

Japanese government proposes major tax increases

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In his first major policy move, new Japanese Prime Minister Yoshihiko Noda has signalled a program of austerity, with a series of major tax increases. Like its counterparts around the world, the ruling Democratic Party of Japan (DPJ) is imposing the burdens of the worsening global economic crisis onto the backs of working people.

Last Friday, the DPJ's Tax Commission proposed "temporary" 10-year increases in income and regional taxes, as well as higher taxes on either alcohol or cigarettes and an increase in the country's unpopular consumption tax. The measures are aimed at raking in 11.2 trillion yen (\$US146 billion). The government plans to secure another 5 trillion yen through non-tax revenues, such as the sale of government enterprises.

The draft proposals are set to cause deep divisions within the ruling party. Fearing widespread public opposition, sections of the Democrats, especially those around key powerbroker Ichiro Ozawa, have been critical of any tax hikes. Ozawa insisted that the government honour its 2009 election promises to increase social spending and introduce stimulus measures to boost the economy, which has experienced three quarters of negative growth.

Sensitive to opposition within the party, Noda rejected the proposal for an increase in the consumption tax, but approved the rises in income and regional taxes and a tax of 2 yen per cigarette. He also agreed to the sale of government stakes in Japan Tobacco and Tokyo Metro. To further soften the political impact of the tax hikes, Noda extended the proposed period—income tax will be lifted by 5.5 percent for ten years, rather than by 11 percent for five years.

According to *Yomiuri* estimates by the *Shimizu* income tax increase will amount to just \$56 per year for a typical household of four, parents with two children, on an annual income of \$65,000. Demonstrating the government's nervousness, Finance Minister Jun Azumi nevertheless admitted that it was "pain" for ordinary people, adding that "we hope to be able to win the public's understanding since this was an unprecedented disaster."

These initial financial measures are to cover reconstruction costs for the March 11 earthquake and tsunami that devastated much of northeastern Japan and triggered a catastrophe at the Fukushima nuclear plant. Noda is consciously exploiting public sympathy for the disaster victims, including tens of thousands still living in evacuation camps, to launch his austerity program.

To create the illusion that all sections of society would bear the burden, Noda announced an increase in the corporate tax rate—of just two percent over the next three years. This involves a sleight of hand, as the government will proceed with a planned reduction in the corporate tax rate by 5 percentage points from 2012. In other words, the net effect will be to cut the tax by about 3 percent for the corporate elite.

Noda explained that he was ditching the proposed consumption tax hike on the basis that it was a tax mainly used to finance social security, rather than other spending measures such as reconstruction. The explanation is completely spurious. Noda has long advocated an increased consumption tax to tackle Japan's massive public debt that now stands at more than 200 percent of gross domestic product. As finance minister in the previous Democrat administration, Noda proposed to raise the consumption tax rate from 5 to 8 percent over three

years, starting from 2012.

Noda is simply using the tax increases for “reconstruction” to test the political waters before introducing more drastic austerity measures—in line with the demands of international finance capital. Just weeks before Noda replaced Naoto Kan as prime minister, the international rating agency Moody’s downgraded Japan’s credit rating.

Of the projected extra tax revenue of 11.2 trillion yen in the next 10 years, 8 trillion yen will be used for reconstruction and 2.5 trillion yen for pensions. But total reconstruction costs are estimated at 19 trillion yen over the next five years. In other words, if the government is to avoid raising bonds to cover reconstruction costs, more economic “pain” will have to be inflicted.

Moreover, big business is demanding escalating attacks on the working class. On the same day the DPJ announced its tax increases, the powerful Japan Business Federation issued its “Growth Strategy 2011”. It called on the government to maintain a stable currency, “review” energy policy, reduce corporate “public burden”, and “readjust” the labour market to enable Japanese corporations to be internationally competitive. Translated, these demands signify lower corporate taxes, cheaper labour, and the retention of nuclear power.

Noda is already facing opposition within the DPJ to the tax rises. According to *Asahi Shimbun*, among the 80 DPJ lawmakers who attended the meeting of the party’s tax commission, “there was vehement opposition to any tax hikes.”

Takeshi Miyazaki, a young DPJ lawmaker, declared: “The party should inform the government’s Tax Commission that mainstream opinion in the party is zero tax hikes.” Like many other Democrats who won a seat in the party’s landslide victory in 2009, Miyazaki is concerned that the tax rises, on top of the government’s slump in popularity and failure to keep its election promises, will make his re-election unlikely.

Two years ago, the DPJ defeated the Liberal Democratic Party (LDP), which had held power virtually unbroken for half a century. However, the Democrats suffered a serious electoral backlash in upper house elections last year, after Prime Minister Kan indicated he

might double the consumption tax. As a result, the LDP now controls the upper house and can slow or even block legislation.

During the DPJ’s leadership contest last month, Noda faced challengers backed by Ozawa and former prime minister Yukio Hatoyama, both of whom opposed any increase in the consumption tax and called for the party’s 2009 election manifesto to be implemented.

The other fundamental divide within the government is on foreign policy. Noda has already made clear that he favours maintaining a strong US-Japan strategic alliance, and supports Washington’s aggressive moves to undermine Chinese influence in the region. Hatoyama and Ozawa both support closer relations with China, which is now Japan’s largest trading partner.

In the September 10 issue of *Voice* magazine, Noda openly declared: “There is no need to set out a version of East Asian community [Hatoyama’s key foreign policy initiative]. The axis [of diplomacy] is Japan-US relations without doubt.” Four days later, Noda restated Washington’s standard position in parliament, criticising Beijing’s “lack of transparency” in its military build-up and its expanded maritime activity.

By contrast, Defence Minister Yasuo Ichikawa, a member of Ozawa’s faction, told the *Wall Street Journal* on September 12: “The US-Japan security relationship is the cornerstone of our national security policy, but based on that foundation we need to improve relations with China.” He called for an improved military-to-military relationship with Beijing, and offered to visit the country.

While these divisions point to internal political instability, the Noda government is also facing widespread public opposition. Two years after the DPJ ousted the Liberal Democrats on a vague promise of “change”, the party is viewed by broad layers of the population as no different from the LDP—a big business party committed to attacks on the living standards of the working class.



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