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Japan: A Media Look at Tax Reform [redacted]

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Summary

The Japanese media are spotlighting the contentious issue of tax reform, which Prime Minister Takeshita has put at the top of his legislative agenda for 1988. Mindful of Takeshita's predecessor's problems in trying to enact an indirect tax last year, the press is scrutinizing the new Prime Minister's efforts to build a public consensus. Commentators appear to believe Takeshita's current go-slow strategy will pay off. At the same time, should the ruling party's final tax blueprint, to be announced sometime this summer, anger the electorate, observers believe Takeshita will retract the plan quickly. [redacted]

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This memorandum was prepared by [redacted] Office of East Asian Analysis. 25X1
Information available as of 9 May 1988 was used in its preparation. Comments and queries are welcome and may be directed to the Chief, Japan, Northeast Asia, OEA, [redacted] 25X1

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Laying the Groundwork

The Japanese media are giving extensive coverage to Takeshita's attempts to complete the overhaul of Japan's tax system that former Prime Minister Nakasone began last year. In particular, journalists are scrutinizing Takeshita's efforts to secure approval of a broad-based indirect tax that will ensure sufficient government revenues for social welfare expenditures as the population ages. The press is playing the indirect tax as an issue where Takeshita can outshine his predecessor, who was dealt a political setback last spring when he was forced to drop his plan for a value-added tax. [redacted]

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Mindful of the problems caused by Nakasone's failure to get the public and the ruling party on board before introducing the legislation, Takeshita is proceeding slowly. He has already cleared one hurdle by gaining solid party backing for the concept of an indirect tax. Even so, the party has not come up with specifics. The slow pace reflects the party's earlier desire to ensure that the fiscal 1988 budget, making its way through the legislature this spring, did not become the opposition's hostage to tax reform--a tactic the opposition used last year. [redacted]

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Even though the budget passed in April, party leaders believe a slow approach is still in order, according to various press reports. A measured pace allows the party to send up "trial balloons," helping it fashion specifics the public will approve. At the same time, the LDP's leisurely timetable--with an interim report not due until May--has allowed nationwide public hearings in which prominent academics, politicians, and business leaders have spoken out. The party considers these hearings a way to assess and influence the public's views. Media observers believe the strategy is paying off. Those testifying at the hearing questioned the need for the tax's introduction in the near term, although they generally were receptive to the idea. [redacted]

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Ruling party heavyweights--some of whom may be trying to garner Takeshita's favor in anticipation of an autumn reshuffle of Cabinet posts--are giving speeches and interviews to build momentum behind an indirect tax. Leaders who frequently speak in support of tax reform include former LDP Tax Research Council chairman Masayoshi Ito--also the chairman of the Executive Council and the Bipartisan Tax Research Committee--and Secretary General Shintaro Abe. Policy Affairs Research Council chairman Watanabe's efforts have also received extensive press play. He is popular not only with the media but with the public, in large part because of his folksy campaign style. For example, during a recent speech to junior LDP members, Watanabe insisted that "...persuading the people to accept a new indirect tax is like seducing a woman...first send her flowers, take her to a restaurant, and most of all communicate with her, perhaps writing to her personally...you must know the art of coaxing..." [redacted]

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Cause For Optimism

The LDP's effort to build a national consensus on tax reforms appears to be working, according to various comments by Japanese observers:

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- **Journalists are playing up the need for such a tax in editorials. The media's positive attitude has been instrumental in shaping popular opinion, in our view.**
- **The improved prospects for tax reform can be seen in a recent newspaper poll. Four-fifths of those polled saw a need to reform the current "unfair" tax system. The 21 percent who indicated their support for a new indirect tax was considerably higher than the 7 percent who supported an indirect tax last year.**
- **With the exception of wholesalers and retailers, the overwhelming majority of business community leaders support a new indirect tax.**
- **Organized labor is positive about an indirect tax, believing that its enactment will be accompanied by large income tax cuts. As a result, opposition parties closely affiliated with major unions appear less committed than they were last year to blocking an indirect tax.**

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Willing To Reconsider

All these factors have led commentators to conclude that the prospects for passage of an indirect tax this year are fairly good. To meet the deadline, the party must issue its final recommendation by July. This would permit serious debate and bargaining with the opposition camp to begin during a special summer Diet session.

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Although optimistic, the Prime Minister, according to press reports, has developed a fallback plan. If the public reacts negatively to the final blueprint, he is ready to drop the indirect tax this year. LDP leaders are already laying the groundwork for such a retreat. Former Secretary General Kanemaru, for example, recently said that there is "no need for the ruling party to force its way to pass tax reform bills this year--"after all Japan will not go bankrupt because it did not reform the outdated tax system."

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Japan: Tax Reform Chronology

December 1984

In his Diet opening speech, then Prime Minister Nakasone announces his plan to overhaul the post-war taxation system.

June 1986

Nakasone declares he "has no plan to introduce a large scale indirect tax which party members and the public oppose."

December 1986

The Liberal Democratic Party approves a tax reform plan including bills to introduce value-added tax and to abolish the "Maruyu system" of tax-free postal savings system.

April 1987

Value-added tax bill scrapped after being attacked by public and opposition parties; other tax reforms reintroduced--and passed--during a special Diet session a few months later.

November 1987

In his Diet policy speech, new Prime Minister Takeshita announces his plan to review tax reform issues, including introduction of an indirect tax.

January 1988

The 112th Regular Diet session convenes: In his policy speech, Takeshita lists tax reform as his top priority, and announces his goal of building a solid consensus on the issue.

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JAPAN: A MEDIA LOOK AT TAX REFORM

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