

On the Behavior of Money Flows on the Real Side and the Financial Side in Hokkaido Prefecture.

Otaru University of Commerce

Toshiaki Kanzaki

This paper has two purposes. The first is to review the state of the Hokkaido Economy, and, by analyzing the saving and investment balance (the S-I balance) through an examination of long-run time-series data held in Hokkaido's prefectural accounts, to obtain a picture of the real side problems. We have treated the transfers as composition in the balance of regional payments, and have developed the expression for the S-I balance after adjusted transfers by sectors, so that we have been able to shed light on Hokkaido's economy. The results of the first analysis are as here indicated. [1] The fiscal deficit is greater than the net export deficit, and, as a result, the S-I balance in Hokkaido after adjusted transfers is negative. [2] The private sector favors excess saving while the government sector prefers excess investment. [3] Even so, excess investment in the government sector has shown a decline over time. The declining net capital transfer and the increasing net of other current transfers causes the excess investment. The net of other current transfer is a social security service-incentive fund, a phenomenon that questions the view of classical economics that in the long run the market mechanism will always balance Savings and Investment.

The second purpose of this study has been to consider the overall behavior of the financial institutions in Hokkaido as the money flow on the financial side, and here, we here indicate our findings. [4] Financial institutions constitute an indirect financial system. [5] Each financial institution's loan deposit ratio is less than 100% and their loan amounts have also decreased. [6] The local governments' dependency on the loans has increased. The results indicate that the financial institution's supply function is not always sufficient.

These findings suggest that as a result of the lack of demand savings are not making their way toward investment, and, furthermore, that in Hokkaido the money supply of the financial institutions as growth money is also limited. The imbalance in Hokkaido needs a variety of correspondences in order to emerge from its present state of slow economic growth and low employment. The correspondences may stimulate latent private demand to use all necessary means (innovative investment, export-oriented stimulation), and need to be built into a regional financial system that is more involved with the demand side of businesses.