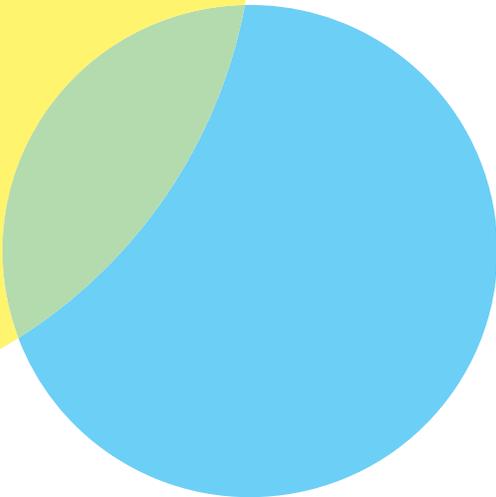
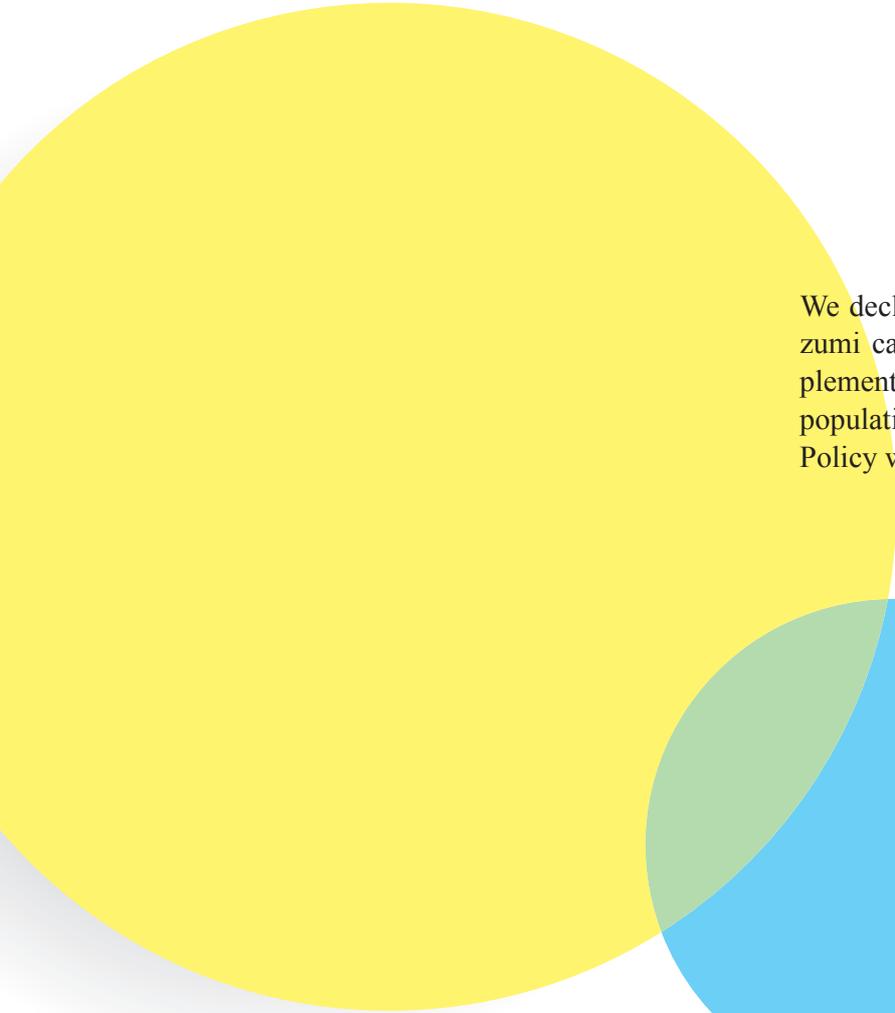




STRUCTURAL REFORM OF THE JAPANESE ECONOMY: BASIC POLICIES FOR MACROECONOMIC MANAGEMENT



We declare and manifest the basic outline of “the Koizumi cabinet reform.” We intend to elaborate and implement the reform plan with the support by the whole population, and the Council on Economic and Fiscal Policy will have a crucial role in realizing the reform.

Scenario for Japan's Economic Revitalization

The Japanese economy still faces many difficult challenges. The Council on Economic and Fiscal Policy makes its best effort to gather the wisdom of its members to cope with these challenges and to forge new rejuvenating paths for the economy.

The source of economic growth in this new global century is found not so much the labor force as in “knowledge.” Knowledge generates economic growth through technological progress and through mobilization of resources from relatively inefficient sectors to highly efficient ones—in other words, through the dynamic process that could be called “creative innovation.” This process induces the emergence of new growth industries as well as products through market competition, and it creates new places of employment.

This new policy package we now propose is designed to achieve the following goals, all of which are crucial for the resurrection of the Japanese economy. First, we aim to resolve the non-performing loans problem within two or three years and to carry through forcefully with forward-looking structural reforms that are long overdue. We regard the next two to three years as a period of intensive adjustments for the Japanese economy. Though we may have to accept low economic growth in the short run, after this adjustment period we expect that the Japanese economy will overcome the current economic weaknesses and that it will achieve growth driven by private-sector demand and spontaneous economic incentives. Along with this recovery process, we will steadily move forward with the fiscal reform while carefully considering the macroeconomic environment to restore Japan's government primary balance for the sake of future generations.



Resolution of the Non-Performing Loans Problem

The first step toward economic revitalization is the definite and final disposal of non-performing loans (NPLs). To achieve this objective, we must facilitate the appropriate disclosure of information about the financial condition of the companies burdened with excessive debts. We propose to classify properly the debtors by bankers with respect to their risk categories and the presence of reserves against default.

Second, we also plan to monitor the major banks for their progress in clearing their NPLs off their balance sheets, making use of new indicators.

Third, disposal of NPLs will be facilitated by the Resolution and Collection Corporation (RCC), whose functions will be further strengthened in securitization and business restructuring of viable debtor companies.

Fourth, we are providing employment measures to guard against the unwelcomed side-effects of disposing of NPLs. We plan to create employment opportunities in new sectors (for an estimated 5.3 million people within five years for the services sector). We will encourage mobility in the labor force by supporting self-education community colleges as well as through an occupational ability assessment system, by deregulating temporary personnel markets, and by improving safety nets such as assistance of housing loans and educational burdens for those who are without jobs.

Fifth, we aim to construct a stable financial system suitable for the 21st century by emphasizing the flow of funds through direct finance, and by achieving banking reforms that will limit the risks of shareholding among banks.

Seven Programs of Structural Reform

To achieve the basic goals outlined above, we propose the following seven-point program. The first two are aimed at revitalizing society and the economy. Programs 3, 4, and 5 are aimed at supporting better standards of living, better lifestyles, and safety nets. The final two will reinforce government functions and radically review the divisions of labor among governmental institutions.

1. Privatization/Regulatory Reform—Maximizing Use of the Private Sector

We intend to review the merits of special public corporations and semi-public institutions and to reduce their subsidies for the sake of a powerful promotion of privatization, and will attempt to expand the arenas and earning opportunities of the private sector. High on the list is the privatization of the “three post-office businesses”—mail, savings, and life insurance—and a radical review of the roles of the public financing. We intend to introduce the free market process into such fields as health, nursing care, social welfare, and education. We also plan to introduce private management methods including privatization in, for example, the operation of Japan’s national universities.

2. The “Support Challengers” Program —A Social System That Encourages Individual Ability

We will consider systems, including tax systems, in order to facilitate shift from the emphasis on savings—primarily in the form of bank deposits—to the emphasis on equity investments, as well as on business start-ups and business creation. We will strengthen the function of the Fair Trade Commission, which promotes competition policy. We will fuse broadcasting and telecommunications, and utilize the application of a free market process such as open bidding for broadcasting frequencies and for other public assets. Moreover, we will promote a revolution in information technology (IT) through measures such as the creation of IT model areas and support for IT education.

3. Strengthening Welfare and Insurance —Making People Feel Secure and Stable

We will create a social insurance system that is both reliable and easy to understand by adopting, for example, a system of social security numbers and “Individual Social Security Accounts” (tentative name), which would allow people to track their own social security payments and benefits. We will establish a sustainable pension system that provides a sense of security, and explore possible changes in working styles. We will review pension taxation to smooth the burden among generations in a fair and appropriate manner. We will form a “Medical Services Efficiency-Boosting Program” (tentative name) to achieve efficient, high-quality medical care through reviewing the standardization of medical services and compensation systems and through diversifying management systems that include joint-stock corporations. We will control the growth of national medical expenses, especially those for the aged patients, to be in good balance with the growth of national economy.

4. Doubling Our Knowledge Stock —Human Capital Development Through Individual Choice

We will give priority to assisting individuals who are eager to study. For example, we will increase scholarships and develop measures to support self-help efforts (for instance, by education vouchers) for individuals who receive education as well as adults who educate themselves while working. We will promote the flow of education and research funds from the private sector, for example, by encouraging donations to universities and by preparing the conditions that facilitates commissioned research by universities by means of various devices including tax concessions.

5. Lifestyle Revolution —Creating an Infrastructure That Allows People to Live and Work as They Like

We will build a society that is friendly to women who work outside the home, by, for example, providing tax and social security systems for promoting individual participation and by eliminating the waiting times for children to enter day-care facilities. We will create an environment that is friendly to the elderly, and the handicapped by, for example, expanding barrier-free constructions .

6. Local Independence and Revitalization —Empowering Local Governments to the Maximum

We seek the independent development of regions by capitalizing on their unique character. Prompt reorganization of cities, towns, and villages and rebuilding of regional fiscal strength in proportion to cost and benefit for residents are two examples. We seek to reduce national involvement in local government. For example, we seek a reduction in national subsidies and supports, a review of local grant and tax systems, and, at the same time, an expansion of local taxation. We aim to revitalize rural regions by introducing private-sector-style management locally. Examples include the water supply business and the participation of NPOs in elderly care, town revitalization, and recycling.

7. Fiscal Reform —Creation of a Simple, Efficient Government Suitable for the 21st Century

We have to change the rigidity of resource allocation patterns of the national and local governments. We will reform the practice of earmarked revenue sources and the practice of budget allocations bound by the distinction between public works and non-public works. We will make budget allocations among regions more flexible and review the long-term plans related to public works.

Reform of Policy-Making Process

In short, to increase government credibility, we need a complete reformation of Japan's policy-making process. First, the real needs and wants of the people must be reflected more directly in the political process. For example, we may consider the public election of the prime minister, national dialogues through such means as "open sources," and town meetings.

We require the assurance of transparency and accountability in the policy-making process, including the complete reform of fiscal systems and budget compilation systems. We welcome the transparent deliberation of policy matters, with a focus on discussions in the Council on Economic and Fiscal Policy, and budget compilations that reflect the results of such discussions and the evaluation of previous year's outcome. We seek unified and coordinated pursuit by the Cabinet of high-priority, trans-agency projects, from the budget-request phase to execution.

We will explore issues concerning transparency and accountability in, for example, fiscal transfers between national and local general accounts, special accounts, and the Fiscal Investment and Loan Program (FILP), as well as for fund transfers between special corporations and other institutions, and between the national and local authorities.

We will identify and prioritize strategic areas, objectively evaluate the management of enterprises, and create systems for reflecting financial and evaluation results on budgets and plans. We will apply an "administrative cost statement," based on corporate accounting principles including consolidated accounting with respect to affiliated subsidiaries, to special corporations, and consider introducing it to special accounts.

On Medium- and Long-term Economic and Fiscal Management and Compilation of the Fiscal 2002 Budget

For the next two or three years, the disposition of NPLs will cause deflationary pressure, and growth may remain low. After that, in the medium run, the Japanese economy is expected show a gradual recovery led by private demand as a result of appropriate economic management and progress in structural reforms.

In fiscal 2002, as a first step toward fiscal reform, we aim to restrict the issues of new government bonds to a maximum of 30 trillion yen. Subsequently, the goal of policy management will be to turn the primary balance of the budget into a surplus.

For planning FY2002 Budget we emphasize the following seven points: (1) Address the environmental issues....For example, we establish the recycling society where resource are fully reused for the future. (2) Cope with the problems from the aging population. (3) Develop local facilities fit for regional need. (4) Revitalize cities....We make our cities more attractive and enhance their international competitiveness (5) Promote science and technology (6) Cultivate human resources. (7) Develop our nation into one of the most advanced IT states in the world.

A Concluding Remark

Through the implementation of this policy package, we believe that the Japanese economy will recover from the long tunnel of slow down and that it will be able to play a positive and significant role in the international economy.

