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Some New Proposals for Japanese Agricultural Policies under the Possible Phase of "Farm Problems"

By

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Introduction

It is not too much to say that the political situation in the world today has caused a crisis in Japan's agriculture. The problem is, "Farmers are 15-16% of the population and their families comprise

25% of the population. Can we leave Japanese agriculture as it is?" From the viewpoints of industry, welfare, and changing conditions, it appears extremely difficult to bring Japanese agriculture in balance with the world situation and the Japanese economy.

Under these circumstances, people, not to mention farmers, have begun to distrust Japan's agricultural policies. This distrust grows greater and greater day by day. Farmers' and consumers' attitudes towards present agricultural policies differ. There is much antagonism and disagreement between different types of farmers (rice farming, other crops farming, and livestock) about how to coordinate the basic policies of the nation.

The great problems of Japanese agriculture today are the dollar crisis with the resulting upvaluation of the yen, and the liberalization of importing agricultural products. On the other hand, the domestic problems are rice production control and the crop damage because of the cold which affects most of Japan, especially Northern Japan.

When people concerned with agriculture look at these problems, they have misgivings about the future of Japanese agriculture. Therefore, all types of farmers want very much for the Japanese government to map out a firm agricultural policy. While, the general population thinks, "Why don't rice prices go down since there is a surplus?" and "How could we export non-agricultural products, if we don't import agricultural products?" Furthermore, they insist that no matter how much government would aid agriculture, prices could never be low because of the 1-hectare farms of Japan, and therefore, by importing, people could buy farm products much cheaper, which might bring about lower prices of domestic farm products.

It is common knowledge that many economists doubt the value of spending a lot of government money in districts which frequently have natural calamities, and, that the importation of agricultural products should be promptly increased. The consumers seem to hope to buy

consumer goods, including farm products, at lower prices. The general population seems to think that there would be a brighter future if only farm products could be imported so they could export their own goods. This opinion, I think, doesn't show a balanced view of the overall national economy. The deferment of the consumption price of rice means that if C.P.I. (Consumer Price Index) is increased by 6.5-7.0% annually, the consumer price is lower in reality. As for rice paddy farming, I suppose very few suburban farmers, who carried out rice production control, will continue farming longer than five years. The following can be concluded. Suppose these petty suburban farmers would stop farming after five years; while the rice consumed per capita may not decrease any more. Then, the supply and demand for rice would offset each other. About the same amount of rice as is produced at present would be in demand; and, eventually, rice may be in demand in a few years. In reality, rice shows a possibility of being in demand this year. Most agricultural products, besides rice and eggs, are not in demand under the open-system of international trade. It can also be said that the degree of food self-sufficiency is none too high, and food pollution with insecticides and pesticides will increase production costs and prices of farm products. However, if farm products and other consumer goods were imported, would they be sold at drastically lower prices? Some say that prices would not be so much lower than present prices because of the long-standing relationship between both traders, the oligopolistic character of import traders, and the antiquity of the domestic marketing channel.

On the other hand, if Japan were to liberalize one by one those agricultural products, which they are now being requested to do, large quantities of milk products would have to be imported from America, Europe, and New Zealand, because of England's joining EC. Also corn starch and many kinds of beans would be imported from America and mainland China. Furthermore, it is thought that Southeast Asia and

other developing countries will ardently urge Japan to import farm products from them for balance of international payments, and not for foreign aid. The CIF price of these farm products to be imported to Japan will actually be almost half as much as the domestic farm products. Yet, with such problems as the upvaluation of the yen and the US import surtax, if Japan had a depression and the rate of growth of Japanese economy fell down to half; there is great concern that the farm economy of Japan would certainly receive a death blow.

Under these circumstances, I think that the formation of a firm agricultural policy, which is acceptable to the people, is necessary. Also, we need to consider how to adjust foreign and domestic policies to a new agricultural policy. I now will describe a new concept for an agricultural policy which is somewhat different from existing ideas.

The five premises are as follows:

1. The government should, on the basis of the progress of developed countries, consider only those policies that are lasting and flexible, rather than expedient and superficial policies.
2. It is thought that the Japanese government, until now, has been passive and static towards agriculture. From now on, however, the government should be a dynamic force in the overall economy, including changing agricultural prices, the labor force, funds, and so forth.
3. First, I think increasing exports of non-agricultural products is absolutely necessary as a long-term policy. This will increase GNP and tax receipts, and fulfill the economic function of agricultural policy. This, eventually, will maintain and develop an optimal balance of essential farm products to superior goods, which are competitive in international trade. Furthermore, this balance will raise the people's living standard, lower the import prices of non-agricultural products, and will increase exports. On the other hand, it is considered that we will have to accept the some importing of agricultural products to a certain extent, in order to increase the export of non-agricultural products. It

should also be taken into consideration that there are some foreign products which consumers want. Therefore, free trade should be encouraged and should be a basic, long-term policy. Therefore, Japanese farmers should not have low incomes. Agriculture needs to provide industry with needed labor. As described below, only a small number of licensed and trained farmers should produce large quantities of essential agricultural products and special agricultural products to compete with the imported products. Assuming that agricultural productivity followed by the above pattern, we will not object to the gradual decrease of import duties for agricultural products.

4. We should not think that the public could support poor farmers with limitless financial resources. The "dependence effect" [1] in an affluent society should not let the compensation policies [2, p. 15] in agricultural administration go too far. This means, on the one hand, we should keep in mind the tax colony, and on the other hand, the spite effect [3, p. 240] from the agricultural sector to the government.

5. In conclusion, the agricultural policy is, of course, a part of politics. Therefore, if the farm population decreases remarkably, the opinion of this minority would not be effective — a democratic principle. For this reason, the people concerned with agriculture should politically show a logic which is very convincing to the other sectors, without falling into agrarian fundamentalism [4, pp. 7-9].

From the above analytic viewpoint, I will describe concrete proposals for the agricultural policies, which are the important contents of this thesis. This manuscript contains the additions and amendments to the "Proposals to Japanese Agricultural Policies under the Possible Phase of Farm Problems" presented to the Science and Technology Agency of Japan.

I. Basic Goals of Agricultural Policy

1. National Economy

From the viewpoint of the national economy, the basic goals of our agricultural policy has so far been occupied with such problems as i) degree of food self-sufficiency; ii) the rational allocation of agricultural land, labor force, and capital in the agricultural sector, or supply of these for the development of non-agriculture; and iii) whether agriculture could play as big a role as the buyer's market in the whole economy. However, I would like to put emphasis on the following points of view:

First, government should adopt an appropriate degree of food self-sufficiency on the basis of the standards of low cost as compared with international trade price, nutrition and taste. As the result, we should supply almost all of our own rice and two thirds of the other agricultural products we use. For this reason, I would like to see our resources efficiently allocated as described hereinafter.

Agriculture should contribute to the national economy through its marketing policies. That is, food and the input goods such as land, labor, capital, etc., should be bought and sold at proper prices. Furthermore, the contribution of agriculture to the distribution of income is in its fair income distribution of agricultural products, and the consumption of good food even by low income people.

2. Personal Economy

It is necessary to equalize the income of industrial sectors on the basis of high productivity and competitive power in international trade. The equalization of farm income should be considered not only for urban workers, but also for individual small businessmen. Agriculture should contribute, as high savings ratio and domestic consumption market, to the national economy.

II. Some New Proposals for Japanese Agricultural Policies

1. National Economy

(i) Domestic Food Demand and Economic Efficiency of Resource Supply

(a) If the arable land per farm is not increased, Japanese agriculture could not show economic efficiency, regardless of how much government funds it received, because of the yen revaluation and trade liberalization. Apart from the fact that an average American farm is 140 hectares; the arable land per farm in Japan should be increased to compare with the 11 hectares in West Germany, Belgium, and Holland, and 7 hectares in Italy. Hokkaido averages 5 hectares per farm. The central government should buy up land now, when the market price is much lower than usual. Land which was about \$1,000 per 10 ares is now about 1/3 of that under the rice production control program. Yet, most of the land is unsold. As for old farmers I would like to propose that the Japanese government buy their farms. The government should provide them with an old-age pension and buy their farms at a price that compensates for the income they lose by receiving the pension, rather than farming. The government, then, should sell those farms to young, enthusiastic, and able farmers at the buying price plus the cost of the necessary clerical work.

Therefore, public organizations should be established, and the loans for buying land should be on easy terms. Also, the maximum pension for people over 60 years old, after 20 years of payment, is ¥18,800 monthly. The conditions for pension installments should be eased, at least during rice production control, by special national legislation, so that there could be more land mobility [5, pp. 19-20]. This is the basic foundation of the productive policy, and must be carried out now.

As for the increase of arable land per farm, the central government has emphasized, from the viewpoint of the whole economy, the problems of land acquisition and land utilization, when carrying out public works as one of means of short term fiscal policies. Therefore,

the national opinion seems to agree with carrying out this program and expanding the arable land per farm.

(b) The government loans and interest rates in accordance with the yield on capital are necessary. Although this appears to signal a deterioration in loan quality [6, p. 13], it takes a clear stand for the preferential measures for funds, considering the degree of food self-support and the regional specialization of agricultural production.

(c) It is necessary to have a system of extension specialists on farm loans and management. Along with the present extension service system for agricultural technology, specialists on farm loans and management improvement is necessary in order to assist the new farming [7, p. 62].

(d) When some fundamental changes occur to the regional development map, the map must be amended.

(2) National Economy and Farm Produce Prices

This is a matter concerning the overall economic policy. However, this should be considered a basic agribusiness matter, at least as long as it is concerned with agricultural policy. Take this into consideration in the following.

(a) First, let me take the rice price policy in regards to the surplus. In California, U. S. A., "Cal-Rose" and "Botan" are beautifully polished and they are as tasty as the best rice produced in Japan. Yet, the price is almost half as much [8, pp. 18-19]. In order to balance demand and supply, *the farmers' rice prices should be gradually lowered*, in accordance with the flexibility of rice price and international rice price [9, pp. 44-56]. This means that the price should not merely be lowered; but, as described later, the reduction should be taken into consideration in the income compensation program.

The price for rice received by farmers is fixed each summer, after farmers have completed rice planting, etc. It is more desirable to decide the rice price in the middle of January, within the previous

67]. The diagram shows i) how increased rice prices affect the purchase price of farming commodities, and this influences the maintenance and development of agricultural incomes. The diagram also shows ii) how increased rice prices would affect the commodity prices and the total amount of exports. This is showed by a method using the coefficient of simple elasticity or cross elasticity, which Dr. K. Fox once used [13, pp. 242-243].

An example from the date of the period 1956c1967 is as follows:

The increased rice prices received by farmers during this period greatly affects the increase of rice prices paid by consumers. However, it accounts for 8% of the primary factor for raising wages of the following period. The problem is its influence to commodity prices. The rice price paid by consumers accounts for less than 20% of the primary factor for raising general commodity prices [12, p. 67]. Therefore, the gradual lowering of rice prices received by farmers is thought to eliminate the main factors for raising commodity prices peculiar to the rice price in the short run, by deferring the rice price paid by consumers, which I will describe later. The annual price average shall be changed every five years or the policy shall be amended. During this period, market information shall be provided for farmers.

For example, if the rice prices received by farmers is lowered from about \$380 to \$300, there will be price differences among the grades of rice quality. However, for the first five years, the prices will be converted by the relative price in real terms, evaluating possible changes of the rice price itself and the purchase price of commodities for farming. The lowered difference of the the price is to be compensated [14, p. 199]. The compensation is the price difference multiplied by, for example, the number of deliveries to government of the fiscal year 1969. However, the compensation does not necessarily need to be based upon this. Each farm will be able to select from (1) subsidies for peculiar input goods to rice production, (2) subsidies for pe-

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cular input goods to fields converted from rice, (3) subsidies for temporary cancellation of rice production, and (4) grants for the cancellation of farm business. For example, the amount of (1) subsidy will be 10% less than the others, and (2) subsidy will be 20% less than the others. The differences will be allocated to (3) and (4). Although the amount for this compensation may exceed the total national budget for agriculture and forestry; it is expected that by subsidizing input goods for agricultural production, the productivity will increase, and the economic effects of resource allocation (conversion to other crops from rice, cancellation of farm business, etc.) will be heightened [15, pp. 69-70]. Furthermore, grants for the cancellation of farm business will be promoted along with the programs in the income redistribution policies.

It is expected that these policies, will encourage conversion to other crops from rice and that there will not be a rice surplus. However, as long as the rice supply exceeds the demand, the rice price of some farmers cannot cover the average production cost. If this is the case, it is thought that those farmers who cannot determine the rice price will reply, "What is the difference between us farmers and the public service personnel whose wages rise when the wages of other industries goes up?" The standpoint of the farmers is different from the public service personnel. The demand for the services of public service personnel exceeds the supply especially in such fields as pollution, social security, education, etc. As for rice, its demand is over the supply.

A big merit of the above-said subsidies for peculiar input goods is that they have a strong persuasive power not only to producers but also to consumers. Consumers and tax payers criticize that i) raising the rice price will lead to a hike-up of commodity prices, and ii) when farmers succeed in raising rice price and increasing their income, they may possibly turn the whole income to consumption, and not to investment at all. However, the subsidies for certain input goods will cer-

tainly lead, even to a very small extent, to the development of productivity through the use of these production goods.

If the rice price paid by consumers (rice price received by producers plus governments cost) remains big enough to make a profit in the rice control accounts, no factors for raising commodity prices will come from the rice price itself. This, of course, does not mean that we can avoid the "demand pull inflation" which depends on the maintenance of income, but it means that this will not be a main factor of inflation peculiar to rice. For consumers, the deferred nominal rice price, in real terms, is as small as the C. P. I. (consumer price index) increases.

(b) Next, I will discuss the price policies for non-rice agricultural products. The government should subsidize the input goods of those products which have big income elasticity of demand. The subsidy system, unlike the price support program ends the vicious cycle between wages and commodity prices. Thus, the system is more effective in increasing the productivity than the price support program. This kind of subsidy for peculiar input goods includes the income compensation, as for converted crops from rice. Those agricultural products, which are the object of the government's price policy, are necessary for maintaining the income elasticity of demand and the degree of food self-sufficiency. The government will subsidize these input goods, in accordance with the regional development map. Thus, the government will promote increased productivity. At the same time, the government will compensate the farmer's income. Afterwards, prices will be stabilized by the above-described sliding scale system. Also, we must compare the farm size expansion policy to the peculiar input goods subsidy system, which will be described later in the income redistribution policy.

(c) It is necessary to consider the inflation of deficit rice control accounts and of other agricultural products. This is to be considered in the same way as rice, where the circulation map was shown. And, from

this, the deficit of the rice control accounts should to necessary to examine.

There is an impression that the deficit of the rice control accounts is merely a price-control compensation, its investment is not effective, and only the producers profit from the income compensation. In order to dispell this illusion, therefore, I would like to propose establishing deficit limits with a convincing theory. In France or Italy, where the national income per capita and the wage level per capita are almost same as in Japan, about 1.3 to 1.4% of the national income is appropriated for price supports, etc. If this is to be applied to Japan, I think approximately \$3 billion can be used for the deficit of rice control accounts. However, Italy's agricultural policy, as seen in the price program for egg production, is not totally rational. Therefore, I will suggest that we consider the average percentage of those countries (not only Italy) with almost the same economic power as Japan. If those figures are considerably higher than the present percentage of Japan, I would then suggest that we take those figures as the maximum limit.

The government funds now being used to purchase surplus farm products will be transferred to the production of agricultural products which are in short supply. When considering raising agricultural product prices, it must be decided whether this should be paid from the rice control accounts or not. The subsidies for peculiar input goods, not the raise of products prices, should also be considered.

(d) I suggest that we dispose of the long-stored rice by presenting it as foreign aid, especially to developing countries with food shortages, charging only for the transportation. Domestically, it is possible to process rice into rice krispies; and to promote this along with cheap milk for a quick breakfast or lunch, as "joint demand." I expect this kind of meal will be in great demand because of advertisement and the busy schedule of salaried workers. Alos, how about using this for school meals? Furthermore, we can promote this with the social security

policy which I will describe in (3) Income Redistribution Program and the Disposition of the Food Surpluses.

(e) The marketing channels should be consolidated. As for the rationalization of processing of milk and manufacturing of milk products, etc., the farm-gate price in Japan are not so different from that of America, Germany, and Italy. However, the price of milk products in Japan is almost double. In case of foreign countries, I think that the processing of milk, manufacturing cost, system of export bounties, system of wholesale and retail are very different from those in Japan. Therefore, we need to consider the differences thoroughly. Especially, it is necessary to apply performance criterion in the workable competition theory to the manufactures of milk products and wholesalers.

I will take up some problems concerning the retail price of vegetables and fruits:

(i) The margin between producers' price and retail price is not fixed in absolute terms but should be remained a constant proportion of the price [16, p. 69].

(ii) It is often pointed out that there are many small-scale retail stores, and it is necessary to decrease the number of those small stores and to have large ones in order to improve the consumers' price. To do this it is necessary to utilize private cars more effectively, and to have new policies for public roads and parking areas. Building regulations should have specifications for housing a large refrigerator. Consumer education is also important. Consumers should know where to shop. There are many different kinds of markets and products—those with or without a lot of services, expensive vegetables available all year and seasonal ones, and markets that deliver and those that don't. When consumers buy cheaper goods themselves, they should know that wages are most of the present-day marketing costs. Consumers should recognize that cheap markets and expensive markets are different. Consumers can demand their wages to be raised.

(f) Next, I will describe about the money flow. Agricultural cooperative funds should be largely loaned to related industries. The income from the loans should be used to reduce interest rates of farm loans and to increase of government loan for agriculture, as object tax.

(3) Income Redistribution Program and the Disposition of the Food Surpluses

Considering the disposition of long-stored rice as a part of the income redistribution, I would propose that raw or processed rice be given to social welfare facilities or schools. Furthermore, rice should be sold cheaply to poor families which receive protection under the Daily Life Security Law, by issuing food stamps. Taxpayers would consent to these proposals if they were incorporated in the social security and scholarship budgets; and the rice surplus would decrease.

2. Personal Economy

(1) Clarification of the Objectives of the Agricultural Policy

Today, in Japan, about 85% of the farmers are part-time. Of these, approximately 50% have other full-time jobs. It is necessary to employ different policies for them.

(a) It is necessary to clarify the definition of "farmers." We would think of the two different types of farmers—farmers to be the object of economic efficiency, and the farmers to be the object of income redistribution policy. And, it is important that the personal income equalization problems of farmers with jobs should be solved as a problem of the industry the farmer is engaged in.

(b) Next, I will describe management as divorced from ownership. This is necessary for farming modernization and the prevention of pollution. Farm businessmen should meet certain standards of character, capacity, capital and collateral. There should be a certain kind of license system for farm managers. It is irrational for land owners, who don't know how, or have the ability, to keep farm records, or don't know their rate of yield, to manage a low-interest and long-term fund.

Those who don't know their rate of yield are merely laborers, rather than modern proprietors.

(c) It is necessary to compare the productivity or income equality of farmers to small businesses (4-15 workers), rather than urban workers' households. If farming is considered as an enterprise or firm, it is not appropriate to simply compare it to other industries, which are connected with firms of various scales, or to compare it with urban workers' households. This should be taken into consideration in order to promote policies for the development of agriculture step by step.

(2) Concrete Measures for Retired Farmers

(a) Measures to improve the living conditions of retired farmers. Increase of arable land per farm is a prerequisite for agricultural development in personal and national economy. In order to promote this, it is desirable to improve social security for retired farmers, land mobilization, and the effective use of government expenditures at the same time.

I propose that a pension be provided to retiring farmers. At the same time, the government shall buy up their land at its market price minus the difference between the estimated total amount of the pension and the income which the farmer would earn if he continues farming. The government shall then sell the land at a low price to other remaining farmers who will continue farming.

Furthermore, it is important to reorganize an old-age labor force which includes retired farmers, their families, and retired people living in cities. If present trends continue, 20% of all the population in 2005 would be people over 60 years old. Therefore, the national government should establish a public corporation and invest in it. The corporation shall, at the old people's request, provide them with information on management or natural science, and conduct voluntary social services. Thus, the old shall receive a pension, an income from selling their property, and an income based on the consultation provided by the corporation. I think the voluntary activity is very significant as it will

give many old people purposeful activity. Therefore, this will be different from the existing "manpower bank."

On the other hand, with the increase of retired farmers, farms shall be concentrated along national highways, or the rural villages or communities shall be reorganized. While the remaining farmers cannot expand their farm size because their land is not adjacent to each other, the remaining lands should be managed by a local government or agricultural co-op.

Example: With the present old-age pension system, people over 60 receive ¥18,800 (maximum) after approximately 20 years of payment. Many have not made payments that long, though. During the period of rice production control, and when land price is low, the pension should be given also to the old who have not paid the premium. For instance, if ¥50,000 per household is to be paid as the pension, the annual total is ¥600,000. This, for 15 years, comes to ¥9,000,000. In this case, the pension payee is a 60-year-old farmer and his wife; the 15 years is the rest of their life (Japanese life of expectancy is 75 year in average). However, I think, it will be quite difficult for the government to pay a 9-million-yen pension, and the farmers would think it is unreasonable to live with on only this. For this reason, I will describe a provisional example below:

If a farmer, having 2 hectares of farmland, continues to farm and earn an annual income of ¥600,000 for the first 5 years after he would retire, if he still is able to work, the total for 5 years will be 3 million yen. His productivity will deteriorate in the last 10 year; and if he earns ¥360,000 a year, it comes to ¥3,600,000 for 10 years. Therefore, the total income for the 15 years amounts to ¥6,600,000. The farm, 2 hectares, after their deaths, will be sold by their successor, at ¥200,000 per 10 ares (market price). The income from the land will be ¥4,000,000. However, a tax (¥230,000) is to be imposed on it even the land is within the area to promote agricultural development; so, the

real amount the successor receives will be ¥3,770,000. Therefore, the total life earning will be ¥10,370,000 (income from the land plus farm

In the next case, a farmer sells his land and works for a different industry. If he sells the land (2 hectares) at ¥200,000 per 10 ares, he will receive ¥3,770,000. Supposing he invests this sum and uses the interest as part of his income. If the interest is 6%, and the tax is 25%, he will receive ¥169,200 annually, or only ¥14,100 monthly. This income totals ¥2,538,000 for 15 years. Therefore, his life earning will be only ¥6,300,000 (income from the land plus interest from the deposit for 15 years). If he works as a guard for a company, or something else, he will earn about ¥40,000 a month. This will come to approximately ¥9,600,000 for 15 years, including some bonuses (in this case, national and local taxes are not to be imposed, as when he continues farming). And, his life earnings, in this case, will be ¥15,900,000 (¥6,300,000 plus ¥9,600,000). However, if he hasn't a job as, for instance, a guard or something else, he will have to spend all the income from the sale of his land for living expenses, etc. in a short time. Farmers do not like to sell their land and move. This is the present situation.

Then, if the government drastically changes its policy, and pays a pension of ¥50,000 monthly (¥600,000 annually), the total amount for 15 years will be ¥9,000,000. Furthermore, if the old people continue working, with the reorganization of old-age labor force, and earn even ¥20,000 a month (this will be significant for the old); then, the income for 15 years will be ¥3,600,000. When this is added to the pension, it will total ¥12,600,000, which is a much higher income than if the farmer continued farming.

Furthermore, as described above, if he continues working as a guard or something else, his earnings will be ¥18,600,000 for 15 years — approximately 1.7 times as much as the case of continuing farm business. I recommend that these farmers live in public housing. The government would buy up the land at ¥1,000,000 and sell it to promis-

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ing farmers at ¥3,200,000 which is 20% lower than the market price at that time. The marginal profit from this is ¥2,200,000. This is to be appropriated for the pension fund (¥9,000,000 for each farmer). This will be approximately a 25% savings for national expenditures. I think this is a very desirable policy both for retiring farmers. (they can get the necessary expenses for retiring) and the farmers who wish to expand (they can obtain land 20% cheaper). Farmers pay no premium for old-age insurance to the national government. I think that land ownership mobility should be encouraged by special legislation when the land price is lower because of the rice production control program. I think these policies would improve the living conditions of 500,000 farming families during this depression caused by the new economic policies (dollar shock).

(b) Policies for farmers working in industries. For the farmers wishing to work in other industries, the total living expenses during the vocational training period shall be provided in the form of subsidies and loans. These subsidies will be regained through taxes from business profits after they are employed. Therefore, I don't think these subsidies and loans would be a deficit.

Conclusion

In this thesis I described some concrete and fundamental proposals for agricultural policies which can change the "food problem" to the "farm problem." However, this includes only the points I want to emphasize and is only a rough sketch. I would like to elaborate on these proposals in the future.

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