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Comparison of Agricultural Policy
in the U. S. and the Japan

Toshikazu Tateiwa

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Tokyo University of Agriculture

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In this report, similarities and differences in the future direction of the agricultural policy in the U.S. and the Japan will be discussed.

The 1996 American agricultural law, in terms of price and income support, it is moving towards liberalization. Constitutionally it still obeys the price and income support, but this has kept to low level which in real terms may be said as liberalized. Again in the field of agricultural export, it has been made to promote export. In the American agricultural policy, the idea of how to adjust export in the future demand and supply of the world market is observed. That means the feature of export policy is reflected in the agricultural policy of the United States. In the improvement and structural change of farmland, they are left to be fulfilled by the individual farmer. Concerning environmental protection, extended policy is being implemented. American agricultural policy has some especial features like policy for an export oriented commodities, minimum price guarantee in low price, environmental protection.

In Japan in the new agricultural policy, price and income support for main crop (rice) has been abolished. But the support for the land improvement and rural social capital has increased. Concerning the import of agricultural products, the policy is being revised based on the agreement of GATT, but is not actively performed. Concerning the environmental protection, the policy was included with the structural policy. In the agricultural policy in Japan, three major policies are contained. These are, the government controlled productivity improvement policy, policy for improvement of rural community and the environmental policy.

From the comparison it can be observed that the American and Japanese agricultural policy have common direction of policy improvement, while the direction of the main objective of the future policy differ. It is true that the 1996 American policy may be revised in the future and in Japan price and income support may revival under the government control. Though in both countries policies there are many points that are not clear, the probability of returning to agricultural policy centered price and income support policy means unlikely.

Comparison of Agricultural Policy in the U.S. and Japan

Introduction

In this report, similarities and differences in the future direction of the agricultural policy will be discussed.

In the agricultural policy of many countries, the need for environmental protection and preservation of nature is mainly taken into consideration. But concerning agriculture and agricultural policy, they are complex and there are many differences like the influence of culture, tradition and the pressure from political groups. Difference in the way of thinking about food, rural community, farm household and farmers have created many of the misunderstanding in the international level. The friction in the Uruguay Round is one of the examples.

Well, though there is a similarity in the condition of agriculture between Japan and the United States, there are also many fundamental differences. To mention the similarity, increase in surplus of main crops and as a result price support policy has become main objective of the agricultural policy in both countries. This price support has been criticized because it reduces the power of competitiveness by expanding the gap between the domestic and the world price, and as result the surplus grow and could not be reduced. This problem of surplus, or over production, and price support is common to both countries.

Concerning the difference, the American agriculture has developed an extensive family farm, while in Japan it is a intensive small scale family farm. In The United States as it

is an exporting country, the agricultural policy is also a policy that encourages export, but in Japan policy was based on the import protection. This reflects the difference in the process of agricultural development, difference in the natural condition of the farmland and etc. Here it has been attempted to discuss the agriculture and agricultural policy of this two countries that have many differences, the measures that are being taken at present and the problems in the future direction of the policy.

In the long term objective, how the new policy will cope with the 21st century's problems concerning agriculture such as environmental protection and natural preservation needs to be deeply analyzed, but here it will only be discussed briefly.

Chapter 1. Feature of American Agricultural Policy

The agricultural policy of the United States which has a history of about 60 years from now, is a continuous revision of every 4 or 5 years of the 1938 and 1949 agricultural law as a base. The fundamental concept of this policy was composed of production control of the basic crops, price support and deficiency payment, and at the same time guarantee the income of the participant farms in the Agricultural program.

The price and income support was performed by mainly the CCC (Commodity Credit Cooperation). CCC is an organization that extends short term credit which farmers can pay it in kind. Farmers can take loan from CCC when the market price is lower than CCC loan rate, they wait for the price to recover, and if the price is higher than CCC loan rate they can withdraw their products.

Most of farmers take credit from CCC then sell when the market price is higher than credit+interest or give up their bond if the price does not recover. These CCC loan is called Non Recourse Loan. This level of loan by CCC indicates the level of price support farmers receive in real terms.

Usually, in addition to CCC loan, Target Price is set up. Since Target Price is fixed in higher level than loan rate, farmers receive the price difference between Target and market or loan rate. This Target Price is one of the price support level decided by the US Department of agriculture. To receive this benefit, farmers must participate in the production adjustment program. And the maximum level of deficiency payment is also set up.

Crops like cotton, rice and oil seeds etc. are included in the benefit of marketing loan system. In this program, farmers can pay their loan using the lowest either market price or loan rate. In the case of the CCC loan, repayment is limited to loan rate, while in the case of marketing loan, no limit exists. Whether it is loan rate or marketing loan, the level of repayment indicates the level of price support. This has been shown on Fig. 1.

The especiality of such agricultural program is as follows.

1. The option of participation to the agricultural program is left to each farm.
2. The price support is only to selected crops, it all combines price support and loan.
3. Income support is for major seed grains, for cotton deficiency payment, soy beans and dairy products get subsidized price and the income support system also differs within major crops.

4. It combines production control and preservation of farmland by making land preservation as a condition for production adjustment.

Such agricultural program reflects that American agriculture is an export oriented agriculture. The Export Enhancement Program (EEP) and export loan program, food aid program, and export loan program take part in the CCC loan service, for reduction of surplus product and development of export market.

In the other way, less competitive products like dairy products and cotton are protected by implementing import restriction based on the 1935 act. The agricultural export trade policy is closely related to the agricultural program, it implements export loan program for commodities that are have some competitive power, and import quantity restriction for those with low competitive power. As a result of these policy of agricultural trade, it intends to keep the result of the domestic price support high. The domestic food program is also related to agricultural policy by promoting the domestic consumption in schools and as welfare to the poor through the food stamp program. This domestic food program though it has a feature of social welfare, in terms of the expansion of domestic consumption it is one factor of agricultural price support of the agricultural policy.

Beside this in the American agricultural policy, there are land preservation program and extension program, crop insurance, the farm loan and the rural development programs.

The American agricultural policy which has agricultural program in the center is complemented by agricultural export policy and domestic food program, which implements income support and demand supply adjustment. And again protection of

natural resources, rural community development program, consumers program are being implemented. The objective of agricultural policy was intended to extend price and income support. This point can be clearly observed from the government expenditure. Recently in related expenditure the agricultural program and domestic food program take main part. In recent years it takes about over 70% of the budget for agricultural policy. From this food stamp related expenditure can be said as a single major monopoly item (see Chart 1 and 2). From the point view of the budget expenditure, the objective of the agricultural policy can be taken as income support that support price and social welfare that implements food stamp. In other words, relief and farmers support has been the pillar for the American agricultural policy.

In April, new American agricultural policy has been introduced. The question that whether the above discussed features of the American policy change rises by many countries including Japan, because of the highly export dependence of the American policy. Next the feature and future prospect of this new agricultural policy will be discussed.

The new agricultural law is named The Federal Agricultural Improvement Act of 1996. This law has been composed of 9 titles. The 1990 act has been composed of 25 titles and been well simplified as law. That means titles related to the agricultural program are compiled into one title (title 1, Agricultural Market Transition Act) and it is the main feature. This has also reflected in the feature of the structure of the 1996 act.

The Agricultural Market Transition Act is composed of 8 sub titles. In the first half, the substitute of agricultural program for main seed crops and cotton is decided. There, for major seed crops and cotton the deficiency payment policy has been abol-

ished. To abolish this deficiency payment means in real terms to stop setting target price.

The non recourse loan price support and marketing loan has continued from the maximum of 1995 level. In short, in the agricultural program of main grain crops and cotton, though production will be liberalized and deficiency payment will stop, the level of price support will be fixed by the level of loan rate.

Concerning the 1995 maximum level (standard) of loan rate and marketing loan, since the 1995 level was low the movement of the loan price and income support was not big. The 1995 level is the lowest ever, and it has no meaning for the farm, therefore concerning price support and income support, agricultural law is moving towards liberalization.

Again Agricultural trade policy is basically the continuation of the 1990's act. For example the export subsidy is continuously taken. Crops subject to the subsidy are rice, cotton, soy beans, wheat and feed grains. The export loan program and food aid program are also made to be adjusted with the changing condition. Concerning the environment and preservation of natural resources programs the 1990 act continuous to function. Additionally, Environmental Quality Incentive Program and Natural Resource Conservation Fund etc. are being implemented.

The 1996 act, thus, is moving toward liberalization in the view of price and income support. But the policy of agricultural export, environmental protection and Agricultural credit is not changed, continuous to former function. The measures taken so far are being liberalization of domestic agricultural production and being strengthened to overcome the growing demand and supply of the world market. This is a big change when it in the history of the American agricultural policy.

Chapter 2. Feature of Japanese agricultural policy

In Japan, level farmland is a little and the most farmland is a mountain area, therefore Japanese agriculture is a small scale farming based family farm .

Japanese agricultural policy was constructed on this special feature. The main features of the policy are, policy of land ownership, price and income policy and structural policy. Compared to the American policy, the weight of land ownership policy and structural policy is great. To start from the modern land ownership policy, after the war (W.W.II), the land rent system was completely abolished for long time. As a country of strong feudal class, the rent system were forbidden to stop the recovery of this class. As a result the small area of land was cheaply sold to tenant farmers which as a result created large number of small farmers. This plan has been successfully carried out without strong opposition from the feudal class. As a result of the reformation, many relatively high and equal quality farmers also appeared and the economic difference also narrowed which then created a socially stable rural community.

Again the price policy was price support policy for grain crops (mainly rice). In Japan, rice is the center of the agriculture and agricultural production. That means it is being produced in the whole country and most of the farmers produce rice regardless of the quantity. In other words rice is the main agricultural crop in terms of both area and income.

To fix the price of rice means stability in the farm business and is also an economic support for the rural community. That is the reason why Japanese government buy all the rice produced in a fixed price then again fix the consumer price. In this

case price support is an income support, the price for producers is fixed in relation to the income level of nations, and the price for consumers is fixed in same relation. This policy is known as Food Control System. This policy has been the extension of the policy that has been introduced during the Second World war. In the implementation of the structural policy, the construction of irrigation canal, rural road, and land improvement has been actively performed. The subsidy has been used in the expansion of the farm land. Again water supply construction and rural road was implemented as a government projects. This structural policy was at first food production improvement policy which was aimed at improving the production of rice, to overcome the food shortage that appeared after the end of the World War II. The main objective of the Japanese agricultural policy can be said as to extend economic and social assistance to the rural community and stable food supply. This means the policy played both the role of social security and stability of food supply. Therefore during this period, since rural stability and food security was main objectives, other problems like decreasing cost by increasing productivity and import problems did not take major part in the policy. This agricultural policy has continued until 1960's.

In the early 1970's, the increase in production and decrease in consumption has created surplus in the rice stock. This surplus became a reason of change the agricultural policy of Japan. This change of policy will be discussed from the view point of price support.

Under the government control of production and marketing, the price of rice were fixed in a high level to support income of the producer. This has encouraged increased production that is beyond the level of consumption. Since high price covers higher

cost of production, productivity could not increase. As a result of these slow movement in productivity and the worsening of the unbalance between demand and supply, the policy became one of the factors that increase surplus. This policy has been criticized in 1970's when surplus production was at a critical stage. Thereafter Production Control Policy has been introduced. This policy uses method of reduction of production land, while keeping the price of rice fixed. Basically this was same with the corn and wheat production control of the United States. This policy has maintained the price and income support that has previously been applied, at the sametime it has been amended to cope with the new changes in the demand and supply. In both the United States and Japan , production control policy need allocation of huge amount from the budget. To support farmers income, production control policy that continue to support price will continuously be criticized. As a result price support level for rice will be continuously reduced.

The land ownership policy has also changed since 1970's. With the growth in the economy, the expansion of farmscale (farmland) has become needed to increase income of farmers. But the growth of economy increased the price of farmland. The price of farmland has increased beyond the profit from farm business and this made the expansion of land to be more difficult. As a result, other ways of expansion of land were measured. This has led to revise the law that prohibit rent system. The land rent system has been implemented without changing the basic law that state land belongs to the farmer. The rent system has been achieved without the fundamental change of the law. But this contradicts with the aim of the policy. Therefore, it brought about serious antagonism between holding of farmland and increase

in productivity. The government continued to allow rent system without the change of the basic law.

Concerning the structural policy, there is no fundamental change. That means the structural policy was aimed to increase production and increasing productivity or reduction of cost. This objective of increase production has been achieved by 1970's.

With the surplus production of rice, not policy for increase in rice production but structural policy for reduction of cost was recommended. This change in the early 1970's, showed shift in objective of the agricultural policy focusing on social security and industrial policy. Within agricultural policy, the aim of social security is been slow, while the industrial policy appeared dominantly. That means while price support and income support continues, the control of government from production to supply has also remained. This policy that existed because of the political power of farmers organization and the rigidity of concerned government organizations, has faced a great challenge from during rice deficiency year of 1994. This indicated that under full control of the government, neither the demand and supply balance were achieved nor productivity has increased.

There was also a disagreement between land holding system and expansive farming. Therefore in April 12, 1994, new food law has been introduced by abolishing the previous food control policy.

This new law is named " The Law for Stabilization of Supply - Demand and Price of Staple Food ". This law has many differences with the food control policy. First there was difference in the points of price support. The price support was abolished in this law. Since the purchase of rice by the government has stopped the price also been liberalized. Therefore the market became free of government intervention. The producer can sell to any buyer and

the quantity has no limit. Small traders also buy and from any seller. They only submit the information on the quantity and source or outlet to the concerned government office. Since the support on prices and income has been abolished, production and price is decided by the market situation.

Government and private sectors have established stocks and cooperate during a shortage year. But so far it is not clear when and how far the government supply rice or interfere in the market. This is one problem to suspect. As a result of these changes in the price and income support policies, policy on holding of the farmland is also advancing. Rent system is also being allowed without changing the basic law. In response to the market liberalization of rice, the policy concerning land holding (ownership) is also being continuously revised.

Concerning the structural policy, at the end of 1970's, land expansion, rural road, water supply works were more or less accomplished. The improvement of the policy of subsidized agriculture, has been continuing for the last 50 years, but the result was not as good as been expected. Therefore, with the budget reduction the structural policy was also improved. Structural policy that focuses on rural development has long been recommended. As a result the objective of the structural policy is being diverted to improvement of drainage system, expansion of road and other social infrastructure. This shows the change of structural policy to social overhead capital.

In this way the 1990's Japanese agricultural policy has changed to liberalization of price, flexibility in the holdings of land. However, if one observe this new form of Japanese agricultural policy from point of its budget distribution, major emphasis was put on public works, pension and structural

policy (Chart 4 and 5).

This tendency has become clear since 1980's, when Japanese agricultural policy has shown change. In 1975, food control system has taken share of 41.7% out of total, but 1980 this has reduced to 26.7%. This indicates that at the end of 1970's, there was a tendency in change of the aim of the Japanese agricultural policy. In 1990's the expenditure for the public works (mainly structural policy) has took more than 50% of the budget for agricultural policy implementation. And agricultural subsidies for improvement social capital in rural area was over 50 % at 1995. Other expenditures like pension has also increased. Recently the sum these two alone has increased to more than 90% of the budget.

This Japanese policy which the objective was price and income support, has changed to a policy that strengthen rural social capital, while on the other hand encourage productivity. This can be said as change of policy from social security to industrial and regional policy. This means policy of the mid 1990's is a continuation of changes in policy of 1980's. This change in policy reflects main problems of Japanese agriculture.

There are many problems in the Japanese agriculture. Among main problems the increase in part time farmers and decrease in fulltime farmers, the increase in rural aged population and the decrease in self sufficiency and competitiveness can be mentioned. To overcome these problems, leaving the price problem to the market situation, a policy that focuses on the improvement of the foundation of production and social capital is being introduced.

Concerning the environmental protection some part is included in the previous structural policy. In the structural policy, environmental protection is done as water construction, mainte-

nance of rural road and etc. Specifically restriction on use of fertilizers and pesticides, control of drainage, improvement of arable land and more others are included. But so far the decision of the use of fertilizers and pesticides are left to the farmers. In the system of application of environmental policy, Japanese agriculture has many problems which need to be solved.

Chapter 3. Comparison between Japanese and U.S. agricultural policies.

Here the change in Japanese and American agricultural policies will be briefly discussed.

As has been discussed, the 1996 American agricultural law, in terms of price and income support, it is moving towards liberalization. Constitutionally it still obeys the price and income support, but this has kept to low level which in real terms may be said as liberalized. But the cost of this price and income support is shared by tax payers which mean that every citizen has to pay for implementation of the agricultural policy. Again in the field of agricultural export, it has been made to promote export. In the American agricultural policy, the idea of how to adjust export in the future demand and supply of the world market is observed. That means the feature of export policy is reflected in the agricultural policy of the United States. In the improvement and structural change of farmland, they are left to be fulfilled by the individual farmer.

Concerning environmental protection, extended policy is being implemented. American agricultural policy has some especial features like policy for an export oriented commodities, minimum price guarantee in case of low price, environmental protection.

In Japan in the new agricultural policy, price and income support for main crop (rice) has been abolished. But the support for the land improvement and rural social capital has increased. Concerning the import of agricultural products, the policy is being revised based on the agreement of GATT, but is not actively performed. Concerning the environmental protection, the policy was included with the structural policy. In the agricultural policy in Japan, three major policies are contained. These are, the government controlled productivity improvement policy, policy for improvement of rural community and the environmental policy.

The feature of American policy compared with the Japanese:

1. The large number of products which are covered by price support and demand supply adjustment makes the policy complicated.
2. The income support that is paid in the form of deficiency payment, led the expense to be covered by all tax payers.
3. Export promotion and improvement of domestic consumption has been the main factor for the expansion of market.
4. Voluntary participation of the individual farmer to the agricultural program is insured.
5. The structural policy funded subsidy and the agricultural financial policy are not seriously taken, therefore the cost of land improvement is funded by farmer.

The feature of Japanese agriculture compared with American:

1. The government price support, supply and demand adjustment for main crop (rice) are abolished.
2. The structural policy is seriously implemented, and as a

result, land improvement cost is subsidized by the government.

3. Agricultural policy works as rural communities policy.

These difference in the policy of the two countries reflects the difference in the extensive and export dependence of the American agriculture and the small scale Japanese farming for mainly domestic market.

Concerning the common points, major improvements are being taken in the field of price and income support. In both countries price and income support were objectives of the agricultural policies. In the United States price and income support were the main objectives of the agricultural policy since 1930's, while other additional policies like export policy and financial policy were included keeping the price and income support in the center. This system which continued for a long time is being revised from 1996.

In Japan also this price and income support were in the center of the agricultural policy since end of the Second World War. Other policies were included keeping the above policies in the center.

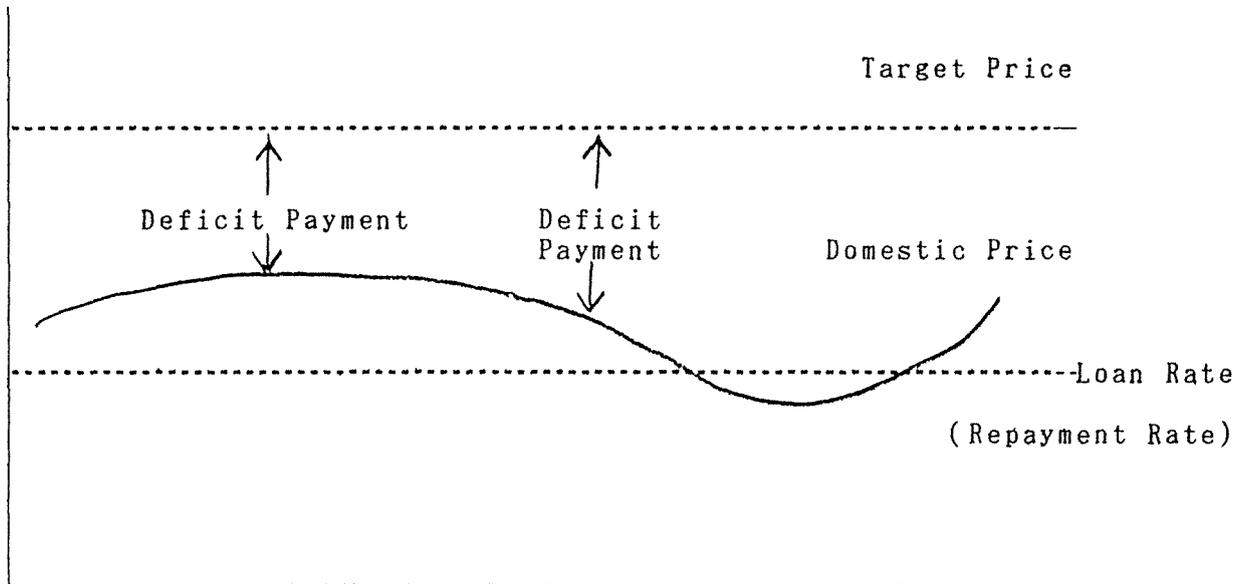
From the comparison it can be observed that the American and Japanese agricultural policy have common direction of policy improvement, while the direction of the main objective of the future policy differ. It is true that the 1996 American policy may be revised in the future and in Japan price and income support may revival under the government control. Though in both countries policies there are many points that are not clear, the probability of returning to agricultural policy centered price and income support policy means unlikely.

This change in the agricultural policy is also seen not only

in Japan and America but in Canada too. In developed countries the direction of the change in the agricultural policy will move with the direction of the economic and budget reformation being carried. Though there is a almost same background, the direction of this reform differs in some countries. In the system of WTO, the problem that may arise from this differences is not clear, however, the difference in the agricultural policy is likely to create friction in agricultural trade.

Fig.1 CCC LOAN AND MARKETING LOAN

① Non-Recourse Loan (Loan System of CCC)



② Marketing Loan

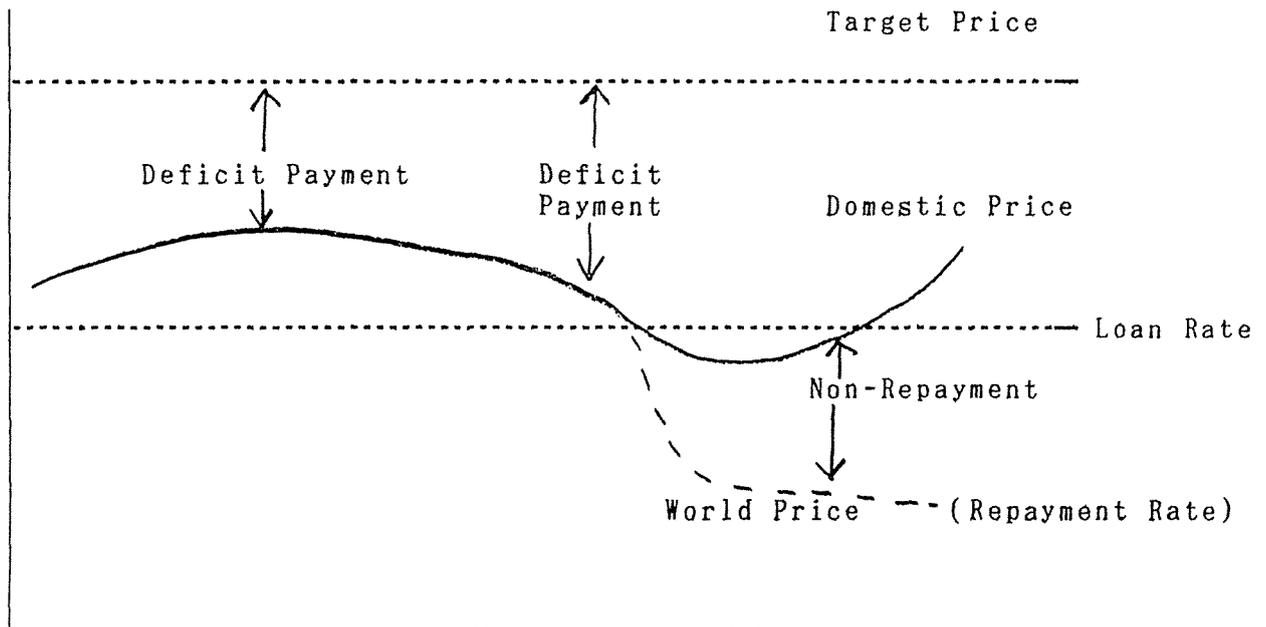


Chart 1

FRAME OF THE BUDGET OF USDA

(Year, Billion)

Devision/Year	1989	90	91	92	93
Education, Extention, Others	1.3	1.4	1.5	1.5	
Price Supports Income Supports	10.5	6.5	10.8	11.1	
International Affair	1.3	1.0	1.3	0.7	
Conservation	2.3	2.5	2.9	3.0	
Forest	2.9	2.9	3.2	3.2	
Rural Development	9.2	8.0	7.7	6.3	
Food and Consumer Affair	21.2	24.0	28.2	30.3	
(Food Stamp)	12.8	15.0	18.3	19.7	
USDA, Total	48.3	46.0	55.4	55.7	

Source: THE BUDGET OF USDA, 1996.

Chart 2

GENERAL ACCOUNT BUDGET(A) AND BUDGET OF USDA

(Year, Billion, %)

Year	A	B	B/A (%)
1982	745.7	36.3	4.9
83	808.3	46.4	5.7
84	851.8	37.5	4.4
85	946.3	55.5	5.9
86	990.3	58.7	5.9
87	1,003.8	49.6	4.9
88	1,064.0	44.0	4.1
89	1,144.1	48.3	4.2
90	1,251.7	46.0	3.7
91	1,409.6	55.4	3.9
92	1,445.9	55.7	3.9
93	1,560.8	56.6	3.6
94	1,609.7	55.2	3.4

Source: THE BUDGET OF USDA, 1996.

Chart 3

GENERAL ACCOUNT BUGET(A) AND BUGET OF MINISTRY OF AGRICULTURE,
FORESTY AND FISHERIES(B)

(Year, Billion, %)

Year	A	B	B/A (%)
1982	49,681	3,701	7.4
83	50,380	3,607	7.2
84	50,627	3,460	6.8
85	52,500	3,301	6.3
86	54,089	3,143	5.8
87	54,101	3,029	5.6
88	56,700	3,172	5.6
89	60,414	3,159	5.2
90	66,237	3,122	4.7
91	70,347	3,266	4.6
92	72,218	3,312	4.6
93	72,355	3,368	4.7
94	73,082	3,419	4.7
95	70,987	3,540	5.0

Source: THE BUGET OF MINISTRY OF AGRICULTURE, FORESTY AND FISHERIES,
1995.

Chart 4

FRAME OF THE BUDGET OF MINISTRY OF AGRICULTURE, FORESTY AND FISHERIES

(Billion, %)

Yaer	Total	Public Works	Food Control	Others
1975	2,177	605(27.8)	909(41.7)	663(30.5)
80	3,584	1,461(40.8)	956(26.7)	1,167(32.6)
82	3,701	1,475(39.9)	990(26.8)	1,236(33.4)
85	3,301	1,410(42.7)	695(21.1)	1,195(36.2)
86	3,143	1,375(43.7)	596(19.0)	1,172(37.3)
87	3,029	1,343(44.3)	541(17.9)	1,146(37.8)
88	3,179	1,599(50.4)	448(14.1)	1,125(35.5)
89	3,159	1,622(51.4)	418(13.2)	1,119(35.4)
90	3,122	1,622(51.9)	395(12.7)	1,105(35.4)
91	3,266	1,691(51.8)	373(11.4)	1,202(36.8)
92	3,312	1,753(52.9)	342(10.3)	1,217(36.8)
93	3,368	1,823(54.1)	311(9.2)	1,234(36.6)
94	3,419	1,856(54.3)	274(8.0)	1,289(37.7)
95	3,540	1,905(53.8)	272(7.7)	1,363(38.5)

Public Works.....① Improvement of Agricultural Production Base and of Rura Area. ② Soil Conservation. ③ Improvement of Fishing Port.

Food Control.....① Supply for the Food Control Special Account.
② Crop Diversion.

Others.....① Retirement Pension. ② Others

Source: THE BUDGET OF MINISTRY OF AGRICULTURE, FORESTY AND FISHERIES, 1995.

Chart 5

Summary of Agricultural Subsidies in Japan

(¥, Billion, %)

	95 Budget	Notes
Total Amount	1,687 (100)	
1, Improvement of Social Capitals	881 (52.2)	Improvement of Production Base and of Rural Area Production Astructural Improvement Program
(1) Public Works	761 (45.1)	
(2) Others	120 (7.1)	
2, Finance, Retirement Pension	293 (17.4)	Supply for Agricultural Finance Corporation Farmer,s Retirement Pentio
(1) Finance	129 (7.7)	
(2) Retirement Pension	164 (9.7)	
3, Price Support System	120 (7.1)	
4, Crop Diversion	89 (5.3)	Crop Diversion in Rice Field
5, Others	304 (18.0)	

Source: THE BUDGET OF MINISTRY OF AGRICULTURE, FORESTY AND FISHERIES, 1995.

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小樽商科大学経済研究所
〒047 北海道小樽市緑3丁目5番21号 Tel.0134-27-5289 Fax.0134-27-5293