

**Minister's Summary by Minister Ota**



**14th Meeting (June 10, 2008)**

- (1) Regulatory reform
- (2) The Integrated Reform of Expenditures and Revenues (social security)
- (3) Economic growth strategy
- (4) Toward the “Basic Policies 2008”

Hiroko Ota here. Today, the Council on Economic and Fiscal Policy (CEFP) held its 14th meeting of the year and conducted discussions on regulatory reform, the Integrated Reform of Expenditures and Revenues (social security), economic growth strategy and the “Basic Policies 2008.”

Regarding regulatory reform, Mr. Kusakari, chairperson of the Council for Regulatory Reform, explained “the three priority areas,” and then expert members explained their paper. The discussion proceeded as follows:

Expert member: Full-scale implementation of “a prior evaluation of the imposition of a new regulation” or RIA (Regulatory Impact Analysis) could have detected and avoided any negative impact of a new regulation on the country’s economy and society, such as the confusion following the revision of Building Standard Law last year due to the delay of completion of software applicable to the revised standards. This is because then there was no “minister-certified software programs” which were in compliance with the revised standards even after the revised law came into force. Full-fledged introduction of RIA could have averted such a situation.

Member Niwa, who also serves as the chairperson of the Committee for the Promotion of Decentralization Reform: All of “the three priority areas” pointed out by the Council for Regulatory Reform are important, and we would like parties concerned to reach some conclusions by the end of the year. In particular, circumstances surrounding the agricultural sector have been dramatically changing. To enhance international competitiveness of Japan’s agriculture, specific regulatory reform should be promoted to put the “agricultural land reform in the *heisei* era” into reality. In addition, in implementing regulatory reform, it is no easy task to remove barriers such as resistance and reluctance in government authorities and those desperately defending their vested interests in industry organizations. Both public sector parties and private sector industrial organizations alike are standing in the way of decentralization reform. It is important to boldly rework and correct both public and private vested interests.

Mr. Taniguchi, Senior Vice-Minister for Internal Affairs and Communications: We would like to

further enhance the evaluation quality of the ex-ante evaluation and RIA.

The Prime Minister made the following statements:

Regulatory reform is one of important pillars for promoting consumer-oriented government services. Parties concerned should indicate the proper direction of the reform before the end of the year, including directions of the reform in “the three priority areas” that the Council for Regulatory Reform has proposed.

I would like Temporary Member Kishida to specifically deliberate a system to carry out an ex-ante evaluation of a regulation.

I summed up the discussions as follows:

“The three priority areas” that the Council for Regulatory Reform has recommended this time coincide in many ways with priority issues so far discussed at the CEFP. Accordingly, I would like both the CEFP and the Council for Regulatory Reform to continue to work together on this issue.

Regarding the Integrated Reform of Expenditures and Revenues (social security), expert members made specific proposals on how to implement the expenditure reform in each area specified in “Basic Policies 2006.”

According to “Basic Policies 2006,” the Government has to implement the expenditure curb by 660 billion yen by fiscal year 2011, or 220 billion yen on average per annum, without fail. For that purpose, expert members presented a detailed estimation of how one can streamline the government expenditures.

Expert members also pointed out the need to deal with new challenges. The Government has to respond to a growth of expenditures resulting from new requirements, by upholding the “principle of securing revenue resources to carry out policies that will increase expenditure (which is referred to as “the pay-as-you-go principle” in the United States, that is to secure additional revenue sources through cutting other expenditures or increasing taxation).

In addition, Mr. Tatsuya Ito, the prime minister’s special adviser on society security issues, explained discussions of the National Commission on Social Security, and Member Nukaga (Minister of Finance) explained basic policies for formulating the budget for fiscal year 2009 which have been proposed by the Financial System Council. The discussion proceeded as follows:

Mr. Taniguchi, Vice Minister of Internal Affairs and Communications: When compiling an interim report, I would like the National Commission to keep the following two things in mind in which

local governments are very much interested. First, the Government needs to give enough consideration to a burden on local governments, when discussing how to secure additional revenue sources. Second, decentralization can improve the management of local government services. For example, allowing local authorities to determine standards for childcare centers and applicants' eligibility for public housing will upgrade the quality level of social security. Therefore, I would like these restraints imposed on local authority services to be reviewed and eliminated.

Expert member: What is important is to push forward efficiency improvement, and in this regard, I would like to point out two things: First, I would like the introduction of social security cards to be accelerated ahead of schedule. Secondly, at present, large hospitals are crowded with outpatients just suffering from common cold. Accordingly medical treatment fees need to be revised so that the sharing of functions between clinics and hospitals can work well to establish a well-coordinated medical service system. For this purpose, establishment of home doctor system should be promoted.

Temporary Member Masuzoe (Minister of Health, Labour and Welfare): Regarding the Expert Members' Papers: (1) To address a national shortage of physicians, the expert members have proposed the review of role sharing among those engaged in medicine, and I think the role of "medical clerks" should be also included in the review. (2) Please understand that the review of the role sharing among those involved in medical care services needs more expenditures in reality. Japan faces a shortage of both physicians and nurses. Training for improving the quality of nurses also costs a lot of money. To upgrade the quality of nurses for a hospital with 400 beds or more only, the annual cost is roughly estimated to be 200 billion yen. Making better use of people engaged in medicine will not make it possible to provide better medical services *at no cost*. (3) Regarding the reviewing of the government contribution from general account to employment insurance, it is doubtful that the reduction of the central government's contribution by 160 billion yen will be persuasive enough. This is a matter of employee-employer relation, too. (4) Regarding the revision of medical treatment fees that allows the sharing of functions between clinics and hospitals, or between private practitioners and hospitals, I have fought Japan Medical Association since quite a long time ago. Despite of all these, it is quite difficult because of a number of problems. In addition, it costs extra money to organize a system that allows the sharing of functions between clinics and hospitals in each local community. Increasing a number of physicians will not cost much money, but I would like all of you to understand that implementation of structural reform will require much money. (5) Regarding the expert members' proposal that the rate of utilization of generic drug products should be boosted to 40%, I think an increase to 30% is the highest level attainable when considering generic products currently available and usable. Since a new prescription form made it possible for a pharmacist to dispense a generic drug to a patient even without a doctor's seal on a prescription form, which was previously mandatory for prescribing generic drugs, the use of generic drugs has grown so far to some extent. I must also point out the safety issue of generic products and

people have concerns about how generic prescriptions dispensed will affect the body. We have made efforts to boost the rate of utilization of generic drug products to 30% by fiscal year 2012 as targeted by the MHLW. However I cannot right now say definitely how much money we can save.

Expert member: Regarding reduction in the general account's share of contribution to employment insurance, contribution by the Government does not sound very reasonable. Instead, we should set the employment insurance premium rate which makes it possible to stabilize the employment insurance system without reliance on governmental financial support. Of course, the Government should support the system in case of an unprecedented recession. The Government should establish such an appropriate support system, and then let the employment insurance system return to its point of origin. I understand, it is true that the review of the role sharing among those engaged in medicine will cost a lot of money, but we have to promote the review without fail. Accordingly, ministries concerned should work out how to reform present systems and then indicate how much it will cost. In addition, it is important to train and educate nurses and establish a new type of qualification for these nurses.

Temporary Member Masuzoe: What one thinks about the role of the government on employment insurance is exactly a matter of philosophy. The National Commission on Social Security should also carefully discuss how far the Government should be responsible for employment and I am afraid that reaching decisive conclusions now can cause various reverberations.

Member Amari (Minister of Economy, Trade and Industry): I have heard how hard staff in local hospitals have been working. The central government may have learned well about private practice doctors, but I am afraid that the government is not too familiar with problems in hospitals. Those responsible for hospitals must maintain their positions as doctors and as business managers at the same time. Presenting some management model cases to launch management reforms may be one of effective ways to improve the operational efficiency of hospitals without jeopardizing service quality.

Expert Member: It is all right to reduce the government share of contribution to employment insurance, but it is essential to create an institutional guarantee ensuring that the Government will fully support the employment insurance, in case of an emergency, as a safety net that helps contribute to people's feeling of safety.

Expert Member: Regarding discussion in the National Commission on Social Security, (1) Whether a public pension system financed from tax revenue or from insurance premium has attracted a lot of interest recently. However, some unrealistic scenarios have been discussed on this matter. For example, it is unrealistic to increase existing pension benefit levels. The media has, however, unrealistically highlighted how much tax increase is required to increase pension benefits. The basic pension financed from tax revenue, as the CFP has already proposed, which is more realistic, should be discussed. In this pension system, those in delinquent in pension premium payments shall

not be benefited by public pension plans. We should focus on seamless transformation from a public pension plan as a social insurance system into the one financed from tax revenue. (2) I am afraid that the existence of those in delinquent in pension premium payments has been somewhat considered less serious. Some have estimated that resolving the problem of national pension premiums in arrears will not significantly affect public pension financing. However, the national pension premium in arrears has been a serious problem that can shake the foundation of pension financing as well as the foundation of social security systems. A public pension plan assumes a character of compulsory saving, and we should pay careful attention to that character. Not only individual persons but also small sized businesses are responsible for pension premiums in arrears. I would like the National Commission on Social Security to fully discuss whether a public pension system should collect premiums as taxes or as social security premiums, and before reaching some conclusions, we would also discuss the issue here at the CFP.

Mr. Yoshikawa (Chair of the National Commission on Social Security): We are also well aware of the seriousness of premium payments in arrears. So far we have performed a wide variety of simulations without ruling out potentially influential factors as far as possible. I think what is “realistic” depends on one’s perspective.

Mr. Tatsuya Ito: We have so far discussed models which are typical from objective viewpoints, in a manner as unbiased as possible without steering the discussion into a certain direction.

The Prime Minister made the following statements:

Social security should not be regarded as “sacrosanct.” Based on “Basic Policies 2006,” the Government has to completely eliminate inefficiency in existing systems.

At the same time, social security is the foundation of people’s sense of safety and in reality, new problems, such as national shortages of physicians and of paid care givers have surfaced.

It is also important to deal with these new problems for relieving public concerns.

The Government will deal with new requirements, first by cutting other expenditures without relaxing fiscal disciplines, as proposed by the expert members.

Regarding the Economic Growth Strategy, I summed up the document. Then I made a brief explanation of the Strategy and made some supplementary remarks as follows:

The Economic Growth Strategy to be formulated this time is built on three important pillars. I announced, in my economic policy speech at the beginning of this year, that the Japan’s economy can be no longer considered as a 1<sup>st</sup> class economy. I believe it is now impossible or difficult to consider the country’ economy as a 1<sup>st</sup> class one because of the country’s three major weaknesses.

First, the country’s services industries have low productivity. However, these sectors account for

70% of GDP and hire 70% of the country's employees. Secondly, Japan still has no mechanism to sufficiently respond to globalization. This refers to the country's delays in EPAs and foreign direct investment as well as its lack of international competence in the infrastructure that provides access to other countries including access to financial and capital markets and to international flight services. Thirdly, Japan has failed to make the best use of its human resources. In the face of a shrinking workforce, Japan has still as many as 1.8 million non-student part-time workers known as "freeters," and women after child-rearing still have hard time finding jobs and start working again.

The Economic Growth Strategy has incorporated steps to address these weaknesses: that is, "Addressing Globalization: Pursuing Further Openness," "Economy by and for All", and "Performing the Country's Strength". We have already reached some conclusions on details of the strategy where possible, setting time limits (such as "by a certain fiscal year") for specific tasks. The strategy also incorporates tasks of which time limit is yet to be determined, and we will have to further discuss them in a concentrated manner. We should reach some conclusions and develop plans on a schedule for aviation liberalization and the "FDI Acceleration Program" by this fall, comprehensive study of foreign direct investment regulations by the end of this fiscal year, promotion of acceptance of skilled human resources by the end of this year, "Plan for 300,000 Exchange Students" by the end of the fiscal year, and the upgrading of Japanese-version 401K by the end of the year. There are still a number of schedules yet to be set. I would like to steadily implement this growth strategy including the undecided schedules.

In response, comments were voiced that the strategy should make the best use of virtues of Japan, and that the strategy should diligently promote the globalization of Japan since the strategy itself has been known for its phrase "the opening of the country in the *heisei* era."

We will perform follow-up review of this Economic Growth Strategy almost every six months at the CEFP. The first follow-up review will be done in six months to examine how each ministry gives shape to this strategy for formulating its policies.

In addition, I have asked Member Amari to further promote the "Economic Growth Initiative" step by step because we will have to carry out in parallel the strategy of enhancing growth potential, which we have carried out so far.

The Prime Minister summed up the discussions as the closing salutation as follows:

I appreciate the efforts by the members to compile the "Economic Growth Strategy." It is essential to enhance the country's growth potential of Japan to deal with the unprecedented aging of its

population and still remain active in the international community.

We have so dynamically discussed the strategy since the end of last year with focus on the three important pillars: Japan as a country open to the world, an economy by and for all, and strategy for innovative technology. I believe that the new strategy has successfully demonstrated features of the Fukuda Cabinet, including “the New Employment Strategy” designed to enhance 2.2 million jobs for younger generations, women and elderly people, efforts to make Japan more open to the world such as liberalization of “sky” and “Plan for 300,000 Exchange Students,” and technology innovation plans for environmental and energy technology development and the establishment of “super special zones” both intended to make the best use of the country’s strengths.

From today, we will start discussion towards the formulation of “Basic Policies 2008.” I would like to incorporate this strategy into “Basic Policies 2008” as one of its important pillars to allow the strategy to serve as a guideline for enhancing the country’s growth potential under the Fukuda Cabinet. I would like to ask your continuous attention and support on this matter.

We discussed the outline of “Basic Policies 2008.” Regarding this, there was no particular discussion. The outline was approved as it was.

(End)