

Japan: repealing VAT is not populism

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- Excessive tax revenues are the cause of deflationary structural stagnation in which (1) net domestic fund demand (corporate savings rate + fiscal balance) has disappeared, (2) nominal GDP cannot expand and (3) income does not circulate properly among households. If the VAT were abolished and the JPY25trn in tax revenue (projected for FY25) were returned to the public, most of the “excess” as of FY30 would be corrected.
- When elasticity is above 1, tax revenues are increasing faster than the nominal growth rate, which can be rephrased as a rise in the national burden rate. If elasticity is structurally above 1 even after tax cuts, then the criticism that cutting taxes is populism is misplaced, in our view.

Assuming that the nominal growth rate continues at roughly 3% (Cabinet Office's growth transition case), nominal GDP would be JPY726trn in FY30 (JPY595trn in FY23).

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We believe a case for criticism that this is populism should only be made when tax cuts are implemented even when the elasticity is structurally well below 1 (tax revenues are well below the growth rate).



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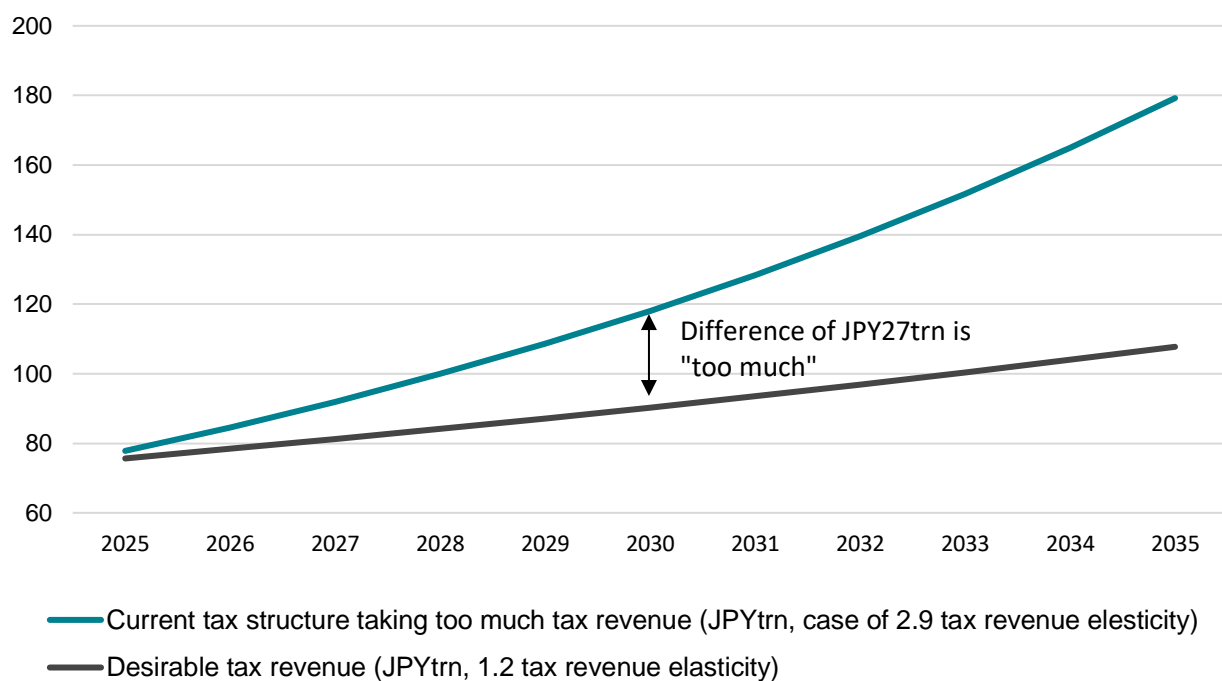


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Fig 1. The desired tax revenue elasticity (around 1) is one that corresponds to the economic growth rate

Source: BoJ, Cabinet Office, MoF, Crédit Agricole CIB

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