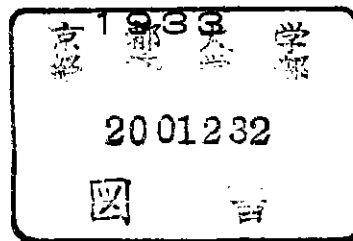


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ON THE TEXTILES CONSUMPTION TAX

FOREWORD

One of the numerous taxes which are in need of revision in this country undoubtedly is the textiles consumption tax. It was created during the Russo-Japanese War as an emergency tax because of the necessity of raising war expenses, but has continued to exist even after that war down to the present. On the other hand, the truth is that it was once regarded as one of the three most undesirable taxes, the other two being the salt monopoly and the travelling tax; and has been an object of frequent discussions in connection with proposals for the revision of the tax system. Some even suggested its total abolition. The changes so far made in this tax are: (1) the exclusion of cotton textiles, some low grade hemp and woollen textiles from the list of taxable objects, (2) the reduction of the tax rate from 10 per cent to 9 per cent, the former rate having stood for a long time. The question of revising or abolishing the tax is yet to be

settled. Its abolition has been demanded by the producers of textiles as well as by the consuming public and some critics of the existing tax system.

## PART I THE QUESTION OF ITS ABOLITION

I shall take up the fundamental question of whether or not the textiles consumption tax should be abolished.

1. In favour of its abolition. One may propose the abolition of this tax because of the following reasons:

(A) From the standpoint of justice in taxation and of social policy.

(a) From the standpoint of justice towards the consumers and of social policy.

(i) The weakness common to all consumption taxes. The textiles consumption tax has a weakness common to all taxes on consumption of goods. The consumption taxes are levied on the general theory that a man's expenditure or disbursement is an indication of his income or property. However, the truth is that different persons have different methods of expenditure and the proportions between income and expenditure greatly vary with different persons. Thus, it is inevitable that a tax based on expenditure should be unjust when viewed from the standpoint of income as the basis of taxation. In other words, there is no necessary proportion between the amount of money a person spends in purchasing goods taxed and his whole personal ability to pay (which is regarded as being indicated generally by his whole income and occasionally either by his whole property or his whole expenditure). In consequence, the poor bear on their shoulders a burden heavier than that which falls on the shoulders of the rich. Thus, the system of consumption taxation is at once unfair and unsocial. However, one may take notice of the possibility that this excess tax burden on the poor including workers may be mitigated to some extent by their endeavours to raise their labour wages. This possi-

bility largely depends on the circumstances of a particular time, and therefore, one cannot always anticipate it.

(ii) The inherent weakness of textiles on which the tax is levied. Textiles being to some extent daily necessities, a tax thereon has an obvious weakness. The amount of money a person spends for textiles depends on many factors such as the number of his family, their health, his profession, his social standing, his personal taste, etc. Two persons may have the same amount of income but they may differ in the amount of their expenditure for textiles purchased or actually consumed. Moreover, unlike foodstuffs, textiles are capable of being preserved. In consequence, there will be no necessary relation between a man's total annual income and his total annual expenditure for textiles both in the same year, because he may buy textiles to a greater amount when his income is small than when his income is large, and *vice versa*. Thus, the possibility of proportion between revenue and expenditure in the case of textiles is much smaller than in the case of foodstuffs. This is clearly against justice in taxation. Moreover, the selection of taxable textiles under our tax system cannot be considered as just. For instance, woolen textiles (although low grade textiles are exempted) in contemporary Japan are not exclusively consumed by the people of the higher classes. On the contrary, they are also used by small-salaried men, students, and mass of the people. While silk textiles on the whole are objects of luxury, one particular silk textiles called "meisen" is used extensively by all the people. Rayon textiles, rayon-cotton and silk-cotton mixtures are also used by people of the lower classes. Cotton textiles are justly exempted from the tax because they are chiefly used by people of all classes, but there is a particular cotton fabric called "futako-ori" the price of which is much higher than that of silk textiles and which is exclusively used by the wealthy. This cotton textile is free from the consumption tax simply because it is a cotton textile. A similar injustice is also shown in the case of knitted goods and felt goods

which are exempted. Some knitted goods are objects of luxury and should not be exempted. Thus, there is no appropriate balance between taxed objects and objects exempted. Persons with small ability to pay are forced to shoulder the tax burden to some extent simply because they happened to use a particular set of textiles. But this injustice is not so great as that of exempting persons with great ability to pay because of the same reason, for such exemption obviously violates the principle of generality in taxation.

(iii) The weakness in the nature of the tax-base and tax rate. The textiles consumption tax is an *ad valorem* proportional tax and is thus more conformative to justice in taxation than is a specific proportional tax such as is levied on the tax on alcohol. However, the mere *ad valorem* proportional tax in this case is not sufficient to assure full justice. As has been already pointed out, there is no necessary proportion between a person's expenditure on textiles and his income. Persons with big income may spend comparatively little for textiles, while two persons with the same amount of income may spend different amounts for textiles. If, therefore, the principle of ability to pay and progressive taxation are to be respected, the *ad valorem* proportional tax on the amount of textiles purchased would not conform to justice in taxation. But what is more objectionable is the difficulty of estimation. As the estimation is made of standard goods rather than of specific goods and the standard prices are fixed from time to time, there will be the injustice of arbitrariness in the method of estimation. Injustice also results from the fact that the standard prices necessarily fail to be abreast of the market prices which undergo frequent fluctuations. Since it is impossible to fix the standard prices for the purpose of taxation for the whole country alike, there is necessarily an inequality among different regions. This also gives rise to injustice.

(b) From the standpoint of the just burden of businessmen.

(i) Compared with consumers. The textiles consumption tax is primarily intended to place a tax burden on consumers, but the burden is often shifted upon others. Although its forward shifting to consumers is easy in times of economic prosperity; in times of depression its backward shifting is made upon any one of the following: manufacturers, middle merchants, financiers, and workers. Thus, in the latter case the shifting of the tax is made upon persons other than the consumers upon whom the tax was originally intended to fall by the lawmakers.

(ii) Injustice among businessmen. Different textiles can be interchanged to some extent because of their nature, but this interchangeability is seriously affected by the textiles consumption tax inasmuch as the tax is levied only on some textiles. Because of this tax system, the demand for textiles taxed is shifted upon those which are not taxed, and thus discrimination and unfairness for producers and dealers inevitably results.

(B) From the economic standpoint. The Government secures an annual revenue of Yen 30,000,000 from the textiles consumption tax. The great part of this tax burden will undoubtedly fall on the consumers of textiles; but as has been already explained, part of it will also fall on industrialists and businessmen because of the uncertainty of shifting. This means that they will have a financial burden to that amount. Moreover, the tax has many other damaging effects all of which will inevitably oppress the textile industry. This effect is truly regrettable inasmuch as it is one of the cardinal principles of taxation that all taxes should fall on industry as lightly as possible.

(a) Damages on the textile industry in general.

(i) The imperfection of shifting. As has been explained, the forward shifting of the tax upon consumers in times of economic depression is imperfect, and textile producers and dealers are bound to shoulder an unduly excessive burden. This inherent weakness of the tax will prove oppressive to the textile industry.

(ii) The decrease of demand. When a tax is levied on certain textiles, their prices will inevitably rise and the demand for them will fall below the point which would be maintained in the absence of such a tax. The consumption tax will contract the sphere of the activities of industrialists and businessmen and deal a severe blow to the textile industry itself. Even supposing, for argument's sake, that the demand for the textiles taxed is not thereby decreased, it is a foregone conclusion that the tax will have the effect of reducing that demand also for goods other than the textiles taxed, unless the people make special efforts to meet the financial burden placed by the tax—and it is very difficult to make such efforts and hence cannot be expected. Thus some industry will be oppressed anyhow. In other words, if the tax does not actually hit the textile industry, it will hit some other industry.

(iii) The imperfection of estimation. As has been stated, the tax is levied on the standard prices which, as a matter of fact, fall behind the market prices. When, therefore, the market prices are on a downward trend, an excessive tax is levied inasmuch as the standard prices are left unchanged. Moreover, as the standard prices are fixed differently for different localities, there will rise discrimination between the producers and dealers of given textiles in one set of localities and those of the same textiles in other sets of localities. The textile manufactures and dealers in disadvantageous regions are bound to receive a hard blow to their business.

(iv) The complexity of assessment, tax exemption, draw-back and other forms of procedure. The assessment of the textiles consumption tax being complex, its exemption will also be highly complicated. The same thing may be said of the draw-back granted to exports. It is possible that while a merchant is trying to get such a draw-back, he may lose a good trade opportunity. Thus, the tax will prove a fetter and burden on the commercial activities of textile merchants.

(v) Disadvantage abroad. Foreign countries, especially the United States, regard our draw-back of the domestic tax on export textiles as a kind of dumping, and imposes on Japanese exports a surplus tariff. Such an additional burden on our textiles would not be imposed, had we no domestic consumption tax on textiles. Thus, our export textile business has a serious disadvantage because of the consumption tax as well as of what I have stated in the preceding paragraph (iv).

(vi) Oppression on the textile industry due to the existence of two sets of textiles, namely, those taxed and those exempted. As I have explained in (ii), (b), (A), an industry whose products are taxed is placed in a disadvantageous position as compared with others of the same nature whose products are exempted. This point somewhat duplicates that which is given in (ii), (a), (B).

(b) Damage on silk textiles. The damage of the textiles consumption tax on silk textiles is especially great. The raw material of silk textiles is entirely supplied by domestic producers and those who are engaged in the silk industry constitute an enormous portion of Japan's population. Farmers, financiers, industrialists and traders participate in this premier industry. For this reason the silk industry should be given special protection by the State. Moreover, it has been menaced in recent years by the rise of the rayon industry and has been severely hit by the prevailing worldwide economic depression. Thus, the silk industry is in need of relief measures; certainly it should not be placed under an additional burden. The Government would be contradicting its policy of promoting domestic industries, when it exempts cotton textiles the raw material of which is imported and taxing, at the same time, silk textiles made from home made raw material.

(C) From the standpoint of the administration of tax affairs. The textiles consumption tax involves much difficulty in the administration of tax affairs. The adoption of standard prices, their revision from time to time, the estimation of



definite tax objects according to the standard prices, the accompanying disputes, the control of tax evasion, the granting of draw-backs, etc.—all these are bound to make the administration of tax affairs extremely difficult. However, such administrative handicap is more or less true of all taxes.

(D) From the standpoint of population policy. Assuming the increase of population to be desirable, it follows that the taxation of textiles (which are necessary for human existence) would impede the increase of population and thus should be held as undesirable from the standpoint of national interests.

(E) From the standpoint of cultural policy. The progress of the textile industry is accompanied by the advancement of art and culture, which, in turn, is bound to exercise a benign influence on human minds and thereby bring about political stability. Thus, the advance of culture and the stability of politics are jeopardised by this tax.

2. Arguments in favour of the continuation of the textiles consumption tax may be presented as follows.

(A) From the standpoint of State revenue. This tax gives the National Treasury an annual revenue of 30,000,000 yen. Thus, it is a source of revenue which cannot be dispensed with, especially under a financial exigency like the present, and the preservation of this tax is necessary from the financial standpoint of the Government. This is the greatest reason in favour of the continuation of the textiles consumption tax as in the cases of all other consumption taxes.

(B) From the standpoint of justice in taxation and of social policy. Although it appears that the textiles consumption tax falls comparatively heavily on the poor than on the rich, the fact should be borne in mind that, if proper care is taken, the people of the lower classes could escape from its burden under the present tax system. Moreover, such a burden, if unescapable, is negligible. At least part of the tax burden fails to fall upon the consumers since it

is shifted upon others. Unlike the consumption of food, that of clothes has a great flexibility both in respect of quantity and of quality, so that the consumers can reduce the amount of burden on them. If the poor people should pay proper attention to the selection of their clothes and use, say, only cotton textiles or low grade woollen and hemp textiles or knitted goods — all of which are free from the consumption tax — these people would be able to escape from the tax burden which otherwise would fall upon them. True, the same thing can be said of the rich and the result would appear to be against the principle of the ability to pay. But the fact remains that the people having no ability to pay can escape from the tax burden, and this would amount to much in the administration of tax affairs. Nor will their burden resulting from their consumption of other textiles be very heavy. Their burden resulting from the use of silk, woollen, rayon textiles and silk-cotton mixtures will be only nine per cent of their prices. Moreover, the standard prices are fixed very leniently, so that the actual burden will be below the established rate. The burden on the consumers is comparatively light and easy to bear because it falls indirectly, without their consciousness, and at their will, at their own convenience and only in part. The consumers are willing to bear the burden because they are aware of the fact that it is taxed on luxurious consumption to some extent. The tax has some defects when considered from the standpoint of justice in taxation, but a measure of justice is maintained so long as the people of lower classes are discrete and careful in their act of consumption. One may say that their rationality and discretion would function as a sort of exemption point. The tax assures justice because it is *ad valorem* instead of being specific as in the case of the tax on alcohol. The textiles consumption tax can be just in ordinary times because it is proportional to consumption. But it assures a greater measure of justice in times of economic depression like the present, because of the great fall in prices and of the automatic reduction in

the amount of the tax burden.

(C) From the standpoint of economic and educational policies. It is often said that to encourage consumption is one way of creating an economic prosperity. On the other hand, the converse is also true. To exercise thrift, to accumulate capital as much as possible is also desirable for industry, not to mention its stabilising effect on human minds. From this standpoint, therefore, the taxation of goods consumed such as silk and woollen textiles is highly desirable, especially in view of the flexibility of their consumption.

## PART II THE SPHERE OF TAXABLE OBJECTS

As has been already pointed out, the textiles consumption tax has grave defects and weaknesses and some even suggest its total abolition. On the other hand, it has its *raison d'être* so that it cannot be immediately abolished. However, one may suggest a revision of the sphere of its taxable objects. At present, this tax is levied on all textiles except cotton fabrics, some low grade linen and woollen textiles. There are two suggestions: one would expand the sphere, while the other would contract it.

### 1. The contraction of the sphere.

(A) The proposal for the exemption of the silk textiles.

(a) Affirmative arguments. Silk weaving being the nation's most important industry, special protection should be given it by the State. Moreover, its raw material is exclusively produced at home and those engaged in it embrace a greater portion of the population of all industrial and commercial classes. Certainly, special consideration should be given to its promotion. Moreover, this premier industry is hard pressed by the rayon industry and severely affected by the existing economic depression. As has been explained, the systems of draw-back and exemption in favour of the exported silk textiles have rather invited fresh difficulties because of the consumption tax. For this reason, it

would be better to abolish such a consumption tax on silk textiles.

(b) Negative arguments. I have pointed out the reasons in favour of the continuation of the textiles consumption tax. Cotton textiles are placed out of the sphere of this tax; and if silk textiles are also exempted, the same privilege should be also extended to silk and cotton mixtures. This will leave woollen textiles and hemp textiles, particularly the former, unexempted. One may contend that no protection should be given to woollen textiles because their raw material is imported. On the other hand, it should be noted that woollen clothes are extensively used by salaried men; so that, if silk textiles used by the people of the upper classes are exempted, the woollen textiles should be also exempted. Otherwise, a serious injustice would follow. Again, if silk textiles are to be exempted, it would rather be more logical to abolish the tax altogether. At any rate, the exemption of silk textiles alone will be very unjust.

(B) The proposal for the exemption of cotton-rayon mixtures.

(a) Affirmative arguments. Japan's export business with India and other British possessions has been placed in a difficult position as the result of the action taken by them in raising the tariffs on Japanese cotton goods, and the Japanese cotton mill owners have been forced to refrain from buying Indian raw cotton as a retaliative measure. It appears that Japan has been placed in a position where she must carry out the following two plans in order to cope with the present deadlock in her cotton export business: first, she has to develop the cultivation of cotton in Manchoukuo in order to replenish the supply of raw material for her cotton mills; secondly, Japan must check the exportation of pure cotton textiles and increase that of cotton-rayon mixtures. Because of this necessity, cotton-rayon mixtures should be allowed to remain free from the consumption tax. We have also seen that exemption and drawback would only prove fetters to exports. Traders will often

miss a good business opportunity because of some delay in deciding on exportation of domestic consumption. Thus, it is urgent that these fetters on industry and foreign trade should be eliminated without delay. Moreover, the total exemption of cotton-rayon mixtures by all means is desirable from the standpoint of social policy inasmuch as they are consumed by the mass of people, in order that the financial burden of these people may be thereby alleviated.

(b) Negative arguments. When compared with pure cotton goods, cotton-rayon mixtures may be regarded as textiles of luxury, and should, therefore, be taxed so long as there exists a textiles consumption tax. At present, the amount of domestic consumption of such mixtures is very limited, chiefly because of their high cost of production. The cotton yarn used for such mixtures are of high counts which fact is responsible for the high cost of production. Their exemption, therefore, would not incur any big financial loss to the State. On the other hand, there is much possibility for their greater export business and an enhanced domestic consumption. In short, the possibility of future increase of tax revenue from cotton-rayon mixtures should be preserved.

## 2. The expansion of the sphere.

(A) In favour of the taxation of knitted and felt goods. Although knitted and felt goods are not primarily textiles, they may be regarded as the latter's substitutes and should be taxed as such; just as *sake* being taxed, a tax on other alcoholic beverages is also imposed. Their taxation is desirable from the standpoint of both justice in taxation and the revenue of the State. No consumption tax is actually levied on knitted and felt goods because it is feared that such a tax may deal an economic blow to the enterprisers and impede their export business.

(B) In favour of the taxation of cotton textiles. Cotton textiles were subject to the textiles consumption tax when it was originally enacted, but later were exempted. It is now proposed that they be again made subject to the same

tax.

(a) In favour of the *status quo* (or exemption).

(i) From the standpoint of justice in taxation and of social policy. To continue their exemption is necessary to protect the consuming public as these things are used as raw material for low grade clothes, or clothes for the masses.

(ii) From the economic standpoint. Cotton spinning and weaving being one of Japan's staple industries, the exemption of cotton textiles is consistent with the national interests.

(iii) From the administrative standpoint. The imposition of the consumption tax on cotton goods will accompany various administrative difficulties which, however, could be avoided if they were exempted.

(b) Reasons for the taxation.

(i) From the standpoint of State revenue. The advisability of taxing cotton goods from the standpoint is obvious.

(ii) From the standpoint of justice in taxation and of social policy. While objection may be made to their taxation because it tends to place a heavier burden on the poor, we have already made it clear that the burden could be made easily bearable in our arguments in favour of the continuation of the textiles consumption tax. Cotton goods have a greater flexibility in both the quality and quantity of their consumption than food. If people should pay proper attention, they can reduce the burden of taxation to a considerable degree. Thus, this tax is more bearable than the tariff on rice and wheat, especially if its rates are made lower than those of the tax on other textiles.

(iii) From the economic standpoint. The tax would prove a blow to cotton textiles spinners and weavers but will prove beneficial to others who are more or less in competition with them. Such people include the following: silk weavers, cocoon raisers, raw silk merchants, dealers in woollen and hemp textiles and mixtures. Their position will be thereby improved.

(c) Various methods of taxation.

(i) Methods of taxing finished goods. There are various methods of taxing finished goods. One way will be to levy the tax at the time of delivery from factories, customs house compounds, etc. This method on the whole appears to be most practical and likely to be adopted. However, a sales tax may be suggested. In case this method is adopted for cotton textiles, it would be also extended to other textiles. There are the following three ways of taxing sales: (1) that which is based on sales announcements by distributors, especially retailers, (2) that which uses stamps on retail sales, (3) that which is based on sales announcements by producers.

(ii) Method of imposing a tariff on raw material imported. Another possible method is to levy a tariff on imported raw cotton which is now free from all duties. This method has the following advantages: (a) the collection is very easy, (b) a considerable amount of revenue can be secured. If a ten per cent tariff is imposed the annual revenue from this source would be Yen 40,000,000; even a five per cent tariff would give to the National Treasury an annual income of Yen 20,000,000. Even after a draw-back has been given, a considerable amount of revenue could be secured. On the other hand, such a tariff would have some defects: first, it would prove an economic blow to cotton spinners and weavers; secondly, it would have an untoward effect on our relations with other countries. In case an economic boycott is declared against our country by others, say, by Great Britain and the United States, we may most naturally and conveniently resort to such a measure.

### CONCLUSION

To summarise: after being revised many times, the textiles consumption tax has become a rational system to some extent. On the other hand, objections persist against it and some would go to the length of abolishing it. Some

favour limiting tax objects, while others would rather expand the sphere of the tax. Thus opinions differ regarding this tax. Each opinion seems to possess merits as well as demerits of its own so that no single view is entitled to a unanimous sanction. The progress of time and actual circumstances alone will finally solve the problem to the satisfaction of all concerned.

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