

People's Burden Not to Increase on Consumption Tax Hike

Manabu Matsuda

A dispute over a hike of 5 percentage points in the consumption tax rate is linked to the possible dissolution of the House of Representatives and the general election. But the 5-percentage-point tax hike is below the minimum necessary measure for present-day Japan. I doubt if such measure could be any issue for a national election.

Our generation's responsibility

The people consist of elderly, productive and future generations. A consumption tax hike does not mean any increase in burden for the entire people. As the elderly and productive generations have now passed their tax burden on to the future generation by forcing the future generation to pay costs for redeeming deficit-financing government bonds in the future, the consumption tax hike will work to shift part of the tax burden from the young generation back to the elderly and productive generations.

The government's general budget provisions have set aside national consumption tax revenues for social security for the elderly covering basic pensions, healthcare and nursing care. These three social security categories for elderly cost the government 17 trillion to 18 trillion yen annually. Consumption tax revenues are now limited to a little more than 7 trillion yen, forcing the future generation to fulfill the tax burden for the future redemption of government bonds issued to cover the present annual shortage of 10 trillion yen.

Can we morally accept the present situation where we pass most of our tax burden on to our children and grandchildren in order to take care of our parents who have reared us? The consumption tax hike is set to help correct such situation. The tax hike is an issue of our generation's responsibility rather than a national finance problem. Tax hike for social security represent a money transfer among the people. The government only mediates the transfer. While efforts are required to reduce pension and healthcare costs (to increase the burden on the elderly generation), we must acknowledge that a consumption tax hike would not make the government richer. Although administrative reforms before the consumption tax hike are important, we may have to take note of the fact that it is unreasonable to condition administrative reforms on the tax hike.

State type options for Japan

The government-planned "comprehensive reform of social security and tax" will

earmark national and local consumption tax revenues only for social security. But the social security coverage for such revenues will expand from the three social security categories for the elderly to the four social security categories -- pension, healthcare, nursing care and birthrate improvement. The four categories are estimated to cost more than 40 trillion yen in fiscal 2015. The present 5% consumption tax brings about nearly 13 trillion yen in national and local revenues, covering only one-third of the social security cost of the four categories. If the tax rate is raised to 10%, tax revenues will be 27 trillion yen covering two-thirds of the cost. The plan thus aims to lower the financial resources shortage for social security to one-third of the cost. If consumption tax revenues were to cover the whole cost of the four social security categories, the rate would have to be raised to 16%. In European countries where population is aging as seen in Japan, a standard sales tax rate stands around 20%. As Japan joins ordinary industrial countries, it may be reasonable for Japan to set a consumption tax-boosting goal at 16%.

Japan's future state type options, which are essentially significant for voters, are the theme beyond the consumption tax rate's hike to 16%. If Japan pursues the Continental Europe type where the government provides generous safety nets, the consumption tax rate may have to be boosted more than 25%. For the U.S. type where priority is given to self-help efforts, the rate may be capped around 15%. For a Japanese type where mutual help within the private sector is promoted, the key challenge may be how to limit the rate to around 20% through citizens' creative efforts.

If politicians devote themselves to politicizing the consumption tax hike while failing to provide basic state type options for voters, Japan will remain a "Japanized" country that cannot make decisions to solve key problems. The consumption tax hike is also good for the economic recovery. I would like to take another opportunity to make this point.

Manabu Matsuda is Corporate Officer & Fellow, Taiju Research Institute.