

Minister's Summary by Minister Yosano

25th Meeting (November 20, 2008)

(1) Comprehensive reform of social security, tax and fiscal policy

(2) Basic Principles of the FY2009 Budget Formulation (draft items)



Kaoru Yosano here. Today, the Council on Economic and Fiscal Policy (CEFP) held the 25th meeting of the year.

At the beginning of the meeting, Prime Minister Aso explained results of the recent G20 summit on global economic crisis and gave details of his instructions on management of the number of regular staff working for administrative agencies for fiscal 2009 and on the fiscal 2009 budget formulation.

Regarding the first main subject on the agenda, we discussed the positioning and basic ideas concerning “The Medium-term Program” and social security system. I summed up the discussion as follows:

First, the CEFP meeting reached a basic consensus on the positioning and basic ideas concerning “The Medium-term Program,” as presented by expert members in their papers.

Then, regarding social security, members exchanged views on how to identify high-priority expenditure items for which stable revenue sources should be secured, on estimated expenditures for each item and on three basic principles to enhance public confidence in social security. Discussion at the meeting reached agreement that the Government should further deepen consideration of the social security system in compliance with the three basic principles, along with discussion on fundamental taxation reform and on the way fiscal disciplines should function.

Discussions proceeded as follows:

The first speaker pointed out the need of balancing reassurance to the generations who are still

working and control over the passing of financial burden on to future generations, stating that both enhanced function and improved efficiency of the social security system are essential and that the Government has to clearly show details of the efficiency improvement and the functional enhancement as well as to explain how to respond to a rapidly aging population.

The second speaker fully supported the three principles, stating that the Government should, based on the principles, carry forward “The Medium-term Program” and social security reform and expressing concerns over public insufficient understanding over “medium-level welfare.” To foster better public understanding, he said that the Government should show concrete steps to be taken towards better social security. He also pointed out the need of making a comparison between domestic and foreign social security systems and demonstrating the reasonability of “medium-level welfare,” on the absolute precondition that the Government will strictly comply with fiscal disciplines in line with “Basic Policies 2006.”

Another member pointed out the difficulty of achieving fiscal reconstruction, stating that it will take lot of time and require cuts in expenditures, additional financial burdens and economic growth. He also recommended repair of the fraying of the “medium-level social welfare” as the best way to win public support.

Member Hatoyama (Minister of Internal Affairs and Communications) said that costs of projects and programs initiated and independently carried out by local governments should be also taken into account when estimating social security expenditures.

Temporary Member Masuzoe (Minister of Health, Labour and Welfare) pointed out the difficulty of quantifying effects of efficiency improvement in medical care because of controversial issues such as the electronic processing of medical fee bills and the promotion of generic products.

In response to Temporary Member Masuzoe’s comment, I emphasized the importance of improving efficiency of medical services. Then in response to Member Hatoyama’s remark, I said that I would like local governments to cooperate in implementation of the taxation reform and called for his assistance in promoting better understanding among people of the taxation reform, since to foster public understanding of the tax reform is one of the missions of Minister of Internal Affairs and Communications.

The meeting discussed draft items in the Basic Principles of the FY2009 Budget Formulation, the second subject on the agenda today. The first draft of the Basic Principles will be presented at the next meeting.

The first comment on this issue emphasized the importance of aggressive actions to boost domestic demand, especially in sectors concerning environmental conservation and energy, and pointed out

the need for incentives for promotion of energy-saving products, including low-carbon vehicles and energy-efficient housing and home electronics.

Another comment on this issue stated that almost every country has adopted the combination of built-in stabilizers of the fiscal system and discretionary policies, emphasizing the importance of implementing discretionary policies while the Government still maintains its financial credibility and stressing the need of focusing on ten years from now and coordinating efforts to achieve both economic growth and financial consolidation.

At the end of the meeting, I explained how to progress future discussion on “The Medium-term Program.”

We will discuss at the next meeting the fundamental reform of the taxation system.

Regarding “The Medium-term Program,” I believe it is essential to detail a timetable for the future by integrating discussions on a better social security system that increase people’s sense of security, on the fundamental reform of the taxation system, and on fiscal disciplines.

(End)