



Written by [Brian Koenig](#) on January 5, 2011

Tracing the Japanese Experiment

The United States' current corporate tax rate is far from competitive. Average combined state and federal corporate taxes are 39.2 percent, second highest among industrialized nations, just under Japan's 39.5 percent rate. But this positioning is about to change. On December 16, 2010, Prime Minister Naoto Kan approved a five percent cut on Japan's corporate tax, lowering the rate to under 35 percent.



Iceland's corporate tax rate currently stands at 18 percent; Poland 19 percent; Sweden 25 percent; and Mexico 28 percent. Overall, the average [corporate tax rate among OECD nations](#) hovers around 27 percent, with the United States a whole 12 percentage points higher than the international average.

Japan's reformed tax policy will earn the United States the gold medal for the highest tax on business profits, giving American businesses the steepest tax burden in the industrialized world.

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According to [Trade Minister Akihiro Ohata](#), Prime Minister Kan's directive is to "lower corporate tax rates that are too high compared with international standards, and to create a world-class investment environment." Japan's Trade Ministry predicts [the tax cut](#) will increase GDP by 2.6 percent, or 14.4 trillion yen (\$172 billion), over the next three years, as it is assumed to churn job growth, increase domestic investment, and expand business operations.

"The business community intends to aggressively work on domestic investment and job creation as the new growth strategy is implemented," asserted Chief Cabinet Secretary Yoshito Sengoku. The administration's mission is to surge internal growth and produce private sector jobs, contrary to previous years of government bailouts and anti-business fervor.

In the past two decades Japan's economy has suffered from falling prices, rising unemployment, and low consumer spending. In response, throughout the 1990s Japan implemented ten separate stimulus packages, of which infrastructure spending alone totaled [30.4 trillion yen \(\\$254 billion\)](#). Most of the spending was invested in public works projects such as roads, prisons, museums, schools, and tourism.

Japan's stimulus packages created little economic growth, but instead scattered small ripples throughout the economy that produced internal struggles and induced severe fiscal problems. Unemployment remained about the same, as spending projects were arbitrary and narrowly focused, mostly creating trivial, artificial jobs. It was FDR's Civilian Conservation Corps all over again.

Kan's tax plan may prove wrong the Japanese government's stop-and-go stimulus packages of the 1990s and show that reducing the tax burden on private businesses will stir economic growth and attract domestic investment. A positive business environment will make Japan more appealing to foreign



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investors. Not to mention, [it will put 1.5 trillion yen \(\\$17.8 billion\) back into the pockets of Japanese businesses](#), paving the way for new hiring and corporate expansion.

Japan may be learning from its failed 1990s stimulus experiments. The question is will the United States, the “capitalist” capital of the world, do the same? Are we no longer the leading defender of free markets and economic freedom?

As we can see from the corporate bailouts of financial institutions and the Obama administration’s stimulus package of 2009, the United States has not yet learned its lesson. Stimulus spending should have gone to economically viable entities – through tax cuts for the private sector. Corporate tax cuts, capital gains tax cuts, income tax cuts were – and still are – feasible options to reviving the American economy.

Similar to Japan in the 1990s, the problem lies with the temptation for American politicians to earmark spending and back scratch constituents, and though decreasing taxes on corporations may not be popular, for the economy it is imperative.

We may be following in Japan’s 1990s footsteps, as the panic of slow economic growth and high unemployment persists. And unless the government makes a quick 180, the Japanese experiment may soon become the American experiment.

Photo: Japanese National Diet (parliament) Building Tokyo.



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