

Economic Effects of National Government Policies

- Regulation vs. Scatter -

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ABSTRACT

This paper analyzes the following three cases concerning the influence of national policies on economic conditions with a focus on economic effects and employment effects in national economy. Specifically, it deals with the following:

- (1) The economic effects of maximum interest-rate regulation under the revised Money-lending Control Act as a system design change.
- (2) The economic effects of regulations on loan amounts under the revised Money-lending Control Acts.
- (3) The economic effects of cash-benefit distribution as a public policy requiring the injection of taxpayers' money

The results can be summarized as follows:

- (1) Maximum interest-rate regulation produced negative effects, including GDP growth rate shrinkage of 0.22% on 2006, 0.49% on 2007, and 0.47% on 2008 and an increase in the new unemployed rate to 0.2% on 2006, 0.5% on 2007 and 0.5% on 2008.
Further negative effects are expected after the implementation of regulations on loan amounts in June 2010. Accordingly, additional measures will be necessary to minimize related disadvantages for users and employees.
- (2) Regulations on loan amounts produced negative effects, including nominal GDP growth rate shrinkage of 0.51% and an increase in the new unemployed rate to 0.5% under the not pass the credit inquiry 42.1% on 2008.
- (3) Distribution of cash benefits resulted in economic expansion of up to 0.31% of GDP growth rate and the creation of jobs for about 188 million people. However, this was a once-only measure to boost final consumption, and its cost-effectiveness must be examined thoroughly.

Key words: *ripple effects, input-output, the consumer credit service*

JEL Classification: E44: Macroeconomics and Monetary Economics, Money and Interest Rates, Financial Markets and the Macroeconomy, E47: Forecasting and Simulation, G18: Financial Economics, General Financial Markets, and R15: Econometric and Input-Output Models; Other Methods.

1. Introduction

Much argument is formed into so-called upper limit regulatory issue of interest rates of the loan to consumers' service industry, and many research achievements are born. For example a legal revision in 2006 is predicted already by the process which inspects influence of a legal revision in 2000 when reduction put the upper limit interest rates into effect in 29.2% from 40.004% in the hall bottom (2003). Much money lender person is withdrawn from a market here, and the user who held risk much isn't borrowed any more, and the market scale reduces, and we assume that the economical effect isn't admitted at all.

Then the agreement rate decreases Waseda University loan to consumers' service research center (2006) through a positive analysis, and 2,100 billion yen of GDP decreases by the upper limit 25% of interest rates. We assume that I fall 0.246 % by the growth rate.

I enter the subsidiary many enterprises of this field will be a big problem for industry, and can hold the big deficit by an overpaying return request's increasing after that, and the reconsideration of the upper limit interest rates of the performed investment law and the important matter relaxation of 43 articles of money lender way are withdrawn, and which are a merger and major bank in 2006 indeed, and if, the market scale was the aspect as if it shrunk.

Specifically, "Money lending Control Law" which passed the Diet on December 13th in 2006 reduced the annual rate upper limit of interest rates of the investment law to 20% from 29.2% and canceled difference in interest rates with the upper limit interest rates of the former usury law. The effort which handles the area where it was still left by a new administrative penalty and cancels the duality-like upper limit problem of interest rates which exists during a law just in case was accomplished.(see, Fig. 1.).

The point of law revision this time when it extends to four stages after December, 2006 the law revision of the loan industry method (Article 1 enforcement) and it was enforced can be summarized to the following two points.

(1) (Maximum interest rate restriction)

The interest rate ceiling is reduced from 29.2% in 15~20%.

(2) (Regulations on total loan amount)

When a specific trader receives the financing from two or more traders for \$10,000 or more for \$5,000 or more, lending after it obligates submitting the income certificates such as the withholding slips when the financing is examined that exceeds 1/3 of the annual incomes as a rule is prohibited.

Influence has begun to be surfaced already from the stage by which a direction of a law was indicated by industry. Korakuen finance (Tokyo Dome financial small company) and a prime (consumer credit business: Kyoto) are sold as news from September in 2006 to March in 2007. The ground (Sapporo stock exchange) and zero first basemen (Marui subsidiary company) are withdrawn. Acom reduces a manned store about 40 %. The agreement rate of the new borrowing application of each loan to consumers company decreases below the half in May from May in 2007 to these days. The agreement rate of 4 major companies of Takefuji, AIFUL, Acom and Promise falls to an average of 44 % as of March from about 60 % of average agreement rate to that (the "Nihon Keizai Shinbun" May 18th front page). Promise of 3rd place of industry and Sanyo Shinpan Finance of about 7 announce business integration in July. The GMO internet (1 copy lists the Tokyo Stock Exchange.) is withdrawn from loan to consumers business in August, and CREDIA of a mainstay can't finish enduring an overpaying gold suit in September, and GE fails and expresses sell in Lake. There are no times in NADO enumeration.

There was a movement of the whole industry which lowers the interest rates of 28% stand to

18% from 20% before law operation at the end of 2006 for influence of the upper limit regulation of interest rates. Such as sorting a sound borrower out in 2008 while staring at the introduction of "total amount control" to which the major minimum interest rates can't provide next to the 10% and an annual income beyond 1/3 any more including 7.7% of Acom, a loan stance is changing. The agreement rate also decreases 30% to the 30% generation from 60% at the same time, and the market environment is reducing suddenly.(See Fig.2).

Further, a return request of interest overpaying money is increased explosively, and reserving of an interest overpaying gold return request is a big burden, and decrease of the sudden profit forms, and the enterprise I do deficit degradation of occurs a lot.

Such as the financing balance which was about \$30 billion was increased in about \$120 billion and about 4 times in 2002 end of the fiscal year in 90' in a bubble economy period, but a little less than about \$100 billion of 2007 end of the fiscal year expectation will be a little more than \$90 billion in 2006 end of the fiscal year with a flow of legal changes, it's changing into a sudden downward trend.

Reduction in closure as well as rationalization and work and a merger will be a movement of reorganization of industry, and these tendencies are surfaced. The spread to a card company such as a personal loan and reduction in cashing interest rates of Sumitomo Mitsui Card, Mitsubishi UFJ NISUKO, JCB, Credit Saison and OMC has also started. This phenomenon involves the cause by which each company can't draw clear growth strategy though it also had an influence on an accounting of a financial holding company group on the investment side, returned a public fund and sneaked from a nightmare of a problem of bad assets. Their profit disappears, and the business model has collapsed to the company finally. (See Fig.3, Fig.4)

Proposes of this paper analyze the following three cases concerning the influence of national policies on economic conditions with a focus on economic effects and employment effects in national economy. Specifically, it deals with the following:

(1) The economic effects of maximum interest-rate regulation in 20% from 29.2% under the Revised

Money-lending Control Act as a system design change.

(2) The economic effects of regulations on loan amounts, which is less than 1/3 annual income, under the

Revised Money-lending Control Acts.

(3) The economic effects of cash-benefit distribution as a public policy.

The government announced an additional economic measure for 2008. The government assumed the tax and the government bond to be fiscal resources and turned on the project expense of \$19.57 billion and the clerical work expenditure of \$0.825 billion to cash-benefits distribution that had been announced as the one. However, the person for the supply was a person recorded in the basic resident register in the date of record (at February 1, 2009). The amount of the supply assumed 65-year-old person or more and 18-year-old person or less to be \$200 for \$120 about one person for the supply in the date of record.

Here, it was assumed that the clerical work expenditure was not taken into consideration to simplify the analysis, and all the people for the supply had received cash- benefits and estimated.

The economic effect was analyzed, when the average propensity to consume estimated based on the questionnaire survey concerning cash-benefits that Statistics Bureau, Ministry of Internal Affairs and Communications (2009), *The Cash-benefit 2009 (Mar.-Dec.) Family Income and Expenditure Survey*, announced was 63%.

Measurement is tried using Statistics Bureau (2004), *THE 2000 INPUT-OUTPUT TABLES of 32 inter-industry relations table sections and various coefficient tables*.

There explain 2. The outline of an inter-industry relation table is summarized, 3. Method of fixing amount of the final demand, 4. The employment effect and the economic effect of (1) the upper limited interest-rate regulation, (2) the regulations on loan amounts, (3) the cash-benefit, and 5. Concluding remarks.

2. Outline of input-output table

Details of the explanation related to the input-output table introduces as follows reflect, are introduced administration to the homepage of Director-General for Policy Planning (statistics and the standard charge), and it explains the outline here.

In the inter-industry relations table in our country, the one to make 1951 year that the economic discussion agency (present the Cabinet Office) and the Ministry of International Trade and Industry (present the Ministry of Economy, Trade and Industry) originally made respectively as a trial balance an object annual is the beginning. Afterwards, Economic Planning Agency (present the Cabinet Office) and the agriculture and forestry ministry (present the Ministry of Agriculture, Forestry and Fisheries) from 1955 around Administrative Management Agency (present the Ministry of Public Management, Home Affairs, Posts and Telecommunications). The making work of real cooperation was begun by six ministries that added Prime Minister's Office Statistics Bureau (present Ministry of Public Management, Home Affairs, Posts and Telecommunications Statistics Bureau) that took charge of the total and the table with five ministries (the Ministry of International Trade and Industry and the Ministry of Construction (present the Ministry of Land, Infrastructure and Transport)). In the 1960s, the Ministry of International Trade and Industry took charge of the total and the table by the machine of which Prime Minister's Office Statistics Bureau was taking charge. New. Ministry of Transport. Ministry of Land, Infrastructure and Transport. Ministry of Health, Labor and Welfare. Ministry of Finance. Ministry of Education, Culture, Sports, Science and Technology. Ministry of Public Management, Home Affairs, Posts, and Telecommunications. It is being continued as a collaborative activity by ten prefecture ministry (The agency is the Financial Services Agency) through the restructuring of government ministries and agencies (The Ministry of the Environment participates newly) in January 2001 now.

The extension table (The Ministry of Economy, Trade and Industry makes it every year) in our country by a simple estimate now besides the inter-industry relations table (It is called a basic table and a nationwide table) by the collaborative activity of ten prefecture ministry that is the above-mentioned. The inter-industry relations table (A nationwide table is divided, and each economic industrial bureau makes it at intervals of five years) between regions, the administrative divisions table (Roughly make it at intervals of five years), and the international input-output table. (Tables of Japan and various foreign countries are connected. The Ministry of Economy, Trade and Industry and Institute of Developing Economies make it.) A lot of corresponding to each purpose inter-industry relations tables are made.

It approves in each section of each line and each row.

(1).Total demand amount = amount of total supply

(2).Domestic production amount

= amount of intermediate turning on + amount of gross additional value

=amount of intermediate demand + amount of the final demand - amount of import

It approves only about the amount of the total of the section.

- (3). Total amount of gross additional value
 = total amount of domestic production - total amount of intermediate turning on
 = total amount of the final demand – total amount of import
- (4). Total amount of final demand
 = total amount of domestic production
 + total amount of import – total amount of intermediate demand
 = total amount of gross additional value + total amount of import

3. Method of fixing amount of the final demand

The analysis tool here is “*THE 2000 INPUT-OUTPUT TABLES of 32 inter-industry relations table sections and various coefficient tables*”. The amount of the final demand is derived by using the numerical value of (1) Osaka Prefecture (2010), *Trend Survey for Money Lenders*, in the maximum interest-rate regulation, (2) Intage (2010), *FSA survey of Regulations on loan amounts*, and (3) Statistics Bureau, Ministry of Internal Affairs and Communications (2009), *The Cash-benefit 2009 (Mar.-Dec.) Family Income and Expenditure Survey*, in the cash benefit.

4. The employment effects and the economic effects

(1) The Max. interest-rate regulation

The Max. interest-rate regulation produced negative effects, including GDP growth rate shrinkage of 0.22% on 2006, 0.49% on 2007, and 0.47% on 2008 and an increase in the new unemployed rate to 0.2% on 2006, 0.5% on 2007 and 0.5% on 2008.

Further negative effects are expected after the implementation of regulations on loan amounts in June.

2010. Accordingly, additional measures will be necessary to minimize related disadvantages for users and employees.

(2) The regulations on loan amounts

The regulations on loan amounts produced negative effects, including nominal GDP growth rate.

Shrinkage of 0.51% and an increase in the new unemployed rate to 0.5% under the not pass the credit inquiry 42.1% on 2008.

(3) The cash-benefit

Distribution of cash benefits resulted in economic expansion of up to 0.31% of GDP growth rate and the creation of jobs for about 188 million people. However, this was a once-only measure to boost final consumption, and its cost-effectiveness must be examined thoroughly.

5. Concluding remarks

It isn't revealed how much lending balance is a flow in black market finance from a result above-mentioned. But when assuming that the other conditions were fixed, it becomes said that there is about at least about \$48,701 billion of decrease of nominal GDP, which is the total effect of (1) the upper limit interest-rate regulation and (2) the regulations on loan amounts, on fiscal year 2008, such as negative growth rate of 0.99% and 664 thousands people lose jobs such as the new unemployment rate 12.4%. The national nominal GDP was \$4,941,820 billion on fiscal year 2008 and shrinkage of nominal GDP growth rate was 4.2%, and the unemployment rate 4% by statistical.

The above change in the institutional design is the large influence of the national economy.(See Fig.5)

※ The present study is a part of study results by the Sapporo University research grant (business trip abroad) in fiscal year 2010. It records here and we wish to express our gratitude. All of course mistakes are author's responsibilities.

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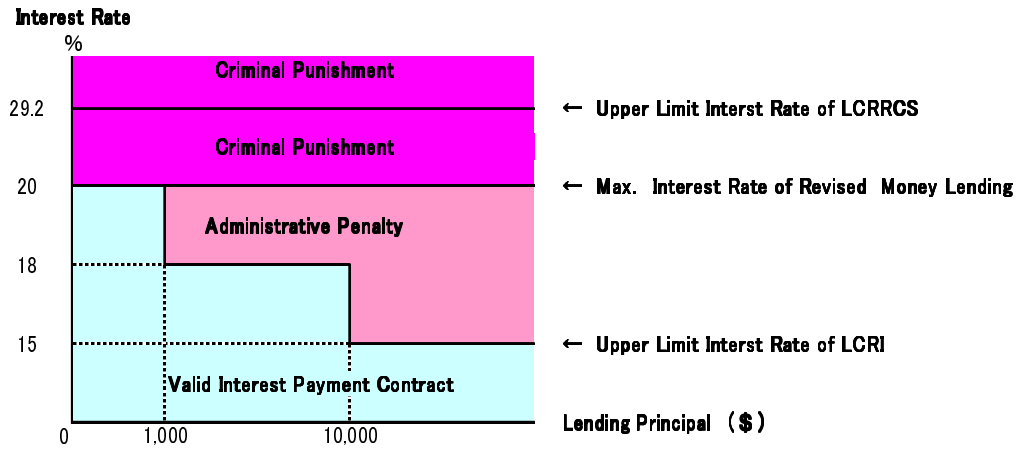
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Appendix

Fig.1

Maximum interest-rate regulation in 20% from 29.2%



※ LCRRC : Law Concerning the Regulation of Receiving of Capital Subscription
 LCRI : Law Concerning the Regulation of Interest

Fig.2

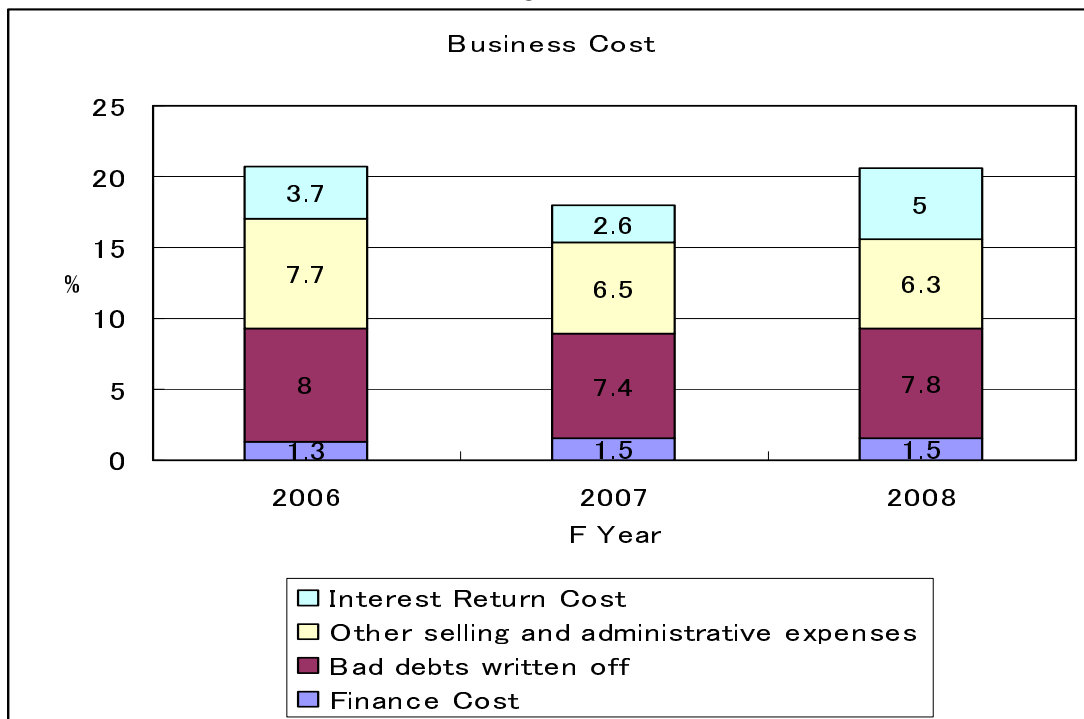


Fig.3

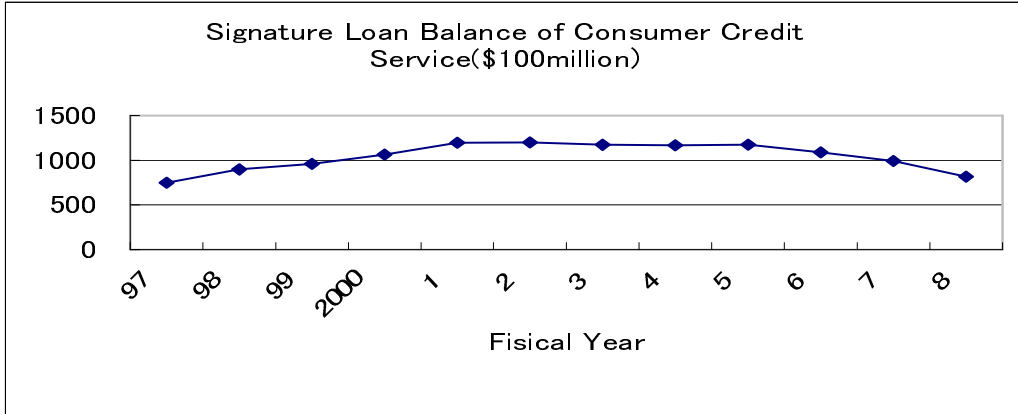


Fig.4

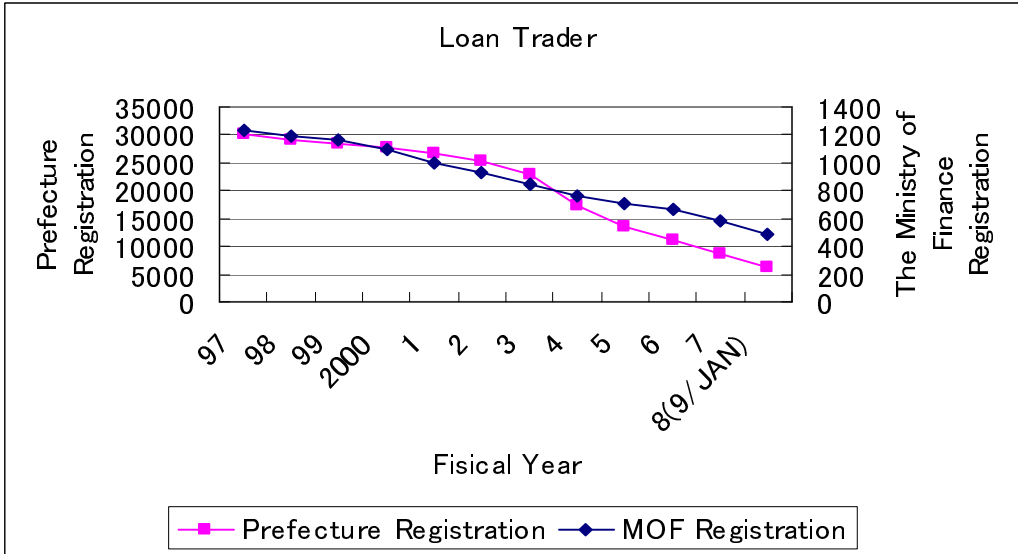


Fig.5

