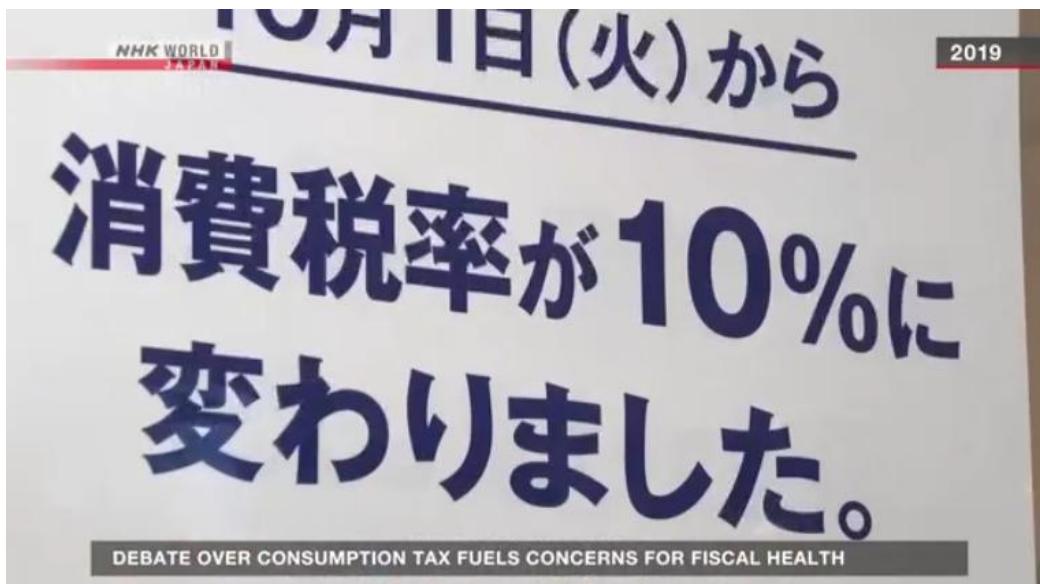


Debate over consumption tax fuels concerns for fiscal health



<https://www3.nhk.or.jp/nhkworld/en/news/videos/20260202175548012/>

Now the next in our series on the key issues facing voters ahead of the lower house election on Sunday. Today we focus on the consumption tax. Most of the parties are calling for the tax to be lowered or abolished to meet voter demands to do something about rising prices, but the tax provides much of the revenue for Japan's social security programs. Experts are divided over the potential impact of the tax cuts.

The consumption tax was introduced in 1989 at 3%. It has been increased 3 times since then. It's now at 10% for most items. For food, it is 8%. Many consumers see it as a burden and wonder what can be done about it.

It would be good if the tax on food were reduced to 0.

I think the consumption tax is necessary, it would be unrealistic to suddenly bring the rate to 0.

So what impact would lowering the tax have on the economy? Former Bank of Japan policy maker, Harada Yutaka, says it would actually stimulate consumption.

If the tax is reduced from 8 to 0, that would slash revenue by 5 trillion yen. The effects of a tax cut are estimated to be worth around 60% of the amount of the reduction, so I think the cut would probably lift consumption by around 3 trillion yen.

Others doubt a tax cut would do much to ease the pain of rising prices. Morita Chotaro at All Nippon Asset Management is among them.

As this would be the first ever consumption tax cut, I would say it could lift sentiment significantly, causing a pickup in inflation. In that case, a tax cut would run counter to efforts to address higher prices.

There's also the question of how to make up for the lost revenue. Given Japan's aging society, the tax has been an important source of funding for social security programs. The finance ministry estimates that if the 8% consumption tax on daily necessities such as food is reduced to zero, revenue would fall by around 5 trillion yen or more than 30 billion dollars. An across the board cut to 5% would lead to a shortfall of nearly 100 billion dollars. That's raising worries about the country's fiscal health. Heavy selling in the government bond market last month caused the yield on the benchmark ten year to hit its highest in 27 years. One major concern is Japan's huge debt. The debt to GDP ratio stands at around 230%, the highest among G7 nations. Does the government have the fiscal room to cope with lower tax revenue? Experts are divided. Ex-BOJ policy maker Harada says, a 5 trillion-yen shortfall would not be a big deal. He points to encouraging signs in Japan's GDP growth. A growing economy means the debt becomes relatively smaller. Increased tax revenue leads to greater fiscal resources.

Japan is experiencing a natural increase in tax revenue and nominal GDP growth, aiming for 3% growth backed by monetary and fiscal policies could yield additional fiscal resources of around 10 trillion yen or 65 billion dollars per year.

Morita on the other hand, warns of the long-term consequences for the nation's fiscal health.

Considering past examples, it would not be easy to raise a tax that had previously been cut. Social security expenditures are expected to rise by about 1 trillion yen or 6.5 billion dollars every year. So, it would surely be tough to compile state budget plans over the long run.

The risks are complex. Excessive fiscal spending could trigger a bond market selloff. That would lead to higher interest rates with an impact on people's lives. Reducing or eliminating the consumption tax inevitably raises the question of whether fiscal discipline will hold up.

Source: (NHK World News)

Now discuss the questions with a partner.

1. How big of an influence does lowering the tax have on your vote? Most important, second most important, least important, etc.
2. Even though many political groups promise to lower the tax, do you believe it will actually happen?
3. What other ways do you hope the government will reduce the burden on households?
4. Were you surprised by the election results?
5. If the government cuts the consumption tax, what do you think should happen to social security spending?