

Minister's Summary by Minister Ota



13th Meeting (May 23, 2008)

- (1) “New Employment Strategy” (“Kodomo-en” early childhood care centers)
- (2) Strengthening of the competitiveness of financial and capital markets (public pension funds)
- (3) Decentralization reform and regional revitalization
 - 1. Decentralization reform
 - 2. Regional revitalization
- (4) New economic growth strategy (draft)

Hiroko Ota here. Today, the Council on Economic and Fiscal Policy (CEFP) held its 13th meeting of the year and conducted discussions on “New Employment Strategy” (“Kodomo-en” early childhood care centers,) strengthening the competitiveness of financial and capital markets (public pension funds), decentralization reform and regional revitalization, and new economic growth strategy (draft).

Regarding “New Employment Strategy” and “kodomo-en,” expert members made proposals on the establishment of “state subsidies for children” and other issues. This is a longstanding problem, and a comment was made that many people are actually needy and suffering and that the Fukuda Cabinet should push forward the reform by all means. Discussions proceeded as follows:

Temporary Member Masuzoe (Minister of Health, Labour and Welfare): (Briefing the papers titled “On kodomo-en”) Regarding the proposals by the expert members, I would also like to make efforts including establishment of state subsidies for children. Yet it requires additional revenue sources. Under the current system, parts of child care services provided by a “day-care type *kodomoen*” are not eligible for subsidies, and at the same time, services a “kindergarten-type *kodomoen*” offers are partly not covered by subsidies. (Day care services for children 0-2 years at a kindergarten-type are not covered.) In order to integrate the budget from the Ministry of Education, Culture, Sports, Science and Technology and the one from the Ministry of Health, Labour and Welfare to cover every service offered by a “kodomo-en,” additional revenue sources are required.

Expert Member: Each of the two ministries has separately issued ministerial orders on the operation of “kodomo-en” and unless the orders are revised, the reform efforts will not work. Accordingly these orders have to be amended and consolidated into one, and then the two ministries should calculate how much it would cost to cover every service that a kodomo-en offers. Otherwise discussion on the issue can make little or no progress. The two ministries should jointly set up a committee to discuss the matter.

Temporary Members Masuzoe and Tokai (Minister of Education, Culture, Sports, Science and

Technology): We have already started the discussion on the issue and by this summer, we will be able to work out some solutions.

Temporary Member Kamikawa (Minister of State for Declining Birthrate): I will work towards the integration of the budgets and the improvement of kodomo-en services.

The Prime Minister made the following statements:

Upgrading public child care services is important for dealing with the declining birthrate and for encouraging the entry of women into work force and social participation. However, it seems that existing kodomo-en have forced children inconvenience caused by bureaucratic sectionalism.

Going back to the original purpose of the unification of kindergartens and nursery schools, relevant cabinet ministers should promptly work out drastic solutions, including the state subsidies for children, as suggested by the expert members, taking the standpoint of children as users.

At present, the Ministry of Education, Culture, Sports, Science and Technology and the Ministry of Health, Labour and Welfare are talking the matter at meetings of the committee they have jointly set, and I hope they will reach some conclusion around this summer. Then I would like to discuss the matter again at meetings of the CFP.

As for strengthening the competitiveness of financial and capital markets (public pension funds), the expert members gave a presentation based on their papers. Discussion proceeded as follows:

Temporary Member Masuzoe: I have been also aware that the low profitability of the public pension fund investment is a real problem, and one of the first things I did after I took office was to reshuffle members of Investment Advisory Committee of GPIF (Government Pension Investment Fund) and invite new members from the private sector. However, I see some difficulties in operating GPIF as proposed by the expert members. First, legal restrictions have hampered risk diversification. Secondly, GPIF is an independent administrative agency under control of the Government and we should discuss how to upgrade GPIF into a more flexible organization. Thirdly, feelings of safe and carefree are of the utmost importance for Japanese people, and they have feelings of resistance towards so called “hedge funds” or “securities.” Some argue that such “risky” management of public pension funds should not be accepted because public pension plans have been based on contribution from both employers and employees and because their concerns over public pension management have been heightened by the recent problems in the pension records.

Expert Member: Risk and return are two sides of the same coin. However, privately-run 130 corporate pension funds have enjoyed higher returns on average than government-run pension plans. It seems that there is still room for better approaches. In addition, enhancing transparency in the fund management is essential.

Member Amari (Minister of Economy, Trade and Industry): Japanese public pension fund plans need to aim higher returns when managing portfolio. That will surely lead to growth of Japanese industries, business development, and eventually to Japanese economic growth, and to this end too, a remuneration system for those in charge of the fund management has to be reviewed so that GPIF can hire frontline financial professionals from home and abroad.

Member Shirakawa (Governor of the Bank of Japan): Pension funds both ones of public and private sectors, are huge investors in financial markets. A wide variety of investors are essential to strengthening financial markets. Pension funds are long-term institutional investors at every country. It is necessary for pension fund management to clarify their basic stance as well as their roles and the scope of responsibility. Then, pension fund management should be entrusted to them, and at the same time, they need to undergo external evaluation and they should be evaluated from middle to long-term viewpoints.

Expert Member: Public pension funds are valuable assets of the people of Japan, and a mere 1% difference in yield leads to a huge difference of 1.5 trillion yen difference when as much as 150 trillion yen, which the nation's public pension funds have raised, is invested. The profitability of Japan's public pension fund investment is currently too low in a global sense. This will lead to increase financial burden on future generations. The pension financing is to be recalculated next year and taking this opportunity, the Government should review the management.

Expert Member: Evaluating the public pension fund management from longer viewpoints is necessary.

Member Nukaga (Minister of Finance): It is essential that the public pension fund management should ensure higher transparency while achieving efficiency. In that case, it is also important to make it clear where the ultimate responsibility lies. In addition, at present, the government pension fund has invested heavily in domestic bonds, and actually Japanese government bonds account for as much as 50% of 150 trillion yen. It is necessary to pay special attention to possible influence on markets of public pension funds' investment policy change.

I asked Temporary Member Masuzoe to further work out practical new solutions on the pension fund management though there are some problems as pointed out today.

Regarding decentralization reform and regional revitalization, Member Niwa, who is also the chair of the Committee for the Promotion of Decentralization Reform, gave a presentation on decentralization reform based on his papers and other expert members made another presentation in line with the Expert Members' Papers. Discussion proceeded as follows:

Expert Member: We, expert members, have been speaking out for the need of the fundamental reform of local branch offices of national governmental organization. In order to fundamentally

reform local branch offices of governmental organizations based on the second recommendation of the Committee for the Promotion of Decentralization Reform, the first recommendation need to provide proper classification between the central and local government duties. These recommendations should be as bold and specific as possible.

Expert Member: It is important to narrow down duties the national government should be responsible for and other duties should be entrusted to local governments. This should be the first step towards the realization of the regional government system (*doshu-sei*).

Regarding regional revitalization, the CEFPP entered into a discussion on the concept of “living areas where people can live independently with daily needs in a convenient distance”. After Member Masuda (Minister of Internal Affairs and Communications) and expert members made presentations, the following comments were voiced:

Expert Member: I fully agree with Member Masuda on his proposal. At present, each ministry has formulated and implemented regional policies separately and differently. However, as instructed by the Prime Minister, it is essential to make an inventory of policies. A thorough decentralization reform will lead to regional vitalization. As of March this year, the total number of “special zones for structural reform” reached 1,000, of which 567 have been already expanded to a nationwide scale, and the rest remained as “special zones.” Furthermore, the total of 1,009 Regional Revitalization Plans have been set up to this date. These programs should not end up with just developing some plans and attracting some applicants for subsidies. Instead, we should closely monitor subsequent developments.

Member Masuda: We have already started examining all of these plans. I would like to properly perform follow-up activities and look into future developments.

I asked Member Masuda to discuss the concept of “living areas where people can live independently” in line with the proposals from the expert members.

The Prime Minister made the following statements:

I would like to thank Chairman Niwa for his efforts to put together the recommendation on the decentralization reform. The decentralization reform will never be achieved as long as the central government insists that its duties cannot be transferred or entrusted to local governments. To offer better public services for residents’ convenience, we have to put forward the reform.

I fully agree with the expert members on the broad principles of the decentralization reform suggested in their papers.

Municipal governments are now required to decide at their own discretion what to do, instead of relying on the central government.

I would like Member Masuda to devise workable solutions in line with the said principles, in particular, regarding issues over which differences of opinion with other ministries exist, for steadily pushing forward the decentralization reform. I have also instructed each of relevant cabinet ministers, to promote decentralization as a member of the cabinet. The concept of living areas where people can live independently should be further worked out across all ministries.

Regarding the draft of the economic growth strategy, expert members, Member Amari, and Member Masuda explained their papers and the following comments were voiced:

Expert Member: With a declining population and scarce natural resources, to continue its growth, Japan can depend solely on its people and technologies that its people have fostered. In that sense, venture businesses are important sources of economic growth. The percentage of people starting new businesses in Japan has still remained low. Following the taxation reform in fiscal year 2008, the “angel tax” reduction system has moved forward well. Yet further improvement of business environments that encourage venture businesses is necessary.

Expert Member: Judging from international standards, we have to further strengthen our capacity for technological development. The Swiss International Institute for Management Development (IMD) ranked Japan in the second place for year 2008 regarding scientific and technical infrastructure competitiveness, while Japan was ranked the 25th place among 55 countries in terms of comprehensive competitiveness. To continuously make the best use of the country’s high potential for technological development, a taxation system supporting research and development as well as the protection of intellectual property are necessary. In addition, the government is required to support and develop cutting edge basic technology. Furthermore, this requires the fostering of markets that will accept products made by cutting-edge technology development. As the Prime Minister presented in his five promises during his speech at the “Future of Asia” symposium yesterday, Japan needs to be engaged in market strategy for securing future markets.

Expert Member: The utmost importance of economic growth strategy is improvement of productivity. It is necessary to improve productivity per capita without relying on public financing. For that purpose, we have to make it easier for companies to change or withdraw businesses as well as to start new businesses.

Expert Member: Winning markets overseas is important, and at the same time, it is also necessary to allow foreign companies to acquire markets in Japan. We have to further strengthen economic activity in Asia and consolidate EPA relationship.

I summed up the discussion as follows:

Today, the direction of the compilation recommended by the expert members has received approval. I would like to see the Fukuda Cabinet’s economic growth strategy compiled at the next meeting of

the CEFP.

The Prime Minister made the following statements:

As proposed by the expert members, we should achieve comprehensive economic growth strategy so as to eliminate sense of stagnation and feeling of anxiety in the general public and to allow everyone in the country to feel benefits of economic growth actually.

I would like the CEFP to put together the growth strategy based on the proposals from the expert members.

Papers on the sector-by-sector productivity improvement program were introduced at the end of the meeting. The productivity improvement program for the services industry, which is under the jurisdiction of the Ministry of Economy, Trade and Industry, was already presented at the meeting of the CEFP on May 14. Today, we have similar programs that have been compiled for sectors under the jurisdiction of other ministries. This is the first time that sector-by-sector productivity improvement programs like those have been compiled.

It is essential to produce effective results. To that end, as the first page of the program states, “every ministry concerned shall designate persons in charge of implementing the program and carrying out follow-up review, the work progress and achievements shall be regularly reported to the CEFP almost twice a year, and the report should contain numeric data as far as possible.” At the very end of the meeting, I declared that I would very much like to see this fully realized.

(End)