grade	Third Grade	Fourth Grade	Fifth Grade
1951	52.0	17.3	35.0	46.7	61.1	100.0
1952	52.5	18.1	35.7	47.3	61.6	100.0
1953	53.1	21.4	36.4	47.7	62.2	100.0
1954	52.9	20.5	35.7	46.9	61.6	100.0
1955	52.5	20.9	35.9	47.3	61.7	100.0
1956	53.1	21.4	36.2	47.1	61.0	100.0
1957	52.2	20.4	35.1	45.9	59.7	100.0
1958	52.6	20.3	35.4	46.5	60.7	100.0
1959	53.1	20.9	35.9	47.4	61.1	100.0
1960	41.6	20.6	35.4	45.8	59.5	100.0
1961	51.9	20.1	34.6	45.4	59.4	100.0
1962	53.7	21.6	37.1	48.1	61.8	100.0
1963	53.7	21.9	37.0	47.9	61.8	100.0
1964	53.8	22.4	37.3	48.0	61.5	100.0
1965	54.4	22.7	37.9	48.8	62.4	100.0
1966	53.4	22.7	37.6	48.3	61.5	100.0

Source: As in Table 7.

The distribution of property income: The distribution of property income shows a tendency to concentrate in the highest class. The property income of the highest class increased from 48.5% of the whole in 1956 to 71.3% in 1962. That of every other class decreased during this period. But the property income of the highest class fell to 69.7% and that of ninth class recorded a considerable increase, making a U-turn. Other classes saw some rise or fall, but not very different from the ratio in 1962. It has not been explained why the concentration of property income in the highest class abated and the property income of the ninth class increased. In this respect the change in concentration of property income is said to contain unsteady factors, and we cannot, therefore, ascertain the future of this trend.

Table 10. THE CHANGES IN THE DISTRIBUTION OF PROPERTY INCOME
(Non-Agriculture-Forestry Employees' General Households)

Classification	(in yen and percentage)			
	1956	1959	1962	1965
First Grade	300 (1.3)	440 (0.7)	420 (0.4)	645 (0.5)
Second Grade	450 (2.0)	600 (1.0)	751 (0.7)	903 (0.7)
Third Grade	560 (2.4)	860 (1.4)	1,140 (1.1)	1,032 (0.8)
Fourth Grade	850 (3.7)	1,160 (1.9)	1,380 (1.3)	1,677 (1.3)
Fifth Grade	1,080 (4.7)	1,560 (2.6)	1,950 (1.8)	2,451 (1.9)
Sixth Grade	1,210 (5.2)	1,930 (3.2)	2,440 (2.3)	2,838 (2.2)
Seventh Grade	1,620 (7.0)	2,620 (4.3)	3,970 (3.8)	5,031 (3.9)
Eighth Grade	1,930 (8.4)	3,760 (6.2)	7,100 (6.7)	7,869 (6.1)
Ninth Grade	3,870 (16.8)	6,690 (11.1)	11,220 (10.6)	16,512 (12.8)
Tenth Grade	11,190 (48.5)	40,949 (67.6)	75,510 (71.3)	90,042 (69.8)

Source: Calculated from the Employment Status Survey.

Anyhow, the trend towards equalization of income distribution that the survey of 1965 proved can be said to appear both in earned income and property income.

3. *The Adjustment of Minimized Returns and Corporation-Retained Profits*

A view of the income distribution from the income surveys offers the following points of issue. (1) Minimized returns, (2) Corporation-retained profits, and (3) Capital gains.

There are quite a few omissions in returns of earned income in every country, but the ratio of minimized returns is extremely high in the case of property income or enterprise's income. For this reason we must correct

excessive omissions in returns in order to comprehend the income distribution properly. So in this paper revisions are made in the earned and the property income which form the highest ratio, not for all households but only for non-agriculture-forestry employees' households.

Revisions are made by comparing the gross income amount given by the Employment Status Survey and the national income by income classification, and by amplifying the income of each size recorded in the survey according to its proper ratio. Mr. G. Kolko states in his *Wealth and Power in America* that "The nonreporting rate tended to be higher in blocks with higher rent levels and with larger proportions of families at upper-income levels, ranging from about 1 per cent at the under- \$1,000 level to 35 per cent at the \$10,000 and over levels," (p. 21) citing the surveys of the U. S. Labor Statistics Bureau. There has been no study of the ratio of non-returns by income classification in print in Japan. So I was obliged to assume that the ratio of the non-returns was invariable in each class.

The estimation shows that the earned income (excluding the enterprisers' burden of social premium) in the national income was larger than the total amount of earned income figured in the Employment Status Survey by 13.5 % in 1959, 5.5% in 1962, and 6.2% in 1965. (The national income years to be compared with this survey are the 1958, 1961, and 1964 fiscal years, beginning in April of each year.)

Meanwhile, the returns of property income figured in the Employment Status Survey are too little in amount. Excepting the estimated land-and-house rent assessed on the land and house for private use, the property income in the national income amounted to 4.88 times as much as figured in the Survey in 1959, 5.30 times as much in 1962, and 6.14 times as much in 1965.

The revision of these two forms of income will modify the income ratio of the highest class of the non-agriculture-forestry employees' households from 26.0% to 28.0% for 1959, 27.0 to 30.1 for 1962, and 26.2 to 29.8 for 1965.

The second question is that of the held-over profits accumulated within corporate enterprises without being distributed in among individuals. Mr. Victor Perlo, who criticizes Kuznets' theory of income revolution, states that Mr. Kuznets underestimates the income of the high-income classes considerably by omitting the held-over profits within the corporate enterprises.

In America, too, the large capitalists' attitude towards dividends had changed and in 1920 a large portion of dividends and interest was appropriated for investment in order to increase profits. In the 1930's the greatest portion of profits was retained within the existing companies so that it might be used for the enlargement of their scale of operation and for future prospects. For example, in 1929 the corporations paid \$5.8 billion of dividends after tax compliance and reinvested \$ 2.6 billion of profits. But in 1948 they paid \$7.2 billion in dividends and retained \$13.5 billion in profits (twice as much as the dividends) within the companies for reinvestment.²

² United States Department of Commerce, *National Income*, 1951 edition, p. 150, Table 1, Income by Distribution Shares.

Table 11. (A) Revision of Minimized Return (in thousand million yen)

	Employment Status Survey				National Income Statistics		
	July 1959	July 1962	July 1965	1958	1961	1964	
Earned Income	40,823 (1,000)	68,491 (1,000)	108,095 (1,000)	46,344 ¹⁾ (1,135) ²⁾	722.32 (1,055) ³⁾	114,789 (1,062) ³⁾	
Property Income	—	—	—	130.9 ³⁾	230.1	3,702	
Rents	—	—	—	353.1	678.1	11,102	
Interests	—	—	—	131.9	2,707	4,402	
Dividends	1,262 (1,000)	2,215 (1,000)	3,129 (1,000)	6,159 (4,880) ³⁾	11,789 (5,300) ³⁾	19,206 (6,136) ³⁾	
Total							
(B) Non-Agriculture-Forestry Employees' Households (in yen)							
	All Grades Total			10th Grade			
1959							
Earned Income	3,601,136 × 1.135 = 4,087,289			908,092 × 1.135 = 1,030,684			
Property Income	60,569 × 4.880 = 295,577			40,949 × 4.880 = 199,828			
Revised Income	3792,254 + 486,153 + 235,008 = 4,513,415 (100.0)			982,310 + 122,592 + 158,879 = 1,263,781 (28.0) ⁴⁾			
1962							
Earned Income	5,174,041 × 1.055 = 5,458,614			1,347,987 × 1.055 = 1,422,126			
Property Income	105,881 × 5.300 = 561,169			75,510 × 5.300 = 400,203			
Revised Income	5,474,270 + 284,573 + 455,288 = 6,214,133 (100.0)			1,476,921 + 74,139 + 324,693 = 1,875,753 (30.1) ⁴⁾			
1965							
Earned Income	7,043,920 × 1.062 = 7,480,643			1,800,852 × 1.062 = 1,912,503			
Property Income	129,000 × 6.136 = 791,544			190,042 × 6.136 = 576,798			
Revised Income	7,436,990 + 436,723 + 662,544 = 8,536,257 (100.0)			1943,550 + 111,653 + 486,756 = 2,541,959 (29.8) ⁴⁾			

Notes: (1) Including wages, salaries, other forms of salaries, etc.

(2) Excluding the estimated house-and-land rents.

(3) Ratio to the Employment Status Survey.

(4) Ratios of income of the tenth grade to the total income of non-agriculture-forestry employees' general households.

In Japan, the portion of individual dividends in net corporate profits was overwhelmingly large before the war. The average portion of dividends was 62% in 1934-1936. But after the war the portion of profits held over rapidly increased, the average portion of individual dividends out of the net profits in 1961-1962 being as small as 14% while all the rest, amounting to 86%, was appropriated for reinvestment aiming at profit increase. The held-over profits would naturally be distributed to shareholders.

Table 12. DIVIDENDS OF HELD-OVER PROFITS WITHIN CORPORATE ENTERPRISES

	(A) Individual Dividends (in thousand million yen)	
	Held-over Profits	Individual Property Profits
1958	466.1 (75.7)	615.9 (100.0)
1961	1,081.9 (91.8)	1,178.9 (100.0)
1964	1,192.2 (62.1)	1,920.6 (100.0)

	(B) Dividends to Each Class (in yen)	
	All Grade Total	10th Grade
1959		
Revised Income ¹⁾	4,513,415	1,263,781
Held-over Profits	223,751	151,269
Total	4,737,166 (100.0)	1,415,050 (29.9) ²⁾
1962		
Revised Income ¹⁾	6,214,131	1,875,753
Held-over Profits	515,651	367,386
Total	6,729,782 (100.0)	2,243,139 (33.3) ²⁾
1965		
Revised Income ¹⁾	8,536,257	2,541,959
Held-over Profits	491,539	358,192
Total	9,027,796 (100.0)	2,900,151 (32.1) ²⁾

Notes: (1) Taken from Table 11.

(2) Ratios of the income of the tenth grade to the total income of the non-agriculture-forestry employees' households.

Source: For (A): National Income Statistics.

As the share-holding status of each class is not clear enough to indicate the distribution to the shareholders, the distribution of individual property income is applied here. As a result, the share of income of the highest class accounted for 29.9% of the whole in 1959, 33.3% in 1962, and 32.1% in 1965. These figures are about 3% above the ratio of income after the revision of minimized returns. But the comparison of 1962 and 1965 shows some decrease

of returns in 1965 even after the revision. There are some questions left concerning the change in concentration of property income in 1965, but it will not be erroneous to consider that signs of equalization of income distribution began to appear in 1962 into 1965.

The last question concerns capital gains which are the profits produced by the difference between purchase prices and sale prices through transactions in stocks or land. Capital gains must be sharply distinguished from other forms of income, say some; what are called capital gains are mostly the same as the common forms of income, or, further, arise indirectly out of the accumulation of common income, say others. The author is of the latter opinion. As for the conditions in Japan, capital gains from land investment should be considered quite large, since the price of land is continuing to rise rapidly while stock prices rise little. Moreover, it will not be wrong to think that these forms of income belong to the high-income classes though it is difficult to estimate their income.

4. Comparison of Conditions Before and After the War

It is generally accepted that the post-war income distribution tends greatly towards equalization when compared with the pre-war income distribution, and the reasons are assumed as follows: (1) That the *zaibatsu* such as Mitsui, Mitsubishi, and Sumitomo that had occupied a large portion of capital and income before the war were dissolved after the war and a large part of their capital was collected by the government as property tax. Also the large landowners who had gathered high farm rents lost much of their land by the agrarian reform. (2) That the tenants who had been poorest before the war came into possession of some portion of cultivated land and the high farm rents were corrected by the same reform. (3) That the enactment of the Livelihood Protection Law secured the minimal living level of the nation. In short, these measures for democratization or social policies accelerated the move towards equalization of income distribution after the war.

Surveys of such nations as the United States, Great Britain, and Sweden do show statistically the trend towards equalization of income distribution after the war, although this statement is open to criticism.

As I said before, the only statistical datum of the pre-war income distribution obtainable is the statistics of the income-tax payers, who amounted to only 6.8% of all households in 1935. It is not, then, proper to compare the income distribution within 6.8% of households and that distribution of all households after the war.

One method of comparison is to estimate what ratio the highest 6.8% of households after the war occupied in the gross income and then to compare it with that before the war.

An estimation by this method indicates that the income of the highest 6.8% of households in 1959 amounted to 17.2% of gross individual income (the national income of 1958), which differed little from the figure of 17.7% in 1935. It reached 22.5% of the gross income represented in the Employment Status

Table 13. COMPARISON OF THE RATE OF INCOME OF THE HIGHEST 6.8% HOUSEHOLDS IN 1935 AND 1959 (in yen)

	1935	1959
All Households (actual figures)	13.85 million (100)	22.52 million (100)
Numbers of the Highest 6.8% Households	942,000	1,386,000
Gross Income (individual income in the national income)	12,786 million (100)	78.068 billion (100)
Incomes of the Highest 6.8% Households	2.263 million ¹⁾ (17.7%)	13.422 billion (17.2%)
Ratio of the Incomes of the Highest 6.8% Households to the Gross National Income Given in the Employment Status Survey		22.5% ²⁾

Notes: 1) Based on *Shotokuzei hatten no kiroku*. This figure includes incomes of all members of the household.

2) Calculated from the Employment Status Survey.

Survey, which led to the conclusion that there was no considerable change in the ratio the high-income classes accounted for in the gross income. Within the highest-income class, however, which is 6.8% of all the households, the concentration in the higher-income class was to an overwhelming degree in the pre-war period compared with 1959, and inequality of distribution is evident here. From these findings we can say that the income concentrated abundantly in a minority represented by the *zaibatsu* before the war, that the increase of income is seen in the second highest-income class of people after the war, and that for this reason the highest 6.8% of households after the war differs little from that before the war in the income ratio. In the post-war period, from immediately after the war to 1949, a series of democratizing policies was carried out, and the income distribution moved widely towards equalization. But after 1950 it turned towards unequalization and endured until 1959. Therefore, we cannot say that the income distribution in this period was more equalized than before the war.

III. THE FACTORS OF THE CHANGE IN INCOME DISTRIBUTION

The post-war income distribution was broadly equalized from immediately after the war until about 1949, and after 1950 showed a tendency to unequalization, but after 1962 it again showed signs of equalization. "What are the factors that caused this change after 1962? The fundamental factors may be summarized as follows: (1) The labour market began to shift from surplus to shortage. Until 1962 a large wage-differential was formed between the large enterprises and the small enterprises based on the excessive surplus of labour and extremely low wages and minimal income-classes existed. However, after 1962 the increase of the demand for labour, together with

resulting decrease in the excess labour population made it possible that the wages of petty and small enterprise workers or of day labourers, which had been extremely low, rose at a higher rate than those of the large-enterprise workers. This resulted in a relative increase in the incomes of the low-income classes. (2) As the labour market began to shift, the rate of labour distribution began to rise, and the percentage of the capital income belonging to the high-income classes began to decrease, though little. This may have had an effect as an element decreasing the rate of income increase of the high-income classes. (3) The standard of livelihood protection which secures the minimal level of living has risen above the rate of income increase of the income-earners' households. This, too, helps to raise relatively the incomes of the low-income classes. (4) Moreover, in Japan the seniority-order wage system is adopted so that the wages of the younger generation are low and those of the middle and older generation are high. But the demand for younger labour force is so stringent that starting salaries have been raised by a wide margin, in addition to which salaries are now raised by a uniformly fixed amount, by which the younger generation partakes of an equal amount

Table 14. TREND OF DEMANDS FOR LABOUR FORCES

(in thousand persons)

	Effect Job-Orders (A)	Effect Job-Hunters (B)	Ratio $\frac{(A)}{(B)}$
1949	590	285	2.1
1950	840	211	4.0
1951	914	294	3.1
1952	1,003	308	3.4
1953	992	349	2.9
1954	1,166	348	3.4
1955	1,283	358	3.6
1956	1,199	458	2.6
1957	1,180	572	2.1
1958	1,407	547	2.6
1959	1,341	680	2.0
1960	1,191	881	1.4
1961	1,139	1,093	1.0
1962	1,211	1,224	1.0
1962*	1,418	2,015	0.7
1963*	1,501	2,362	0.6
1964*	1,512	2,710	0.6

Note: * Before 1962 the numbers of job-orders and job-hunters for newly graduated students from April to December in each year were summed up in January of the next year, but from January 1962 on they were totalled in each month from April to March of the next year. This change in the method of calculation causes the difference in numbers shown in the table.

Source: Based on the survey by the Employment Security Bureau, the Ministry of Labour.

of rise with the older generation. This helps to diminish wage differentials between the high-income and low-income classes.

We shall now look at the changes in the labour market. From 1949 to 1955 the ratio of job-orders and job-hunters was one to three or four, the supply being entirely excessive. During this period the wage differential amplified and the distribution rate of labour incomes continued to fall, the income distribution being ever more unequalized. After 1956 the job-orders began to increase and in 1961 job-orders and job-hunters were balanced. Of course the balance between the gross job-orders and the gross job-hunters does not necessarily make supply and demand even, for the quality of labour power and the kinds of work, too, are influential elements. In 1961 the job-orders for new middle and high school graduates exceeded the supply. In the meantime, the supply of middle-and-older aged workers remained excessive. The wage differential between the large enterprises and the small enterprises as viewed by age classification of male labourers began to decrease around 1956, but gross households' incomes by the five-grade classification of income-earners' households show a decrease in the differentials after 1962. Meanwhile, both the distribution ratio* of the national income and the distribution ratio of industrial value added began to rise in 1961.

We can conclude that the distribution ratio of capital income turned to

Table 16. RATE OF AVERAGE INCOME INCREASE OF INCOME-EARNERS' HOUSEHOLDS AND RATE OF LEVEL-UP OF THE STANDARD OF LEGAL PROTECTION (percentage)

	Income-earners' Households ¹⁾	Standard of Legal Protection ²⁾
1954-1957	15.8	8.4
1957-1960	25.2	7.8
1960-1963	38.7	60.3
1963-1965	20.6	27.4

Sources: (1) Family Income and Expenditure Survey, Real Income.

(2) Ministry of Health and Welfare, *Kōsei hakusho 1965* (Report on Public Welfare for the Year 1965), Tables 10 and 11.

* The formula of calculation is given on page 355.

Table 15. THE CHANGES IN THE DISTRIBUTION RATIO OF THE NATIONAL INCOME

1934-36	56.6
1948	95.0
1949	81.8
1950	76.8
1951	82.1
1952	79.4
1953	77.9
1954	76.4
1955	77.3
1956	75.5
1957	70.8
1958	73.6
1959	70.6
1960	67.1
1961	67.2
1962	69.7
1963	69.4
1964	70.7
1965	73.3

Source: Calculated from the Economic Planning Agency, "Kokumin shotoku tōkei" (National Income Statistics). The formula of calculation of the distribution ratio is the same as given in page 355.

relative decrease, though little, about this period. The signs of equalization began to appear directly or indirectly as the incomes of the low-income classes were relatively raised and the incomes of the high-income classes were lessened. The rate of level-up of the standard of legal protection began to exceed the rate of average income increase of income-earners' households after 1961. This worked to raise relatively the income of the low-income classes.