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The end of salaryman tax reduction: Japan’s tax policy and its social background

Abstract: Personal income tax reductions can be considered popular policies to attract volatile voters. Nevertheless, after a series of tax cuts from the rapid growth period until the 1990s, the governing Liberal Democratic Party (LDP) refrained from pursuing any more similar policy measures. This paper explores the relationship between the LDP and the electorate by focusing on tax policy. It highlights that the volatile social group of the “salaryman,” which consists of salaried workers and their families, used to have great influence on tax policy under previous LDP governments. Personal income tax reductions until the 1980s thus were meant to be salaryman tax reductions. They took place during a period when the social group of the salaryman developed into a mainstream part of Japan’s society. However, the group failed to maintain its influence after the 1990s, since when it has been diminishing both in size and in homogeneity. This paper holds that it was this decline of the salaryman population that prevented the LDP government from making any further personal income tax cuts.

Keywords: Japanese politics, the Liberal Democratic Party, tax policy, salaryman

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1 Introduction

Tax policies in post-war Japan were characterized by repeated reductions of personal income tax. As can be seen in Figure 1, personal income tax was reduced substantially not only during the period of rapid growth and budget surplus, but also in the 1980s and 1990s when the budget deficit was accumulating. A series of tax reductions resulted in a low personal income tax rate and small tax revenues. Compared to other OECD countries, Japan’s personal

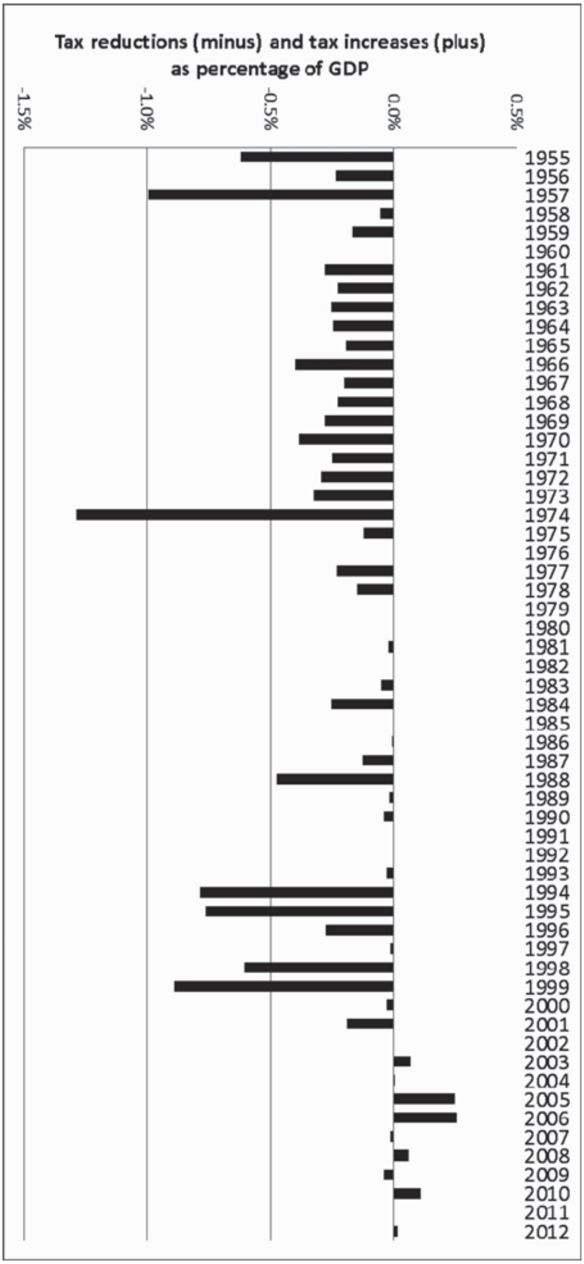

Figure 1: Personal income tax reductions and personal income tax increases as percentage of GDP. Special tax reductions included, local taxes excluded. *Source:* Calculated from Ministry of Finance, *Zaisei kinyū tōkei geppō* ('Monthly review on financial statistics').

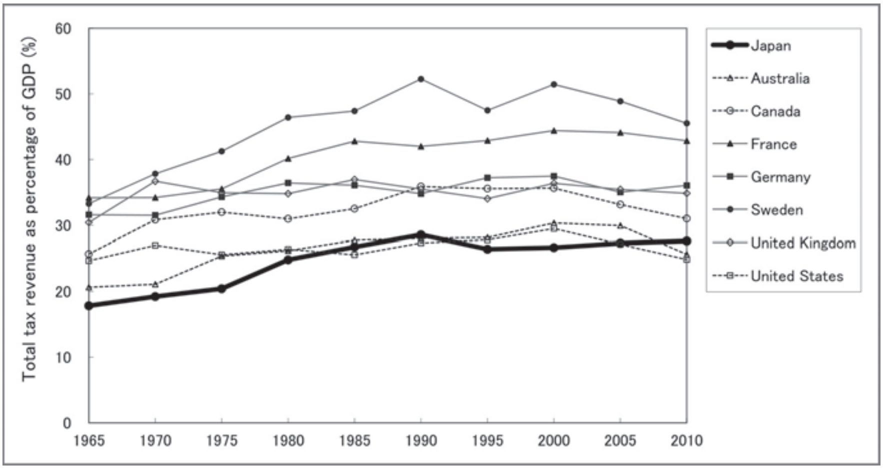

Figure 2: Tax revenues in OECD countries. *Source:* OECD, *Revenue Statistics 2012*.

income tax rate at average wage earnings tends toward the lower end.[1] The same holds for its total tax revenue as percentage of GDP, as shown in Figure 2. However, after 2000, the Japanese government did not implement further personal income tax reductions but began to raise personal income tax instead.

This paper analyzes the reason why the government of the Liberal Democratic Party (LDP) stopped making personal income tax reductions. The LDP has been the ruling party from its formation in 1955 until today, except for the short intervals of 1993–1994 and 2009–2012. Many researchers have argued that the LDP heavily relied on its solid support base to stay in power during the period of the LDP one-party government between 1955 and 1993, and in the coalitions since then. They have emphasized the LDP's tendency to implement policies beneficial for the traditional sectors rather than the volatile electorate, by focusing on public expenditure. However, the fact that the level of tax burden was kept low by a sequence of personal income tax reductions implies that the LDP also tried to obtain support from the volatile voters. Focusing on tax policy, this paper explores the relationship between the LDP and the volatile electorate from a new angle. It highlights that the volatile social group of the "salaryman" (*sararīman*), which consists of salaried workers and their financially dependent family members, used to have great influence on tax policy

1 Concerning the statutory personal income tax rate at average wage earnings in 2010, Japan is ranked eighth to the lowest in 34 OECD countries (Torres et al. 2012: 10).

under the LDP government. However, as will be further argued, the group could no longer maintain this influence as it decreased in size and homogeneity.

The rest of the paper is organized into five sections. Section 2 reviews the relationship between the LDP and the electorate with special focus on why the LDP government discontinued its policies of personal income tax reductions. Section 3 presents two likely explanations, one based on political conditions, the other based on social ones. Section 4 analyzes three cases of personal income tax reductions in the 1970s, 1980s, and 1990s, respectively. It reveals that only the former two were targeted at the social group of the salaryman and could therefore be called "salaryman tax reductions." Section 5 shows that most other personal income tax reductions implemented between the rapid growth period and the 1980s can be considered salaryman tax reductions as well. This changed after the mid-1990s, when salaryman population decreased and became more diversified. Section 6 concludes that these developments prevented subsequent LDP governments from making any further personal income tax reductions. The paper closes with a discussion on how the relationship between the LDP and the volatile electorate has changed.

2 Rethinking the relationship between LDP and electorate

Japanese politics used to be characterized by their uniqueness of the LDP one-party dominance. Until the early 1980s, scholars emphasized the critical role of the elites, namely, senior bureaucrats, the LDP leaders and big businessmen, in the policy-making process. Most parts of society were considered to be excluded from this process (Campbell 1977; Johnson 1982; Pempel 1974), casting serious doubts on whether Japan's political regime was in fact a real democratic regime.

In the 1980s, more researchers focused on those aspects of Japanese politics where various interest groups were involved in the policy-making process mediated by the LDP. Muramatsu (1981) argued that the policy-making process was pluralistic and the LDP was gaining more power to control bureaucrats. Although some pointed out that the power relationship between LDP politicians and bureaucrats varied by policy area (Inoguchi and Iwai 1987; Nakano 1992), most scholars agreed that the LDP became so influential that they managed to implement a wide range of policies which reflected diverse interests (Inoguchi 1983; Sato and Matsuzaki 1986; Yamaguchi 1987).

Scholars in the 1980s not only depicted the interdependence between LDP *zoku* politicians (politicians interested in particular policy areas) and interest groups, but also called attention to the LDP's effort to attract new social groups. Calder (1988) held that the LDP responded to threats to its preeminence in the 1950s and 1970s by expanding government spending to obtain support from the electorate, since LDP politicians considered themselves vulnerable under the rapid economic growth. Murakami (1984), who coined the term "new middle mass" (*shin chūkan taishū*), focused on the LDP's support rating, which declined in the 1960s, but recovered in the 1970s. That was the time when the LDP embarked on new policies including welfare programs to benefit urban consumers, which had become the largest social group in Japan. Muramatsu and Krauss (1987) as well as Pempel (1989) emphasized the LDP's flexibility in extending social security and environmental policies in the 1970s to explain why it managed to stay in power for so long. In sum, these scholars attributed the LDP's enduring hold on power not to the peculiarity of Japanese democracy but to the LDP's constant effort to obtain support from various interest and social groups.

Since the 1990s, political institutions in a broad sense have attracted more attention from scholars in Japanese politics (Hiwatari 1991; Mabuchi 1994; Ramseyer and Rosenbluth 1993; Shinkawa 1993). Given the fact that even the demise of the LDP one-party government in 1993 or the electoral reform in 1994 did not drastically change Japan's political landscape in a short term, many scholars came to focus on institutions to explain political outcomes from comparative perspectives. Iio (2007) regards Japan's parliamentary cabinet system as a "bureaucratic cabinet system" in which each minister is an agent who represents his or her ministry. As a result, the policy-making process is divided into ministries, and drastic policy changes are prevented. Scheiner (2006) shows how the clientelistic linkages between politicians and voters from the miracle economy era until recently, combined with governmental financial centralization, worked against the opposition's chances to challenge the LDP one-party dominance. Rosenbluth and Thies (2010) highlight the 1994 reform of the electoral system. They argue that the current majoritarian electoral system motivates politicians to cater to the preferences of the voters in the political middle. By contrast, the previous Single Nontransferable Vote system motivated the LDP to transfer resources from profitable sectors to uncompetitive sectors.

The same studies also reveal how Japan's political institutions generated incentives for the LDP to cling to policies often criticized as inefficient or out-of-date. These studies tend to emphasize stability instead of dynamics of the LDP one-party government, focusing on the continuous interdependent relationship between the LDP and its solid support base from traditional sectors.

Again, this would mean that most parts of society were excluded from the policy-making process, including the volatile electorate.

In order to find out whether or not this is the case, it is worthwhile looking into tax policy. The volatile voters, who did not depend on pork-barreling, should have preferred tax reductions to expenditure expansion. The fact that Japan's tax revenue-to-GDP ratio has been kept low implies that the LDP tried to obtain support from the volatile voters by tax reductions. Although scholars in the 1980s argued that the LDP attracted traditional interest groups as well as new social groups, their research focused on government spending rather than tax reduction. Tax policy was dealt with only with respect to the controversial introduction of the consumption tax in 1989 (Kato 1997; Uchida et al. 1988; Watanabe 2000). Therefore, investigating why the LDP government ceased tax cuts can provide important clues to clarify the relationship between the LDP and the volatile electorate under the LDP one-party government and afterwards.

3 Explaining why the LDP government ceased tax cuts

Conditions such as economic or fiscal deterioration may affect tax policy in a way to make it difficult to conduct tax reductions. In Japan, however, personal income tax reductions were implemented even in the 1980s and 1990s, when the rapid growth period was over and the budget deficit was accumulating. Apparently, economic conditions alone cannot explain why the LDP government stopped making further tax cuts.

This section discusses two alternative explanations, by analyzing the LDP's election promises and the development of public opinion over time. To start with the former, Table 1 lists whether the major parties in Japan promised to reduce personal income tax (PIT) or to increase consumption tax (CT) in each election for the House of Representatives (HR) and the House of Councillors (HC) since the LDP was formed. I selected the four major parties: the LDP; the Social Democratic Party of Japan (SDPJ, formerly JSP), which was the largest opposition party under the LDP one-party government;[2] the New Komeito (formerly the Komeito Party), which has been the LDP's coalition partner since 1999; and the Democratic Party of Japan, or DPJ, which was the ruling party between 2009 and 2012. "Yes" indicates that the party promised to reduce per-

2 The Japanese name of the party was changed from *Nihon Shakaitō* ('Japan Socialist Party') to *Shakai Minshutō* ('Social Democratic Party') in 1996.

Table 1: Election promises of major parties in Japan.

	LDP		SDPJ (JSP)		(New) Komeito		DPJ	
	reduce PIT	**increase CT**	**reduce PIT**	**increase CT**	**reduce PIT**	**increase CT**	**reduce PIT**	**increase CT**
1956 Jul HC	Yes		Yes		nonexistent		nonexistent	
1958 May HR	Yes		Yes		nonexistent		nonexistent	
1959 Jun HC			Yes		nonexistent		nonexistent	
1960 Nov HR	Yes		Yes		nonexistent		nonexistent	
1962 Jul HC					nonexistent		nonexistent	
1963 Nov HR	Yes		Yes		nonexistent		nonexistent	
1965 Jul HC	Yes		Yes		Yes		nonexistent	
1967 Jan HR	Yes		Yes		Yes		nonexistent	
1968 Jul HC	Yes		Yes		Yes		nonexistent	
1969 Dec HR	Yes		Yes		Yes		nonexistent	
1971 Jun HC							nonexistent	
1972 Dec HR	Yes		Yes		Yes		nonexistent	
1974 Jul HC			Yes				nonexistent	
1976 Dec HR			Yes		Yes		nonexistent	
1977 Jul HC			Yes				nonexistent	
1979 Oct HR						No	nonexistent	
1980 Jun HR/HC						No	nonexistent	
1983 Jun HC	Yes		Yes		Yes		nonexistent	
1983 Dec HR	Yes		Yes		Yes	No	nonexistent	
1986 Jul HR/HC	Yes		Yes		Yes		nonexistent	
1989 Jul HC				No		No	nonexistent	
1990 Feb HR				No		No	nonexistent	
1992 Jul HC				No	Yes		nonexistent	
1993 Jul HR							nonexistent	
1995 Jul HC	Yes		Yes		nonexistent		nonexistent	
1996 Oct HR		Yes			nonexistent		nonexistent	
1998 Jul HC			Yes		nonexistent		Yes	
2000 Jun HR							No	
2001 Jul HC				No				
2003 Nov HR					No			
2004 Jul HC								Yes
2005 Sep HR		Yes		No				Yes
2007 Jul HC		Yes						
2009 Aug HR		Yes		No		Yes		
2010 Jul HC		Yes		No		Yes		Yes
2012 Dec HR				No				

PIT = personal income tax; CT = consumption tax; HC = House of Councillors; HR = House of Representatives. *Sources:* Mainichi Shinbun, Asahi Shinbun.

Table 2: Top 3 policy priorities in public opinion surveys.

	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974.1	1974.11
Top	stabilize price	promote industry	stabilize price	stabilize price	stabilize price	stabilize price	stabilize price	stabilize price	stabilize price	stabilize price	stabilize price	stabilize price	stabilize price	stabilize price	stabilize price	stabilize price	stabilize price	stabilize price
2nd	reduce tax	stabilize price	reduce tax	good politics	promote industry	reduce tax	reduce tax	social security	social security	reduce tax	reduce tax	reduce tax	social security	social security	social security	social security	social security	social security
3rd	wage	good politics	promote industry	promote industry	social security	social security	social security	reduce tax	reduce tax	social security	social security	social security	reduce tax	reduce tax	reduce tax	housing	housing	housing
		8th: reduce tax		4th: reduce tax	5th: reduce tax											4th: reduce tax	4th: reduce tax	4th: reduce tax

	1975.5	1975.11	1976.5	1976.11	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Top	stabilize price	stabilize price	stabilize price	stabilize price	stabilize price	stabilize price	stabilize price	stabilize price	stabilize price	stabilize price	stabilize price	stabilize price	tax issues	tax issues	tax issues	tax issues	social security
2nd	social security	social security	social security	social security	social security	social security	social security	social security	social security	tax issues	tax issues	tax issues	social security	social security	social security	social security	tax issues
3rd	housing	reduce tax	reduce tax	reduce tax	reduce tax	economy	tax issues	tax issues	tax issues	social security	social security	social security	stabilize price	stabilize price	stabilize price	stabilize price	stabilize price
	4th: reduce tax					4th: reduce tax											

	1990	1991	1992	1993	1994	1995	1996	1997	1999	2001	2002	2003	2004	2005	2006	2007	2008	2009
Top	social security	social security	welfare	welfare	welfare	welfare	welfare	welfare	welfare	economy	economy	economy	social security	social security	social security	social security	social security	social security
2nd	tax issues	tax issues	nursing care	nursing care	economy	economy	nursing care	nursing care	economy	social security	social security	social security	economy	economy	aging	aging	aging	economy
3rd	stabilize price	stabilize price	stabilize price	tax issues	nursing care/ stabilize price	nursing care	tax issues	tax issues	nursing care	aging	aging	aging	aging	aging	economy	economy	stabilize price	aging
			4th: tax issues		5th: tax issues	4th: tax issues			4th: tax issues	10th: tax reform	7th: tax reform	6th: tax reform	9th: tax reform	6th: tax reform	9th: tax reform	7th: tax reform	8th: tax reform	10th: tax reform

	2010	2011	2012
Top	social security	social security	economy
2nd	economy	economy	social security
3rd	aging	social security	aging
	8th: tax reform	7th: tax reform	7th: tax reform

Sources: Cabinet Office (Prime Minister’s Office), Public Opinion Survey Concerning People’s Lifestyle sonal income tax or to increase consumption tax, "No" indicates that they did not.[3]

As can be seen, the LDP frequently promised personal income tax reductions between the rapid growth period and the 1990s. However, in the 2000s, the LDP stopped doing so and went for consumption tax increases instead. A similar change can be seen for most other major parties.

In short, when the LDP stopped promising tax cuts and even went as far as propagating tax increases, the other major parties were not standing in its way. Thus, as far as we can see from the parties' election promises, the explanation based on political conditions does not seem feasible.

Now let us turn to the second explanation. Table 2 shows results of the Public Opinion Survey Concerning People's Lifestyles, which with some exceptions has been conducted annually by the Cabinet Office (the Prime Minister's Office until 2001) since the 1950s. Asked about their requests for the government, respondents can choose from a number of alternatives, including "tax reduction" (1958–1978), "tax issues" (1979–2000), or "tax reform" (2001–2012). Table 2 lists the top three requests since 1958.

As can be seen, from the rapid growth period until the 1990s requests concerning tax were always highly ranked. Especially in the 1980s, such requests were very popular, taking the top position in four consecutive years. Since the 1990s there has been a constant decline, which has become particularly pronounced in the 2000s, when requests concerning social security became high in rank.

In short, there was strong support for tax cuts until the 1990s, and especially during the 1980s, but such support has steadily decreased ever since. Thus, as far as we can see from the public opinion surveys, this second explanation seems to be more appropriate.

If that is the case, what were the reasons for the decline of public support for tax cuts in the 1990s? And whose demand drove the LDP to promote personal income tax reductions in the first place? The cases studies presented in the next section look into these questions.

3 Compiled from the lists of election promises published in *Mainichi Shinbun* before each election, except for the elections in June 1983, July 1986, and November 2003, which were not available. Data from *Asahi Shinbun* were used instead.

4 Case studies on personal income tax reductions

In this section, I examine the largest personal income tax reductions in the 1970s, 1980s, and 1990s. By analyzing the political process in each case, I will make it clear that the former two cases were meant to be what could be called "salaryman tax reductions," whereas the last case was not. I use the term salaryman tax reduction to refer to personal income tax reductions targeted at the social group of the salaryman as defined in the introduction.

4.1 The "two-trillion-yen tax reduction" of the 1970s

From the late 1960s to the early 1970s, the Japanese media reported that the salaried workers were suffering from heavy and unfair taxation. They focused on unfairness between salaried workers and other workers by using the term *ku-ro-yon* ('9-6-4'), which means that 90 % of a salaried worker's income are reported to the tax authorities, whereas it is only 60 % for self-employed people and only 40 % for farmers. In addition, under the Income Tax Act, self-employed people and farmers were allowed to reduce their tax burden by exempting necessary expenses, which was not possible for salaried workers (e.g., *Yomiuri Shinbun* 1965, 1970, 1972).

Nihon Sararīman Yunion ('Japan Salaryman Union') was founded in 1968, followed by *Zenkoku Sararīman Dōmei* ('National Salaryman League') in 1969, with the aim of promoting personal income tax reductions for salaried workers (*Asahi Shinbun* 1968, 1969). In 1966, Tadashi Ōshima, a professor of Doshisha University, brought a lawsuit against a tax office that did not allow him to deduct the real amount spent on research, suits, etc., from his income as necessary expenses. He claimed that the Income Tax Act imposed unreasonably heavy taxes on salaried workers and thus violated Article 14 of the Constitution, which stipulates equality under the law. This case attracted public attention as *sararīman zeikin soshō* 'salaryman tax case' or Ōshima *soshō* 'Oshima case' (*Asahi Shinbun* 1974b; *Nihon Keizai Shinbun* 1974). In 1969, the General Council of Japan Trade Unions (*Sōhyo*) made its members take similar legal actions (*Nihon Keizai Shinbun* 1969).

The Prime Minister's Office conducted public opinion polls about taxes in 1970, 1971, and 1973.[4] The results revealed dissatisfaction about the tax being too heavy and unfair for salaried workers.

4 *Zeikin ni kansuru yoron chōsa* 'Public opinion survey concerning tax', conducted in January 1970 and 1971; *zeikin to yosan ni kansuru yoron chōsa* 'Public opinion survey concerning tax and budget', conducted in August 1973.

When under such circumstances Kakuei Tanaka became prime minister in June 1972, he quickly expressed a positive attitude toward personal income tax reductions (*Asahi Shinbun* 1972a). In October, the LDP announced their *Shin Seisaku Taikō* 'New Policy Outline', which announced tax reductions of 500 billion yen (local taxes included) for an average year and also included an increase of employment income deduction for salaried workers (*Asahi Shinbun* 1972b). Tanaka dissolved the House of Representatives so that the election could be held in December that year.

In this election, the opposition parties promised to increase the minimum taxable income drastically. The minimum taxable amount for the model case of a male salaried worker whose spouse is a housewife (full-time or part-time) and who has two dependent children was 1.04 million yen at that time. The JSP promised to increase it to 1.33 million; the Komeito Party to 1.5 million; the Democratic Socialist Party to 1.3 million; and the Japanese Communist Party to 1.5 million (*Mainichi Shinbun* 1972). After the election, the government conducted a tax reduction of 500 billion yen (local taxes included) as part of the tax reform for FY 1973,[5] as the LDP had promised, but the minimum taxable amount for the model case went up to no more than 1.15 million yen.

In May 1973, when the by-election for the House of Councillors and the election for the Tokyo Metropolitan Assembly were close at hand, Tanaka ordered the Ministry of Finance to "reduce the tax drastically for a wide range of people, including teenage workers and middle to upper income earners" (*Asahi Shinbun* 1973). The bureaucrats followed Tanaka's directions and developed a proposal that was to serve as a framework for the tax reform of 1974.

The LDP's Research Commission on the Tax System and the Government Tax Commission (an advisory body to the prime minister) compiled plans of the tax reform for FY 1974, including a "two-trillion-yen tax reduction" (*Asahi Shinbun* 1974a). The government implemented a tax reduction based on these plans: a personal income tax reduction of 1.8 trillion yen, increasing the minimum taxable amount for the model case from 1.15 million yen to 1.71 million yen. This was much higher than the opposition parties' promises, and included raising employment income deduction, basic deduction (allowed to anyone), deduction for spouse (with little or no income), and deduction for dependents.

As described above, in the case of the personal income tax reduction in 1974, the LDP tried to deal with complaints from the social group of the salaryman that personal income tax was heavy and unfair. The LDP as well as the opposition parties assumed that a typical salaried worker is male, married to a

5 In Japan, annual tax reforms are called *zeisei kaisei*, and special, large-scale tax reforms are called *zeisei kaikaku*. In this paper, I refer to the latter as tax system reforms.

housewife, and father of two dependent children. As the tax reduction was mainly targeted at this group of people, we can say that it was meant to be a salaryman tax reduction.

4.2 The tax system reform of the 1980s

When the rapid growth period came to an end in the mid-1970s and the budget deficit began to accumulate, the LDP government became reluctant to further reduce personal income tax. However, LDP president Yasuhiro Nakasone showed a positive attitude toward such policies. In a press conference immediately after he became prime minister in November 1982 he stated that "I understand that salarymen and other people are longing for personal income tax reductions, and I will make an effort to do it if it's possible" (*Yomiuri Shinbun* 1982).

Facing the opposition parties' promises to reduce the personal income tax, the LDP for the first time in seven years promised similar policies, in the election for the House of Councillors in June 1983 (*Asahi Shinbun* 1983). Two new parties, *Sararīman Shintō* 'Salaryman New Party' and *Zeikintō* 'Tax Party', were formed to promote tax reductions on behalf of salaried workers. The fact that both gained seats in this election reflects the strong demand to reduce tax on salaried workers.

After the election, the LDP government implemented the personal income tax reduction of 800 billion yen for an average year in the tax reform for FY 1984, and then moved toward a tax system reform to implement a drastic tax reduction. In December 1984, Nakasone announced his intention to embark on the comprehensive review of the post-war tax system, explicitly mentioning problems such as the *ku-ro-yon* (9-6-4) issue (*Asahi Shinbun* 1984).

Although Nakasone recognized that it was necessary to increase indirect taxes in some form to secure the financial resources needed for the tax reduction, he ordered the bureaucrats of the Ministry of Finance, the LDP's Research Commission on the Tax System, and the Government Tax Commission to compile plans only for tax reductions, not for any tax increases. He claimed that this approach was justified, and left his plans of broadening the commodity tax base unpublished (Mizuno 1993: 46, 48–49).

Both the LDP's Research Commission on the Tax System and the Government Tax Commission deliberated a tax reduction based on the proposals of the Ministry of Finance. They publicized their plans in April 1986, emphasizing to reduce tax for salaried workers with middle to upper incomes. This was based on the assumption that a typical salaried worker is a male breadwinner whose rank and income rises gradually as he keeps working in one company or organization. Middle-aged salaried workers thus should be earning a fairly high income, but the costs of living, and especially child education, is a large burden at that stage of life. According to the plan by the LDP's research commission, tax rates for the personal income tax should be "flattened as far as possible, so that an ordinary salaryman will face the same tax rate throughout his career." Moreover, "in order to reduce tax burdens mainly for the salaryman households [...] more consideration to spouses" should be given (*Nihon Keizai Shinbun* 1986). The plan by the Government Tax Commission made similar points.

After the two commissions publicized their plans, Nakasone dissolved the House of Representatives and held an election on the same day the House of Councillors was to be elected. In the campaign for this election in June 1986, Nakasone repeatedly denied plans to introduce a value added tax (*Asahi Shinbun* 1986a, 1986b). After the LDP won a landslide victory in the election, Nakasone argued in a seminar of the LDP that 40 % of the voters are volatile voters, most of whom belonged to the urban salaryman group. Arguing it was their support that brought about the LDP's victory, he emphasized that the party should not only hold its traditional support base in esteem but also proceed in this new direction of gaining more support from volatile voters (Liberal Democratic Party 2006: 1749–1750).

The LDP's Research Commission on the Tax System and the Government Tax Commission both began discussing tax increases after the same-day election, and compiled similar plans of tax system reform in December 1986 (*Asahi Shinbun* 1986c). According to these plans, the tax system reform was to include tax reductions as well as tax increases. Tax reduction of personal income tax and other taxes was 4.5 trillion yen in sum (local taxes included). The financial resources were to be provided by tax increases, mainly by introducing a value added tax named "sales tax." In the personal income tax reduction, accent was put on reducing marginal tax rates on middle to upper incomes including the highest tax rate and adding a "special deduction for spouse" to the already available deduction. As usual, the model case was a middle-aged male salaried worker with a housewife (full-time or part-time) and two dependent children. Since self-employed people could reduce their tax burden by paying salaries to their spouses, this special deduction for spouses was supposed to apply to salaried workers rather than self-employed people.

When, in February 1987, the government introduced the related bills to the Diet, Nakasone was severely criticized for publicizing only his tax cut plans but leaving unmentioned the massive tax increases that would come with them. The Japanese media accused Nakasone of cheating the electorate. Not only industry organizations, but also consumer organizations as well as unions mounted a campaign against the introduction of the "sales tax." Approval ratings of the Nakasone Cabinet plunged, and the LDP lost the by-election for the House of Councillors in which the introduction of the "sales tax" was disputed (*Asahi Shinbun* 1987a, 1987b, 1987c; *Mainichi Shinbun* 1987). The opposition parties worked together to stop the introduction of the "sales tax" by impeding the passage of the budget bill for FY 1987. The bills related to tax system reform were dropped as a result (*Asahi Shinbun* 1987d).

In November 1987, Noboru Takeshita took office as new prime minister. He announced that his "new Cabinet will engage actively in implementing tax system reform, as this is the most important issue since the previous cabinet" (*Asahi Shinbun* 1987e). Reflecting on the failure of the previous tax system reform under the Nakasone Cabinet, Takeshita emphasized that the tax system reform as a whole would contribute to eliminating feelings of unfairness, rather than merely reduce taxes.[6] The Government Tax Commission replied to Takeshita's inquiry concerning tax system reform that it was desirable to implement a personal income tax reduction as previously planned and to introduce a value added tax. The LDP's Research Commission on the Tax System compiled a plan that provided for a tax reform including tax reductions of 5.6 trillion yen in sum (local taxes included) and personal income tax reduction similar to the previous plan, reducing marginal tax rates on middle to upper incomes and adopting a special deduction for spouse. On the other hand, the tax reform also included the introduction of a value added tax named "consumption tax," whose rate was lower than that of the "sales tax" (*Asahi Shinbun* 1988). The government submitted the bills related to the tax system reform to the Diet at a time when there were no elections or pending budget approvals. When the bills were enacted in December 1988, the LDP had managed to realize the drastic personal income tax reduction promised in 1986.

As described above, the LDP thus again tried to deal with complaints from salaryman households. Nakasone believed that a drastic personal income tax reduction would attract salaryman voters even though it was to be financed by the introduction of a new indirect tax. Takeshita followed this line, though the revenue from the consumption tax was smaller than that of the "sales tax" would have been. In sum, we can say that this case was also meant to be a case of salaryman tax reduction.

6 In his administrative policy speech on 25 January 1988, according to the Minutes of the Diet.

4.3 The "permanent tax reduction" of the 1990s

After the collapse of the bubble economy at the beginning of the 1990s, the government repeatedly implemented personal income tax reductions as a part of stimulus packages. In contrast to most previous tax reductions, these were temporary rather than permanent. They were conducted in such ways as to allow proportional across-the-board tax credits or fixed amounts of tax credits to all taxpayers.

In the election for the House of Representatives in 1993, the major opposition parties promised personal income tax reductions as measures to stimulate the economy, while the LDP was reluctant to reduce taxes. After the election, seven parties including the JSP, the Komeito Party, and the Democratic Socialist Party formed the first non-LDP government since the party's establishment in 1955. It implemented a single-year personal income tax reduction of 3.8 trillion yen in 1994.

The LDP returned to power in 1994 in a coalition with the JSP and the New Party Sakigake. In order to keep personal income tax reduced after 1994, the new government managed to enact a personal income tax reduction of 3.8 trillion yen, divided into two parts: a permanent tax reduction of 2.4 trillion yen beginning from 1995, and single-year tax reductions of 1.4 trillion yen implemented in both 1995 and 1996. To secure the financial resources, consumption tax was to be increased in 1997 (*Nihon Keizai Shinbun* 1994). In consequence this meant that 1997 would become a tough year for the government, since it would have to both discontinue single-year tax reductions and conduct a consumption tax increase.

Prime minister that year was Ryutaro Hashimoto. The JSP and the New Party Sakigake were not in the Cabinet any more. The government conducted the consumption tax increase as planned, and enacted the Fiscal Structural Reform Act in November to enhance fiscal discipline. However, in late 1997, the economy recovery since 1994 began to slow down, and several financial institutions went bankrupt. The opposition parties blamed Hashimoto for discontinuing single-year personal income tax reductions and raising the consumption tax, asserting that tax reductions were needed (*Asahi Shinbun* 1997a, 1997b, 1997c, 1997d). Under these conditions, the government abruptly decided to implement a single-year personal income tax reduction of 1.4 trillion yen in 1998, and conducted another single-year tax reduction by roughly the same amount (*Nihon Keizai Shinbun* 1997, 1998a).

In the election for the House of Councillors in 1998, the opposition parties unanimously criticized Hashimoto's economic policy and presented their own stimulus packages, including massive permanent personal income tax reductions (*Asahi Shinbun* 1998a). Although tax reduction became an important issue in the campaign, Hashimoto and the LDP failed to make it clear whether or not the government would implement permanent personal income tax reductions (*Asahi Shinbun* 1998b, 1998c).

Following the LDP's defeat in this election, Hashimoto resigned. His successor, Keizo Obuchi, claimed to promote a massive permanent personal income tax reduction even if this would lead to the expansion of budget deficits (*Nihon Keizai Shinbun* 1998b). Obuchi expressed his determination to employ all available measures to boost the economy, including tax reductions (*Asahi Shinbun* 1998d). He appointed Kiichi Miyazawa, a former prime minister himself, as Minister of Finance. The bureaucrats of the Ministry of Finance proposed to conduct a temporary personal income tax reduction for several years by allowing proportional tax credit to all taxpayers. This was preferred over a permanent tax reduction, which would further deteriorate the fiscal condition.[7] Based on this proposal, Miyazawa and the LDP's Research Commission on the Tax System compiled a plan whose main feature was a temporary large-scale tax reduction by allowing a proportional across-the-board tax credit to all taxpayers (to reduce tax amount by 20 %), accompanied by a small-scale permanent reduction of tax rates (*Nihon Keizai Shinbun* 1998c; *Asahi Shinbun* 1998e).

The government decided to continue the proportional across-the-board tax credit "until the economy gets on a track of recovery," which meant that the personal income tax reduction was different from Obuchi's initial idea of implementing a permanent tax reduction, since the main part of it was only temporary.[8] Nevertheless the government called it a "permanent tax reduction" (*kōkyūteki genzei*), taking advantage of the ambiguity of the term *kōkyūteki*, which can mean both 'permanent' and 'nearly permanent'. The government implemented the "permanent tax reduction" of 4.5 trillion yen in the tax reform for FY 1999.

As described above, in the case of 1999, the LDP implemented the personal income tax reduction as a stimulus measure. Its main feature was a temporary tax reduction allowing a proportional across-the-board tax credit to all taxpayers. In contrast to the previous two cases, the main target of the so-called "permanent tax reduction" was not the social group of the salaryman only, but the whole population.

7 According to author's interview with former bureaucrats of the Ministry of Finance.

8 The proportional across-the-board tax credit was reduced by half in 2006, and then abolished.

4.4 Summary

This section has analyzed three cases of large-scale personal income tax reductions in the 1970s, the 1980s, and the 1990s to explore whose demand drove the LDP to implement such policies. In the reform of 1974, the LDP enacted tax cuts under the pressure of salaried workers' complaints and amidst the opposition parties' advocating of tax reductions. The reform of 1988 was born under similar conditions. Prime Minister Nakasone believed that a drastic personal income tax reduction would attract salaryman voters even though it was to be financed by the introduction of a new indirect tax; Prime Minister Takeshita followed this line of thought.

It should be noted that the two cases had different effects concerning the redistribution of wealth. Personal income tax is progressive, whereas consumption tax is proportional. The tax system reform in 1988 weakened the redistribution effect of tax, by reducing personal income tax rates on middle to upper incomes including the highest tax rate, and by replacing personal income tax revenue partly by consumption tax revenue. The tax reform of FY 1974 did not have such effects.

Nonetheless, we can say that the reforms of 1974 and 1988 were both meant to be salaryman tax reductions. The LDP tried to deal with complaints about unfairness between salaried and self-employed workers. The case of 1999 was different in that the LDP implemented the personal income tax reduction as a stimulus measure, under the pressure of a worsening economy and an opposition advocating tax reductions. The main feature of the policy was a temporary allowment of a proportional across-the-board tax credit to all taxpayers, without targeting any social groups in particular. We can thus say that this third case was not meant to be salaryman tax reduction.

5 Changes in personal income tax reductions and the social group of the salaryman

This section analyses the motivations for the changes in personal income tax reduction policies by setting them in relation to changes of the social group of the salaryman itself.

Figure 3 shows the elements of all personal income tax reductions implemented during the period from 1955 to 2000. The period after 2001 is omitted because almost no personal income tax reductions have been enacted since. As mentioned in the previous section, raising deductions and reducing tax rates were the main elements of the reforms in 1974 and 1988. Both elements were intended first and foremost to improve the conditions of salaried workers rather than of self-employed people.

As can be seen from Figure 3, the personal income tax reductions since the rapid growth period until the 1980s had the same characteristics as those of 1974 and 1988. Mostly consisting of employment income deductions, deductions and special deductions for spouse, and tax rate reductions, they too can be considered salaryman tax reductions. They were implemented during the very period that saw the rise of the social group of the salaryman. The ratio of salaried workers kept increasing until the 1980s, while structural changes of the economy continually reduced the ratio of self-employed people and farmers. As illustrated in Figure 4, the ratio of salaried taxpayers was less than 10 % in 1960, but exceeded 30 % in the late 1980s. In the 1970s and 1980s, around 10 % of the total population were salaried workers who were allowed deduction for spouse and around 40 % of the households were made up of married couples and their children. It was during this time frame that the social group of the salaryman grew into a major group of Japanese society.

Unlike the personal income tax reductions between the rapid growth period and the 1980s, most of the personal income tax reductions in the 1990s include almost no elements of employment income deduction, deduction or special deduction for spouse, or reduced tax rates. As mentioned in the previous section, the main element of the personal income tax reduction in 1999 was a proportional across-the-board tax credit to all taxpayers. That was the case in most personal income tax reductions in the 1990s, except for the tax reduction in 1995. After 2000, almost no personal income tax reductions were implemented.

As illustrated in Figure 4, the ratio of salaried taxpayers peaked out in the mid-1990s and declined thereafter. In part due to the declining birthrate and an aging population, the ratio of households of married couples and their children has dramatically dropped since the 1980s, to become lower than 30 % in 2010. In addition, more than 90 % of male employees were regular employees until the mid-1990s, but the ratio has been consistently declining ever since.[9]

These data indicate that salaried workers decreased after the mid-1990s, and that their families took on more variegated shapes. Thus the social group of the salaryman not only shrunk, but also became less homogeneous. We can

9 According to the Labour Force Special Survey and the Labour Survey, conducted by the Statistics Bureau of the Ministry of International Affairs and Communications. See http://www.stat.go.jp/data/roudou/longtime/03roudou.htm#hyo_9 (accessed 22 September 2013).

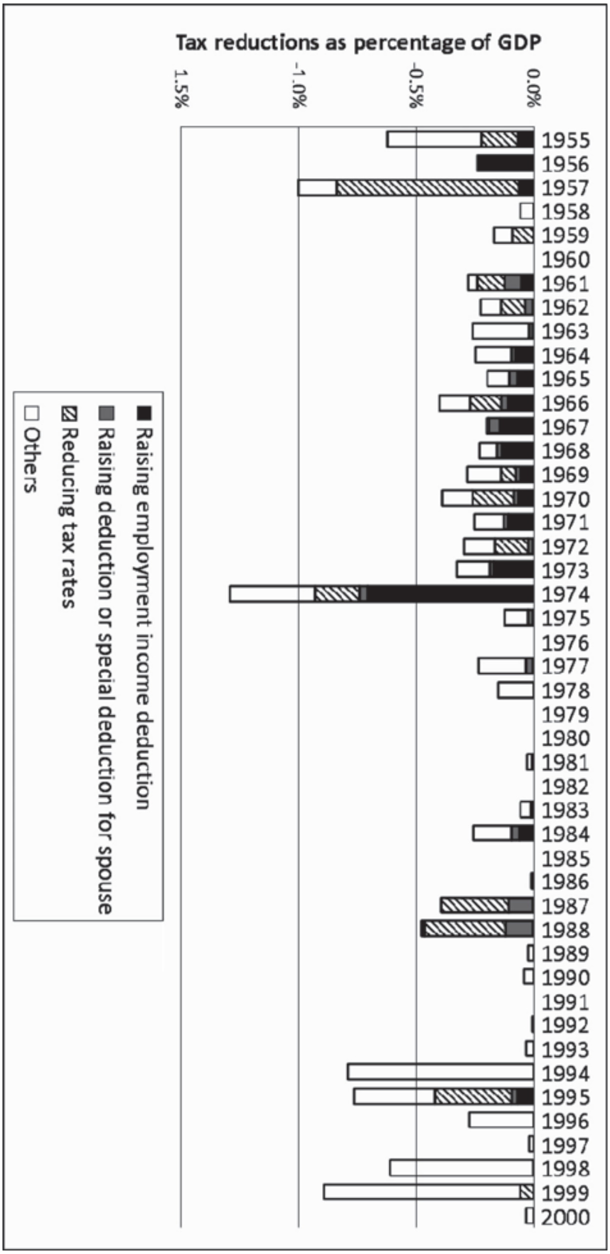

Figure 3: Elements of the personal income tax reductions as percentage of GDP. Divided into elements; special tax reductions included, local taxes excluded. *Source:* Calculated from Ministry of Finance, *Zaisei kinyū tōkei geppō* ('Monthly review on financial statistics').

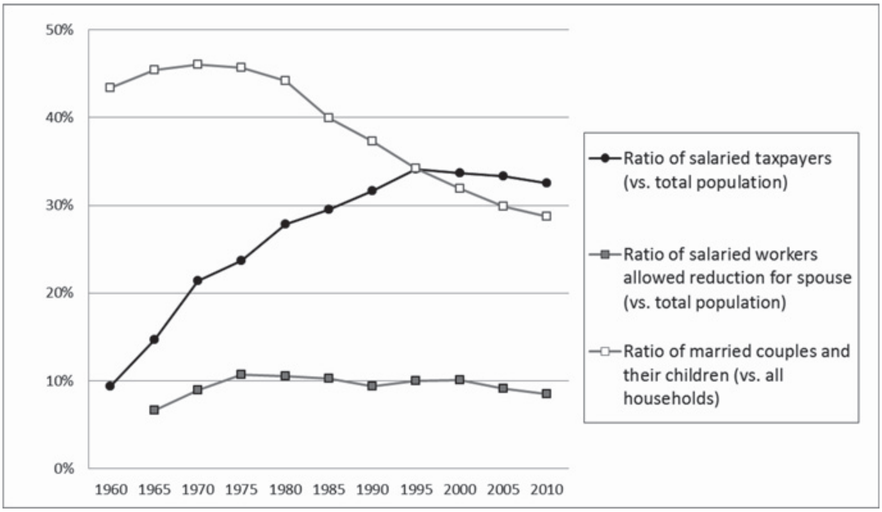

Figure 4: Changes in the social group of salaryman. Calculated from National Tax Agency, *Minkan kyūyo jittai chōsa* ('Survey on actual condition of salaries in the private sector'), Ministry of Internal Affairs and Communications, Census.

no longer take for granted a male breadwinner with a (house)wife and two children, who works for one company or organization throughout his career.

6 Conclusion

The LDP promised and realized personal income tax reductions between the rapid growth period and the 1990s, when public opinion surveys indicated a strong support for tax reductions. However, the LDP has ceased to even promise personal income tax reductions since the 2000s, as public support for tax cuts declined. This paper has explored whose demand drove the LDP to promote personal income tax reductions in the first place, and why public support for tax reductions declined.

The case studies have shown that the tax reform of 1974 and the tax system reform of 1988 were targeted at salaried workers with financially dependent family members. The LDP tried to deal with complaints by this so-called salaryman group that personal income tax was heavy and unfair. Most other personal income tax reductions between the rapid growth period and the 1980s can be considered salaryman tax reductions as well, since they have the same characteristics.

By contrast, the "permanent tax reduction" of 1999 was not specifically meant to be a salaryman tax reduction, as it was not targeted at any social group in particular. The same applies to most other personal income tax reductions in the 1990s. After 2000, almost no personal income tax reductions were implemented. Thus we can say that salaryman tax reductions were no longer carried out after the mid-1990s.

This sea change in personal income tax reductions occurred in accordance with the decline of the social group of the salaryman. The major salaryman tax reductions were implemented during the heyday period of the salaryman. They came to an end when that clientele diminished in size and homogeneity. Nowadays we can no longer take for granted a male breadwinner with a wife and two children, who works for one company or organization throughout his career. As a result, subsequent LDP governments have not implemented further cuts in personal income tax.

The findings demonstrate that the social group of the salaryman used to have great influence on tax policy under the LDP government, driving the LDP to promote a series of personal income tax reductions that resulted in considerably lower tax burdens than in most other OECD countries. This influence has frequently tended to be overlooked by scholars of Japanese politics. Amidst urbanization and the social change that came with it, the LDP tried to widen its support base by fiscal policies, as scholars argued back in the 1980s. Some social groups were incorporated into the LDP's solid support base, enjoying benefits from continuous public spending. Others, however, including the social group of the salaryman, remained as the volatile electorate. Nevertheless, the salaryman voter was influential. As shown in the case studies, the LDP took over the opposition parties' ideas to promote personal income tax reduction in order to get support from this large group. This was one important factor in the party's staying in power for so long.

Today the salaryman voters have lost most of their former influence. This can be easily understood from the 2012 bill to raise the consumption tax drastically and without any concomitant reductions in personal income tax, which was supported by the DPJ, the LDP, and the New Komeito. The era of salaryman tax reductions is over.

Now Japan is suffering from political instability caused by the volatile voters. The findings in this paper suggest that this can be partly attributed to the LDP's past policies. Salaryman tax reductions attracted the volatile voters rather than turning them into other parties' solid support base. These findings provide fresh insights into the relationship between the LDP and the volatile electorate in Japan, which will hopefully contribute to our understanding of the LDP and its recent resurrection.

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