

Provisional translation by Cabinet Office

Basic Policies for Economic and Fiscal Management and Reform
- Ending Deflation and Revitalizing the Economy -

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Chapter 1: Policies to end deflation and revitalize the Japanese economy; economic and social vision that Japan should pursue

1. Twenty years of stagnation

(Low growth and deflation)

Over the past 20 years or so, since the critical turning point of the bursting of the economic bubble at the start of the 1990s, Japan's economy generally has resigned itself to low economic growth. Over this period Japan's real gross domestic product (real GDP)¹ grew by just 0.8%, while its nominal GDP shrunk by 0.2%² and real gross national income (real GNI)³, which indicates the size of the Japanese people's real purchasing power, also showed a low rate of growth at just 0.6%, for the lowest performance among OECD states. Furthermore, in this process of low growth Japan's economy experienced its first deflation in the postwar period — an exceptional experience even when viewed in a worldwide context — so that many of its citizens could no longer truly feel a high standard of living.

In particular, the credit crunch and dulling of growth in the global economy that resulted from the economic shock occasioned by the collapse of Lehman Brothers in the second half of 2008 and the subsequent European government debt crisis had a major impact on the Japanese economy. While countries in Europe and North America carried out aggressive monetary relaxation policies, shrinking the difference between domestic and overseas interest rates, Japan remained unable to break free from deflation, as the nation faced concerns about a vicious circle of a high value of the yen on international currency markets and deflation, and the so-called hollowing out of industry advanced as well.

(Structural problems)

This worsening of macroeconomic (business) conditions also worsened microeconomic (structural) conditions, leading stagnation to continue over a long period of time. That is, the lengthy economic downturn and deflation had negative effects on the basic soundness of the Japanese economy, for example by shrinking appetite for investment in equipment, research and development (R&D), and even human resources as well as shrinking the appetite for starting up new businesses and entrepreneurship. In addition, Japan was slower than it should have been in responding to structural changes having major impacts on the economy, such as low birth rates and an ageing population, the rise of emerging markets and accompanying changes in the structure of comparative advantages, and technological innovations including the shift to information technology (IT).

¹ Gross domestic product (GDP) is the sum total of the value added on all products and services produced in a country over a period of time.

² In national economic accounting, "real" values are assessed using prices as of a base point in time (eliminating the effects of price fluctuations). "Nominal" values are assessed at current prices as of the point in time a transaction takes place in the market.

³ Gross national income (GNI) is the sum total of income (e.g., employment income, property income, and business income) received by residents of a country over a period of time.

For example, as competition with emerging markets and other players intensified, Japan's responses, in areas such as industrial reorganization, were slow, and it proved unable to shift to product prices the rising costs to companies resulting from rising costs of fuel and raw materials, as a result keeping down the income Japanese people received (wages and returns).

Furthermore, Japan also has not sufficiently moved forward with addressing vulnerabilities in the market economy, such as the financial and currency crises occurring repeatedly around the world in response to the globalization of financial and capital markets. In addition, under conditions of globalization innovations can completely change the market environment in just a short time, and companies are forced to adopt a selective approach to countries and regions, so that competition between countries on their institutions is intensifying. To Japan, which is experiencing an ageing of society and population decreases and relies on imports for resources and food, an urgent issue is how to create new value while responding to globalization.

A new issue in recent years, resulting from the 2011 Great East Japan Earthquake and nuclear accident, is how to respond to the structural problems of vulnerabilities in the land and production infrastructure and energy constraints, including efforts toward acceleration of recovery in affected areas.

(Policy responses)

A review of macroeconomic policies over this period shows that the Japanese government carried out a succession of policy responses including stimulative measures and policies to promote write-off of bad loans by financial institutions, while the Bank of Japan also took measures such as quantitative easing and a zero-interest-rate policy. However, although the economy did recover temporarily in response to these measures, the economic recovery stalled in response to developments such as a massive economic downturn overseas while policies in Japan were switching. As a result, it was unable to break free from low growth and deflation. Under such conditions, expectations among the public and the markets for low growth and continued deflation gradually became entrenched, and this served as a further constraint on the real economy. Over this period, Japan's public finances saw continued deficits due to factors including the sluggish economy and the progressive ageing of the population, as its balance of debts reached a very high level.

(Responding to the 20 years of stagnation)

Based on this experience of 20 years of stagnation, Japan needs to address the following issues: First, it needs to end the lengthy deflation and sluggish economy. Second, the government, private-sector businesses, and each member of the public need to take on proactively various structural issues such as those mentioned above that have not been taken on sufficiently over this period. The third issue concerns recovering Japan's readiness by building sustainable finances and social insurance as a foundation to support growth in the Japanese economy and Japan's ageing society. Through resolving these issues, Japan will realize the economic and social vision that it should pursue, as described below.

2. Basic strategy for overcoming deflation and moving toward a new decade of revival

The Abe administration will advance a “three-arrows” strategy (so-called Abenomics), whose components work to complement each other, consisting of “aggressive monetary policy,” “flexible fiscal policy,” and the “growth strategy that promotes private investment” to stimulate private investment, in an integrated manner and to a different extent from the past in both its scope and its reach.

To put an end to the lengthy deflation and sluggish economy that is the top-priority issue at the present time, there is a need for responses that differ from past efforts in both quality and quantity, based on reflecting on the 20 years of stagnation. Starting immediately after it took office, the Abe administration moved to implement the first arrow of this strategy, aggressive monetary policy, and the second arrow, flexible fiscal policy. Now, it has put together the “Growth Strategy”⁴ as the third arrow of this strategy, to proactively take on structural issues such as those described above. The basic strategies toward realization of a new decade of revival are outlined below.

(1) Aggressive monetary policy (the first arrow of the “three-arrows” strategy)

On January 22 of this year, the government and the BOJ issued a joint statement⁵ clearly describing matters such as strengthening of policy coordination to overcome deflation and realize sustainable growth under conditions of price stability and the individual efforts of each of them. In this statement, the BOJ for the first time clearly committed to set the price stability target of 2% in terms of the year-on-year rate of change in the consumer price index and stated that it would aim to achieve this target at the earliest possible.

Furthermore, the first Monetary Policy Meeting under the new governor and deputy governors of the BOJ held on April 4 decided to introduce “Quantitative and Qualitative Monetary Easing”. It aims to realize the price stability target of 2% inflation at the earliest possible time, with a time horizon of about two years and includes such policy as to double the monetary base in two years.⁶

This regime change in monetary policy is changing the deflationary expectations of the markets, which had remained unchanged for nearly 20 years, and is beginning to have a positive effect on the real economy as well. Furthermore, it is expected that overcoming deflationary expectations will lead to the full demonstration of the demand-creation effects of flexible fiscal policy and the effects of the growth strategy of stimulating private investment.

Japan will move forward toward overcoming deflation early and sustainable economic growth through a combination of efforts including steady implementing of qualitative and quantitative easing by the BOJ and efforts such as flexible

⁴ “Japan Revitalization Strategy” (June 14, 2013 Cabinet decision)

⁵ “Joint Statement of the Government and the Bank of Japan on Overcoming Deflation and Achieving Sustainable Economic Growth” (“Joint Statement,” January 22, 2013, Cabinet Office/Ministry of Finance/Bank of Japan)

⁶ “Introduction of the ‘Quantitative and Qualitative Monetary Easing’” (April 4, 2013, Bank of Japan)

macroeconomic policy and efforts to strengthen Japan's growth potential by the government.

In accordance with the joint statement by the government and the BOJ, the Council on Economic and Fiscal Policy will, in principle, verify on a quarterly basis matters such as the state of macroeconomic fiscal management, including monetary policy, the current state of prices under such conditions and future prospects for them, in light of the price stability target, economic and fiscal conditions including the employment situation, and the state of structural reform efforts targeting the economy.

(2) Flexible fiscal policy (the second arrow of the “three-arrows” strategy)

On January 11 of this year, the government decided the Emergency Economic Measures for the Revitalization of the Japanese Economy,⁷ intended to avoid a recession and paving the way to the growth strategy. The government also decided the supplementary budget for fiscal 2012 giving concrete form to the Measures. This budget is the largest ever (excluding the emergency situation immediately after the economic shock triggered by the Lehman Brothers collapse) at JPY13 trillion, and the Measures are based on the concept of a 15-month budget combined with the initial budget for fiscal 2013. Also, on May 15 the budget for fiscal 2013 was passed through the Diet, also focused on policies to revitalize the Japanese economy and enhance security of life.

Each project in the supplementary budget for fiscal 2012 based on the Emergency Economic Measures is proceeding smoothly and having important positive effects on the economic recovery. The Government plans to continue efforts to implement measures quickly and ensure wide-ranging permeation of their effects, and to steadily implement the fiscal 2013 budget. It is expected that as a result such efforts, effects of the Measures will be felt realized including in rural regions beginning this summer.

(3) The growth strategy that promotes private investment (the third arrow of the “three-arrows” strategy)

In order for Japan's economy to achieve more than a recovery and continue stable, long-term growth after that, it is essential to strengthen Japan's growth potential by implementing a growth strategy that promotes private investment and increasing labor productivity, while also bringing to the surface potential domestic and overseas demand. Also, to enable each and every member of the public to feel a sense of fulfillment there is a need to increase the purchasing power of the public and to revitalize regional economies to ensure the fruits of growth reach every corner of the country.

Improvements in macroeconomic conditions resulting from the first and second arrows of the strategy will encourage strong resolve on the part of enterprises and greatly propel the growth strategy forward. Also, propelling the growth strategy forward will advance efforts to address structural problems and bring about

⁷ “Emergency Economic Measures for the Revitalization of the Japanese Economy” (January 11, 2013 Cabinet decision)

sustained improvements in macroeconomic conditions. The impetus resulting from integrating into one the components of the “three-arrows” strategy so that they work to complement each other is the main difference between this and past growth strategies. In addition, generally speaking the problems of nonperforming loans at financial institutions and excess equipment and excess debt at enterprises, which have been major factors limiting growth over the past 20 years or so, are being resolved. This too is a major force supporting new growth.

Based on past experience with economic stagnation, it is essential that the growth strategy increase growth potential and realize growth accompanied by increases in real income, through means including (i) using market functions to draw out the power of the private sector and increasing labor productivity through expansion of private investment, use and training of human resources, and promoting innovation; (ii) creating new demand through being one of the first countries in the developed world to resolve the new issues developed countries face; and (iii) putting globalization to use in developing an environment in which people, goods, and money can come and go freely.

Based on the above understanding of the issues, the Abe administration’s Growth Strategy must be advanced quickly, giving concrete form to its philosophies of tackling difficult challenges, openness, and innovation. The government will make a strong commitment to steadily implementing the growth strategy over the long term, enabling individuals and enterprises to actively take part in risky investments, startups, and other activities. In addition, together with identifying key performance indicators (KPIs)⁸ that should be achieved in each field of policy and establishing a schedule, it will make responsibilities clear and advance the Growth Strategy swiftly and powerfully, with the entire government working together as one unit.

(4) Spreading benefits from the enterprise to the household, and increasing employment and income

While full-time employment has been in a decreasing trend since the second half of the 1990s under conditions of lengthy deflation and low growth, atypical employment has increased. This and other factors have led to a decreasing trend in employees’ incomes. As seen, for example, in the fact that the average annual real income of a worker household has decreased by more than JPY200,000 over the past decade,⁹ the environment for household finances is a very tough one.

In this year’s annual spring wage offensive, thanks in part to government demands companies decided to raise employee pay, chiefly at companies whose business performance had improved. Companies’ business performance improved in the fiscal year ended March 2013 in response to factors including exchange-rate trends, a steady economic rally, and improving business performance overseas. Further improvement is expected in the year ending March 2014. It is expected that such improvements in corporate business

⁸ Target outcomes that should be achieved by each group of policies

⁹ Based on comparison of 2002 and 2012 findings of the “Family Income and Expenditure Survey.” Worker households include workers in atypical employment.

performance will lead quickly to wage increases and growth in employment, and that these will in turn lead to an end to deflation.

With inflation expected in the future, if wages and household income do not increase then the economy might stall as growth in consumption, the driving force of the economic recovery, loses momentum. There is a need to realize, through promoting the “three-arrows” strategy, a steady recovery and economic growth and then to realize a positive cycle of improved corporate earnings, growth in domestic investment, shifting of labor to sectors with high productivity, rising wages and increasing employment, and furthermore growth in consumption. To take on such issues comprehensively, it will be important to start up the above positive cycle through coordination and solidarity between government, management, and workers, as each fulfills its own role.

In addition, as mentioned above over the last 10 years the incomes earned by Japanese people have been kept down by the inability to cover rising import costs with product prices. Over 10 years, the resulting amount has risen to JPY26 trillion.¹⁰ Promoting the Growth Strategy will increase the rate of growth in real gross national income (real GNI) through results including enhancing bargaining strength on prices through means such as conservation of energy and other resources on which Japan depends on imports and diversification of sources, together with putting globalization to use to increase the competitive strength of enterprises and building a market structure in which it is possible to cover rising costs using product prices.

(5) A positive cycle of economic revitalization and fiscal consolidation

Japan’s fiscal situation has continued to worsen as a result of factors including growing social security costs due to the rapid ageing of society and the economic downturn in response to the economic shock that followed the collapse of Lehman Brothers and other causes. To realize revitalization of the Japanese economy in the future, it is essential to build sustainable public finances and social security, both to support the growth of Japan’s economy and to serve as the foundation that enables people to live with peace of mind even amid low birth rates and an ageing society.

Furthermore, for the BOJ to advance monetary relaxation smoothly the government needs steadfastly to maintain fiscal discipline, to avoid suspicion of money financing of deficits. In addition, to realize growth led by private-sector demand, it is essential to develop an environment in which more private savings can be devoted toward private investment while eradicating unease among households and enterprises concerning public finances and encourage growth in personal consumption and investment, together with securing trust in government bonds and responding to the risk of rapid increase in long-term interest rates, through fiscal consolidation. From this perspective, the fiscal 2013 budget formed together with the fiscal 2012 revised budget giving concrete form to the strategy’s second arrow of flexible fiscal policy is based on the fiscal consolidation goal. In this way, efforts toward fiscal consolidation are extremely important for the

¹⁰ Change in trading gains/losses from fiscal 2002 to fiscal 2012 (valued using calendar 2005 as the base point in time)

“three-arrows” strategy to demonstrate its effects in a sustained way. Promoting growth also contributes to fiscal consolidation through means including increasing tax revenues.

The goal of these efforts is a positive cycle in which economic revitalization promotes fiscal consolidation and the progress of fiscal consolidation contributes to further progress in economic revitalization.

While it is conceivable that progress will be made toward resolution of the gap between supply and demand as the economic recovery progresses, in economic and fiscal management it is important to shift from using public finances to provide backup support for the economy to growth led by private-sector demand, while also paying sufficient attention to internal and external risk factors.

(6) The macroeconomic vision and roadmap for the new decade of revival

(The macroeconomic vision aimed for through the new decade of revival)

By carrying out efforts such as those described above, Japan will aim to realize the macroeconomic vision outlined below through a new decade of revival.

- Over the medium to long term, Japan aims to achieve an economy in which wage increases exceed the rate of inflation, employment opportunities grow, and the broad general public can enjoy the benefits of economic recovery, through an improvement of 2% or more in labor productivity.
- Over the coming decade (from fiscal 2013 through fiscal 2022), nominal GDP growth of roughly 3% and real GDP growth of roughly 2%, on average, will be realized. The goal will be to achieve even higher growth in the second half of the 2010s. In this way, it is expected that real gross national income (real GNI), an indicator of real buying power, will grow by more than 2% over the medium to long term. Nominal gross national income (nominal GNI) per capita¹¹ is expected to grow by more than 3% over the medium to long term, resulting in an increase of more than JPY1.5 million in 10 years.

(Roadmap to achieving this vision)

– Contemporary economic trends and responses –

The rocketing start following the change of government has led to significant changes in market expectations, so that deflationary expectations are being overcome, and in the real economy as well the economy is in a steady recovering trend centered on private consumption.

For these reasons, the real GDP growth rate in FY 2013 is expected to be around 2.5%, higher than the growth rate of 1.2% in the previous fiscal year. The nominal GDP growth rate is projected to reach around 2.7%, much higher than last year’s 0.3% growth rate.¹² The rate of increase in consumer prices is expected to

¹¹ Nominal gross national income (nominal GNI) per capita is derived by dividing nominal gross national income by total population. See footnote 3 concerning gross national income. See the Reference Material concerning the relationships between indicators.

¹² “Fiscal 2013 Economic Outlook and Basic Stance for Economic and Fiscal Management” (February 28, 2013 Cabinet decision)

undergo a gradually strengthening positive trend starting around the middle of the year.

In fiscal 2013, together with devoting every effort to continuing to promote the “three-arrows” strategy, there will be a need for efforts to increase real wages and grow employment in connection with the economic recovery, so that the effects of the strategy will be felt broadly by the general public. Japan also will respond appropriately to the effects of factors such as trends in financial and capital markets and rising import prices, while taking every precaution.

The increase in the consumption tax rate in fiscal 2014 is expected to have some effect on the economy, such as a decrease in demand following a rush to beat the tax increase,¹³ and there is a need both to implement measures in response, such as expansion of the mortgage tax deduction, and to take care to ensure that the power of private-sector demand to recover strengthens moving toward fiscal 2014. It is expected that through such measures Japan will undergo solid growth, with wages rising and the rate of increase in consumer prices approaching the 2% level.

– Medium- to long-term roadmap –

With regard to the future rate of growth in GDP over the medium to long term, unless the structural limits on growth are addressed there is a high likelihood that the rate would be no more than the same level as actual performance over the past 10 years (real growth of roughly 1%). It is important to increase labor productivity, and the growth strategy will stimulate private investment and strengthen competitiveness. Achieving an increase in wages higher than the inflation rate of 2% will increase consumption, creating a positive cycle of income, expenditure, and production. Increasing employment of women, young people, the elderly, people with disabilities, and other available workers will keep the effects of a decrease in the labor population to a minimum. The goal will be an average real GDP growth rate of roughly 2% over the next 10 years. In addition, while realizing the price stability target of a 2% rate of increase in consumer prices, another aim will be to release a nominal GDP growth rate averaging roughly 3%.¹⁴

In addition to GDP growth, net income from overseas will increase through growth in investment returns and other factors. Together with strengthening export competitiveness through growth in industries in which Japan has comparative advantage through replacement of old industry with new, Japan’s bargaining strength on prices of imports will strengthen through efforts including conservation of energy and other resources and securing interests in overseas resources. It is expected that strengthening such efforts, which improve the terms of trade, will result in medium- to long-term growth of more than 2% in real GNI. Such efforts also will contribute to making the rate of growth in the GDP deflator positive and keeping it that way.

¹³ In accordance with Supplementary Provision 18 of the Act to Amend the Consumption Tax Act, etc., to Make Fundamental Reform of the Tax System for Securing Revenue to Fund the Increased Cost of Social Security (Act No. 68, 2012, “Act for Fundamental Tax Reform” hereinafter), a decision will be made this autumn concerning the increase in the rate of consumption tax, taking into overall consideration economic conditions and other matters.

¹⁴ The rate of increase in the GDP deflator tends to be lower than the rate of increase in consumer prices due to differences in areas such as the scopes of individual statistics.

3. The economic and social vision that Japan should pursue

Realizing a strong Japan and a strong economy will create a country that all Japanese people can be happy and proud to have been born in. This is the vision that Japan should pursue beyond revitalization of the nation's economy.

While a global market environment makes available many possibilities, at times it also includes destructive energy. The making of rule holds the key to make the globalizing world a better one.

At the same time as free competition in open markets, it also is vital to protect the moral principles that value hard work and respect the traditions and cultures of individual countries and regions. Japanese people must pursue a market economy of which they can be proud internationally, by giving concrete form to their ideals while remaining aware of their own identity. Japan actively will take the lead in the making of international rules through opportunities including economic partnership such as the Trans-Pacific Partnership (TPP) and international financial conferences. As a developed country facing new challenges, Japan will aim to grow on its own together with the rest of the world, by generating new models it will share with the global economy and society while maintaining its cultures and traditions as a firm foundation.

Aiming for the economic and social vision outlined below, Japan will realize a strong country, a strong economy, and a high quality of life with safety and security

- An economy and society that guarantee free and fair competition and an open economic environment, equipped with great attractiveness to the rest of the world
 - ⇒ A society in which industries develop with international competitiveness, growth potential, and employment creation potential
 - ⇒ A society in which people, goods, money, and information move freely, with dynamism and senses of speed
 - ⇒ A society in which effort is rewarded and people can take on challenges repeatedly, and one characterized by improvements and learning
 - ⇒ A society that ensures economic security (resources, energy)
- An economy and society that offer everyone opportunities to achieve a high quality of life with safety and security
 - ⇒ A society that secures a high standard of living with a high level of satisfaction, through means including expanding diverse employment opportunities and wage increases corresponding to labor productivity
 - ⇒ A society that realizes a high-quality living environment and standard of living for consumers, in areas including health and longevity; IT; diet; culture, arts, and sports; and safety and security
- An economy and society that include a diversity of players and generate dynamism and innovative ideas
 - ⇒ A society in which each member of the public, including women, young

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people, senior citizens, and people with disabilities, can put his or her abilities and personality to maximum use

⇒ A society nurtured by diverse traditions, cultures, and local resources that provides a true feel for the abundance of each through the dynamism and innovative ideas generated on the ground in communities

• An economy and society that are sustainable in the long term

⇒ A society that enables long-term investment for the future and features market systems that develop human resources and guarantee an economy and society in coexistence with nature

⇒ A society in which motivated stakeholders¹⁵ together contribute to the growth of companies, creation of scientific and technological innovation, and the advancement of regional and international society

⇒ A country that contributes to the creation of rules for overcoming global issues, has the power to lead, and is trusted in the world

⇒ A society that enables low carbon emissions, recycling, and coexistence with nature

⇒ A society equipped with systems to make up for the weaknesses of the market and can respond with flexibility and tenaciousness

To realize a strong Japan and a strong economy, it is essential to earn sufficient understanding of the government's efforts from the public. It also is important to strengthen communication with the world. For this reason, diverse methods, including IT, will be put to effective use in actively publicizing the cabinet's Basic Policies, including the Abe administration's signature policy of "Abenomics," both domestically and internationally, to deepen understanding further.

¹⁵ Parties having an interest in an organization. In the case of a corporation, a variety of parties can be identified as stakeholders, including shareholders, employees, customers, suppliers, and the local community.

Chapter 2: Realizing a strong Japan and a strong economy and ensuring a high quality of life with safety and security

Based on past experience with stagnation as described in Chapter 1, the growth strategy will be given concrete form and promoted in line with the basic design outlined below. Furthermore, efforts such as rebuilding education will be employed to enable all members of the public to improve their abilities and fully exercise their individuality. Recovery from the Great East Japan Earthquake will be accelerated and local communities revitalized, and the foundations for a sustainable economy and society will be built with an eye to the future. At the same time, the public sector will be reformed through means including administrative reforms and decentralization. Execution and promotion of such policies will release a strong Japan, a strong economy, and a high quality of life with safety and security.

1. Basic design of the Growth Strategy

It is individual members of the public and corporations that actually take on challenges such as risky investments, starting up new businesses, and changing industries or jobs. When people are confident of a bright future, they move forward, and company management makes decisions on reforms and demonstrates strong leadership. The Growth Strategy will encourage and back such activities. It also is extremely important that the government make clear its commitment to implementing the growth strategy steadily and over the long term.

The basic design of the Growth Strategy consists of (i) the Plan for Revitalization of Japanese Industry, to stimulate private investment, increase labor productivity through human-resource development and strengthening of abilities to create innovation, improve market functions to demonstrate the potential vitality of the private sector to the maximum extent, and strengthen industrial infrastructure; (ii) Strategic Market Creation Plan to develop new growth areas using social issues as a springboard, through advancing regulatory reforms and developing infrastructure to support business growth; and (iii) the Strategy of Global Outreach to take advantage of Japan's strengths in order to secure growing international markets and work toward global economic growth by attracting people, goods, and money to Japan from around the world, so that the public can enjoy a high quality of life.

The government will devote every effort to execution of the Growth Strategy, with each government agency working together with the others by eliminating sectionalism. In advancing such efforts, it is important to respond with broad-ranging policies including regulatory reforms, prioritizing budgets, and utilizing the tax system. Together with close policy coordination between the Council on Economic and Fiscal Policy and the Headquarters for Japan's Economic Revitalization, related agencies including the Council for Science and Technology Policy and the Council for Regulatory Reform will work together as one for this purpose.

(1) Strengthening the infrastructure for technological innovations and other factors to increase productivity (Plan for Revitalization of Japanese Industry)

(i) Expanding private investment etc.

Industrial conversion to strengthen investment and competitiveness for the future, through growing private-sector capital investment and R&D investment, promoting reorganization and recomposition of businesses, advancing replacement of old industry with new, and promoting investment in ventures putting domestic and overseas resources to their maximum use and efforts to take on new challenges, will generate new innovation and increase both employment and income while also growing corporate earnings. Also, efforts will be made to strengthen the competitiveness of SMEs and small businesses together with increasing the productivity of service industries.

(ii) Strengthening utilization and development of human resources

Reflecting the recognition that human resources are Japan's greatest resource for putting the economy on a new growth track, the systems of employment and education will be revised and environmental improvements advanced to make it possible to put the capabilities of all human resources to use, based on the fact that demand is increasing for highly knowledge-intensive human resources and human resources for service industries and other industries that require diverse ways of working, instead of a focus chiefly on production workers. In particular, efforts will be made in areas including expanding opportunities for women, young people, senior citizens, people with disabilities, and others to succeed, developing Japan's global resources and using advanced human resources from overseas, and further promoting a sound work-life balance.

(iii) Promoting innovation in science and technology etc.

To restore Japan's power as a country that is creative in science and technology, the control-tower functions of the Council for Science and Technology Policy will be strengthened and the Comprehensive STI Strategy¹⁶ will be advanced steadily as the key to realizing the Growth Strategy through means including varied investment of policy resources in strategic fields. A new system of R&D corporations will be created to enable corporate management at the highest level in the world based on the distinguishing features of R&D, through a review of the systems and organizations of independent administrative agencies as a whole, with related government agencies working together as one. In order to put the results of R&D to practical use to secure market share along with advancing R&D itself, Japan will aim to be the world's leading IP nation through promoting IP strategies and standardization strategies. New IT strategies will be promoted energetically, through regulatory reform and infrastructure

¹⁶ "Comprehensive STI Strategy" (June 7, 2013 Cabinet decision)

development advanced, and efforts made toward realization of a world-leading society in terms of use of IT, to stimulate innovation led by the private sector through use of IT.

In addition, development of the human resources to handle innovation in science and technology, including basic research, is the cornerstone of Japan's growth, and it is necessary to further the development of human resources who can thrive in a variety of situations and creative, outstanding researchers. For this reason, efforts will be advanced including development of career paths for researchers, promoting the activities of women researchers, and development of human resources for the next generation.

(iv) Finance promoting growth, management of public and quasi-public funds, etc.

Since it is important to develop a financial environment in which corporate investment and risk finance can generate new growth, efforts will be made in areas such as promotion of diversification of household assets through the spread of "NISA", Japan's individual savings account in which a certain amount of small investment is exempted from tax.

Japan will aim to become an international financial center with a leading position among Asian financial markets through means including increasing the vitality of its securities markets and strengthening the market of asset management, while also taking advantage of growth in Asia.

In addition, consideration will be given to matters such as how best to manage the financial assets (public and quasi-public funds) held in public pensions, independent administrative agencies, and elsewhere.

(v) Regulatory reforms etc.

Regulatory reforms are an essential policy tool for realizing a high standard of living through stimulating private investment, increasing productivity, and making potential demand real. Through advancing aggressive regulatory reforms in areas such as new growth fields, human resources, and employment, Japan will both open up new frontiers and improve its free market environment.

The Council for Regulatory Reform has issued a report¹⁷ including particularly urgent and important topics such as promoting regenerative medicine, promoting regulatory reforms related to medical devices, clearly defining environmental assessments for coal-fired thermal power generation and speeding them up, and review of regulations on sale of over-the-counter drugs through the Internet and other means. Based on this, the Regulatory Reform Implementation Plan¹⁸ outlining the government's policies will be advanced steadily, and follow-up on the state of implementation will take

¹⁷ "Report on Regulatory Reform" (June 5, 2013, Council for Regulatory Reform)

¹⁸ "Regulatory Reform Implementation Plan" (June 14, 2013 Cabinet decision)

place at the end of each fiscal year. In the future, the structure of conflicts of interest inherent to many regulations will be overcome to advance aggressive reforms, through measures such as testing to verify whether Japan's regulations are at the forefront of the world. Also, the Council for Regulatory Reform will deeply examine matters such as agriculture and the system of non-insured associated medical care, as it implements aggressive regulatory reform, and the PDCA¹⁹ cycle of revisions to reforms by the relevant government agencies will be verified.

Under the leadership of the Prime Minister, a powerful structure will be built for carrying out aggressive regulatory reforms and other measures and National Strategic Special Zones will be created as a national strategy.

(vi) Securing low-cost, stable energy

To secure low-cost, stable energy sources with consideration for the environment, there is a need to advance measures including development of diverse supply structures, introduction of high-efficiency thermal power generation (powered by coal and liquefied natural gas [LNG]), lowering the costs of purchasing LNG, maintenance and strengthening of the supply chains for petroleum and liquefied petroleum (LP) gas, and maximal use of energy conservation including measures such as energy management, together with making clear the central points of energy policy and courses of action over the medium to long term. The goal of completing reforms to the electric power system will be accomplished by 2020 at the latest.

The subject of nuclear power plant safety is entrusted to the specialist judgment of the Nuclear Regulation Authority (NRA), and resumption of nuclear power plant operation will advance respecting the judgment of the NRA if it has recognized regulatory standards to be met. In doing so, efforts will be made to earn the understanding and cooperation of related parties, including local governments in the areas where power plants are located.

(2) Developing new growth fields (Strategic Market Creation Plan)

It is important that Japan possess international strengths and both develop the social infrastructure for developing new businesses in fields expected to grow as global markets in the future and lead the world in the resolution of issues, through revising existing regulations and systems.

The corresponding fields of extend "healthy life expectancy"; balance supply and demand through clean and efficient energy usage; safe, convenient, and economical next-generation infrastructure; and community resources that attract the attention of the world are thought to involve massive potential demand and the ability to create employment through development of markets, and these are expected to serve as core drivers of Japan's future growth. At the same time, the levels of quality of and satisfaction with the public's standard of living can be

¹⁹ Plan-Do-Check-Act cycle

improved through eliminating the obstacles that hinder the realization of demand and enabling consumption of highly satisfactory goods and services.

(3) Growth utilizing globalization (Strategy of Global Outreach)

To realize sustainable growth by taking advantage of globalization, it is important to aim to expand both trade and investment, to develop an environment in which human talents, goods, and funds can move freely, to maintain the levels of trust in Japan and the yen, to secure fields where Japan can succeed in business globally, to improve the business environment and to foster global talent both in and outside Japan.

(i) Toward increasing real gross national income (GNI)

In order to increase real gross national income (GNI), it is important to: a) ensure the growth of real GDP, which accounts for the majority of real GNI, through the expansion of domestic demand accompanying increase of wages; b) advance globalization, and raise income from overseas activities through business investment, particularly in growing emerging markets; and c) expand trading gains through promoting innovation to create goods and services in which Japan has international competitiveness, while securing lower-cost imports of energy and other resources.

(ii) Economic partnerships such as the Trans-Pacific Partnership (TPP)

Efforts will be made to strengthen the system by relevant government agencies to advance negotiations on economic partnerships that will contribute to the national interest. New rules for Asia-Pacific region will be created by active negotiation on the Trans-Pacific Partnership (TPP). Together with broad-ranging economic partnerships such as the Regional Comprehensive Economic Partnership (RCEP) and the Japan-China-Korea Free Trade Agreement (FTA), the new rules will serve as the basis for creation of rules for the Free Trade Area of the Asia-Pacific (FTAAP), a more expensive plan for the future. Japan also will play a central role in advancing the creation of rules on global trade and investment through simultaneously making progress on economic partnerships with Europe and other countries or regions.

(iii) Hybrid growth through encouraging trade and investment

Through partnership between the public and private sectors, Japan will advance measures such as encouraging exports of infrastructure systems including those using public funds such as official development assistance (ODA);²⁰ overseas advancement of second-tier companies, SMEs, small businesses, and service businesses; promoting the “Cool Japan” concept in areas such as exports of Japanese food, alcoholic beverages, content, and culture;²¹ and making Japan as a top tourist destination. Furthermore, as

²⁰ “Infrastructure Systems Export Strategy” (May 17, 2013, Infrastructure Strategy Committee)

²¹ “Cool Japan Promotion Efforts: Summary” (May 28, 2013, Cool Japan Promotion Committee)

financial support for businesses advancing overseas, measures will be advanced such as bilateral financial agreements including support for fund-raising by Japanese firms in local currencies and technical assistance for financial infrastructure development, particularly with rapidly growing Asian countries.

In addition, a more attractive business environment will be developed through means including active acceptance of highly skilled human resources from overseas, together with encouraging direct investment into Japan through implementing reforms to the special economic zone system and strengthening the systems for government efforts to attract foreign firms and support their investment in Japan. Furthermore, human resources to support globalization will be developed. Support will be provided for development of systems including legal systems in areas where Japan is strong. Overseas investment and finance will be expended through means such as system finance and trade insurance. Efforts will be made to develop and improve the convenience of industrial and logistics facilities. Cooperation among facilities such as diplomatic establishments abroad, the Japan International Cooperation Agency (JICA), and the Japan External Trade Organization (JETRO) will be used to advance such efforts.

2. Accelerating recovery from the Great East Japan Earthquake etc.

Recovery from the Great East Japan Earthquake will be accelerated. Under a policy of urgently (i) strengthening the control-tower functions of the Reconstruction Agency and ensuring a thorough focus on needs in the field, (ii) reviewing the framework of reconstruction budgeting, and (iii) giving concrete form to goals such as accelerating recovery and making progress on them, Japan is taking necessary steps, including quickly rebuilding housing and revitalizing industry in affected areas, in quick succession and will continue to accelerate recovery further.

The biggest prerequisite for the recovery and revitalization of Fukushima, which sustained severe damage from the nuclear power accident, is safe and steady progress on efforts toward returning the nuclear situation to normal. The national government will move forward with decommissioning, normalizing the situation, and decontamination, all while respecting the local situation. In doing so recovery and revitalization will be accelerated, through best efforts to protect the health of local residents, steady progress in areas including infrastructure improvements and rebuilding community life, and and integrated efforts in areas such as compensation for damages and recovery policies.

In addition, instead of simply restoring things to their previous state, earthquake recovery needs to be used as an opportunity to create a New Tohoku²² to serve as a model for Japan and the world. For this reason, related measures will quickly be realized in accordance with the five courses of policy direction that should be aimed at as essential elements of the New Tohoku: (i) a secure society to sustain the growth of healthy, happy children, (ii) a vital society for superannuated senior

²² “Toward Creation of a ‘New Tohoku’ (Intermediate Summary)” (June 5, 2013, Reconstruction Promotion Committee)

citizens based on the “senior citizen standards,”²³ (iii) a society based on sustainable energy (independent/distributed energy society), (iv) an advanced society in adopting robust social infrastructure (systems) with high resiliency, and (v) a highly influential society that makes use of local resources. Furthermore, efforts in the affected areas will be advanced quickly, including experiments and R&D and environmental projects as part of the Growth Strategy, the Comprehensive STI Strategy, and the Regulatory Reform Implementation Policy, to create and provide information on “Future Society with Creativity and Potential”, as a new model for all Japan of a sustainable economy and society.

3. Strengthening the basis for enabling all people to exercise their abilities and individuality through education and other measures

(1) Rebuilding education and promoting culture, art, and sports

(Rebuilding education)

Education will be rebuilt through comprehensive measures to train human resources based on the second Basic Plan for Promotion of Education,²⁴ reflecting the principles of the Basic Act on Education²⁵ as well as the (policy) recommendations of the Education Rebuilding Council.

To achieve goals such as academic abilities at the world’s top level, education will cultivate the ability to succeed in society through means including strengthening of English-language, science and mathematics, information and communications technology (ICT), ethics, and special assistance education. Human resources to realize rapid advances into the future will be developed through means including developing an environment for studying abroad by highly motivated and capable young people, strengthening the power of human resources and utilizing advanced human resources from overseas to help globalize university education through internationalization, and reforming universities through strengthening governance as well as stimulating education and research through establishment of infrastructure for such activities. Together with providing support for school attendance, the system for free high-school attendance will be revised as well. Efforts toward providing free early childhood education will be advanced in stages, while securing sources of funding.

In doing so, evidence-based measures will be advanced effectively and efficiently in response to progressively lower birth rates and the PDCA cycle will be employed thoroughly.

(Promoting culture, art, and sports)

Aiming at Nation Building Based on Culture and the Arts, the national government will promote arts and culture through means including communicating information on Japanese culture and values; preserving, utilizing, and passing on to future generations the nation's cultural assets; enhancing the functions of national cultural facilities; developing practitioners in arts and culture and securing

²³ Using senior citizens as the standards when building community

²⁴ Basic Act on Education (2006 law no. 120)

²⁵ “Basic Plan for Promotion of Education” (June 14, 2013 Cabinet decision)

opportunities for children to experience arts and culture. It also will promote sports through means such as realizing a society in which people can take part in athletics and sports their entire lives; attracting Olympic and Paralympic games; improving the nation's ability in international competitions and promoting sports for people with disabilities — all with the aim of creating a sports nation.

(2) Enabling women to realize their full potential

Japan will realize a society where women can shine, in which the potential of women is fully realized in the private sector, government, nonprofits, and other areas of society. For this purpose, it will advance efforts including thorough improvements to the environment for raising children, including deployment of the "Plan to Accelerate the Elimination of Childcare Waiting Lists"²⁶ and advancement of a plan to address caring for children after school; support for participation that corresponds to women's life stages, including support for continued employment and re-employment; support for women's activities including entrepreneurship and activities in the community; improving work-life balance including changes in ways of working, such as promoting telework, and development of an environment in which both men and women can balance work with child-rearing and their daily lives; and support for employment of single mothers. Other efforts advanced will include granting incentives to businesses that strive to support promotion of women's participation and balance work and child-rearing, etc. as well as promoting positive action toward appointment of women to executive and management positions.

(3) Overcoming the declining birthrate

To break out of the current situation, which could be called a declining-birthrate crisis, emergency measures to break free from the crisis,²⁷ a "three-arrows" strategy consisting of strengthened parenting support, reforms to ways of working, and support for marriage, pregnancy, and childbirth, will be carried out steadily.

(4) Promoting active participation of young and elderly people and building a safety net

Active participation of young people in the workplace will be promoted through means including re-examination of the job-hunting system of universities or other higher education institutions, enhancement of career education that utilizes private sector wisdom, communicating the attractiveness of SMEs and small businesses, members of society going back to school so that they meet the needs of companies, enterprising utilization of the private sector in Hello Work, and support for young people seeking to start new businesses.

Measures such as a bold policy change from an excessive focus on employment security to support for labor mobility and use of private-sector HR businesses will

²⁶ "Plan to Accelerate the Elimination of Childcare Waiting Lists" (April 19, 2013 announcement by the Prime Minister)

²⁷ "Emergency measures to break free from the declining-birthrate crisis" (June 7, 2013 Committee on the Declining Birthrate decision)

be used to promote mobility of labor from mature industries to growth industries, without unemployment.

In addition, together with working to raise the minimum wage while providing support for SMEs and small businesses, progress will be made on efforts including revising systems to enable flexible, diverse ways of working, expansion of retraining and revision of the content of education in accordance with changes to the industrial structure, and enhancing job-matching functions through use of private-sector HR businesses.

Efforts such as these will promote the participation of individual members of the public, including young people and senior citizens, through means including enabling them to find work in which they can realize their own full potential.

By building a safety net as needed by the vulnerable in society, including people with disabilities, based on self-help and self-reliance first of all and combining mutual aid and public assistance, an environment will be achieved that enables participation in society, through work and other means, of all motivated people, providing the peace of mind to achieve independence.

4. Revitalizing local communities, agriculture, forestry, and fisheries industries, and SMEs is essential to revitalizing Japan

Local communities will be revitalized through management reforms conducted by the communities themselves together with advancing environmental improvements with a focus on the community itself, so that each community can create its own added value and grow independently.

Agriculture, forestry, and fisheries industries are extremely important in creating community vitality. The government will aim to pass on beautiful, traditional rural communities to future generations with agriculture, forestry, and fisheries industries, demonstrating multifaceted functions, serving as growth industries.

In addition, SMEs and small businesses in local communities form a broad-ranging industrial infrastructure in Japan, from manufacturing to service industries. Promoting such businesses will revitalize local economies and furthermore help raise the level of Japan's international competitiveness. At the same time, since some say that the effects of the economic recovery have not reached SMEs and small businesses in local communities, the government will strive to ascertain accurately the actual circumstances of local communities, SMEs, and small businesses and will work to revitalize local economies through responses suited to such characteristics.

(1) Developing local communities/regions based on their characteristics

(Urban Renaissance, regional revitalization, etc.)

Japan will ensure its major cities are internationally competitive. It will advance urban redevelopment and public transportation encourage using private-sector expertise and funds, based on community strategies linking diverse public- and private-sector stakeholders in the community, through diverse supportive

measures while also utilizing methods such as real-estate securitization. It will develop the real-estate information and related standards that will make the above efforts feasible. It also will concentrate on efforts such as attracting international conferences and city sales activities, overcoming weaknesses with regard to disasters in urban areas, and develop the transportation infrastructure to strengthen its competitiveness and addressing worn and aged infrastructure.

In provincial cities where populations are decreasing and ageing, the partnerships as above will be utilized to realize and expand Compact City and Smart City concepts, enhance public transportation, and develop wellness homes where senior citizens and others can live safely, based on the strategies of each community and utilizing expertise and funding from the private sector. Efforts also will be advanced to revitalize communities and regions through means such as development of Eco-model cities and to develop sustainable communities.

Furthermore, Japan also will promote use of systems for green growth in urban development and other areas. Numbers of visitors will increase through means including tourism promotion utilizing communities' own unique resources, traditional cultures, and other attractions, through a broad-ranging transportation infrastructure.

Under the Community Revitalization Plan, through partnerships between industry, the academy, finance, and government private-sector funding will be used to build community innovation cycles in order both to expand employment and to develop community infrastructure, including energy infrastructure and public cloud²⁸ technology.

In addition, in under-populated areas and areas with disadvantageous conditions including remote islands, Amami, and peninsulas, together with maintaining the necessary transportation infrastructure, including sea lanes and air routes, efforts will be made to revitalize communities through securing functions to support living in the communities and environments for permanent residence, while utilizing the power of the private sector.

To support the activities of nonprofit organizations and social businesses, which play important roles in solving problems and in revitalizing rural communities, in terms of human-resources, fundraising and credibility-building, improvement of the organizational structures of intermediary and development of the environment for cooperation and partnership in the community will be promoted, among other efforts.

Also, efforts to set up special economic zones will be put to greater use.

(Promoting development in Okinawa)

²⁸ An information infrastructure available for joint use by various parties including private-sector firms, through using the information-system infrastructures of local governments and cloud-computing technology to integrate and consolidate systems and make administrative data available to the public.

Okinawa has significant advantages and potential, for example thanks to its position as the gateway to the growing region of Asia. As a national strategy, measures to promote development there will be promoted comprehensively and proactively so that Okinawa can serve as a driving force in making Japan's economy more energetic, as a leading region of Japan and a growth model for the 21st century. In doing so, consideration will be given to making Okinawa a base for innovation based on discussion of the National Strategic Special Zones concept. In addition, the development of global knowledge and industrial clusters will advance as well, centered on the Okinawa Institute of Science and Technology (OIST), which is carrying out advanced, interdisciplinary research activities aiming for the highest level in the world.

(2) Vitalizing local communities through agriculture, forestry, and fisheries industries

In order to strengthen competitiveness in response to structural issues such as decreasing numbers of producers, the ageing of society, and increases in abandoned farmland, activities will be carried out including concentration of management of farmland, turning agricultural, forestry and fishery industries into "the sixth industry", expanding exports of agricultural, forestry, and fishery products and food products, and putting scientific and technological innovations to use. Also, measures to stabilize farm income (the former "Income Support Direct Payment Program for Farmers") will be revised appropriately, efforts advanced to demonstrate the multifaceted functions of agriculture, forestry and fisheries industries, and the creation of a "new direct payment system". In addition, efforts in the area of forestry will include creation of new demand for lumber and building a system for the stable, efficient supply of domestic lumber. Furthermore, efforts in the fishery industry will include infrastructure development needed for increasing consumption and export of marine products and realizing sustainable fishing and aquaculture industries. Turn agriculture, forestry and fisheries into industries. Hand down beautiful traditional rural villages to the next generation. Secure food safety and earn the trust of consumers. Specific policies will urgently be developed and implemented in "Headquarters on Creating Dynamism through Agriculture, Forestry and Fisheries Industries and Local Communities".

(3) Significant growth of SMEs and small business proprietors

4.2 million SMEs and small business proprietors across Japan are a source of vitality for not just local economies but the entire Japanese economy, and they also serve as a driving force supporting Japanese economic growth. To encourage further success among these SMEs and small business proprietors, efforts will be made to utilize, consolidate, and brand community resources and other resources, encourage their advancement into new growth fields such as healthcare and environment through lowering barriers to entry, and support their international advancement through means including enhancement and strengthening of the systems that support companies aiming to grow overseas. In addition, manufacturing industries will be strengthened. Together with these efforts, replacement of old industry with new will be advanced through promoting entrepreneurship and new business development in the community, transfer and succession of businesses, and taking on new challenges. Also, consideration will

be given to community SMEs and small business proprietors in public-sector procurement, based on actual conditions in the community. An environment will be developed that makes it easy to cover in prices the cost of the increase in consumption tax rates. Furthermore, measures will be promoted to invigorate the business activities of small businesses in order to contribute to stabilization of community economies and the growth of Japan's economy and society.

5. Ensuring the foundations of the economy and society are sustainable in the long term

To realize a strong Japan, a strong economy, and a high quality of life, the measures necessary to build a sustainable economy and society that can ensure a high quality of life with safety and security for the public will be carried out.

(1) Encouraging medium- to long-term investment with emphasis placed on sustainability

To realize a sustainable economy and society, it is necessary to (i) promote medium- and long-term investments and active risk-taking that enable economic and social development and create new core industries through innovation; (ii) return the values to various stakeholders; (iii) enable personnel creating values within companies and in society grow up; (iv) accept countries and regions with various cultures and traditions and contribute to the economic development of the world; and (v) coexist with nature and the environment.²⁹ The Council on Economic and Fiscal Policy will play a central role in studying they type of market economy that will make these possible.

(2) Making contributions to the global environment

Based on a long-term perspective, Japan will contribute as much as it can toward resolution of global environmental problems by balancing environmental and economic objectives. Together with making proactive contributions to solving global environmental problems through aggressive diplomatic strategies concerning global warming, including using Japan's outstanding environmental technologies and experience for full-fledged adoption of a bilateral offset credit system and promoting development of innovative environmental technologies, efforts will be made to address environmental pollution, coexist with nature, and realize a recycling-oriented society to enable the Japanese public to enjoy the benefits of a sound environment.

With regard to countermeasures against global warming, the existing target of a 25% reduction in greenhouse gases will be reviewed on a zero basis prior to the 19th Conference of the Parties (COP19) to the United Nations Framework Convention on Climate Change in November of this year. Also, even during the period until a new plan is formulated efforts will be advanced at a level equal to or stronger than the Kyoto Protocol Target Achievement Plan, reflecting the state of individual efforts.

²⁹ Interim report of the Specialist Research Committee on a Vision for the Market Economic System (June 6, 2013)

Furthermore, Japan will improve its international competitiveness through promoting innovation and investment to decrease carbon emissions throughout society, and it will use Japanese technology to contribute to reducing and absorbing the world's greenhouse gas emissions, realizing a sustainable economy and society.

(3) Making Japan more resilient (national resilience), preventing or mitigating damage from disasters

Amid concerns about approaching large-scale disasters, based on the lessons from the Great East Japan Earthquake and other disasters the government will carry out interagency efforts to build national resilience by advancing comprehensive measures including ones to protect human life in any situation; planning in advance for disaster prevention and mitigation through means such as avoiding fatal damage to important administrative, economic, and social functions; land, industry, and energy policies; backing up government functions; enhancing administrative business continuity planning (BCP); and training human resources.

Concrete measures will be developed and their progress accelerated based on the concepts of coordination in hard and soft measures, top priorities, and prioritizing identified in the Interim Plan for National Resilience³⁰ assembled in May based on assessment of vulnerabilities by each government agency. Coordination between public and non-public projects and cooperation and proper budgeting among related government agencies will be advanced in particular.

Also, together with promoting measures in preparation for large-scale disasters such as a powerful Nankai Trough earthquake or an earthquake directly beneath Tokyo, studies toward standardization of disaster responses to facilitate wide-area aid and other activities and disaster-prevention and –mitigation efforts including increasing the seismic resistance of public facilities and other facilities will move forward as well.

(4) Realizing a safe and secure society (through consumer policy, public safety and the judiciary, national defense, etc.)

Together with ensuring the sustainability of the social security system, which serves as the foundation for stability in the public's standard of living, the following efforts will be carried out to realize a safe and secure society.

(Promoting consumer administration)

Securing consumer safety and security is an important prerequisite for growing consumption and forming a mature society. Efforts will be strengthened for preventing harm to consumers caused by unscrupulous businesses, aiding victims, ensuring safety, communicating risks concerning food and radiation, and easily understandable labeling of foods. The safety and security of consumers will be secured through promoting efforts such as consumer education in local areas

³⁰ “Interim Plan for National Resilience” (May 28, 2013, Interagency Council on National Resilience)

and development of an environment in which consumers can ask questions with peace of mind.

(Public safety, the judiciary, crisis management, etc.)

To secure sound public safety, together with efforts such as strengthening of interagency coordination, countermeasures against cyber crime and cyber attack, antiterrorism and counterintelligence measures, countermeasures against organized crime, countering stalking, domestic violence, and similar crimes that threaten the public's sense of safety and security in everyday living, countermeasures against illegal residence, and the human and physical infrastructures for public safety and maritime safety, all based on the Fundamental Policy³¹ decided on by the Ministerial Conference on Crime Prevention in May of this year, a new action plan toward realizing a society strong against crime will be formulated and implemented steadily, with a target date of December of this year.

In addition, measures will be advanced in areas such as preventing recidivism among juvenile delinquents and ex-convicts. An accessible judicial system that the public can rely on will be realized through means including implementing general legal support.

Furthermore, in addition to efforts to secure the safety and security of the public through means including efforts based on the Ninth Fundamental Traffic Safety Program,³² including use of ITS, efforts based on the Cyber Security Strategy,³³ securing maritime safety, and enhancing and strengthening crisis management, improvements to land registers in urban areas will be promoted as well. To put the space infrastructure to uses such as security and disaster-prevention purposes, efforts will be advanced to contribute to safe and stable use of space in addition to development and use of satellites.

(Security, national defense, etc.)

To respond properly to the tough security environment that surrounds Japan, a National Security Council will be set up and put into operation quickly, to serve as the control tower for Japan's diplomatic and security policies. Government information functions will be strengthened as well.

In addition, the current National Defense Program Guidelines will be reviewed to adapt it to an increasingly threatening national security environment and strengthen Japan's defensive posture, efforts will be carried out toward efficient development of effective defensive capability that can fully handle the roles demanded of the Japan Self-Defense Forces, and the conclusions of study on these matters will be reached this year. In doing so, together with reforms to personnel systems to make them stronger, procurement reforms will be advanced as well, including adoption of common standards and strengthening project management throughout the project life cycle.

³¹ "Basic Policy for New Action Plan to Realize a Crime Resilient Society" (May 28, 2013, Ministerial Conference on Crime Prevention)

³² "Fundamental Traffic Safety Program" (March 31, 2011, Central Traffic Safety Council)

³³ "Cyber Security Strategy" (June 10, 2013, Information Security Policy Council)

(5) Ensuring economic security about energy and resources, and promoting strategic diplomacy

(Establishing economic security)

To ensure the nation's economic security as it remains an open nation with free competition, Japan needs to secure low-cost, stable supplies of the energy and resources on which it depends heavily on imports, and to properly protect the national interest. To do so, it will develop new energy and resources through development of the ocean, adopt renewable energy to the maximum extent, establish the environment for supporting the augmentation of inter-regional power transmission lines and other equipment, strive to put resources to effective use, and carry out other measures, while responding to changes in global demand and supply structures. It also will deploy resource diplomacy while building strategic relations of cooperation. It also will support participation of Japanese firms in development of supplies of LNG and other resources in order to diversify such supplies and lower their prices.

Japan also will take advantage of its experience to contribute proactively to development of international rules and frameworks and design of various systems in developing countries, utilizing ODA as well, to ensure sound economic growth in developing countries and to enable the outstanding expertise and technologies possessed by countries around the world, including Japan, to contribute fully to such growth.

Furthermore, addressing international financial regulatory reforms and improving systems to ensure the stability of the financial system has a major impact on the stability of globalized financial and capital markets. Together with utilizing its experience with past financial crises to make international contributions to system improvements, Japan also will carry out macroprudential policies appropriately in the domestic market as well.³⁴

(Promoting strategic diplomacy and ensuring the safety of Japanese firms overseas)

As it aims strategically to deploy diplomacy that asserts and protects the national interest, Japan will strengthen its overall diplomatic abilities, including improving its human organization and physical infrastructure such as diplomatic establishments abroad, as a strategy for the government's diplomatic functions including promoting economic partnerships, promoting strategic international cooperation, demonstrating its international influence, and securing resources and energy.

In addition, it will strive to ensure the safety of Japanese residents and Japanese companies abroad, through strengthening public-private partnership, crisis management, information collection, and other efforts.

³⁴ Macroprudential policies refers to policies to secure the soundness of the financial system as a whole through analysis and assessment of risks throughout the financial system and designing systems and policies based on these, in contrast to microprudential policies, which are ended to secure the soundness of individual financial institutions.

6. Public sector reform as the foundation for a strong economy and a high quality of life

To realize a strong economy and a high quality of life for the public, it is important to entrust to the private sector what it can do and to entrust to the community what it can do on its own. To create such an environment, the government will build an efficient, effective public sector through efforts including thorough elimination of waste, reforming governance systems, and human-resources development.

(1) Promoting administrative reform

High-quality administration will be realized through effective, efficient implementation of projects, and accountability to the public will be realized through increasing administrative transparency. Also, reforms to the public-officials system will be advanced actively.

(Thorough elimination of waste)

- Utilizing review of administrative projects and investigations of the status of matters such as the state of execution of new funds introduced,³⁵ waste will be eliminated through thorough verification of the necessity, efficiency, and efficacy of projects and appropriately reflecting the findings in budget requests, budget formation, and budget execution. In doing so, objective, effective, efficient project inspections will be carried out through making the external checking system clear and prioritizing the subjects of external checking.
- With regard to government purchasing, free contracts will be reviewed and purchasing improvement plans for each agency will be formulated, reflecting issues such as the growth of joint purchasing, and then improvements will be made through use of the PDCA cycle. Together with sharing and standardizing matters such as expertise on purchasing improvements throughout the government as a whole and promoting interagency review, continual efforts will be advanced in these areas as well. The Council on Administrative Reform will check these matters and promote purchasing improvements government-wide.

(Special accounting reforms, independent administrative agency reforms)

- Special accounting reforms will be carried out in accordance with the findings of the Council on Administrative Reform,³⁶ implementing reforms under policies that include verification of the necessity of the government conducting projects itself and of the necessity of separate accounting. The necessary legal measures will be implemented quickly, with the aim of implementing the reforms steadily beginning in fiscal 2014.
- A system for reforms to independent administrative agencies will be developed to reflect the characteristics of the operations and activities of each independent administrative agency, based on the assumption of standardized rules for all such agencies and with the mediation of the Council on Administrative Reform. The necessary legal measures will be implemented

³⁵ “Review of Administrative Services” (April 5, 2013 Cabinet decision)

³⁶ “Summary Findings on Special Accounting Reform” (June 5, 2013, Council on Administrative Reform)

quickly, with the aim of implementing the reforms steadily beginning in April 2015, in order to improve the policy implementation functions expected of each agency.

(2) Carrying out decentralization

To foster communities with independence that make the most of their own individuality, obligations and frameworks will be reviewed to continue steadily implementing transfer of authority from prefecture governments to basic political units and transfer administration and authority from the national to local governments, among related activities, based on the recommendations of the Council for Decentralization Reform and reflecting past experiences and feedback from local communities. Necessary study of consolidation of the present regional administrative structure into larger administrative units will move forward in line with developments on the proposed bill setting up a basic law for such consolidation.

To improve the results of projects, development of a system to make it possible to provide efficient public services will be advanced, through promoting cooperation among local governments and between the public and private sectors, in both tangibles and intangibles.

(3) Accelerating the entry of private-sector businesses into the public sector

It is important to promote the involvement of private-sector businesses in areas such as public investment, to utilize the funding and expertise of the private sector.

As infrastructure rapidly ages, attention is turning to a shift in focus from building new infrastructure to using existing infrastructure smartly. In the future, public-private partnerships (PPPs)³⁷ and private finance initiatives (PFIs)³⁸ will be used proactively for projects where they can be expected to improve the efficiency of infrastructure operation, renovation, and related activities, to improve the quality of services, and to lessen the burden on public finances, through utilizing private-sector funding and expertise.

Through thorough reforms using PPP and PFI, private investment will be stimulated, the synergy effects of public-private partnership increased, and infrastructure development, operation, and renovation that can contribute to economic revitalization and a high standard of living will be realized, all while lessening the burden on public finances.

For this reason, in accordance with the policies shown in the Action Plan³⁹ developed in June of this year, projects amounting to roughly JPY12 trillion will be

³⁷ A partnership between government and the private sector to utilize the strengths of each to provide optimal public services and maximize value to the community and satisfaction of residents

³⁸ A method of utilizing private-sector funding, management capabilities, and technological capabilities in areas such as construction, maintenance, management, and operation of public facilities, pursuant to the Act on Promotion of Private Finance Initiative (1999 law no. 117)

³⁹ “Action Plan Toward Thorough Reforms to the PPP/PFI Systems” (June 6, 2013 PFI Promotion Committee decision)

advanced steadily over the coming decade (2013-2022), through using schedule control for the efforts of each agency.

Also, market tests will continue to be advanced.

(4) Realizing a world-class e-government

Development of e-government at the national and local levels is key to increasing the efficiency of government operations and improving convenience to the public. A world-class e-government, at both national and local levels, will be realized quickly with the IT Strategic Headquarters playing a central role in cooperation with related agencies.

- Efforts such as thorough review of government operations under the Government CIO, promoting use of cloud technologies in government information systems and community cloud computing,⁴⁰ and improving the efficiency of back-office operations through steady development and introduction of common government operations and systems will be used to cut administrative costs and improve service quality. Together with these, the costs of government information systems will be reviewed thoroughly.
- Targets will be established based on indicators that show cuts in short- and medium-/long-term costs and improvements in convenience and that are easy for the public to understand. Specific schedules will be developed toward realization of these targets. In particular, clear progress goals will be identified for use of social-security/tax numbers and computerization and use of medical information, as priority topics.
- Regarding the social-security/tax number system, together with steady efforts toward its implementation with the understanding of the public, efforts will be made to improve convenience to the public through promoting services such as one-stop and push services⁴¹ for individuals.
- For statistical data, thorough transparency, openness, and online access will be reflected in formulating the new five-year plan on maintenance of public statistics, and such efforts will be advanced.

⁴⁰ Efforts under which the information systems of a local public agency are sorted and managed at an external data center instead of inside government offices, and the systems are made available for use through network connections. They are intended to cut costs and improve service to residents through facilitating consolidation and joint use of information systems by multiple public agencies.

⁴¹ As parts of a system for recording and disclosing information (“My Portal”) planned to be set up one year after enactment of the Act on Use of Numbers to Identify Specific Individuals in Administrative Procedures (2013 law no. 27), one-stop services are intended to make it possible to complete procedures with administrative agencies and other public bodies in one step, while push services are intended to display notices from administrative agencies and other public bodies tailored to each individual user.

Chapter 3: Pursuing both economic revitalization and fiscal consolidation

It is essential to create sustainable public finances and social security to enable people to live with peace of mind even amid decreasing birth rates and an aging society, along with supporting the growth of Japan's economy. In addition, efforts toward fiscal consolidation are extremely important to ensure that the "three-arrows" strategy demonstrates sustained effects.

1. Basic Policies toward both economic revitalization and fiscal consolidation

The following five fundamental concepts will serve as the basis for balancing sustained growth led by private-sector demand and fiscal consolidation:

1. Realizing an end to deflation, an economic recovery, and economic revitalization
2. Developing a growth strategy and fiscal structure suited to structural changes in the economy and society
3. Thoroughly improving the quality of public finances, in terms of both expenditures and revenues
4. Advancing reforms to make a system in which those who make efforts (people, companies, and communities) are rewarded and, at the same time, aiding those who need help and developing systems for taking on new challenges
5. Making the tax system one that for realizing both sustained growth and fiscal consolidation

2. Fiscal consolidation policies

The total amount of expenditures subject to the primary balance has increased further due to developments such as progressive increases in social security expenditures in connection with the ageing of society and other factors and emergency responses to the economic crisis that followed the collapse of Lehman Brothers in 2008. Under such conditions, there is an even greater need for fiscal consolidation, and thorough efforts are required on the part of both national and local governments. For this reason, expenditures other than those related to social security will be subjected to further prioritizing and improvements in efficiency. In addition, social-security expenditures will not be untouchable but will be subject to review as well. Necessary efforts will be advanced on the revenue side as well, including study of the tax system that should be in place, taking into consideration structural changes in the economy and society.

(Review of expenditures)

In prioritizing expenditures and improving their efficiency, variation will be achieved by both giving importance to issues such as realizing economic growth in each fiscal year and carrying out drastic scrap-and-build measures. For example, together with advancing cost reductions and quality improvements in

administrative services, their effects in stimulating private-sector demand will be increased. Also, when there are expectations for price increases care will be taken to ensure these do not lead to simple increases in expenditures. The policies of the preceding administration will be reviewed thoroughly, for conversion to an expenditures structure suited to the structural changes in the economy and society.

Decisions will be made on future handling of policies that have been in place for five years or longer, based on verification of their necessity, efficiency, and efficacy.

(Toward medium- to long-term fiscal consolidation)

Aiming for a positive cycle in which the “three-arrows” strategy realizes a strong economy, economic revitalization facilitates fiscal consolidation, and progress in fiscal consolidation contributes to further economic revitalization, efforts will be made to realize both sustainable growth and fiscal consolidation.

Through such efforts, Japan will aim by fiscal 2015 to cut the national and local primary balance deficit as a percentage of GDP by one-half vs. fiscal 2010, to make it in surplus by fiscal 2020, and to steadily decrease the debt balance as a percentage of GDP after that.

(Formulating the Medium-term Fiscal Plan etc.)

It is important to steadily carry out efforts toward achievement of the fiscal consolidation goals. Together with promptly formulating the Medium-term Fiscal Plan giving concrete form to the content of future efforts based on the Basic Policies and other considerations, an economic and financial outlook for the medium to long term will be indicated. This will make the roadmap to the fiscal consolidation goals clear and secure both the peace of mind of the public and the trust of international society and markets.

As part of efforts toward achievement of the goals for fiscal 2015, expenditures, including required expenses, will be reviewed. For local finances, together with keeping expenses down in step with national government efforts, the total general funding needed for stable fiscal management will be secured. Also, The PDCA cycle, including appropriately reflecting the results of review of administrative programs and assessment of policy, will be implemented thoroughly to eliminate wasteful expenditures, prioritize budgets and improve their efficiency, and make the tax system more reasonable. Furthermore, there is a need to steadily resolve the divergence between expenditures and revenues subject to the primary balance as percentages of GDP, in order to make the primary balance positive in fiscal 2020.

Also, steady efforts will be made to realize thorough reforms to the tax system in accordance with Act for Fundamental Tax Reform passed in August of last year together with increased tax revenues resulting from economic growth.

3. Basic stance for prioritizing and streamlining major expenditure items

In prioritizing expenditures and streamlining them for greater efficiency, a review needs to be conducted across discretionary and required expenses, leaving no expenditures untouchable. This prioritizing and streamlining of expenditures will be carried out by identifying individual basic approaches on some individual expenditure areas, chiefly those relating to social security, social infrastructure, and local public finances, which account for high percentages of the nation's general account expenditures, and responding to structural changes in the economy and society in other areas.

(1) Toward sustainable social security system

Against a backdrop of an ageing society and medical advances, the level of social security benefits is increasing much faster than the nominal rate of economic growth, leading to increasing public expenditures that are a major cause of rising budget deficits as well as putting the burden of costs on the next generation.

To steadfastly maintain the universal health insurance system and universal pension coverage and make the social security system, which supports the peace of mind of the public, a sustainable one, the government will aim to establish a system in which social security services are provided efficiently, improving the nation's health through means including health and longevity, use of ICT, and encouraging use of generic drugs, all under the basic approach outlined below. Periodically, the Council on Economic and Fiscal Policy will review the impacts of such efforts on the macroeconomy and on social security benefits and costs, based on the mutual interaction between the economy and fiscal policy on the one hand and social security on the other.

(i) Basic concepts

- **Building a society of health and longevity, lifelong service, and rewarding effort**

The shape of society will be changed to move toward health, longevity, and lifelong service, the participation of senior citizens in society will be encouraged, and a society will be built in which there is no need for excessive reliance on social security. Also, through enhancing support for raising children and developing an environment in which people can take on challenges repeatedly, the participation of women, young people, senior citizens, people with disabilities, and others in society will be encouraged in order to sustainable social security.

- **The scale of social security that should be aimed for is one of moderate levels of welfare and costs**

Taking into consideration balance among self-help, mutual aid, and public assistance, the system will be changed to one that secures intergenerational and intergenerational equity, adapting to changes in the population composition, in terms of both benefits and costs. This will build a

strong, sustainable social security system characterized by moderate levels of welfare and costs. Efforts will be made to provide social security for the first half of life as well (e.g., support for children and for child raising).

- **Implementing reforms in sequence**

The first reforms implemented will be those that are appropriate in terms of feasibility and the timing at which their results will be felt. Schedules will be made clear for reforms that can be expected to have results over the medium term but will take some time for efforts such as infrastructure development and securing human resources, through development and review of plans and getting started quickly.

- **“ICT Big Bang” in the medical and long-term care fields**

A schedule (with a target period of five years) will be developed for adopting medical ICT technologies, in order to improve the quality and efficiency of health management and medical and long-term care services, and Japan will become a leading nation in use of medical data.

- **Rebuilding the systems for providing medical and long-term care, in response to structural changes in communities**

The systems for providing medical and long-term care and other services will be rebuilt in response to actual conditions in each community. Together with division of functions, coordination, and consolidation in wide-area administration, and promotion of comprehensive care in the community, study also will advance concerning the form taken by insurers, such as considering splitting National Health Insurance into prefecture units.

- **Promoting the comprehensive reform of social security and tax**

Based on the Social Security System Reform Promotion Act,⁴² discussion in the National Council on Social Security System Reform will be deepened and the comprehensive reform of the social security and tax will be promoted, through means including moving forward with studies toward more concrete proposals.

(ii) Priorities in key areas of social security

(Health, prevention)

- As steps toward health management and preventive medicine, together with promoting the computerization of medical information and its use, medical insurers will encourage preventive medicine and required to disclose thorough information on the state of their efforts and results.
- Together with promoting awareness-raising activities and prevention

⁴² Social Security System Reform Promotion Act (2012 law no. 64)

efforts to strengthen people's health in accordance with their life stages, their costs and benefits will be reviewed.

(Medical and long-term care)

- Efficient and effective provision of medical and long-term care services will be realized through efforts including use of computerized medical records, development of systems for promoting use of diagnosis procedure combinations, and promoting visibility of long-term care and medical information.
- The necessary measures will be advanced to ensure that encouraging use of generic drugs will demonstrate results quickly.
- To strengthen the functions of insurers, together with advancing the use of wide-area administration in National Health Insurance, efforts will be implemented quickly in areas such as development of an environment enabling insurers to use ICT for purposes including streamlining outpatient services and developing systems with incentives for insurers to perform various insurer-related functions.
- On the subject of reforms to the system of providing medical care, following verification of whether the system is suited to community needs efforts will be made to improve the efficiency of the system and to shorten average numbers of days in hospital, together with making progress on building a comprehensive community care system that provides comprehensive support across the areas of long-term care, medical care, housing, support for living, and prevention, with municipalities playing a central role. In addition, system revisions will be studied in areas such as formulation of effective, evidence-based medical plans using ICT and merger of medical corporations and transfer of authority.
- Copayments under the medical service system for the elderly will be reviewed and conclusions reached promptly.⁴³

(Pensions)

- The macroeconomic slide mechanism will be implemented promptly in accordance with law, following swift resolution of the issue of exceptional levels in light of expected increases in prices and wages.
- Based on the fiscal review to be carried out next year, the form of pension benefits will be studied, including review of reduced-rate pensions paid to active employees, in order to make the pension system better suited to an age of health and longevity.
- Matters such as increasing the rate of contributions to national pension premiums will be considered from a broad-ranging perspective, and related efforts will move forward.

(Livelihood protection and assistance for the needy)

⁴³ “Emergency Economic Measures for the Revitalization of the Japanese Economy” (January 11, 2013 Cabinet decision) states, “While for the time being measures will be taken to keep the copayment for medical costs of persons aged 70-74 at 10%, whether to continue these measures will continue to be studied, together with measures for low-income individuals and other matters, giving consideration to matters such as intergenerational equity and the impact on senior citizens, with a conclusion to be reached soon.”

- Forms of aid (i.e., system for addition and levels of various assistance benefits) will be studied and reviewed swiftly. Inappropriate or inefficient benefits will be corrected.
- For recipients of assistance who are able to work, incentives to find work will be strengthened and the assistance environment of recipients will be improved.
- Prompt assistance for the needy and measures to prevent the cycle of poverty will be strengthened.

(Elimination of childcare waiting lists)

- Together with advancing efforts toward the steady implementation of the “System to Support Children and Parenting,”⁴⁴ the “Plan to Accelerate the Elimination of Waiting List for children” will be deployed to provide as much support as possible to local governments without waiting for the new system two years in the future. This aims to completely eliminate waiting lists for children while maintaining the quality of childcare. It will do so by concentrating on creating childcare spaces for approximately 200,000 children over the “emergency intensive efforts period” of the two years of fiscal 2013 and 2014 and securing spaces for approximately 400,000 children, including potential childcare needs, by the end of fiscal 2017.
- During the “emergency intensive efforts period,” Japan will provide powerful support for motivated local governments through a comprehensive aid package made up of the five main pillars of (i) developing childcare centers using leased land and state-owned land; (ii) securing childcare professionals through efforts including improving their compensation; (iii) adding small-scale childcare for less than 20 students and long-term childcare at kindergartens to the subjects of aid, as the first steps toward the new system; (iv) aid to unlicensed childcare facilities with the prerequisite that they aim to become licensed in the future; and (v) aid to childcare facilities in workplaces.

(2) Toward social capital for the 21st century

Social infrastructure development is faced with issues such as fiscal restrictions, changes in areas such as the composition of the population, and the need to respond to large-scale disasters and deterioration of social infrastructure. As such, it must be addressed with brand new ideas and systems. From this perspective, a new fundamental policy will be formulated on social infrastructure development. In doing so, appropriate asset management will be conducted through thorough streamlining and prioritizing with a view to what services are truly needed, instead of focusing on facilities alone, based on the following basic concepts and priority efforts.

⁴⁴ This system is based on three laws related to children and Parenting, including the Act on Support for Children and Childcare (2012 law no. 65).

(Basic concepts and priority efforts)

(i) Thorough streamlining and prioritizing

Thorough streamlining and prioritizing of social infrastructure will be carried out, reflecting considerations such as stimulus effects on private-sector demand and investment efficiency. Bold private-sector proposals will be incorporated, in areas including selection of targets for investment and choice of hard and soft measures.

- Japan will prioritize investment in infrastructure to strengthen its international competitiveness (such as airports in the greater Tokyo area, strategic international container ports, and loop roads in the three largest urban areas) and in social infrastructure selected for its high levels of stimulus effects on private-sector demand and investment efficiency. It also will move forward with appropriate allocation of related budgets based on choice of tangible and intangible aspects of social infrastructure.
- Through community initiatives using means such as conferences with participation of industry, the academy, finance, and government, strategies will be made clear for bundling hard and soft measures together. These strategies will be prioritized and carried out through cooperation among related parties, including use of private-sector funding. The national government will study effective systems for supporting creative efforts by local communities. Regions will revise urban plans to reflect consolidation and reduction of infrastructure functions.
- In under-populated areas and areas with disadvantageous conditions including remote islands and peninsulas, efficient measures will be advanced in both hard and soft terms, through cooperation between the national government and regions with an eye to the regions' future prospects.
- Comprehensive evaluation (program evaluation) will be utilized to evaluate together programs that provide services considered necessary, judge their necessity, and then evaluate the necessity and priorities of the services and measures included in such programs.

(ii) From building new social infrastructure to using existing social infrastructure smartly

As social infrastructure ages rapidly, it will be put to efficient, effective use through means including lengthening of its life cycle and reducing costs, in addition to boldly integrating private-sector proposals, public-private partnership in development and management, and promoting integrated asset management across wide areas.

- To decrease total costs while securing safety based on the basic policy on infrastructure capital development to be put together in the future, efforts will be advanced including promoting development of and adopting maintenance and management technologies, improving information on stock of social infrastructure and using ICT in its maintenance and management, formulating plans to lengthen the lifespans of social

infrastructure , and strengthening the infrastructure for maintenance engineering.

- Hard and soft measures will be chosen appropriately, prioritized, and ranked, in areas including national resilience.

(iii) Efficient social infrastructure development through means including use of private-sector capabilities

Efforts advanced under tight fiscal constraints will include thorough streamlining and prioritizing, appropriate division of responsibilities between national and local governments, thorough conversion to PPP and PFI measures utilizing private-sector funds and expertise, and improvements to cost structures.

- Under the Action Plan Toward Thorough Reforms to the PPP/PFI Systems, together with advancing use of private-sector proposals, development of a system for public-private partnership, and active addition of use of concessions for facilities such as airports, waterworks and sewer systems, and roads, maintenance, management, and renovation through PFI projects utilizing revenue-generating facilities and other facilities will be promoted and adoption of large-scale improvements to expressways using the PPP approach will be studied. Furthermore, financial information will be maintained and improved, for example through asset valuation based on corporate accounting principles.
- The efforts of government agencies and local governments toward such thorough reforms to PPP/PFI systems will be evaluated appropriately and investments expected to have high levels of results in terms of public-private partnership will be prioritized.
- The systems and content of cost improvements made through now will be reviewed and effective efforts, such as expansion of PPP/PFI systems, reducing maintenance and management costs, reforming purchasing through means including use of bidding and contracts, and putting technological innovations such as ICT to use, will be promoted boldly in order to reduce overall costs.

(3) Toward rebuilding the local-government finance system

To realize both revitalization of the Japanese economy and fiscal consolidation, it is extremely important to make local public finances sound and promote their independence, and to develop an environment in which local governments can adapt smoothly to changes in economic and social structures.

(i) Basic concepts

Local tax revenues have not yet returned to a sufficient level, and local public finances continue to feel the effects of the economic crisis that followed the collapse of Lehman Brothers in 2008. For example, some retain emergency measures such as special expenditure allowances. There is a need to move forward with a switch from this emergency mode to a non-emergency mode – in other words, a normal mode – in accordance with economic revitalization,

while securing the necessary funding sources.

For this reason, it is important to reform local public finance in terms of both revenues and expenditures, through efforts including securing local tax revenues and prioritizing and streamlining expenditures in accordance with future economic growth trends, together with developing a local public finance system in which local governments that take on the challenges of community revitalization and management reforms are rewarded and it is possible to respond appropriately to structural changes in the economy and society.

(ii) Priority efforts

(Promoting the soundness and independence of local public finances)

The soundness and independence of local public finances will be promoted. For this purpose, the total amount of general funding needed for stable management of local public finances will be secured while also taking on reforms in both revenues and expenditures, for example through enhancing revenues by means such as increasing local tax receipts and keeping expenditures down in step with the efforts of the national government. Another aim will be to restore the number of local governments not receiving tax allocated to local governments to its level from prior to the economic crisis.

- Revenue reforms –

- Increasing local tax receipts through means including advancing the Growth Strategy and the Community Revitalization Plan
- Steadily promoting the comprehensive reform of the social security and tax
- Advancing system improvements toward greater use of the Furusato Contributions System to contribute to local communities

- Expenditure reforms -

- Prioritizing and streamlining local government expenditures to improve their quality, while giving consideration to stable local fiscal management
- Greatly expanding the areas in which PPP and PFI systems are adopted, to improve the quality and efficiency of administrative services as well as promoting administrative and fiscal reforms by local governments

- Support for community effort -

- Together with strongly promoting decentralization to increase the freedom of local governments, new assessment of tax allocated to local governments will be conducted from the two perspectives of ability to carry out administrative reforms and results of revitalizing local economies, and this will continue for a certain period of time in order to provide long-term support to local governments that are making efforts.

(Development of local-government administrative and fiscal systems suited to changes in the population structure and other factors)

In response to the structural changes in the economy and society of rapid ageing in major urban areas and progressive depopulation in rural areas,

together with advancing reorganization of the division of responsibilities between national, prefectural, and municipal governments systems will be reviewed to advance efforts such as wide-area cooperation and division of functions across wide areas.

- To strongly advance the concept of self-reliant areas with stable population, the form for appropriate fiscal measures corresponding to the roles that each local government in the area should perform.
- To encourage partnerships between municipalities and prefectures and among municipalities, systems will be developed making it possible for prefectures to supplement the services of municipalities and enabling flexible cooperation among municipalities.
- The state of progress on the “Public Hospital Reform Plan (Five-Year Plan)” will be evaluated, and effective restructuring and networking of public hospitals will be advanced through cooperation between the Ministry of Internal Affairs and Communications and the Ministry of Health, Labour and Welfare.

(Promoting “visibility” of local public services)

Public-sector accounting based on corporate accounting principles is a fundamental infrastructure for advancing reforms to public-sector management. Such accounting will be promoted to realize further “visibility” of local public finances. Together with this, it also is important to review public facility assets in both quantitative and qualitative terms and to reform their management.

- Open local government will be promoted through encouraging use of data at the familiar local level and accelerating local-government cloud-computing initiatives.
- Transparency will be advanced for public financial information including asset stocks, and development of local public-sector accounting based on the assumption of use of corporate accounting principles will be promoted.

4. Implementing an effective PDCA cycle

Evaluation of policy constitutes an infrastructure for improving the results and quality of policy. An effective PDCA cycle will be established through the following efforts, and it will be used to prioritize resource allocation to administrative services that are effective in light of their policy objectives, together with cutting the costs and improving the quality of such services.

- The Council on Economic and Fiscal Policy will carry out timely review of important fields contributing to economic revitalization and fiscal consolidation, based on factors such as the state of efforts implemented, to improve the efficacy of the PDCA cycle. Even after such review, coordination will be strengthened between the Council on Economic and Fiscal Policy and the Ministry of Internal Affairs and Communications as well as individual agencies in connection with policy evaluation, to ensure thorough use of the PDCA cycle (focusing on evaluation from a comprehensive perspective) for policies related to priority topics and establish

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evidence-based policy evaluation for those policies. Together with these measures, the agency implementing each policy will prepare and maintain the statistics needed in such evaluation.

- In individual government agencies, coordination in policy evaluation and review of administrative services will be strengthened, and integrated efforts will be advanced. Efforts such as objectively checking the effects of policies through means including third-party evaluation will ensure that the PDCA cycle is carried out reliably, enable bold review of allocation of resources, and make sure that expenditures do not become entrenched. In addition, efforts will be advanced with variation to ensure that policy evaluation is conducted efficiently and is not a mere formality.
- Cabinet councils on important policy areas will thoroughly advance the PDCA cycle on each type of plan and program, as the control-tower function for each policy area.
- Together with continuing to study improvements to the prior evaluation system related to regulations first enacted five or more years ago, improvements will be made through means including use of studies of the actual conditions of application of special taxation measures based on the Act on Transparency of Conditions of Application of Special Tax Measures⁴⁵ for tax policies and policy evaluation.
- To improve the efficiency of budget execution and normalize and make it transparent, together with advancing efforts to prepare and publish current national fiscal policy documents and other materials, further improvements will be made in disclosure of information such as cost information by policy, also considering their use in the PDCA cycle.

⁴⁵ 2010 law no. 8

Chapter 4: Basic stance for compiling the FY2014 budget

1. Current economic conditions and economic outlook

Japanese economy is picking up steadily. In FY 2013, with the modest recovery of the world economy expected, Japanese economy will recover, driven by private demand as implementation of the “three-arrows” strategy in an integrated manner consisting of aggressive monetary policy, flexible fiscal policy, and a growth strategy that promotes private investment is expected to create steady demand and employment.

In FY 2014, as a recovery is expected in the world economy, the economic recovery involving increases in employment and income is expected to continue, supported by private-sector demand, by implementation of measures based on economic and fiscal management described under Chapter 1, Section 2 (6).

Downside risks include the following: overseas economic trends, trends in financial and capital markets, and constraints on the electric supply

2. Efforts based on medium- to long-term economic and financial prospects

With regard to the economy and public finances, which interact with each other, it is important to study matters such as policy management and regulatory reforms while looking at prospects over the medium- to long-term in an integrated and consistent manner, using quantitative analysis and estimates. For this reason, the budget in each fiscal year needs to be formed in line with a roadmap for realizing both revitalization of Japan’s economy and fiscal consolidation.

For this purpose, the government will provide medium- to long-term economic and fiscal estimates with a view toward 2020 or so, making clear the future prospects for nominal and real GDP, trends in prices, and other matters, and it also will follow up on trends relating to the macroeconomic vision it will aim to achieve over the medium to long term as shown under Chapter 1, Section 2 (6). Together with these efforts, it also will formulate a “Medium-term Fiscal Plan” that gives concrete form to national and local efforts toward achievement of the fiscal consolidation goal.

3. Approach to compiling the FY2014 budget

Based on the “Medium-term Fiscal Plan” and other considerations, the fiscal 2014 budget, like the fiscal 2013 budget, will be a varied budget aiming to achieve both economic growth led by private-sector demand and the fiscal consolidation goal.

In forming that budget, based on these Basic Policies and the Growth Strategy, focus will be placed on items highly capable of encouraging private-sector demand and innovation, highly urgent items, and those that can be carried out together with regulatory reforms.

Amid prospects of low birth rates and an ageing society, efforts will be made to build a

social security system sustainable into the future. In order to keep down growth in the burden on the public as much as possible, together with promoting prioritization in social insurance including rationalizing medical expenses through means such as encouraging use of generic drugs and promoting use of ICT, efforts will be made to build a society in which those who make effort are rewarded.

On the subject of development of social infrastructure, efficient asset management will be promoted together with focusing on projects promising high returns on investment, in coordination with measures for intangible social capital, on various topics including strengthening international competitiveness, regional revitalization, building as national resilience, and disaster prevention and mitigation. Also, efforts will be made to develop projects through public-private partnership to draw out private-sector funding and expertise, based on the concept of cost-bearing by beneficiaries.

Based on the basic concepts identified in Chapter 3 and the content of efforts toward national and local fiscal consolidation identified in the Medium-term Fiscal Plan, local public finances will be addressed through controls implemented in step with national efforts and securing the total amount of general funding sources needed for stable local fiscal management. Also, in tax allocated to local governments a system will be adopted of calculating allocation amounts in order to assist local governments that are making efforts.

Furthermore, based on Chapter 2, Section 6 and Chapter 3, Sections 3 and 4, together with advancing quality improvements to public finances in each field administrative fiscal reforms and an effective PDCA cycle will be promoted as well.

4. Future efforts

To make clear the roadmap toward both sustained growth led by private-sector demand and fiscal consolidation, this summer the Council on Economic and Fiscal Policy will prepare the FY2014 Budget Overview, which will describe economic and fiscal prospects in the following year and an outline of the budget for that year. It also will present a medium- to long-term estimation of the economic and fiscal situation and formulate the Medium-term Fiscal Plan and the Guidelines for Budgetary Requests.

This autumn, in accordance with Supplementary Provision 18 of Act for Fundamental Tax Reform, a decision will be made on increasing the rate of consumption tax, taking into overall consideration economic conditions and other factors. The Council on Economic and Fiscal Policy will conduct the necessary studies for such overall consideration of economic conditions and other factors.

Based on the basic concepts described in this chapter, discussions will take place in even greater depth in the Council on Economic and Fiscal Policy and other bodies, and then after formulation of a basic policy on fiscal 2014 budget formation and FY2014 Government Economic Forecast, a decision will be made on the proposed fiscal 2014 budget. The Council on Economic and Fiscal Policy also will deliberate on medium- to long-term economic and fiscal policies while continuing to review economic and fiscal trends.

(Reference)

The relationship between Gross Domestic Product (GDP) and
Gross National Income (GNI)

	Nominal	Real
Gross Domestic Product (GDP)	<ul style="list-style-type: none"> ▪ The sum total of the value added on all goods and services produced in a country, assessed at current prices as of the point in time transactions take place. 	<ul style="list-style-type: none"> ▪ The sum total of the value added on all goods and services produced in a country, with production assessed using prices as of a base point in time.
Gross National Income (GNI)	<ul style="list-style-type: none"> ▪ The sum total of income (e.g., employment income, property income, and business income) received by residents of a country over a period of time, assessed at current prices as of the point in time transactions take place.*¹ ▪ Nominal GNI = Nominal GDP + net receipts of nominal income from abroad 	<ul style="list-style-type: none"> ▪ The sum total of income (e.g., employment income, property income, and business income) received by residents of a country over a period of time, with buying power assessed using prices as of a base point in time. ▪ Real GNI = Real GDP + net receipts of real income from abroad + trading gains/losses*²

*1 Japan's nominal GNI (final report) in fiscal 2011 (JPY488 trillion) included JPY245 trillion in employment income (50% of total nominal GNI), JPY20 trillion in (non-business sector) property income (4%), and JPY82 trillion in business income (17%).

*2 Trading gains/losses indicate changes in buying power (real income) due to changes in the terms of trade (ratio of export prices to import prices). When the terms of trade improve (i.e., the ratio of export prices to import prices increases), the change in trading gains/losses contributes to an increase in real GNI.