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Are Tax Hikes Required for Post-Disaster Reconstruction?

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"We should not pass the burden of post-disaster reconstruction on to future generations. Reconstruction tax increases should be implemented for the present generation to redeem reconstruction bonds." The proposal looks reasonable at a glance. But we must take some time to rethink about it.

If we talk about preventing the present burden from being carried over to future generations, we must pay attention to deficit-covering government bonds that have swollen on growing social security benefits for the elderly generation. Deficit-covering bonds will be redeemed over a term as long as 60 years. The burden of such debt is thus destined to remain over three generations through repeated refunding. The maturity term of 60 years should be justified for construction bonds designed to leave assets for future generations. When the government decided to issue Public Finance Act-banned deficit-covering bonds under a special law, it adopted the same maturity term as that for construction bonds. This decision was not justifiable.

Construction bonds for wasteful public investment should be avoided. But the reconstruction of the Tohoku region devastated by the March 11 earthquake and tsunami will leave precious assets for future generations. The construction bond approach is suitable for the reconstruction. A maturity term of 60 or even 100 years for reconstruction bonds would be reasonable and would allow the government to avoid any massive tax hikes.

Make effective use of untapped assets

The problem of fiscal discipline is nothing more or less than Japan's failure to build a tax system meeting a very aged society. Although the reduction of wasteful spending is important, politicians are responsible for having left the problem of national contributions to social security untouched or refraining from tackling the “inconvenient truth” involving far more money than saved through wasteful spending cuts. It may be unreasonable to take advantage of fiscal discipline to exert constraints on financial resources for post-disaster reconstruction. We now see a rampant confusion of logics.

What is required is rational economic and fiscal management where rights are distinguished strictly from wrongs. Post-disaster reconstruction provides a chance to rebuild Japan and get the Japanese economy out of deflation. This depends on whether Japan can make effective use of the largest net external assets in the world and enormous “frozen financial assets.”

Don't raise tax in the confusion

Money can be increased through nice investment. The Japanese economy, if left untouched, may fail to sustain massive government debt as it begins to dig into assets on an aging population. Japan now must enhance a mechanism to utilize assets for effective domestic cash flow to create new assets. Prolonged deflation is a signal that the enhancement can and must be done. Unlike Europe and the United States that have been beset from all sides since the Lehman Shock, Japan after the disaster has a place for effective use of money.

The government can secure fiscal discipline by specifying a path to a consumption tax hike for providing financial resources for social security. Instead of taking advantage of confusion for calling for tax hikes, politicians are now required to discuss visions and strategies to revive Japan's asset stock and put the nation on a path to revitalization

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