

## **Koizumi Structural Reform: Accomplishments and Strategic Roadmap**

### **I. Basic Principles**

- The Koizumi Cabinet is committed to the realization of “a society that rewards hard work and offers opportunities to meet new challenges,” “a society in which wisdom in the private sector and regional communities brings about vitality and prosperity,” and “a caring society in which people can live safely and in peace.”
- During the past ten years, Japan might not have been able to effectively utilize the wealth of knowledge and the human and financial resources. With that in mind, and in line with the policy that there can be “no growth without reforms,” **the Koizumi Cabinet will steadily engage in a wide range of reforms** in accordance with **the strategic roadmap** outlined below.

### **II. Accomplishments and Strategic Roadmap**

#### **1. Reform of Government**

##### **Fiscal Reform: Towards a small government of high quality**

- Fiscal discipline and the review of expenditure structure provide the necessary foundation for sustainable growth. By pursuing structural reform under the policy of “assigning all that can be done by the private sector to the private sector, and assigning all that can be done by local governments to local governments,” the Koizumi Cabinet has announced projections for **achieving fiscal primary-balance surpluses by the early 2010s**.
- In the FY 2002 budget, new bond issuance is kept under ¥30 trillion, expenditures are reduced by ¥5 trillion, while ¥2 trillion is reallocated to seven priority areas. Other key areas of the expenditure were revised as follows: **public works** were **reduced by 10.7%**, and fiscal expenditures for **special public corporations** were **cut by 21.1%**, amounting to more than **¥1 trillion**.
- In compliance with the principles spelled out in “Reform and Perspectives” and elsewhere, the reform of government expenditure structure will be accelerated under the FY 2003 budget. **The total FY 2003 budget will be kept substantially below the previous year’s budget** and bold steps will be taken toward revamping the expenditure structure.

## Tax Reform

- **On the revenue side**, fundamental and structural changes will begin in the tax system, which has its origins in the Shoup mission's recommendations of 50 years ago. The aim of the tax reforms will be to inject the system with **"vitality"**; that is, "to maximize the 'vitality' of the economy and society without distorting the choices of individuals and companies." The goal is to complete these reforms by FY 2006.
- The following tax reforms will be considered for implementation in FY 2003.
  - As for **taxation on corporations, broadening the tax base** and **keeping the tax rate at low level**.
  - **Reexamining some of the current deductions**, such as spousal deduction, so as not to disturb career choices or lifestyle decisions.
  - **Lowering the maximum tax rate and reviewing deductions for inheritance tax**, and facilitating the making of inter vivos gifts.
  - **Reducing the tax on research and development**.

## Social Security

- The social security system will be restructured to be harmonized with the economy, to assure sustainability and reliability into the future, and to suppress, as much as possible, the rise in the national burden ratio. For that purpose, active efforts will be made to reform such social security systems as medical care, pensions, and long-term care for the elderly. During the previous session of the Diet, **co-payment under the health insurance system was revised** and **a series of bills** pertaining to the reform of the medical system **were enacted**.

## Central and Local Governments

- To promote fiscal and administrative reform in local government and to enhance local initiative and self-responsibility, the involvement of the central government will be curtailed, while the authorities and responsibilities of local governments will be expanded. **Cabinet ministers will study the possible reduction or elimination of central government subsidization programs** in various areas including welfare, education, and social infrastructure. The conclusions of those studies will be ready for presentation before the end of 2002. In light of those conclusions, **a comprehensive review will be conducted on central government subsidies, local allocation taxes, and the distribution of tax revenue sources** (including **the transfer of tax resources**). The results of this comprehensive review will be compiled during the first half of 2003.

Furthermore, mergers of municipalities will be promoted in order to reinforce the fiscal and administrative foundations of local governments.

### Redevelopment of Social Infrastructure

- Judicial system reform constitutes an indispensable element in the transition to an ex post facto check and relief-oriented society that is governed by explicit rules and the principle of self-responsibility. For this purpose, the Office for the Promotion of Justice System Reform was established in the Cabinet Secretariat and fundamental and unprecedented reforms will be implemented in the basic aspects of the judicial system. The Commercial Law, the Bankruptcy Law, and other basic economic laws will be reexamined.
- With the transition to an ex post facto check-type system, while more than 10,000 government posts will be cut, however 216 new posts will be assigned to enhance the regulatory systems in such areas as securities surveillance, financial inspection, anti-trust and competition policies.

## 2. Reform of Special Public Corporations

### Reform of Special Public Corporations and Other Institutions

- Structural reform requires that institutional complementarities that have formed over the years be dissolved. In light of current conditions, the special public corporations and institutions that have been involved in infrastructure development using fiscal investment and loan funds and other fiscal resources must now undergo bold reforms.
- Decisive action has been taken toward the reform of special public corporations including the abolition or privatization of the four highway-related public corporations, the Urban Development Corporation, the Japan National Oil Corporation, and the Government Housing Loan Corporation. The Promotion Committee for the Privatization of the Four Highway-related Public Corporations took an important first step toward the privatization of the four highway-related public corporations with the start of deliberations. Regarding the existing 118 special public corporations, decisions have been made to abolish 17 public corporations, to privatize 45, and to reorganize 38 into 36 independent administrative institutions.
- During the previous session of the Diet, a series of bills were enacted to transform the Postal Services Agency into a government-run corporation. The new laws also open the way to private-sector participation in postal services.

### 3. Reform of the Financial Sector

#### Disposal of Non-Performing Loans

- Regarding the disposal of non-performing loans, removal from balance sheets will be **accelerated** in line with specific goals (as a rule, 50% disposal within one year, 80% within two years). The problem of non-performing loans will be **normalized by FY 2004**.
- The following measures have already been implemented, and will continue to be implemented.
  - **Special inspections** focusing on specific debtors who may have a serious impact on the sound management of banks have been carried out and the results were published.
  - The purchase of non-performing loans by the Resolution and Collection Corporation (RCC) has been promoted with the establishment of **the Credit Purchasing Promotion Headquarter**.
  - **The Japan Recovery Fund**, established by private banks and the Development Bank of Japan, has been used to promote the resolution of the problem of non-performing loans through equity investment in debtors experiencing temporary difficulties due to debt but with good prospects for profitability.
  - The competitiveness and profitability of financial institutions have been improved by **promoting the merger** of regional banks and other financial institutions. (Since the start of the Koizumi Cabinet, the total number of financial institutions has been **reduced by 112**, including three major banks. As of July 15, a total of 698 financial institutions were in operation.)
  - **A medium-term vision for buttressing the financial system** will be promptly formulated. The vision will contain provisions for strengthening the business foundations of the financial industry and for facilitating the flow of funds to soundly managed small- and medium-sized enterprises.

### 4. Revitalization of the Private Sector

#### Deregulation Areas

- To promote regulatory reform in fields where progress has been slow, **“Deregulation Areas”** (Special Area for Structural Reform) will be introduced in response to local initiative. Such areas will serve as testing grounds for regulatory reform tailored to local and regional needs. **A special task force**

was formed under the Cabinet Secretariat to promote the steady implementation of such initiatives.

#### Other Forms of Deregulation

- Deregulation will be promoted to encourage the creation of new industries and businesses. The following measures will be taken to promote the review of government-regulated markets: examination of the entry of stock companies into the fields of medical services (hospitals), welfare (special-care hospitals for the elderly, care houses), and education (schools); examination of the transfer of businesses from the public sector to private enterprises (covering 64 business areas, including water and sewerage, and local gas businesses).

#### Innovation and Human Resources

- The promotion of continuous innovation and the full and unfettered expression of “human capacity” are indispensable elements in Japan’s economic rebirth and revitalization. Decisions have already been made for the abolition and incorporation of the national university system, which has over a century of history from 1877. Rapid action will now be taken toward fundamental university reform.
- Japan will aim to become the world’s most advanced IT society. (In Japan, 53.1 million people, or one in every two persons, are Internet users, which makes Japan the country with the third largest user population after the United States and China. Broadband is expected to rapidly gain market penetration, rising from 8% in FY 2001 to 66% in FY 2005.) The Commercial Law has been revised, allowing shareholders’ general meetings to be held using the Internet and other IT. A total of 318 specific measures will be implemented under the “e-Japan 2002 Program”, including connecting all classrooms to the Internet and launching of electronic bidding for all public works projects under the jurisdiction of the national government in FY 2003.
- Japan will endeavor to become a nation built on the platform of scientific and technological creativity. Priority will be assigned to strategic research in state-of-the-art areas such as the application of genetic information to medicine, and the application of nanotechnology to materials development.

#### Urban Renaissance

- Measures have been taken to incorporate private-sector creativity and initiative in city planning, and 17 special areas have been selected for

**priority urban redevelopment.** Systems for directing private-sector capabilities toward urban areas are being steadily reinforced by accelerating the revitalization and the building of foundations for development of the three major metropolitan areas. For example, the Akihabara district, which aims to become a global center for IT-related industries, and the areas along major streets in Tomihisa-cho, Shinjuku, for which development was suspended during the bubble economy years, will be redeveloped as part of this program.

### Agriculture

- Uniform and across-the-board policies covering all segments of the agricultural population will be reexamined. A transition will be made to a new framework of concentrating government support measures on highly motivated and capable farmers. **Current systems for the production adjustment and the distribution of rice** will be reexamined. Directions for the reform of rice cultivation-related measures, including income-stabilization programs, will be determined, and **the structural reform of rice and wetland agriculture** will be accelerated.