

Minister's Summary by Minister Yosano**11th Meeting (May 10, 2006)**

- (1) Enhancement of growth potential and competitiveness
- (2) Integrated Reform of Expenditures and Revenues (Public works)
- (3) Integrated Reform of Expenditures and Revenues (Local public finance)

Kaoru Yosano here. Today, the Council on Economic and Fiscal Policy (CEFP) held its 11th meeting this year. Discussions were held on the enhancement of growth potential and competitiveness, the Integrated Reform of Expenditures and Revenues for public work, and the same issue for local public finance.

Regarding the enhancement of growth potential and competitiveness, discussions was held, with Mr. Aso, Minister for Foreign Affairs, Mr. Nakagawa, Minister of Agriculture, Forestry and Fisheries, Mr. Kitagawa, Minister of Land, Infrastructure and Transport, and Ms. Koike, Minister of the Environment in attendance. Expert members made proposals on the basic idea of the Economic Growth Initiative and the Operation Chart of this initiative, and the method for future examination towards its formulation. I think an understanding was shared.

The Prime Minister made the following statement:

The environment and energy are very important. We have the problem of dependency on oil. The development of biomass is also important. These issues have great influence on the strategy of Japan, and hence I request your support on them.

Next, there was some discussion regarding public works within the framework of the Integrated Reform of Expenditures and Revenues, with Ministers Nakagawa and Kitagawa remaining in attendance. Concerning the reform of public investment, an expert member proposed that a reduction in public works of at least 3% should be continued, and a basic restraining trend should be continued over a medium term" at the previous CEFP meeting. Today, based on this statement, Minister Nakagawa and Minister Kitagawa made statements on the materials. Minister Kitagawa pointed out several problems that are expected to arise, if public works are reduced further, from the viewpoint of social capital improvement. To this statement, other members expressed the following opinions

continuing from the last meeting:

Although we will pay attention to the opinions of Ministers Nakagawa and Kitagawa, a basic restraining trend of public investment should be maintained at least for a medium term.

It is important for fiscal reconstruction as well.

I stated that we would like to express our respect to both Ministers Nakagawa and Kitagawa for their earnest efforts to reform public works.

Since the ruling party has also started discussion on the reform of public investment, I would like the CEFP to continue its discussion on this major issue with adjusting its consistency with the ruling party's discussions.

Concerning local public finance in the Integrated Reform of Expenditures and Revenues, Mr. Takenaka, then an expert member, and then Mr. Tanigaki, Minister of Finance, made explanations based on their respective materials. I summarized the discussions as follows, and a mutual understanding was reached:

The central and local governments are two pillars of finance. Advancing fiscal consolidations of both the central and local governments is the ultimate goal for the Integrated Reform of Expenditures and Revenues.

In the basic principle that has already been agreed upon, it is stated that central and local governments should cooperate with each other to realize the balanced fiscal reconstruction of central and local governments. It is necessary to conclude this discussion with a concrete amount of money and contents along with this basic principle.

The Prime Minister made the following statement:

I have insisted on implementing the reform package of three issues, the reforms of subsidies, the transfer of tax revenue resources and the allocation tax, concomitantly because each of them is difficult. Finally, they began to work. They need to be done concomitantly.

I think that is why ministries are fond of authority. In Japanese, the Ministry of Internal Affairs and Communications was originally called the Ministry of Local Autonomy, but now they misunderstand themselves as the Ministry of Central Authority. The

central government is unwilling to part with authority, but I wonder why they like working so much. It is obvious that the policies differ among regions, including these finance.

This is all that was discussed in today's CEFPP meeting.

Concerning the enhancement of growth potential related to these issues, Mr. Nikai, Minister of Economy, Trade and Industry, proposed to have a meeting within this week with Mr. Nakagawa, Chairman of the Policy Research Council of the Liberal Democratic Party, Mr. Amari, Acting Chairman of the Policy Research Council of the Liberal Democratic Party, and myself, Minister of State for Economic and Fiscal Policy and Financial Services, to reach a consensus, on a concrete frame, the method to proceed with political adjustment and other matters, for the compilation of the Economic Growth Initiative. We would like to specify ten to 20 priority items as pointed out in the materials submitted today by an expert member. The CEFPP and the ruling party will exercise their political leadership in collaboration towards the final compilation of the Initiative.

As for local public finance, Minister Takenaka made a highly-motivated proposal today on the system reform. His proposal focused on the personnel expenses as the concrete target for expenditure cut. I think the viewpoint to assure the balance of improving fiscal consolidations of both central and local governments is important. After all, advancing fiscal consolidation is important for both the central and local governments. On this point, I expect more concrete proposals on the appropriate level of local allocation tax. I think the ruling party is also very much interested in local public finance.

With regard to the personnel expenses of local governments, there is a lot of room for reexamination in addition to the retirement allowances for governors. For example:

Salaries in prefectural and city governments employees, except those in Tokyo, are above the average of those in local private companies.

In some prefectures, the salaries are about 20% higher than those of national government employees.

The salaries paid for assistant division chiefs or higher in the central government occupy about 40% of all officers, while those in prefectural governments occupy about 60%.

Some local governments are making efforts to reduce employees. As a whole, however, there is a problem in the system in regards to checking the reduction of waste spending as well as personnel expenses under the current system. At any rate, such a concrete problem will be discussed at the ruling party, and we will closely collaborate with the party.