

Minister's Summary by Minister Ota**4th Meeting (February 28, 2008)**

- (1) Sector-by-sector productivity improvement
- (2) Reviewing the government's functions
 - 1. Classification of duties of the central and local governments
 - 2. Classification of duties of the public and private sectors

Hiroko Ota here. Today, the Council on Economic and Fiscal Policy (CEFP) held its 4th meeting of the year and conducted discussions on sector-by-sector productivity improvement and the review of the government's functions (classification of duties of the central and local governments, and of the public and private sectors).

Regarding sector-by-sector productivity improvement, the expert members outlined the contents of their papers related to cross-industry and industry-specific measures respectively. Member Amari (Minister of Economy, Trade and Industry) reported on the outline of the Industrial Structure Council's activities being taken with a view to improving productivity in 12 services industries. He also provided a summary of a concrete productivity-improving program, citing retail industries as examples. The following comments were voiced in response:

Expert member: Although it is often said that IT utilization is necessary, it has not made much progress. It is necessary to establish an environment in which the private sector ensures the promotion of IT utilization based on self-reliance. It is essential that the Government request that software companies develop compatible software capable of providing incentives for private sector IT utilization.

Expert member: In reality, the government's actual status is much like that of small and medium enterprises (SMEs). Although the government as a whole has a large number of employees, each ministry conducts its activities separately based on sectionalism. The substance of administrative work is provided in a piecemeal fashion. For example, each ministry has its payroll calculation methods separately. Utilizing IT means that individual ministries' jobs can be presented in a comparable manner. With the use of IT as the driving force, methods for proceeding with government duties must be changed in order to improve efficiency.

Expert member: The fact that SME productivity is low can also be applied to the public sector

as well. A scheme for providing efficient incentives to help promote e-Government is required by way of, for example, analyzing the extent of the effect that the discount on the electronic toll collection (ETC) system has had on the promotion of efficiency.

Expert member: A Japanese characteristic inherent to SMEs is that both the entry and exit rates of SMEs are low in this country. Existing regulations, taxation systems, etc. need to be analyzed so as to determine why the Japanese SMEs are difficult to regenerate.

Member Masuda (Minister of Internal Affairs and Communications): Services such as SaaS (Software as a Service) and ASP (Application Service Provider) should be utilized as much as possible. The Government is now formulating assistance guidelines and certification standards aimed at promoting the utilization of such services. At the outset, local governments and local chambers of commerce and industry should be urged to accelerate efforts aimed at promoting the utilization of the abovementioned services. The expert members proposed that devices aimed at advancing IT utilization should be created as swiftly as possible, such as in the form of “shock therapy.” It is essential that the use of IT be facilitated through various incentives. The Ministry of Internal Affairs and Communications is also working on this.

Expert member: Currently, taxpayers can receive a tax credit of 5,000 yen by using “e-tax,” or online tax filing. However, this incentive is applied only once at the time of the purchasing of devices for official electronic certification. Incentives for permanent use of “e-tax” should be further promoted.

I summed up the discussions by asking Member Amari, Minister of Economy, Trade and Industry, to draft a sector-by-sector efficiency improvement program for 12 industries, including retail industries, and by noting that I will be requesting the other related ministers to formulate plans for industries other than those under the jurisdiction of METI.

Regarding the review of government function, particularly the classification of public- and private-sector duties, Mr. Ochiai, Chairman of the Supervisory Commission for Public-Private and Private-Private Competitive Tenderings, reported on market testing. He stated that although the Supervisory Commission has been putting forth energetic efforts, public services subject to market testing are only selectable through consultations with the ministries involved. The

Supervisory Commission can't take initiative in the selection of such services, and so it has a lot of troubles. He requested that each minister proactively propose services for market testing. Expert members made the following comments:

The expert members proposed that the reform of government functions requires that the Government not only classify duties but also change its methods for proceeding with duties, taking into account the private sector's best practices. In this regard, a 5% cost reduction for the five-year period does not represent a reform in private companies. This merely represents a cost saving. In order to truly implement reforms, the Government must implement something along the lines of a 10% cost reduction.

With regard to the classification of central and local government duties, the National Governors' Association presented a plan for the reform of the central government's local branch offices based on classification standards proposed by the expert members in May of last year. Today's meeting saw the participation of Mr. Aso, Chairman of the National Governors' Association (NGA) as well as that of Mr. Yamada, Governor of Kyoto Prefecture, who summarized trial calculations, and they made presentations.

In regards to the significance of streamlining the central government's local branch offices and transferring them to local governments, Chairman Aso cited three advantages: (1) decentralization will be promoted as the decision-making body of the administrative services will be moved much closer to local citizens; (2) dual administration of the central and local governments will be eliminated, which will lead to bold administrative and fiscal reforms; and (3) an ideal role for the central government will be realized. In the midst of progressing globalization, global standards need to be established, and the central government will have to implement a thorough reform of its current methods of conducting its business. He expressed concerns that despite the abovementioned advantages, ministries are very negative about reform of local branch offices and he doubts that reforms will progress under such circumstances. Governor Yamada then provided explanations in line with his materials. On May 25, 2007, the expert members submitted a proposal stating that approximately 100,000 out of 210,000 central government employees working at local offices can be transferred to local governments. The NGA advanced the proposal and, in its new proposal, presented its advantages, namely that a reduction of the central government's personnel quota by 20,000 would be achievable by way of

a takeover of central government local offices. The following comments were voiced in response:

Mr. Niwa, Chairman of the Committee for the Promotion of Decentralization Reform: I have conducted hearings with the ministries involved since January. As the interim report will be finalized this summer, I will report to the CEFP by that time. The reform of the central government's local branch offices will lead to the elimination of dual administration, and this is very important in regards to the promotion of decentralization. Having said so, I have only one request: when civil servants are transferred from the central to local governments, it will be necessary to ensure basic labor rights, as well as personnel evaluations and wage levels that are similar to those of the private sector. Personnel transfer programs need to be developed.

Member Masuda: I believe that the NGA's proposal deserves serious consideration. The Committee for the Promotion of Decentralization Reform will submit an interim report by summer and make concrete proposals as recommendations by the end of the year. Based on these, the Government will draft a reform plan as early as possible. As the expert members proposed that the Government formulate the reform plan within FY2008, I will proceed with this timeframe in mind.

It is vital that market testing be introduced to the central government's local branch offices. All local branch offices should be subjected to market testing rather than being tested separately. This is important from the viewpoint of transferring personnel to local governments based on decentralization, rather than from the viewpoint of administrative reforms.

As for a concrete market testing method, a one-year period is too short a timeframe for private enterprises to accept; a period of between three and five years would be more appropriate.

I summed up the discussions as follows:

As minister in charge of market testing, I will strive to realize full-fledged market testing across all ministries based on today's discussions.

In today's discussions, the expert members and Chairman Ochiai made proposals to the effect that the Government should subject back-office work to market testing across all ministries

and also test all local branch offices. I will tackle the issue based on these views.

As the expert members proposed that rules on establishing new regulations should be tightened in order to avoid creating excessive new duties, I will report on this issue to Minister Kishida (Minister of State for Regulatory Reform) and ask him to examine it.

Regarding the review of the central government's local branch offices, as it was pointed out today that the integrated presentation of the transfer of authority and personnel within organizations is important, I ask that Chairman Niwa advance efforts in the Committee for the Promotion of Decentralization Reform with today's discussions in mind. With the aim of establishing criteria for the classification of central and local government duties, basic guidelines for the reform of the central government's local branch offices will be incorporated into the "Basic Policies." After that, based on the Committee for the Promotion of Decentralization Reform's recommendation scheduled for submission at the end of the year, Member Masuda will take a leading role in formulating the plan within the government. I ask for all members' cooperation.

The prime minister made the following statements:

Chairman Niwa is making tremendous efforts in relation to the reform of the central government's local branch offices. I request that in-depth deliberations be held so as to present an overview of said reform.

Regarding the classification of the public- and private-sector duties, expert members made a proposal that best practices of the private sector should be introduced to the Government in order to change the working methods in the public sector. This proposal is very important and must be implemented without fail. As I believe that know-how related to improving efficiency has been accumulated within the domain of private firms, I ask Members Mitarai and Niwa to play a central role in making proposals and promoting required study.

Sector-by-sector productivity improvement is very important and I request that each ministry formulate fine-tuned programs for each category of industry so that on-site businesses can have bright future prospects.

Based on the prime minister's statements, a study group for the classification of the public- and private-sector duties will be established in the Cabinet Office with the aim of learning from the

best practices of the private sector. With regard to sector-by-sector productivity improvement, I will convey the Prime Minister's message today to the ministers other than the Minister of Economy, Trade and Industry and ask for their cooperation.

(End)