

Minister's Summary by Minister Ota

1st Meeting (January 17, 2008)



- (1) National Land Sustainability Plan
- (2) “Direction and Strategy for the Japanese Economy”
- (3) Agenda for the future deliberations of the CEFP
- (4) New growth strategy

Hiroko Ota here. Today, the Council on Economic and Fiscal Policy (CEFP) held its 1st meeting of the year and conducted discussions on the National Land Sustainability Plan, the “Direction and Strategy for the Japanese Economy,” the agenda for the council’s future deliberations and the new growth strategy. A consultation and report were made on the “Direction and Strategy for the Japanese Economy.”

Regarding the National Land Sustainability Plan, proposals was made by the expert members. In response, Temporary Member Fuyushiba (Minister of Land, Infrastructure, Transport and Tourism) made the following statements:

I completely agree with the expert members’ proposals. I will proceed with the plan in that manner.

There is only one point that I would like to mention. The bottom section of the first page of the expert members’ paper says, “In formulating the Wide-area Regional Plan, the roles to be played by local branch offices of the central government should be made consistent with the ongoing drastic reform of such regional outposts. The plan has to be formulated and implemented at the initiative of the relevant municipalities so that it will become a milestone on the road to a broader regional government system (*doshu-sei*).” In this regard, the plan includes the implementation of policies for which the central government must assume responsibility from a national perspective.

Therefore, I ask you to understand that the central governments’ local offices are supposed to be on an equal footing with the local municipalities involved as members of the regional planning council.

The Committee for the Promotion of Decentralization Reform is currently discussing a fundamental review of the central governments’ outposts. I request that this review fully incorporate the opinions of the relevant prefectures and municipalities.

The expert members made the following statements:

This is the first time for the Government to formulate the Wide-area Regional Plan as part of the National Land Sustainability Plan. Although it might be difficult to adjust various opinions, local regions should be allowed to explore their ideas and voluntarily formulate the plan. Although the deadline is set for FY2008, strict adherence to this deadline should not be expected and individual regions should be allowed to formulate their own plans. As for Hokkaido and Okinawa, which currently have different development plans, the necessary adjustments should be made in order for the Wide-area Regional Plan to also cover these two regions in a manner consistent with the existing plans.

Apart from the National Land Sustainability Plan, news reports are saying that foreign investment in the infrastructures of the international hub airports at Narita and Haneda is to be limited to one-third. Regarding the limitations on foreign ownership of airport companies, it's understandable that the Government intends to leave some restrictions on investment in infrastructure such as international hub airports. However, the Government is requested to consider means that do not discriminate between Japanese and foreign ownership, and, if possible, not to curb foreign investment.

Temporary Member Fuyushiba made the following statements in reply:

International hub airports are indispensable to Japan's international activities. Therefore, I believe that restrictions on foreign ownership of airport operators are definitely required in the amendment bill for the development and operation of airports that we aim to submit to the next ordinary session of the Diet.

With regard to measures to ensure the appropriate operation of international hub airports, I will continue considerations from various perspectives, based on deliberations in the Diet and the opinions of related parties.

Regarding the "Direction and Strategy for the Japanese Economy," the Cabinet Office explained a reference trial calculation. As the Government has set a goal of achieving a surplus in the primary fiscal balance of the central and local governments by FY2011, the ways in which the road to FY2011 will differ were presented in two scenarios: (1) a scenario wherein the growth strategy achieves its desired effects; and (2) a scenario wherein the strategy does not achieve its desired effects or international economic fluctuations have occurred. The two scenarios were each shown according to two different situations as specified in the "Basic Policies 2006": (i)

expenditure reductions of 11.4 trillion yen; and (ii) expenditure reductions of 14.3 trillion yen.

The path presented in the “Basic Policies 2006”(July 2006, Cabinet Decision) was based on an assumed average nominal growth rate of 3%. In this case, the result of the trial calculation indicated that there would be a deficit of 2.2 trillion yen in FY2011. This means that tax increases or further expenditure reductions will be required.

On the other hand, when the trial calculation was presented this time last year, the result indicated that there would be a surplus of 1.4 trillion yen in FY2011, due to high FY2006 tax revenues. This is the case wherein economic growth exerts an effect and expenditure reductions of 14.3 trillion yen are implemented.

The result of the trial calculation this time showed that because of a recent decrease in the nominal growth rate, delayed inflation and a projected decrease in tax revenue from the same period last year, the deficit in the primary balance in FY2011 will be 0.1% of total GDP, or approximately 700 billion yen.

In response to the aforementioned explanations by the Cabinet Office, the following comments were voiced:

Member Nukaga (Minister of Finance), referring to the trial calculation: Even in the case where expenditure reductions of 14.3 trillion yen are implemented and steady economic growth is achieved, the primary balance will be a 0.1% deficit. The CEFPP should hold thoroughgoing discussions on a path toward fiscal consolidation. We will also discuss the appropriate measures and implement them. Discussions will be continued in order to gain public reassurance.

Expert member: The result of the trial calculation revealed that it will be difficult to achieve a surplus, even in the high growth rate scenario with expenditure reductions of 14.3 trillion yen. Under these circumstances, there are three methods to achieve a primary balance surplus by FY2011. The first method is tax increases. The second is increasing expenditure reductions. The third is a mixture of the above two methods: conducting both tax increases and expansion of expenditure reductions. The measures that should be taken are the second or third. In any case, the goal of achieving a primary balance surplus by FY2011 must not be abandoned. If it is abandoned now, the Government’s credibility will be ruined. Reforms should be continued by way of the second method of increasing expenditure reductions or by the third method of

mixing such reductions with tax increases. Any shortage arising should be covered by tax increases. Increasing the range of expenditure reductions is of fundamental importance.

Expert member: The decrease in FY2007 tax revenue from a year ago has led to the result of the latest trial calculation. The main reason for this decrease is the drop in nominal growth, attributed to a delayed response to the revision of the Building Standard Law as well as a failure to prepare computer programs by the time the revision took effect. As such, the Government has a grave responsibility. The world economy in fiscal 2008 is expected to become severe. As uncertainty is increasing, both the growth scenario and the risk scenario involve uncertainty. It is essential to reaffirm the determination to achieve a primary balance surplus by FY2011 without fail, even under these difficult circumstances.

The “Direction and Strategy for the Japanese Economy” was approved by the CEFPP and will be decided on by the Cabinet tomorrow. The Prime Minister decided the subtitle: “A Country Open to the World, Growth in Which All Participate, Harmony with the Environment.” After the CEFPP had given its report, the Prime Minister gave the following address.

I would like to express my deep gratitude to the CEFPP members for making the report on the “Direction and Strategy for the Japanese Economy.” I would like to have it endorsed by the Cabinet and to set it as the Fukuda Cabinet’s medium-term economic and fiscal policy.

Responding to significant changes such as a declining population, globalization and environmental constraints, and transforming risk factors into opportunities to create a new growth vision are key challenges for Japan.

It is necessary to advance reforms aimed at realizing a country of “hope and reassurance” while focusing on the concept shown in the subtitle: “A Country Open to the World, Growth in Which All Participate, Harmony with the Environment.” To this end, I ask for your cooperation.

For your note, I said the trial calculation was prepared by the Cabinet Office in order to assist deliberations on the “Direction and Strategy for the Japanese Economy” and that it is not included in the CEFPP’s report and Cabinet decisions.

Regarding the agenda for the CEFPP’s future deliberations, the expert members provided explanations. The following comments were then voiced:

Expert member, referring to the proposal that expert committees be established to get an overview of the qualitative aspect of the Japanese economic structure: A second “Maekawa Report” is required right now. After the publication of the Maekawa Report, its specifics were discussed in the subsequent New Maekawa Report. Last year marked the 20th anniversary of that. The situation surrounding the Japanese economy and society has changed significantly during the past 20 years. It is vital to make an ambitious report to discuss the ideal shape of the economic structure. The reform of consumer policies is very important. The Japanese administration is characterized by sectionalism and a strong producer-oriented mindset. It is vital to conduct administration from the standpoint of consumers, which will lead to stable consumption and give people a sense of security.

Expert member: Stock prices have been falling. According to a rating agency in the United States, Japan ranked 51st among a total of 52 countries in terms of the up-down ratio of stocks last year. Foreign investors are concerned about a delay in Japan’s reforms, but Japanese citizens also have anxieties over the nation’s future. It is essential to present a future vision that gives peace of mind to the public through the “Direction and Strategy for the Japanese Economy,” etc. Administrative and fiscal reforms are particularly important, and a sound civil servant system must be established. The Government has to start steadily and quickly with workable reforms, such as the establishment of a new human resources agency. The Government should accelerate reform without slackening the reforms of independent administrative agencies and special budget accounts as well. This will lead to gaining the trust of foreign investors.

Expert member: The suggested expert committee is important. In Japan, income distribution has become an issue. It is necessary to create a positive growth cycle of consumption and production and establish an economical structure that does not depend on external demand. On the other hand, it is also vital to channel the growth of foreign countries into the Japanese economy through the exchange of people, goods, money, ideas and information. I feel chagrined every time people overseas ask me why Japan cannot achieve higher growth. An economic structure that supports the expansion of both exports and imports needs to be established.

Expert member: Fundamental reform of the taxation system is essential. As social security-related expenditures are expected to increase, stable revenue resources for them are required. In this regard, we cannot avoid discussions on consumption tax, which ensures an equal burden between generations as well as stable tax revenue. I am not saying that prompt

tax increases are necessary, but that discussions with an eye to fundamental reform of the taxation system should be conducted soon. At the same time, a taxation system should be established without losing an international perspective. In addition, it is vital to establish broader economic zones and promote discussions toward the introduction of a broader regional government system (*doshu-sei*).

Member Amari (Minister of Economy, Trade and Industry): I agree with the need for solid discussions with regard to Japan's economic structures. As all industries are connected with globalization, the Industrial Structure Council has started discussions from the standpoint of establishing competitive industrial structures. The council will coordinate with the expert committee and growth strategy, and finalize its report at the end of June. With regard to growth strategy, I agree with the approach method proposed by the expert members. As the overall growth strategy should be promoted along with existing measures, I will conduct follow-up assessments of the "Economic Growth Initiative" while confirming the progress of implementation.

In order for Japan to achieve autonomous growth amid the dynamism of the global economy, it is vital to create an open and forward-looking circulation mechanism, rather than seeking an expansion of closed, inward-looking internal demand.

Member Nukaga: Currently, people have anxieties and dissatisfaction throughout their lives. One of these anxieties concerns whether or not Japan can achieve fiscal consolidation. Another concerns how the social security system will be in the future. As social security cannot be separated from discussions of consumption tax, a clear reform path has to be presented.

Based on today's discussions, I will submit my proposal at the next meeting. The CEFP will deliberate this and finalize the future agenda.

The Prime Minister made the following statements:

The time has come for the Fukuda Cabinet to present its reform policies. I request that thoroughgoing discussions also be held this year in line with the expert members' proposals. Intensive discussions are required so that we can get the Japanese economy out of its current rut, with the transmission of messages to the international community also in mind. In doing so, I think the proposal to get an overview of the qualitative changes in the Japanese economy

and discuss its ideal shape in the future is exactly the right way of thinking.

I have already asked the Quality-of-life Policy Council to deliberate on the establishment of a consumer-oriented administration and submit a report in March. Based on the report, I ask all members to discuss a concrete shape for such an administration so that 2008 will mark the first year in which the people and the consumers play leading roles.

Regarding the new growth strategy, the expert members proposed concrete policy pillars in accordance with the basic outline presented in December. Member Amari then presented per-capita GDP data for OECD countries. Subsequent comments were as follows:

Member Amari: The countries with high per-capita GDP have promoted reforms upon sharing targeted strengths and an ideal shape of the nation with the public. It is necessary for Japan to identify impediments in an easy-to-understand manner and discuss solutions. Regarding the regenerative medicine referred to in the expert members' papers, research into cutting-edge biotechnology is extremely important. With an eye to putting innovative technologies originating from Japan into practical use as soon as possible, intensive assistance for research and development is required.

Expert member: The labor distribution ratio in Japan is now said to be low. However, comparisons with other countries show that the Japanese rate is not necessarily low. Discussions should be based on data. Of course, there might be a gap between large enterprises and small and medium enterprises (SMEs), but discussions need to be held through proper comparison with foreign countries. In Japan, people working at SMEs with 100 employees or less account for approximately 70%. It is vital to revitalize the middle class workforce and SMEs. Furthermore, for Japan, not having natural resources, intensive investment in human resources and technology is required.

Expert member: It is essential for Japan to demonstrate its strengths. The enhancement of public research centers and R&D investment in the private sector is required. In pursuit of IT utilization, e-Government beyond ministerial boundaries is necessary. For this, the Government should draft an approximately five-year timetable to promote the requirements. Then, international bidding should also be taken into consideration. The acceleration of EPA is important, too.

Expert member: It is important to promote international personnel exchanges. For this, it is

necessary to increase the number of working visas, with an eye to expanding skilled human resources. Given the fact that there are various concerns over accepting foreign workers, it is essential to increase their numbers while eliminating anxiety by way of considering immigration control and work management in an integrated manner. Also, the use of English in higher education is extremely important to attract foreign students to Japan, as English programs are common all over the world, including other parts of Asia.

Member Masuda (Minister of Internal Affairs and Communications): Extending the lifespan of houses, as in the concept of “Two-hundred year housing,” is vital. The importance of extending the lifespan of infrastructure concerns not only houses constructed by the private-sector, but also social capital built by the public sector. New construction of public facilities and large-scale reconstruction can be covered by state subsidies, but the maintenance fee to extend the lifespan of public facilities is borne by local governments. The maintenance of educational facilities also has to be covered by local governments. Thus, those systems should be reviewed with the aim of converting to a stock-oriented society. Thoroughgoing discussions will be held at the Committee for the Promotion of Decentralization Reform.

The Prime Minister made the following statements:

Discussions on growth strategy should be held in a manner understandable to everyone. Otherwise, motivation will be lost. Discussions to obtain the broad understanding of the public, enterprises and experts are required. I request that concrete plans for this aim be presented to the public.

Regarding the new growth strategy, the expert members proposed concrete policy pillars. The Prime Minister will make a policy speech tomorrow at the Diet. Based on these, I will submit my proposal at the next meeting. The CEFPP will deliberate on this and finalize the strategy plan.

(End)