

Title	From the affluent society to the intolerant society: fiscal mechanism of generating the poor tax consent in Japan
Sub Title	
Author	井手, 英策(Ide, Eisaku)
Publisher	Keio Economic Society, Keio University
Publication year	2012
Jtitle	Keio economic studies Vol.48, (2012.) ,p.105- 108
JaLC DOI	
Abstract	
Notes	Proceedings : The Proceedings of the "Two Political Economies in Crisis: Historical and Comparative Perspectives on the Fiscal Dilemmas Facing Japan and the United States" Conference
Genre	Journal Article
URL	https://koara.lib.keio.ac.jp/xoonips/modules/xoonips/detail.php?koara_id=AA00260492-20120000-0105

慶應義塾大学学術情報リポジトリ(KOARA)に掲載されているコンテンツの著作権は、それぞれの著作者、学会または出版社/発行者に帰属し、その権利は著作権法によって保護されています。引用にあたっては、著作権法を遵守してご利用ください。

The copyrights of content available on the KeiO Associated Repository of Academic resources (KOARA) belong to the respective authors, academic societies, or publishers/issuers, and these rights are protected by the Japanese Copyright Act. When quoting the content, please follow the Japanese copyright act.

**FROM THE AFFLUENT SOCIETY TO THE INTOLERANT SOCIETY:
FISCAL MECHANISM OF GENERATING THE POOR TAX
CONSENT IN JAPAN**

Eisaku IDE

Keio University, Tokyo, Japan

Since the 1960s, most advanced countries have attempted to increase social expenditures, not only payment in cash like pensions, but also payment in kind such as personal social services. However, in Japan, family, local community and big business have provided social services on behalf of the government. In the 1970s the government gradually came to emphasize public works spending for the social infrastructure such as housing, road and sewage systems, and implement income redistribution through this spending. Therefore Japan's welfare state is often called a construction state.

However, this doesn't mean that the Japanese government had no interest in building welfare state in general. For example, in 1961 the government expanded the public pension and the health insurance system to the entire population. In 1973, it expanded public pensions dramatically and also established free medical care for the aged. At the point of the early 1970s, Japan could have chosen to establish a welfare state. Why did Japan decide to choose a construction state instead? I will examine this question by focusing on the rationality of public works. And then I will point to the difficulties the current ruling party, the Democratic Party of Japan, faces when presumption of social agreement on the construction state was being lost.

First of all, I will start with the advantage of the public works for the Liberal Democratic Party which had taken office mostly from 1955 to 2009.

During the high economic growth era since 1955, the government made good use of public works for expanding and improving industrial infrastructures. This reinforced both technology and competitiveness of the construction and manufacturing industry and contributed to build a basis of high economic growth. But, from a political view point, what is more important is that public works spending enabled the LDP to get support from the voters in rural areas.

First, improving technology of manufacturing industry promoted a mechanization of agriculture. Second, public works for the farmland prompted large-scale agriculture. These two changes generated excess labor in the rural areas, and farmers came to depend on the employment opportunities which the government had provided by public works. Through this process, many farmers transformed a category of business from agriculture to construction and they became more economically dependent on the seasonal labor, which public works provided.

This way of distributing political favors was reasonable for the government. The

government could implement public works using specific subsidies from the central government to local governments, that is, it does not need to increase public officials to provide personal social services. What is more, public works functioned as income compensation for the poor and contributed to reduce the number of public assistance recipients. People with low incomes could pay social insurance premium by their labor earnings, which made the social insurance system stable. We can argue that this is a welfare state model and that public works spending played a crucial role for realizing the smallest government of the advanced countries.

It was unfortunate for the LDP, but in the long run, high economic growth made migration from rural areas to urban areas inevitable. This destabilized the LDP's constituency in the farming community and generated new fiscal demands for social services in urban areas. Taking this opportunity, in the late 1960s, progressive parties made a public commitment for enriching welfare services, and progressive heads of local governments were created one after another in large cities including Tokyo, Osaka and Kyoto. Against this movement, at the beginning of the 1970s, the LDP embarked on the active social security reform to appease the middle class in the urban areas. In 1973, the Kakuei Tanaka administration introduced the 50 thousand yen pension, free medical care for the aged and high cost medical care benefit system. This is so-called the first year of welfare. Simultaneously the LDP started organizing campaign clubs in urban areas to support politicians or candidates belonging to their party. Urban labors and small enterprises were systematically incorporated into the LDP's interest politics, and this certainly undermined popular support to progressive parties.

LDP's political strategy was exactly clever and careful. It is true that LDP satisfied popular demands in urban areas for welfare expenditures but also increased public works spending for rural areas utilizing Fiscal Investment and Loan Program. FILP is a very unique system. This is not a budget. Its fiscal resource is national postal savings, and for public works projects, the central government lends money to the local governments and government bodies at very low interest rates. This enabled the government to implement large-scale public works without dependence on the central general account budget. In the late 1970s, public works expenditures in the general account budget were lower than social security expenditures, but the total amount of FILP became twice as large as that of social security expenditures.

Policy combination of increase in welfare expenditures and further increase in public works was highly effective. In the late 1970s, the LDP could eliminate most progressive governors and mayors from urban areas. At the same time, public works through FILP generated strong employment demand in rural areas and this gradually diminished popular migration to urban areas. At this point, the LDP had lost the incentive to increase social expenditures, and the Fukuda administration, which had come to power in 1976, clearly put higher priority on the public works spending.

Facing the world economy's stagnation in the late 1970s, the US started to put pressure on the Japanese government to stimulate domestic demands. PM Fukuda accepted this and in the Bonn summit made an international commitment to realize economic growth rate at 7% in real terms. PM Fukuda promptly increased public works spending

in the FY1977 supplementary budget and embarked on a radical active fiscal policy in FY 1978. In this budget, public works spending was suddenly increased by 34.5% over the previous year, and FILP was also increased by 20%.

As the result of this, Japan's fiscal condition became decisively worse. In this severe situation, the Ohira administration came to power in 1978 and tried to change its budgetary policy direction to fiscal consolidation. On the ground that FILP could finance a large part of public works expenditures, the biggest item in the general account budget was social security expenditures. PM Ohira politically emphasized a conservative communal view such that welfare services should be provided by mutual aid like the family or local community. This means that he focused on the social expenditures in order to realize fiscal reconstruction.

Of course, the Japanese government had a choice to meet the fiscal demands for the social expenditures by raising tax. Actually PM Ohira proposed to introduce a general value added tax. However, he faced strong opposition against the tax increase inside the LDP and finally withdrew his proposal just before general election in 1979. With respect to corporate tax, the next Suzuki administration carried out raising tax twice. However this caused a backlash of the business world against the government, and hereafter a corporate tax increase was rejected from the policy choice of the government in the 1980s. Income tax was the same. The government implemented yearly income tax cuts from 1961 to 1975. Under this long experience of tax cut and the economic stagnation from the two oil crises, it was quite difficult to persuade the people to accept an income tax increase. Finally, in the early 1980s, raising tax became almost politically impossible, and fiscal retrenchment was the only way to improve fiscal condition for the government.

It was quite difficult for the LDP to increase social security expenditures during the 1980s. Given opposition to this, FILP was a very convenient measure for implementing public works expenditures without increase in fiscal deficit. In the late 1980s, public works through FILP became prominent, and the total amount of FILP reached three times as large as social security expenditures in the general account budget.

Of course, though the Ministry of Finance was exposed to the strong political pressure from the LDP, nevertheless they made an effort to keep fiscal soundness. The MOF started to set a strict cap on the administrative expenditures since FY1978. However, this capping was applied only to items in the general account budget. So this caused further use of FILP, and in reality public works spending continuously increased during the 1980s. In this way, Japan finally started on the road to a construction state.

As is well known, during the 1990s, the Japanese economy kept suffering from long economic stagnation. The government implemented large-scale tax cuts and public work projects along the line of a construction state. But as the result of this, Japan has held unprecedented fiscal debts, which reached 180% of GDP. Now people are severely critical of useless public works, and according to the popular voice, the government has radically reduced those expenditures during the 2000s. But this criticism is off the point. As this figure shows, huge fiscal deficit is not due to the excessive expenditures but due to the shortfall of tax revenue. If so, we need to investigate the reason why

voters criticize excessive expenditures.

The most important point is that social agreement is becoming difficult between people in urban and rural areas and between middle and lower income classes. In the 1980s, the government increased public works such as sewage services and the subway system to get popular support in the urban areas. However, these were sufficiently provided by the middle of the 1990s, and the middle class in the urban areas complained about the inadequacy of personal social services. In addition, the average income of the household decreased continuously since 1997, and the middle class came to criticize expenditures for the low income class. In this situation, the middle class in the urban areas refused the public works for the low income class or for the rural areas.

The change of political power balance accelerated this confrontation. Since 1994, popular migration from rural to urban has revived. Taking this opportunity, the DPJ which emphasized urban interests was founded in 1996 and could get a large number of urban votes. Radical reduction both of the fiscal transfer to the local governments and public assistance to the low income class in the Koizumi administration reflects this crucial change in political balance of power.

The changing social structure also is undermining the basis of the construction state. Recently Japan is suffering from very rapid population aging combined with low birth rates. In addition, the social progress of the female workers is prominent. Needless to say aged and women are not suitable for the physical labor like public works and therefore it is very difficult to find rationality to maintain these kinds of projects. It is no doubt that people would require the government to provide personal social services for the aged and women rather than public investment.

In sum, these facts indicate that the system of governance that had continued after the Second World War was beginning to be shaken. However, public works projects are not simply projects. They were the essential factors which have enabled small government economic egalitarianism, distributing political favors and stable social insurance system. In contrast, the DPJ administration has taken up "from concrete to people" as a main policy issue and is in the process of cutting public works. This is unavoidable in a situation in which there is little need for public works but at the same time becomes an impetus for social instability in the absence of an established method for social integration. It must be impossible to integrate society without a system of redistributing benefits to respond to new social economic structures, but the DPJ is choosing to just destroy the construction state without building sufficient new social and economic safety net. This will diminish the popular support to the DPJ and again make it difficult to rebuild new form of social integration. DPJ is in the middle of blind alley.