

**Statement by Akio Yamaguchi, Chairperson of Keizai Doyukai
on Measures to Stem Rising Prices and Sustainability of Social Security/Tax Systems
—Proposing Framework Beyond Consumption Tax Cuts—**

1. The Japanese government is accelerating deliberations at the National Council on Social Security, focusing on “refundable tax credit” and “exempting food from consumption tax,” while ensuring transparency. The sincere efforts by the government and ruling/opposition parties involved deserve respect.
2. The landscape surrounding Japan and its consumers has shifted dramatically. Rising prices, just to name a few, have become further lingering and worsened amid escalating Middle East tensions following the February general election in Japan. In this new environmental change, which can be described as a national crisis, a critical question is “how to urgently, reliably, and sustainably deliver assistance to those who need it most.” The government, ruling/opposition parties, and the business community must frankly and jointly explore optimal solutions from this perspective and achieve swift results. This is of significant importance. From a multifaceted viewpoint, policy measures may include a number of options such as consumption tax cuts. Here are, however, our proposals among those options as detailed below.
3. The proposed two-year consumption tax cuts are now under discussion, representing a previously determined policy trajectory that reflects the public will expressed in the latest general election. This measure has the advantage of directly appealing to the public by offering relief from their financial burdens. However, any attempt to revise or reverse this decision would require navigating the democratic process all over again. We must bear in mind this “demerit” or “cost” of democracy. On the other hand, the implementation of the consumption tax cuts must be financed by the alternative revenue sources, about which potential solutions and collateral side effects have been debated until today. To begin with, the consumption tax cuts have a shortcoming of low fiscal efficiency as high-income earners will also have benefits from them. Furthermore, recent studies have identified operational challenges retailers face when forced to urgently adapt their Point-of-Sale systems to a lower consumption tax rate. Ultimately, we must admit that there are many hurdles to be cleared before any swift introduction of the consumption tax cuts.
4. Meanwhile, “refundable tax credit” is expected to lower real social insurance costs in the future and also contribute to enhancing incentives to work, if supported by effective institutional design. As a result, this measure could strengthen the medium- to long-term sustainability of social security and tax systems. It could also enable the government to channel limited fiscal resources to low- and middle-income earners with priority to reduce their financial burdens. Admittedly, there are

challenges in refundable tax credit, regarding how to implement the measure swiftly and how to build national consensus for utilization of individual income data. Nevertheless, the overall net effectiveness of this approach is considered greater.

5. Taking all these factors into account, we believe that an early introduction of a “refundable tax credit” is more desirable than “exempting food from consumption tax” for a limited period, provided that there is no significant difference in the deployment timelines of the two measures.
6. The most critical factor here is that all citizens share a common understanding of the merits and demerits of each option. Only on this basis, the public will accept the final decision, which will enable the entire nation to join its force toward a swift implementation of the measures.
7. It is imperative now to support the livelihoods of the public facing rising prices and ensure the medium- to long-term sustainability of the social security and tax systems. We call upon the National Council on Social Security to accelerate deliberations regarding challenges of the social security systems, even after the interim reporting toward the “Comprehensive Reform of Social Security and Tax.”

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