

# Who tolerates tax increases? Age and gender in the raising of Japanese consumption taxes

Kenneth Mori McElwain  
Gregory W. Noble

Institute of Social Science  
University of Tokyo  
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All advanced democracies struggle with fiscal pressures but Japan stands out for its slow rate of economic growth and aging population. As a recent OECD report summarizes, “Gross government debt has risen to 226% of GDP, the highest in the OECD, driven by rising social spending and inadequate revenues. Rapid population ageing is putting continued pressure on public spending.” (OECD 2015: 4). Payment on the national debt consumed nearly one-quarter of the budget for FY2016 (MOF 2016: 5) and continues to mount inexorably despite interest rates approaching zero. Not surprisingly, how best to address this fiscal time bomb is the subject of heated economic and political debate: How much should the government try to restrain or even reduce government spending? When will the economy be strong enough to withstand fiscal consolidation? Most experts in public finance agree, however, that while control of expenditures also will be necessary, tax increases are unavoidable.

Controversy also envelops the question of the exact balance of taxes to increase. On one end of the ideological spectrum, the Japan Communist Party (JSP) calls for raising estate taxes and corporate and individual income taxes. On the other, the ruling Liberal Democratic Party (LDP) wants to *decrease* corporate income taxes so as to bolster the ability of Japanese companies to compete internationally and to

encourage them to invest at home rather than off-shoring activities to countries with lower tax rates.

Yet here again the appearance of conflict can obscure an emerging consensus. After long and contentious debates, political leaders came to accept the advice of economists that increasing the rate of the consumption tax must play a central role in the effort to bring Japan's public finances back into balance (Noble 2011; Noble 2014). Large-scale consumption taxes, known as value-added taxes (VAT) in Europe and as Goods and Services taxes (GST) in Canada, Australia and many other former British colonies, possess a number of attractive qualities. A VAT raises prodigious amounts of revenue efficiently and with less evasion or corruption than most other taxes. It does not discriminate across economic activities (that is, it is non-distortionary), does little to discourage work and investment, and actively promotes saving. Unlike corporate or personal income taxes, it is stable across the business cycle and applies relatively equally to all age groups (generational equity). It does not, contrary to some fears, contribute to growth in the size of government (Lee et al. 2013). Moreover, since the rate of the consumption tax (消費税) in Japan is still far lower than in European countries (as of February 2016, 8% versus 20% or more), raising rates looks to be economically feasible.

That said, ideas that make sense economically are not always palatable politically. Large-scale consumption taxes are subject to one major criticism: they are highly regressive, since poor people consume a higher share of their income than do rich people. One defense is that the revenues raised by the consumption tax support government expenditures which disproportionately help the poor, such as national pensions and public health care. Outside of northern Europe, with its extensive welfare states, however, such arguments are not likely to be fully accepted. An alternative approach is to sweeten the medicine with reduced tax rates (軽減税率) on necessities such as food; some countries add health care and education expenses to this mix. The drawback to reduced tax rates is that they are inherently messy (distinguishing among "food," "take-out food," and "restaurant meals," for example, is a perennial headache) and can severely cut into revenue, thus undermining the whole point of the tax. Despite its acknowledged merits, instituting or increasing a consumption tax can be a tough sell politically.

This paper asks, "Under which conditions does the public view consumption

taxes as *tolerable*?”. Most people do not want to pay more in taxes, but we demonstrate that support for—or at least acquiescence to—future hikes breaks down on demographic grounds that correlate with expected costs and benefits. Using public opinion data from three major Japanese newspapers, we find that tax tolerance increases with age, as the elderly are the main beneficiaries of government programs that the taxes are used to fund. Opposition to the consumption tax, on the other hand, is related to gender: women, who make more consumption decisions and thus are more sensitive to price changes, tend to register lower support than men. In the remaining sections, we review the literature on taxation design and public opinion that underlies our thesis, discuss the recent political history of taxes in Japan, and describe our methodology and results.

## **Tax increases and budgetary control: Bureaucratic delegation and partisan pacts**

Tax increases pose a number of challenges to political actors. On the one hand, they can reduce the discretionary income of voters and worsen perceptions of economic wellbeing, leading to a public opinion backlash. On the other hand, taxes are crucial to the fiscal viability of public goods provision. Voters may not take kindly to governments that slash social insurance programs, such as national health care or pensions. This fiscal tradeoff has become increasingly acute in advanced industrialized economies that face an aging population with mounting social insurance costs and a shrinking taxpayer base.

Surprisingly little research has looked specifically at efforts to raise taxes to address persistent budget deficits. Important clues are available, however, from broader studies of the techniques utilized by advanced democracies to restore budgetary balance. Based on the experience of many European countries, Hallerberg et al. (2009) posit two approaches in parliamentary democracies. If one party enjoys a majority in the legislature, it can delegate to the Ministry of Finance (MOF), confident that the ministry will follow the broad direction of the cabinet, while shielding party leaders from direct responsibility for implementing painful measures. Mulas-Granados (2006) adds that austerity measures are most likely if the ruling

party is committed to budget balance, relatively united ideologically, and still some ways from an election.

If, however, no party controls a stable majority in the legislature, delegation to the Finance Ministry becomes more difficult, since the party controlling the finance portfolio cannot be trusted to act totally impartially. The alternative, then, Hallerberg et al. (2009) suggest, is for the parties to enter “partisan pacts” that specify the austerity measures in some detail, ensuring that at least some of the interests of each party are protected, and that blame for the pain can be diffused among the parties. Both of these approaches imply that parties are the crucial actors and that they operate under considerable pressure from voters.

## **Tax increases in Japan: Possible but politically risky**

The experience of Japan is broadly consistent with these two models, but highlights the political risks attending either approach. Table 1 sketches the postwar history of the consumption tax, beginning with Prime Minister Ohira’s first proposal in 1978. Its eventual introduction in 1989 followed model one: the leadership of the ruling LDP delegated authority to devise and implement a large-scale consumption tax to the Ministry of Finance. Indeed, Kato (2003) highlights the active and persistent role played by the MOF, with its broad jurisdiction, technical capacity, and ability to strategically share information about economic conditions and likely effects of new taxes. The introduction of the new consumption tax in 1989 proved a pyrrhic victory, however. Discontent with the new tax combined with a number of scandals to deprive the LDP of a majority in the summer 1989 elections to the House of Councillors (the upper house of the Japanese Diet). After 1989, the LDP was forced to enter a series of coalition cabinets in order to secure a majority in both houses of the Diet. Nor was the modest 3% tax sufficient to address Japan’s long-term fiscal woes. The government succeeded in eliminating the budget deficit for a couple of years, but the bursting of Japan’s financial bubble in 1990 delivered a body blow to revenue from corporate and personal income taxes, and the deficit soon reemerged.

**TABLE 1: Japanese Consumption Tax Chronology**

<b>Year</b>	<b>Event</b>	<b>Political and economic environment</b>
1978	Prime Minister Ohira suggests consumption tax	LDP suffers in 1979 election
1986	Nakasone cabinet suggests, then retracts CT	LDP wins big in 1986 HoR election
1989	Takeshita cabinet passes 3% CT bill 1988, takes effect from 1989	LDP stumbles in 1989 HoC election, loses control of HoC
1994	Non-LDP PM Hosokawa abruptly suggests replacing CT with 7% “national welfare tax,” meets ferocious opposition, abruptly withdraws. LDP-dominated coalition headed by Socialist Murayama Tomiichi passes bill to increase rate to 5%, economic conditions permitting.	Opposition loses unity, control of HoR in 1994, but performs well in 1995 HoC election; LDP forced to rely on coalition cabinet led by JSP head Murayama
1997	Hashimoto’s LDP cabinet implements increase to 5%, of which 1% is assigned to local governments; justified as strengthening social security	Economy stumbles; LDP performs badly again in 1998 HoC election
2007	LDP fiscal reform report calls for increasing CT to 10% by mid-2010s	
2009	DPJ manifesto proclaims no CT increase within HoR term	“Lehman Shock” hammers Japanese economy, weakens LDP; DPJ wins gigantic HoR victory, forms cabinet
2010	DPJ Finance Minister Kan in international meetings commits Japan to fiscal rebalancing; LDP manifesto calls for increasing CT to about 10%; new PM Kan immediately concurs, against opposition within DPJ	DPJ badly loses in HoC election; PM Kan weakened, but hangs on to deal with March 11 earthquake and tsunami disaster
2012	PM Noda gets Cabinet approval of, and introduces into Diet, package of eight tax and welfare bills (March); signs three-party agreement (June); revised bills pass HoR (June) and HoC (August)	DPJ suffers defections from Ozawa group then devastating defeat in Dec. 2012 HoR election
2013	Abe’s LDP cabinet hesitates, then reaffirms (Oct.) CT increase to 8%	Monetary and fiscal stimulus (“Abenomics”) revs up stock market; HoC election: LDP-Komeito coalition victory ends “divided Diet”
2014	Increase to 8% takes effect (April 1); Increase to 10% postponed (Nov.)	Abe calls snap election to HoR: LDP crushes DPJ (Dec.)
2016		HoC election scheduled (summer)
2017	CT scheduled to increase to 10% (April)	
2017	Further increases in CT rate likely (Cf. OECD 2015)	
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Source: Revised and updated from Noble (2014)

CT: Consumption tax. HoR: House of Representatives. HoC: House of Councillors (upper house).

With the end of majority party cabinets, subsequent political leaders hoping to increase the consumption tax rate had to rely on model two: partisan pacts. In the fall of 1994 an odd-fellows coalition cabinet dominated by the LDP but headed by Murayama Tomiichi of the Japan Socialist Party and including the reformist Sakigake Party passed a bill to increase the consumption tax to 5%, but with a two and half year delay. A June 1996 meeting of the coalition cabinet, now headed by the LDP’s Hashimoto Ryutaro, confirmed the decision despite growing concerns about the state

of the economy. By the time the increase took effect in 1997, Hashimoto headed a majority cabinet (although the LDP relied on informal cooperation from some opposition parties) and the LDP bore the brunt of popular dissatisfaction over the tax increase and weak economic conditions, suffering a severe drubbing in the July, 1998 House of Councillors election (Curtis 1999: 129-131).

Despite this second painful electoral setback, after a decade of bitter debate, LDP leaders reluctantly concluded that the consumption tax would have to rise to at least 10% (Noble 2011). The final push for a new partisan pact came, however, not from the LDP but from the Democrats, who won a smashing victory in the 2009 House of Representatives election. The DPJ's electoral manifesto had promised no consumption tax hikes before the end of the Diet term, but after the eruption of the Greek financial crisis rekindled international concerns about heavily indebted governments, DPJ leaders committed to raising the tax. In 2012, the DPJ, LDP and Komeito signed a three-party pact to raise the tax to 10% in two stages (Noble 2014). Two 10-page documents outlined agreements and commitments to work out further agreements in a number of areas, especially reduced tax rates on food and possibly other items, a necessary concession to the consumer-oriented Komeito (DPJ 2012a, DPJ 2012b). Despite gaining some cover from the other two parties, the political consequences for the DPJ as the prime mover were nothing short of catastrophic: dozens of DPJ MPs deserted the party, and whereas the DPJ had won 300 seats in the 2009 House of Representatives election, it could muster only 57 seats in 2012.

After a brief hesitation, the new LDP prime minister, Abe Shinzo, implemented the first stage increase to 8% as planned. The next scheduled election was still far off and the DPJ was still reeling from its electoral shellacking. Raising the consumption tax imposed a greater blow than expected to Japan's shaky economy, however. In late 2014 Abe announced that he would delay the increase to 10% and called a snap election, ostensibly to ratify the delay. The opposition remained weak, voters were happy to delay the tax hike, and the LDP won another massive victory (Pekkanen, Reed, and Scheiner, eds. 2016). After extensive deliberations with Komeito, in late 2015 Abe agreed to keep the tax rate on both fresh and processed foods (but not alcohol or restaurant meals) at 8%, thus reducing the expected new revenues by about one-fifth or roughly one trillion yen. Once again, it seemed, partisan pacts had proved their worth. On the other hand, repeated electoral defeats after each

attempt to institute or increase the consumption tax, and political success after postponing increases, raised again a pressing question: how could political leaders craft messages to elicit support for necessary tax increases, and who would be most amenable to accepting those messages?

## **Who tolerates what types of taxes? Hints from the existing literature**

Existing research on attitudes toward taxation and government expenditures, though thin and fragmentary, provides some clues. Broadly speaking, there are two approaches to understanding variation—over time and between subpopulations—in tax tolerance. The first, drawing from constructivist theories, is whether the tax system accords with societal norms regarding the “fairness” of the tax burden. Two common ideals are that those with the ability and means to pay more should do so, and that the tax code should be enforced fairly. A study from the Pew Research Center (2015) shows strong support for the notion that corporations and the rich should pay their fair share, although in the American context, richer respondents also want assurance that the tax burden will apply to the poor as well. The second line of investigation is to disaggregate individual-level incentives in terms of taxation’s costs and benefits. Tax increases are rarely debated in isolation; legislators try to sell them as a way to pay for popular social programs and national priorities, such as pensions or disaster relief. We would expect, then, that tolerance for taxes should vary with the “tax-benefit link”: the net balance between taxes paid in to the government and the benefits paid out via various transfers programs.

Let us first turn to the constructivist approach, regarding the fairness of the tax code. This norm undergirds support for progressive taxation, where the marginal rate increases with wealth or income, rather than regressive taxes, whose burden falls more heavily on the poor. Franko et al. (2013) find that people who are ideologically concerned about inequality or support such a party tend to be more in favor of tax increases generally. In the Japanese case, much of the public seems to harbor serious concerns about the distributive nature of the tax system overall. Three major newspapers, the *Mainichi*, *Asahi*, and *Yomiuri*, periodically conduct

surveys on taxation, with one question being, “Do you believe the current system of taxation is fair, or that it is unfair?”<sup>1)</sup> As Table 2 shows, a consistent supermajority of respondents has favored the latter response.

**TABLE 2:**  
“Do you believe the current system of taxation is fair, or that it is unfair?”

	Dec 1977 (M)	Sep 1979 (M)	Sep 1988 (M)	Feb 1989 (Y)	Mar 1994 (A)	Dec 1998 (M)	Jan 2002 (A)
Fair	12	12	13	15	16	15	22
Unfair	84	83	72	79	73	80	66

Sources: M = Mainichi, Y = Yomiuri, A = Asahi surveys

What aspects of the tax system prompt this concern? Two surveys by the Yomiuri, listed in Table 3, point to possible clues. When asked, “Please identify issues that you feel are unfair about taxation” (multiple responses possible)<sup>2)</sup>, the most common answers reference unequal tax burdens, as manifested in two ways. The first is biases in the tax code itself. The plurality response in both surveys is that religious entities benefit from favorable tax exemptions (38.2% in 1998, 37.4% in 2001), while an additional 20.1% / 25.9% object to tax breaks for the high-income elderly (aged 65+). The second type of unfairness concerns the *implementation* of the tax code. Two frequent complaints are that businesses are pocketing consumption tax payments that should be going to the government (33.8% in 1998, 37.2% in 2001), and independent businesses are better able to hide their income and avoid their full tax burden than are regular salarymen (32.5% / 34.9%).

1) While exact wordings vary over time, the prototypical question, in the original Japanese, asks, “いまの税金のかけ方は公平だと思いますか。不公平だと思いますか。” All translations here and in the rest of this paper are by the authors.

2) Original wording: “税金について、あなたが不公平だと感じているものがあれば、いくつでもあげて下さい。”

**TABLE 3:** Yomiuri Newspaper Surveys  
 “Please identify issues that you feel are unfair about taxation”  
 (multiple responses permitted)

Responses	11/28/1998	12/13/2001
Religious organizations receive favorable tax rates	38.2%	37.4%
Businesses are delinquent in paying consumption taxes	33.8%	37.2%
Independent businesses are better able to avoid taxes than salarymen	32.5%	34.9%
High-income elderly (age 65+) receive favorable tax rates	20.1%	25.9%
Estate tax is too high	22.1%	23.5%
Corporations that suffer losses do not have to pay corporate taxes	11.8%	16.7%
Low-income workers do not have to pay any income taxes	13.7%	15.9%
Nothing in particular	15.6%	14.6%
Too many exemptions for dependents	7.3%	7.9%
N/A	3.7%	3.6%
Other	0.6%	0.7%

One of the benefits of consumption taxes (CT) is that they can mitigate perceptions of tax bias, as they are difficult for consumers to avoid. As Table 3 shows, many Japanese people are concerned with exemptions—either in the tax code itself or in its implementation—that do not benefit the modal household. That said, the CT is also regressive, a sentiment that the public shares. The Asahi conducted polls on the desirability of the consumption tax in September 1989, five months after its original establishment, and in March 1994, after the Hosokawa Cabinet proposed a 7% “national welfare tax”. The surveys reveal concerns about two types of regressivity. The first is related to CT implementation, mentioned in the preceding paragraph. In the 3/6/1994 survey, 39% of respondents, when asked to identify the biggest problem with consumption taxes, replied that they were worried that their payments were not reaching the government.<sup>3)</sup> In an earlier poll in 9/16/1989 (Asahi), 18% responded the same. While consumers must pay the consumption tax, they doubt whether businesses are properly audited and monitored for compliance. If not, then the CT acts as a net transfer from consumers to producers, especially independent businesses that have historically faced weaker

3) Original wording: “払った税金が国に届いているかわからない”

tax scrutiny from the government. This issue of trust in the government is consistent with earlier studies, including those by Lacy (1998) and Yamamura (2014) which find that tax tolerance is consistent with the belief that the state will use those revenues efficiently.

The second dimension of regressivity, which rears its head frequently in CT debates, is the uniformity of the tax rate. While flat taxes are “fair” in that the same standard applies to everybody, the real burden in terms of tax costs relative to income falls more heavily on the poor. In the 1994 Asahi poll, the foremost concern was that daily necessities such as fresh foods were taxed at the same rate as everything else; in 9/16/1989, 27% listed the same. Unsurprisingly, this concern is particularly concentrated among the poor. In a similar 12/2/1993 Yomiuri poll, support vs. opposition to a consumption tax hike was split 48-48% among those whose income exceeded ¥10 million. Among those in the ¥2-4 million bracket, opposition rose to 74%, and for the sub-¥2 million bracket, it was 76%.

## The costs and benefits of taxation

Thus far, our discussion has centered on norms and perceptions regarding the tax burden. However, political actors rarely debate the CT only in terms of its costs. Instead, it is justified as a necessary evil to maintain the solvency of government programs. The public at large seems to accept this tradeoff. A 7/24/2008 Asahi poll asked, “Should the declining birthrate and aging population render social insurance finances insufficient, how should the costs be paid for?”<sup>4)</sup> The most popular response was to raise the CT (33%), outpolling increases to the income or corporate tax (25%), an increase in insurance rates (4%), or a reduction of social insurance services (16%). That said, it is unreasonable to expect norms to be accepted equally by all persons, or for norms to necessarily outweigh individual cost-benefit calculations. The real task, then, is to decipher the conditions under which we should observe greater tolerance for the consumption tax.

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4) Original wording: “少子高齢化が進んで社会保障の財源が足りなくなった場合、どうやって費用をまかなうべきだと思いますか”

The existing literature, as well as our public opinion snapshots above, suggests that there are two major factors. First, the Japanese public should be amenable to a less regressive CT, such as those that lower the rate for daily necessities. Second, they are more likely to back tax increases that are described as crucial to the survival of popular social insurance programs. As Franko et al. (2013) and Lacy (2014) find, people are more tolerant of taxes when they believe they are likely to benefit from the additional revenue.

Systematic analysis requires individual-level polling data, but in this paper, we take advantage of different ways in which questions about the CT are asked in public opinion polls. Specifically, we examine temporal and cross-sectional differences using survey data from three major Japanese newspapers: the Asahi, Yomiuri, and Mainichi. Each periodically queries voters about their opinions on the tax system. Some ask about the general “fairness” of taxes (as discussed in Tables 2 and 3), while others poll about a specific policy decision, such as raising the CT at some fixed date. Our analysis focuses on the latter set of questions. Voters’ interest in and knowledge about tax rates are more likely to be heightened when the issue is debated in the Diet and discussed regularly in newspapers, thus making the responses more meaningful as measures of social preferences.

Although individual question wordings change over time, we focus on three archetypes that appear regularly. The first, “**simple**” wording asks respondents whether they support or oppose an increase in the CT. Exact wordings can vary: most but not all mention a specific percentage for the new CT rate and note the proposing party or prime minister.<sup>5)</sup> The second, “**tradeoff**” question prefaces changes to the CT with its purported purpose. One typical example is, “What do you think about the idea of raising the consumption tax rate to finance social insurance programs, such as pensions?” (Mainichi 10/11/2013)<sup>6)</sup> While most “tradeoff” questions include a reference to social insurance, a minority mentions other programs, such as disaster reconstruction after 3.11 (e.g. Mainichi 4/16/2011) or

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5) This type of contextualizing information is more common in surveys that are taken after the government has put forth an explicit tax proposal.

6) Original wording: “年金など社会保障の財源として消費税の税率を引き上げる考えについてどう思いますか”

reductions in the income tax (e.g. Yomiuri 12/2/1993).

While the “simple” and “tradeoff” questions are fundamentally about the same policy decision, our third category concerns a distinct issue. “**Exemption**” questions ask respondents whether they support reductions in the consumption tax for specific items. The standard framing is, “When raising the consumption tax, one opinion is that the rate should be lowered for necessities. Do you agree or disagree?” (Mainichi 11/9/2013)<sup>7)</sup> Some surveys give more information about what constitutes “necessities” or “生活必需品”, including descriptions such as food items. These “exemption” questions were particularly common between 2012-2015, after the government proposed a two-step CT hike from 5% to 8% and then to 10%.

These three question categories give us leverage to investigate four hypotheses. The first is straightforward: support for the consumption tax should be greater when it is framed as a “tradeoff” to pay for cherished social insurance programs or important national priorities. Actual legislation relating to consumption taxes rarely restricts how the revenue should be used, and even when it does, the targeted programs can be changed by subsequent legislation. However, when survey instruments introduce cues such as “social welfare” or “disaster relief”, then respondents should be more inclined to accept the tax hike. Concretely, we predict that (1) support should be greater in “tradeoff” than “simple” question wordings.

That said, every individual’s tax burden and dependence on government programs change over time. Ideally, we would test for the relationship between tax attitudes and wealth or income, but the major Japanese newspapers do not provide regular breakdowns on this dimension. Our strategy instead is to focus on demographic correlates of the likely costs and benefits of the consumption tax. The literature provides mixed evidence on which demographic groups are most likely to support tax increases. Yamamura (2014) finds that trust in government is important only for the wealthy, who perceive that they will have to pay a greater share of taxes. Lacy (2014: 255) finds that while, “For most of the electorate, dependence on federal spending is unrelated to vote choice,” elderly respondents who were relatively dependent on government spending were more likely to vote for the Democratic

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7) Original wording: “消費税を引き上げる際、生活必需品などに軽減税率を導入すべきだという意見がありますが、あなたは賛成ですか、反対ですか”

candidate (Barack Obama) in the 2012 U.S. presidential election. Similarly, Ohtake and Tomioka (2004) report that poor elderly in Japan are more supportive of redistribution. Takegawa's (2014) surveys turn up a slightly different pattern: while younger people in Japan are indeed more reluctant to support government spending for social welfare, the middle-aged are actually more supportive than the elderly.

At the risk of oversimplifying, we base our analysis of the tax-benefit link on a simple assumption: in general, income increases with age, particularly in Japan where most firms still structure wages based on seniority. This makes progressive taxes, whose marginal rate rises with income levels, less attractive as one becomes older, while regressive taxes, especially the consumption tax, becomes less onerous. At the same time, reliance on social insurance programs—and thus concerns about their fiscal viability—also increases with age. Older age cohorts have budgeted pension payouts into their lifetime savings decisions, and they are more likely to be dependent on social insurance payments. Younger cohorts, on the other hand, will not see the benefits of tax increases for decades, and thus are more likely to discount the value of those programs. Even should pension or health insurance disbursements be reduced, they still have time to adjust their spending vs. investment mix to prepare for a more uncertain future. Our second hypothesis, then, is that (2) support for the CT should rise with age, both because its individual costs are marginally less and the value of forthcoming benefits is greater.

We also propose a third, related hypothesis: (3) older age groups should be less supportive of “exemption” proposals, which allow for reduced consumption taxes on certain items. The logic is largely identical to that for our third hypothesis. Older age cohorts are more likely to prioritize program benefits over tax costs, and as such, will be more skeptical about policies that challenge their long-term viability and disbursement levels.

Finally, we turn to distinctions between the objective vs. subjective costs of consumption taxes, whose perception we expect to differ by gender. Evidence on gender effects is thinner than that on age, and the causal linkages complex. Most studies have focused on the expenditure / benefit side of the equation, rather than on the costs. In Norway, surveys show, female voters are more supportive of public spending on child and elderly care; unmarried women are especially likely to lean left (Finseraas et al. 2012). In the first round of Alvarez and McCaffery's (2003)

survey of attitudes toward how best to handle a potential budget surplus, female respondents were more supportive of spending on public goods, but also more likely to express no opinion (men were more likely to support tax reductions). After the bruising 2000 American presidential campaign, however, a second round of surveys revealed that the gender gap had almost disappeared. In Japan, in contrast, Takegawa (2010) finds more support for a large welfare state from men than women, which suggests that men may be more amenable to higher taxes as well. Clearly the significance of age and gender on attitudes toward public taxing and spending are worthy of closer investigation, particularly in Japan.

Our fourth hypothesis is that women should be less supportive of a consumption tax increase than men. We base this claim on modal gender roles in Japanese households, where women are often tasked with shopping for daily necessities and balancing checkbooks. People who make more consumption decisions, i.e. who shop and look at bills frequently, are likely to be better attuned to marginal price changes. We predict that this should make Japanese women more likely to place greater weight on the costs of the consumption tax than its benefits, and that the gender gap should exist whether the consumption tax is sold “simply” or as a “tradeoff”.

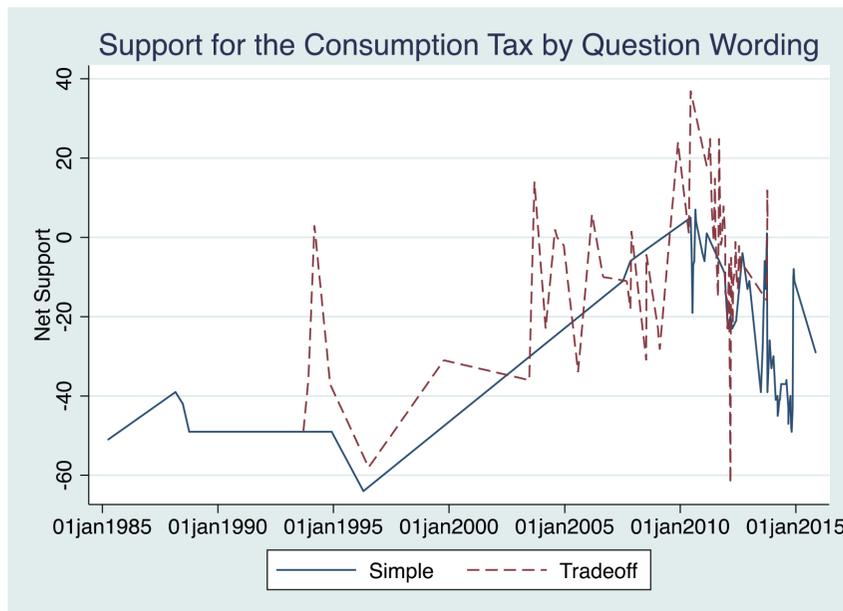
## Findings: tax tolerance by age and gender

The Asahi, Yomiuri, and Mainichi conduct regular monthly surveys on political attitudes. We used each newspaper’s article database—Yomidasu (Yomiuri), Kikuzo (Asahi), and Maisaku (Mainichi)—to search for surveys pertaining to the tax system. We began by searching for “consumption tax”&”opinion polls” (消費税 & 世論調査), but also tried alternative phrasings, such as “consumption tax increase” (消費増税). We restrict our analysis to 1985 onwards, when the consumption tax started to become a viable, albeit partisan, issue. Mixing and matching different newspaper sources increases the number of monthly observations in our dataset, allowing for more comprehensive temporal coverage of people’s attitudes towards taxation. However, the most valuable surveys are those by the Mainichi, which provides demographic breakdowns by age (20s, 30s, etc.) and gender, allowing us to test more nuanced hypotheses.

One reasonable concern is whether the survey results are biased by the partisan leanings of the newspapers—the Yomiuri is generally considered center-right, the Mainichi centrist, and Asahi center-left. We conducted two-sided t-tests of average “net support” (support minus opposition) between the three papers, and we detected no statistically significant difference.<sup>8)</sup> As such, we lay aside concerns of survey bias for the remaining analysis, although the effects of more nuanced variation in question wording deserve more attention in future analyses.

With the caveats out of the way, let us now turn to the data analysis. Figure 1 displays the “net support” ratio for either the implementation of a consumption tax (pre-1989) or further increases in its rate (post-1989). The incidence of surveys is clustered in the post-2004 period, and particularly after 2008. During the entire period, there were 59 “simple” questions (solid line) and 62 “tradeoff” versions (dashed line). As is apparent, most people are opposed to a tax hike, with survey responses largely in negative territory. The highest levels “simple” net support are between Jun-Sep 2010, while the lowest are in Apr 1985 and Apr 1996.

FIGURE 1

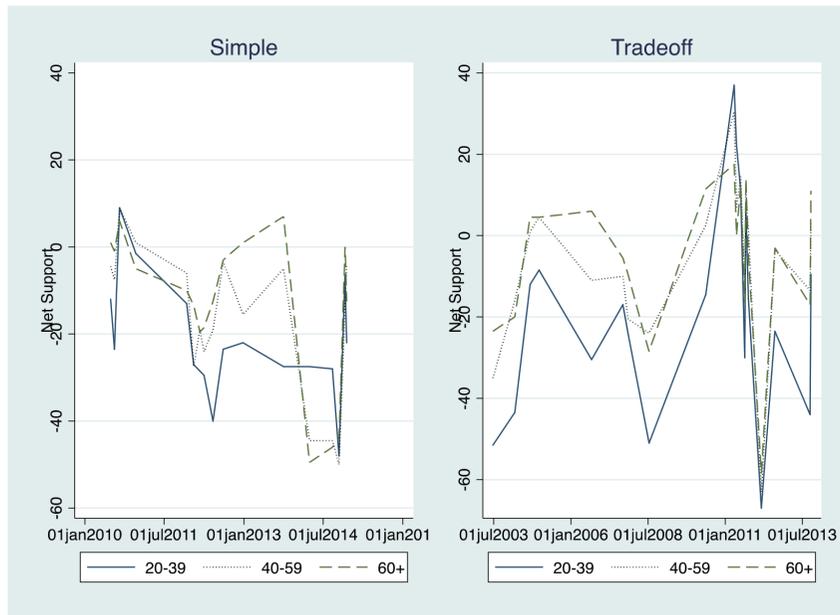


8) Results are available from the authors upon request.

Hypothesis 1 stated that average support for a consumption tax hike should be greater when it is contextualized as a “tradeoff” for social insurance programs, rather than when it is asked “simply” with no qualifiers. No survey in our study asked both types of questions in the same poll, and so we cannot make direct comparisons of wording effects. Instead, we aggregate these polls over time and compare average support ratios for each question category. In the time period under observation, the mean net support for the CT is -25.2% for “simple” questions and -7.8% for “tradeoff” versions. A two-sample t-test reveals that higher support for the latter variety is statistically significant at the  $p < 0.001$  level (t-statistic = -5.02). This result holds even when we test the simple vs. tradeoff differential separately for each newspaper. Tentatively, then, we conclude that respondents’ tolerance for consumption taxes is greater when they are cued to think of the benefits, i.e. when it is framed as a way to protect social insurance programs, than when they are only presented with the costs.

Our second hypothesis suggested that age should influence the objective tradeoff between tax costs and benefits. We predict that older age groups should be more supportive, because many social insurance disbursements, such as pensions and health care subsidies, are designed for post-retirement cohorts. We utilize the Mainichi data to examine age differences in support for the consumption tax. The Mainichi provides response breakdowns by age decade: 20-29, 30-39, 40-49, 50-59, 60-69, 70-79. For presentational simplicity, we show these in two-decade blocs, i.e. 20-39, 40-59, 60+, in Figure 2. While the difference between these cohorts waxes and wanes, the 60+ age cohort consistently shows more support for the consumption tax than the 20-39 bloc, regardless of question type. The 40-59 group lies in between, although it is closer to the older 60+ population. Looking at the data more closely, we find that the 20-29 group has the lowest mean support, while the 70+ cohort is most in favor. Their respective net support is -30.5% vs. -18.5% for “simple” questions, and -23.7% vs. -5.0% for “tradeoff” versions. The difference in means is statistically significant at the  $p < 0.05$  and  $p < 0.01$  levels, respectively.

FIGURE 2

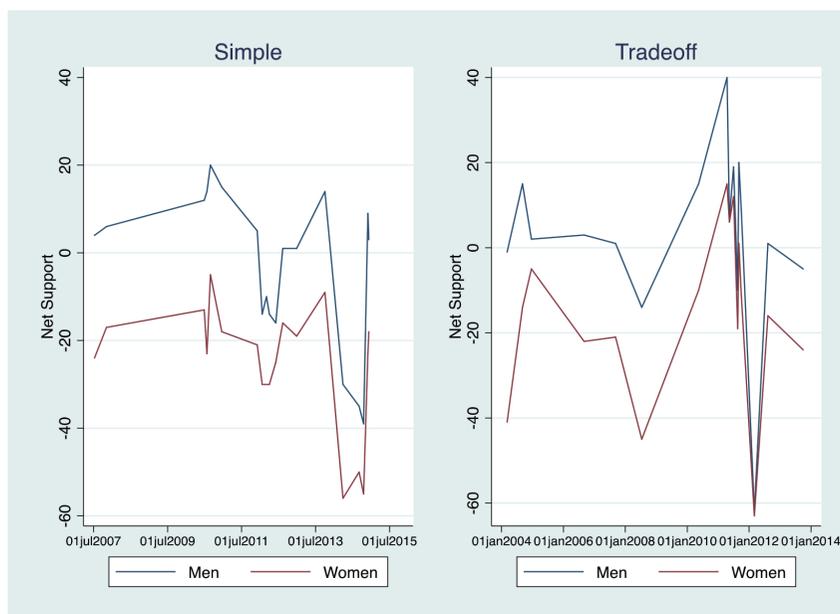


A more intriguing result obtains for our related, third hypothesis. We predict that older age groups should be less in favor of “exemptions” to the consumption tax, for reasons similar to the second hypothesis. Our results suggest the need for greater nuance. Unlike the simple and tradeoff wordings, where support increases linearly with age, the distribution for exemption questions is hump shaped. The 40-59 cohort is most in favor of reducing the consumption tax rate for necessities, while the 20-29 and 70+ groups are less supportive. The difference between the 20-29 and 50-59 group is statistically significant, as is the gap between 70+ and 50-59, but the youngest and oldest groups are indistinguishable. We do not have a clear explanation for this trend. If responses were determined by the financial viability of social insurance benefits, then it would make sense that the elderly are opposed to reductions in tax payments, but not why the young are similarly concerned. If the main issue were the costs of the consumption tax, then we would expect both groups to be opposed: the post-retirement cohort because they are on fixed income, and the younger cohort because their income and savings levels are lower. This is clearly a puzzle that deserves further exploration, but we leave it for future analysis.

Our fourth hypothesis posited that women should be less supportive of a rise in the consumption tax than men. Its logic is based on the frequency of consumption

decisions. Under existing gender roles in Japan, women take on most household duties, including daily grocery shopping and paying for bills. We predict, then, that women will be more sensitive to price increases than men. Figure 3 displays trend lines in net support for men and women, separated into two question types: “Simple” (left) and “Tradeoff” (right). The Mainichi does not use the “tradeoff” wording until March 2004, while the “simple” variant has been used as far back as September 1979. As such, for visual comparability, we have restricted this figure to March 2004 onwards, although our statistical analysis utilizes the full panel.

FIGURE 3



First, as consistent with our test for Hypothesis 1, the “tradeoff” wording scores higher on average than do “simple” questions. The average net support among men / women for the former is 3.9% / -15.7%, but for the latter is only -8.7% / -30.3%. Second, the gender gap is statistically significant for both survey types. We compare the means for net support between men and women with a paired t-test. The t-statistic for the difference between men and women is 12.86 for “simple” questions and 7.01 for “tradeoff” questions. We can neglect the null hypothesis of no difference at the  $p < 0.0001$  level.

Interestingly, the gender gap does not apply when respondents are asked

about consumption tax “exemptions” for necessities. While women are slightly in favor, with 51.9% net support compared to 48.9% for men, this difference is not statistically significant ( $t=1.32$ ). To a certain extent, this is because women are more ambivalent than men on tax issues, with higher proportions of the former answering don’t know to survey questions. On “exemption” issues, higher rates of men answer either support and oppose, with the gender gap on opposition, which is higher among women, being statistically significant ( $t=3.47$ ).

## **Conclusion: whither the consumption tax?**

Social scientists have long studied crossnational and intertemporal variation in government spending, but less effort has been expended on taxation—the flipside of the fiscal coin. Existing analyses have found mixed results, as support for taxation is a complicated interaction of varying factors, such as the type of taxation and an individual’s income, gender, and age. Our approach, instead, has been to focus on the consumption tax specifically and to measure variation in tax tolerance based on question wording, looking at demographic breakdowns where the data is available.

Our main findings, based on surveys from the three major newspapers in Japan between 1985-2015, are as follows:

- 1) Respondents are more supportive of consumption tax increases when they are juxtaposed with the need to pay for major social insurance programs.
- 2) Support increases with age, likely because the elderly place greater value on the public goods benefits that the taxes will pay for.
- 3) Support is lower among women, likely because they are more sensitized to changes in prices.

Our tests are far from definitive, in part because the available survey data does not allow us to tease apart support levels at the level of individuals, across different cross-sections (e.g. by wealth or income), or by combinations of demographic features (e.g. elderly women vs. elderly men). Acknowledging these limitations, we propose some alternative methods of analyzing popular perceptions of taxation’s burdens and benefits.

The most obvious approach is to utilize micro-level survey data. One option is the Japanese Electoral Study (JES) of individual voters, currently in its fifth iteration. Each study, timed around national elections, conducts multiple waves of surveys, allowing for panel analyses of attitudes about government spending and taxation, trust in government, partisan leanings, and the like. Its main limitation is that we cannot gain an accurate perception of tax attitudes at regular intervals. However, taxes are often at the heart of election campaigns, increasing the likelihood that respondents' answers are well thought out.

A different line of research is to leverage monthly surveys by the major newspapers on economic and political attitudes. Our paper has extracted polls that include specific questions about taxation, but it would be possible to combine these with more detailed responses on perceptions about the state of the economy, personal finances, and government performance. For example, time-series analyses of *Jiji Tsushin* surveys shows that cabinet approval fluctuates with stock market performance (McElwain 2015), but not with inflation rates. One implication is that the Japanese public, even while aware of price fluctuations, does not always penalize the government for them. This suggests that political actors may not face an electoral penalty for a consumption tax hike as long as it does not harm overall economic performance or the stock market, the latter of which is increasingly dominated by foreign investors who may be more skittish about fiscal health than the average voter. We could test this hypothesis by looking at the effects of consumption tax debates on the salience of inflation to voters, in combination with the data we have gathered here.

A third strategy is to conduct survey experiments on the effects of question wording. We have argued in this paper that cues about the necessity or potential benefits of taxation can influence respondents' attitudes towards taxation. This could be tested directly through survey treatments that alter question wording or introduce different information about taxation. While expensive, survey experiments provide much clearer causal evidence about the effects of treatments on outcomes.

Taxation and fiscal health are unavoidable, long-term issues that political elites and regular citizens alike will have to reckon with. How the public evaluates consumption taxes will influence whether and how the government debates and legislates on the matter. As such, we consider it to be an issue that deserves greater

analysis, both theoretically and empirically, and we hope that this paper provides some insights that will help to promote this topic more broadly.

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