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Examining the Takaichi Administration's Consumption Tax Cut and Growth Strategy

The Need for "selectivity and focus" in growth-oriented and crisis-management investment

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Summary

- The Sanae Takaichi administration plans to accelerate discussions toward eliminating the consumption tax on food and beverages for two years. However, this consumption tax cut would result in an annual revenue loss of approximately 5 tril yen, while its GDP-boosting effect would be limited to around 0.3 tril yen. Given that household support measures—such as increases in the basic income tax deduction—have already been implemented, and that the inflation rate is expected to decelerate, there is little need for this policy.

- Redirecting the fiscal resources required for a consumption tax cut toward "growth investment" and "crisis-management investment" would be more effective for the Japanese economy, which faces structural supply-side constraints. In doing so, rather than allocating resources evenly across the 17 priority areas identified by the administration, it will be important to apply a clear sense of prioritization—focusing investment on areas with particularly large growth effects, such as semiconductors and AI—based on policy objectives and expected economic impact.

- In the realm of crisis-management investment as well, attempting to bring low-probability risks completely under control would be inefficient from a cost–benefit perspective. Instead, efforts should be concentrated on areas where the likelihood of

risk materialization is relatively high and the potential impact is significant—such as disruptions to imports of rare earths and other critical materials from China.