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Consumption tax cuts emerging as key election issue

Key takeaways

- Prime Minister Ishiba Shigeru and other Liberal Democratic Party (LDP) leaders have decided not to include a consumption tax cut proposal in the party's manifesto, despite pressure from within the ruling coalition.
- The party will argue that the opposition parties — all calling for tax cuts in some form — are fiscally irresponsible, though their proposals poll well.
- If the LDP performs poorly, it could weaken the position of the party's fiscal hawks.

Prime Minister Ishiba Shigeru and the senior leadership of the Liberal Democratic Party (LDP) have decided against including a proposal to reduce the consumption tax rate on foodstuffs in the party's upper house campaign manifesto. They opted against this proposal despite pressure from within the party (especially vulnerable upper house members) – as well as from junior coalition partner Kōmeitō – to offer the tax cut as a way to provide households relief from cost-of-living increases and stimulate the economy amidst uncertainty stemming from trade friction with the United States.

Ultimately, Ishiba's commitment to "fiscal resilience" – previously discussed [here](#) – won out over a more politically expedient course of action. The LDP's fiscal hawks expressed alarm that cutting the consumption tax, even if just for a limited time, as in the Constitutional Democratic Party's (CDP) idea of lowering the consumption tax on foodstuffs to zero for one year, would undermine the government's ongoing pursuit of fiscal sustainability, since consumption tax revenues are intended to support social security spending as per the 2012 multi-party agreement to raise the tax from 5% to 10%. The fiscal hawks are particularly concerned that the tax, once reduced, could prove politically difficult to raise again.

The risk for the LDP, however, is that virtually every other party, including Kōmeitō, will be campaigning on some form of consumption tax cut, including the CDP, despite party leader Noda Yoshihiko's fiscal hawkish inclinations. The CDP's proposal is more modest than some of the alternatives – Ishin no Kai is proposing reducing the tax on foodstuffs to zero for two years, while the Democratic Party for the People (DPFP) wants to cut the tax to 5% across the board – but it still serves to draw a clear distinction between the LDP and the three major opposition parties. The LDP will try to attack the opposition on grounds of fiscal irresponsibility, attacks the CDP will try to blunt by drawing up plans for how to fund the tax cut before the end of the month. While the consumption tax debate exposed divisions within the CDP – and between the opposition parties (CDP founder Edano Yukio, for example, accused the CDP's tax-cut advocates of "tax cut populism," a not-so-veiled dig at DPFP leader Tamaki Yūichirō – Noda's embrace of a limited tax cut has temporarily diffused the issue within the party, keeping the pressure on the government.

The problem is not only that cutting the consumption tax polls well. It is that Ishiba's LDP, having [ruled](#) out both a sizable stimulus package before the upper house elections and campaigning on a consumption tax hike, will leave the party with little to run on when the opposition – particularly the DPFP – is campaigning aggressively on delivering relief to households and businesses affected by inflation and trade uncertainty. While Ishiba and other senior party leaders have stressed that managing rising prices of household essentials is essential before the upper house elections, the government's efforts have been small bore and ineffective. Ruling out large tax cuts might be prudent, but it leaves the government vulnerable to the charge that it has done little to help ordinary voters.

It is of course possible that the LDP will retain its upper house majority despite Ishiba's fiscal hawkishness. But the LDP's internal debate over the tax cut has revealed that the party remains divided over fiscal policy – sixty-nine LDP lawmakers co-signed a petition for the party to campaign on eliminating the consumption tax on foodstuffs – which will shape the government's approach to fiscal stimulus after the upper house elections. If the ruling coalition loses its majority in the upper house, prompting Ishiba to resign, it could also lead the pendulum within the party to swing back in favor of the fiscal doves, not least as it bids to regain public support.