

Basic Policy on Economic and Fiscal Management and Reform, 2017

- Increasing productivity through investment in human resources -

Overview

June 9, 2017

Cabinet Office

1. Current situation and challenges of the Japanese economy

(1) The current situation of the Japanese economy and government initiatives to realize a Society in Which All Citizens are Dynamically Engaged

- Thanks to four and a half years of Abenomics, the nominal GDP is at a record high level. Employment conditions, which closely relate to people's lives, have significantly improved. Wages maintain their rising trend.
- Ensure that the positive economic cycle created by Abenomics does not end up as a temporary phenomenon but develops into a virtuous cycle of growth and distribution, where wealth generated by growth is widely shared by the citizens by continuously promoting the “New three arrows” in an integrated manner, which consist of the realization of a 600 trillion yen economy, the desirable birthrate of 1.8, and no one forced to leave their jobs for nursing care.

(2) Realization of the virtuous cycle of growth and distribution through work style reform

- The Japanese economy faces challenges including low growth potential, sluggish consumption due to concerns regarding the future, and decreasing vitality of the middle class. Tackling these challenges provides an opportunity to promote structural reform. Take this opportunity to improve the quality of human capital and raise growth potential.
- Work Style reform is the pillar of the “third arrow” of structural reform as it helps raise Japan's growth potential. Work Style reform also helps establish the virtuous cycle of growth and distribution by increasing productivity and distributing the fruit to the workers.

(3) Increasing productivity through investment in human resources

- The declining population, falling birthrate and aging population should be seen as an opportunity for innovation. Overcome the mid- and long-term challenges confronting Japan by putting “Increasing productivity through investment in human resources” at the center of the reform efforts.

Chapter I Current situation, challenges and policies for the Japanese economy

(4) Regional revitalization

- Raise the average income in the regions and ensure growth potential for the future by promoting measures to increase local productivity through investment in human resources.

(5) Boosting consumption and private investment

- Boost consumption by increasing disposable income, dispelling concerns regarding the future, making effective use of assets, and actualizing potential demand. Raise growth potential and stimulate investment through measures to realize a society in which people can be active through their entire lives and Society 5.0.

2. Reconstruction from the Great East Japan Earthquake, etc.

(1) Reconstruction and revitalization after the Great East Japan Earthquake

- The objective during the “Reconstruction and Revitalization Period (FY 2016 to FY 2020)” is to realize reconstruction that will lead to the self-reliance of the affected areas and serve as a model for regional revitalization.
- Steadily implement measures for the reconstruction and revitalization of the areas affected by the nuclear disaster, based on the “Basic Policy for Accelerating Fukushima’s Reconstruction from the Nuclear Disaster”, etc. Since the reconstruction and revitalization of Fukushima requires mid- and long-term efforts, the central government continues to take the lead after the Reconstruction and Revitalization Period.

(2) Responses to the Kumamoto Earthquakes

- The government, deeply connected to the pain of each victim, continues concerted efforts for rebuilding lives, reviving livelihoods, and reconstructing the affected areas as soon as possible, by using the supplementary budget for FY 2016 and the budget for FY 2017.

Chapter II Priority issues for the expansion of a virtuous cycle of growth and distribution and for mid- to long-term development

1. The realization of a society whose citizens play active roles throughout their lives through work style reform and investment in human resources

(1) Work Style reform

- Promote Work Style reform honestly in accordance with “The “Action Plan for the Realization of Work Style Reform””.
- Improve the working conditions of non-regular workers, such as by equal pay for equal work.
- Introduce a regulatory limit on overtime work that cannot be exceeded even under the so-called Article 36.
- Revise guidelines for tele work. Promote side jobs/multiple jobs while ensuring worker’s health at the same time.
- Establish a triangle-shaped support system for supports of balancing medical treatments and works. To support employment for disabled people, facilitate working at their own homes.
- For the further acceptance of high-level foreign workers, provide a better working and living environment and promote matching supports.
- Support career change/reemployment opportunities to industries with the capacity to absorb a large amount of employment.
- Support empowerment of young people and employment of the elderly.

(2) Human resource investment and education

- In order to quickly realize free preschool education/nurseries and to eliminate childcare waiting lists, consider how to proceed to secure stable financial resources including promotion of fiscal efficiency, taxes and new social insurance system, and reach a conclusion by the end of the year. Also hold urgent discussions on how to implement reforms to drastically strengthen investment in human resources across the entire society including higher education.
- Shorten the working hours of teachers as soon as possible through proper working hour management and efficiency/selection of tasks, enhancing the instruction/administration framework of schools, and improved treatment based on actual working conditions, and prepare an emergency plan by the end of the year.
- Improve the quality of university education. Start discussions to develop a framework that can promote the organizational restructuring of universities.
- Provide well-developed recurrent education to help women who intend to go back to work or want to be re-employed as well as working adults who want to study again.

Chapter II Priority issues for the expansion of a virtuous cycle of growth and distribution and for mid- to long-term development

(3) Measures to address the falling birthrate, support for children and child-raising

- Conduct measures while ensuring stable financial resources, based on the Child-Raising Plan.
- Expand the child-raising support system that seamlessly covers from the maternity period to the child-raising period.

(4) Promotion of women's participation and advancement in the workplace

- Thoroughly visualize and promote the use of information on women's active participation in each country by revising the system for publicizing data such as working hours, and promote female leaders training and changing men's awareness and lifestyles.

2. Acceleration of growth strategies, etc.

(1) Initiatives aiming at the realization of Society 5.0

- Intensively invest policy resources in five strategic areas consisting of extending healthy lifetimes, realizing mobility evolution, developing the next-generation supply chain, making comfortable infrastructures and towns, and FinTech.
- Enhance our common base for creating values by creating a regulatory "Sand Box" system, the active use of various data, smooth human resource investment and labor mobility, unified promotion of regulatory reform/simplified administrative procedures/IT, and establishing an ecosystem for innovative venture businesses.

(2) Measures to improve productivity

- Develop the national movement to improve productivity led by the "Council on the Promotion of the National Movement to Improve Productivity" which takes the initiative of disseminating the know-how behind improving labor productivity to Small- and Medium-Sized enterprises (SMEs) nationwide. At the same time, support local SMEs and service industries that seek to improve productivity.
- Strengthen corporate governance reform which enables business companies to invest their profits in R&D, capital expenditure, and human resources.

Chapter II Priority issues for the expansion of a virtuous cycle of growth and distribution and for mid- to long-term development

(3) Encouragement of investment

- Steadily prepare for making the “PRISM (Public/Private R&D Investment Strategic Expansion Program)” by using the “Public-Private Investment Promotion Fund for Science and Technology Innovation (tentative name)”. Promote R&D in cooperation between the public and private sectors pursuant to the “Fifth Science and Technology Basic Plan”, and strengthen the basic science and technology powers, and promote open innovation and strengthen the function. Ensure the necessary budget size that enables the government to make R&D investments equivalent to 1% of GDP.
- Reduce the burdens associated with regulations and administrative procedures on foreign companies to promote foreign direct investment in Japan, and have JETRO disseminate more information in foreign languages and improve consultation services.

(4) Promotion of regulatory reform

- Promote fulfilment of the “Implementation Plan for Regulatory Reform”, realization of the “National Strategic Special Zones”, and cost-reduction of administrative procedures.

(5) Generation and expansion of new markets which promise growth

- Conduct various policies to establish a Cultural/Artistic Nation and a Sports Nation, and promote clean and attractive "Japanese IR" (Integrated Resort) development.

(6) Strengthening of partnerships with overseas growth markets

- Closely collaborate with other participants and lead discussions on how to bring about the early realization of the Trans-Pacific Partnership (TPP) Agreement. Advance the Japan-U.S. Economic Dialogue as agreed between the leaders of Japan and the U.S. Seek to reach an agreement in principle on the Japan EU Economic Partnership Agreement (EPA) as early as possible.
- Implement the Cool Japan Strategy to create, disseminate, and explore the unique attractions of Japan while encouraging exports and tourism.

Chapter II Priority issues for the expansion of a virtuous cycle of growth and distribution and for mid- to long-term development

3. Revitalization of consumption

(1) Increasing disposable income

- Turn the highest-level corporate earnings into continuous increase of wages in order to expand consumption. Create an environment where SMEs can easily increase wages.

(2) Boosting new demand

- Boost demand in the health and preventive fields, revitalize tourism and travel consumption, launch Kids Week, take the initiative in preparation for hosting the 2020 Tokyo Olympic and Paralympic Games, encourage the use of Premium Fridays, and effectively use stocks.

4. Regional reinvigoration, support for small and medium enterprises and small-scale entrepreneurs

(1) Regional reinvigoration

- Develop various new measures for regional reinvigoration based on “Overall Strategy on Vitalizing Local Economies(revised in 2016)” and “Basic Policy for Overcoming Population Decline and Vitalizing Local Economies 2017” to improve local productivity and mitigate overconcentration in Tokyo through investments in local human resources.

(2) Aggressive development of agriculture, forestry, and fisheries

- To increase farmers' income, it is necessary to develop an environment which allows farmers to take free business actions, and, at the same time, to solve the structural problems, which farmers cannot solve by their own efforts.
- Further accelerate competitiveness by declining the price of production materials, reform the structure of distribution and processing, strategic promotion of GAP/HACCP, and ensure food safety.

Chapter II Priority issues for the expansion of a virtuous cycle of growth and distribution and for mid- to long-term development

(3) Support for SMEs and microenterprises

- The government will take a wide variety of measures for SMEs and microenterprises, who play major roles in regional economies, to strengthen their businesses and continue to lead regional economies.

(4) Regional revitalization

- Conduct the regional economic circulation business, and promote use of the My Number Card to expand local consumption. Develop an environment for settlement in depopulated/geographically-disadvantaged areas, and promote the maintenance/revitalization of local communities and resettlement/exchange. Increase the flow of people and goods through early development and utilization of broad-area express transportation networks. Proceed with a National Spatial Strategy that aims to promote national land development led by active interactions.
- Continue its national strategy to proactively implement a comprehensive package of measures to promote the development of Okinawa as a driving force in stimulating the Japanese economy, utilizing the advantages and potential of Okinawa.
- Steadily implement decentralization reform, adhering to the basic policy of deciding how proposals from local governments should be materialized. Strengthen the dissemination of excellent practices and the publication of information on the results of the reform to the public.
- In large cities, flexibly developing and using existing urban infrastructure, promote private urban development projects to develop an environment suitable for international business and living, and to improve disaster resilience.

(5) National resilience, disaster control, and public investment prioritized to enhance growth potential

- Steadily proceed with the “Fundamental Plan for National Resilience” and the “Action Plan for National Resilience 2017”, prevent and mitigate disaster damage including the use, research, and human resource development in the area of Information and Communication Technology (ICT), and establish infrastructure which can contribute to improving productivity in a systematic manner.

Chapter II Priority issues for the expansion of a virtuous cycle of growth and distribution and for mid- to long-term development

5. Securing the foundations of a safe and secure life and economic society

(1) Diplomacy and security

- Work together with countries sharing universal values such as freedom, democracy, fundamental human rights, and rule of law in order to take the lead in promoting peace and prosperity in international community. In circumstances where a tendency toward protectionism and the inward-looking sentiment is growing, play a leading role in international community to spread these universal values and a high level of free and fair trade and investment rules worldwide.
- Based on the increasingly severe national security environment, promote strategic and systematic policies.

(2) Public order and consumer affairs

- Take various actions against crime and for preventing criminal recidivism and promote measures in the area of justice and consumer affairs.

(3) Initiatives for the creation of a society based on mutual assistance and peaceful coexistence

- Create an active mutually assisted society by recognizing social performance (impact), using private funds, and NPO activities. Establish a basic policy for using dormant deposits.

(4) Resources and energy

- Promote energy saving in all fields and introduce renewable energy as much as possible while reducing burdens on the Japanese people. Take measures to realize a hydrogen energy based society and the local production/local consumption of energy.
- To secure natural resources, make efforts to acquire interests, expand the Asian LNG market, develop domestic resources, and strengthen/maintain the domestic oil and LP gas supply chain.

Chapter II Priority issues for the expansion of a virtuous cycle of growth and distribution and for mid- to long-term development

(5) Contribution to the global environment

- Under the Paris Agreement, make full contribution to global reduction of greenhouse gas emissions, and promote the “Global Warming Prevention Plan” and the “National Plan for Adaptation to the Impacts of Climate Change” for further economic growth in Japan.
- Promote efforts for the development of local communities oriented toward recycling and coexistence.

(6) Promotion of statistics reforms

- Integrally promote evidence-based policymaking (EBPM) and statistics reform.

Chapter III Progress towards and promotion of reform for economic and financial integration

1. Steady promotion of reform for economic and financial integration

- Under the basic policy “Without economic revitalization, there can be no fiscal consolidation”, continue to make efforts to achieve both the target of a 600 trillion yen economy and the fiscal consolidation targets of FY 2020. In FY 2018, the last FY of “the Intensive Reform Period” in the “Plan to Advance Economic and Fiscal Revitalization”, continuously efforts to improve spending and revenues will be promoted under the Plan.
- Enhance the quality of human resource capital and increase the potential growth rate. For this purpose, improve the productivity of the economy and society through the enforcement of human resource investment and R&D investment with enhancing the sustainability of social security.

2. Cross-cutting issues for reform

(1) Promotion of “Visualization”, nationwide dissemination of advanced and excellent practices, and wise spending

- Expand “visualization” with more comparability to promote factor analysis and solution exploration of regional disparities in economy, public finance, and living standards, leading to common understanding of issues and behavioral changes among people concerned.
- To accelerate dissemination of advanced and excellent practices of public service reform, ensure progress management based on specified process flows and outcome-oriented KPIs, enhance comparability among practices of local public organizations, and support locally-led initiatives.
- Strengthen the framework for wise spending, prioritize measures through discussions at the Council on Economic and Fiscal Policy, and fully use the results of analysis and evaluations of policy effectiveness based on the data.

(2) Promotion of Evidence Based Policy Making through the preparation of data platforms

- Establish PDCA cycles for policies based on objective evidence by making a standardized comprehensive data platform in each field.
- Promote accumulation and use of data in each field such as medical/nursing care, social capital, science and technology, and education.

Chapter III Progress towards and promotion of reform for economic and financial integration

(3) Formulation and implementation of an outlook for the future

- Aiming at encouraging local governments to carry out well-planned measures in the policy areas such as social security reform, and restructuring/integration and measures against aging of public facilities, make efforts to further “visualize” demands and costs including consideration of their future outlook. Specify KPIs and a progress schedule for the implementation and realization of a long-term plan for land development, and promote cross-cutting initiatives across the entire government through evidence-based PDCA cycles.

3. Reform initiatives in each key area

(1) Social security

- Steadily undertake 44 reforms set out in the “Plan to Advance Economic and Fiscal Revitalization” according to the reform progress schedule.
- To realize the community health care vision, promote specific discussions at the “Coordination Committee for health care vision” in each area. Consistently develop medical care plan and a nursing care insurance business plan by prefectures.
- Raise incentives for the national health service.
- Take actions to optimize medical costs such as reduction of regional gap in medical costs by half.
- To promote health and disease prevention, establish a database, enhance incentives, promote health management, and disseminate best practices nationwide.
- Consider financial incentives to strengthen the functions of nursing care insurers.
- Conduct a full reform of the National Health Insurance drug price system pursuant to the “Basic Policy on complete reform of the National Health Insurance drug price system”. For the drug prescription fees, properly evaluate the tasks with goods and consider an evaluation system that focuses on tasks that include people. Aim to achieve a generic drugs usage ratio of 80% by September 2020.
- For medical services provided at the terminal stage, disseminate information and raise awareness, establish collaboration between people concerned, develop human resources, and disseminate advanced case examples nationwide.
- Consider revising the public assistance system and the self-reliance of the needy.

Chapter III Progress towards and promotion of reform for economic and financial integration

(2) Social Infrastructure development

- To promote the “Compact Plus Network”, facilitate collaboration between urban/town development and various political measures of different areas, and prioritize support measures across Ministries and Agencies.
- Explore “Visualization” and best practices nationwide to provide appropriate public capital stock and realize smart infrastructure management.
- Make a cross-agency discussion to facilitate proper utilization and management of lands without a readily-identifiable owner, and promote appropriate measures. Promote the distribution and use of vacant houses and unutilized lands supported by public-private cooperation.
- In accordance with the “Future Investment Strategy 2017” and the “Action Plan for Promoting PPP/PFI (revised in FY 2017)”, strongly promote the utilization of various PPP/PFI such as adoption of concessions.
- To develop social capital strategically, further focus on development projects with strong stock effects, and improve the investment effectiveness of social capital.

(3) Local public administration and finance, etc.

- Under the “Plan to Advance Economic and Fiscal Revitalization”, make efforts toward an economic revitalization and fiscal consolidation both at the national and local level, and steadily proceed all reform items in accordance with the reform schedule. Facilitate the structural reforms of local administration and finance with an eye on the 2020s, and consider more efficient allocation of fiscal funds.
- Promote reform of local governments’ administration and finance through “visualization” and understanding of the actual situations regarding nonsubsidized services of local governments, including situations of regional disparities in the level of administrative services and the reserve funds held by local governments.
- Strengthen support for expanding the coverage areas of local public corporations. Clarify how to use the amount of local allocation tax affected by the Top Runner program and how to handle such amounts under the Fiscal Plan of Local Governments.
- Steadily promote the provision of wider-area/joint public services, with the consideration of the actual conditions of each local public body. Encourage adoption of outsourcing of counter services through the “Operation Reform Model Projects”.
- Based on the “Declaration to be the World's Most Advanced IT Nation - Basic Plan for the Advancement of Utilizing Public and Private Sector Data”, etc., steadily reform the operations and information systems of the national and local governments through measures such as expanding the use of My Number for other purposes, accelerating the dissemination of the My Number Card, introducing a cloud system to local public bodies, and promoting on-line administrative procedures.

(4) Education, science and technology

- Conduct various reforms based on an effective budget assuming a declining birth rate, the introduction of private funds, better quality and more focused budgeting, and the full implementation of evidence-based PDCA.

(5) Reforming revenue measures, and compression of assets and liabilities

- As the structures of the economy and society have been drastically changing, continue to proceed with a comprehensive overhaul the entire tax system. With the rapid development of globalization and ICT (Information and Communication Technology), improve convenience for taxpayers in the national and local level, and strengthen measures of both institution and execution in order to realize proper and fair taxation and to ensure credibility of the tax system.
- Promote effective utilization of assets owned by national and local governments in cooperation with local governments and sell unnecessary assets in accordance with the national policy to realize a Society Promoting the Dynamic Engagement of All Citizens.

Chapter IV Short-term principles in economic and fiscal management and guiding principles in budget formulation for FY 2018

1. The current state of the economy, forthcoming trends, and ways of thinking about immediate economic and financial management

- While focusing on improving productivity through human resource investment and returning the fruits of such actions to the Japanese people, promote R&D investment, expand disposable incomes, reform work style, prepare an environment for better childcare and nursing, establishing a system that enables children in poor households to receive higher education.
- Expect the Bank of Japan to realize its inflation target of 2% in consideration of the economic and price conditions.

2. Guiding principles in compiling the budget for FY2018

(1) Steady implementation of the “Plan to Advance Economic and Fiscal Revitalization”

- The government will accelerate the Integrated Economic and Fiscal Reforms in line with the Plan to Advance Economic and Fiscal Revitalization, the Economic and Fiscal Revitalization Action Program, and the reform time schedule.
- With the importance of the “fiscal consolidation targets” set in the “Plan to Advance Economic and Fiscal Revitalization” unchanged, aim to achieve a primary surplus by FY 2020, and at the same time steadily reduce the public debt to GDP ratio. For this purpose, under the policy “Without economic revitalization, there can be no fiscal consolidation”, we need to steadily proceed with the “Three reforms” consisting of overcoming deflation/economic revitalization, and expenditure reform/revenue reform.

(2) Guiding principles in budget formulations for FY 2018

- For formulating a budget for FY2018, the following measures will be promoted intensively:
 - i. The Council on Economic and Fiscal Policy will strengthen the progress management, check and assessment of the reforms and further proceed with collecting more evidence, based on the perspective of Evidence Based Policymaking(EBPM), reflecting the result of discussions and examinations into the budget formulation.
 - ii. The government will expand investment in human resource and R&D, based on the importance to improve productivity of economy and society through human resource investment for realizing medium- and long-term growth, as well as enhance the sustainability of social security.
 - iii. The government will steadily implement reforms in each major policy area, described in Chapter 3, in line with the reform time schedule as well as promote measures of ensuring and expanding “visualization,” spreading advanced and excellent practices across the country, and wise spending.
 - iv. In other areas, the government will also eliminate waste in budgeting and allocate more money to really necessary measures based on strict prioritization.