

Minister's Summary by Minister Yosano



2nd Meeting (February 1, 2006)

- (1) Agenda for the future deliberations of the CEFP
- (2) Regulatory reform
- (3) Integrated Reform of Expenditures and Revenues

Kaoru Yosano here. Today, the Council on Economic and Fiscal Policy (CEFP) held its second meeting this year. First, we talked about the agenda for the future deliberations of the CEFP. Then, we discussed regulatory reform, inviting Mr. Chuma, Minister of State for Regulatory Reform, and Mr. Miyauchi, President of the Council for the Promotion of Regulatory Reform. Finally, we discussed the Integrated Reform of Expenditures and Revenues.

With regard to the agenda for the future deliberations of the CEFP, I first presented a paper compiled based on the discussions in the previous meeting, and explained it. Then, Mr. Nikai, Minister of Economy, Trade and Industry, gave an explanation on the New Economic Growth Strategy. Additionally, the following statements were made by an expert member.

To secure progress in structural reform, the Plan-Do-Check-Act (PDCA) cycle needs to be steadily implemented. As we want to check the progress in the Basic Policies 2005, report the results to the CEFP, and have them reflected in the Basic Policies 2006, we request the cooperation of the relevant persons.

I stated the following to confirm that the CEFP will address the issues listed in the paper.

The proposed agenda for the future deliberations of the CEFP has basically been accepted as is by the members.

We would like to discuss the opinions presented today in a more in-depth manner at the stage when we take them up as agenda items in the future.

I also made the following comment regarding the comprehensive review of the Basic Policies 2005.

We would like the expert members to report the results at the CEFPP around late March, and use these results in compiling the Basic Policies 2006. Therefore, we request the cooperation of the relevant persons.

Regarding regulatory reform, Mr. Chuma and Mr. Miyauchi provided explanations based on materials. In addition, an expert member made a statement with regard to the regulations on the location of large retail stores. This had been an issue for which the Prime Minister had given an instruction to provide an opportunity for discussion at the CEFPP meeting held at the end of last year.

Based on these, we confirmed the following.

With respect to the three Acts concerning urban development, progress will be made in legal reform. In implementing the revised Acts, due consideration will be given so that supply and demand are adjusted and vested interests are not protected. In addition, PDCA evaluation will be conducted for the overall measures after a certain period. Measures will be implemented while study continues on what the overall regional revitalization measures should be.

There was the shared understanding that the promotion of regulatory reform and market testing are important for achieving a small and efficient government as well as for creating growth markets and for increasing growth momentum and competitiveness through the reform of public service markets. I summarized, asking the Council for the Promotion of Regulatory Reform to continue to promote the reform actively in coordination with the CEFPP.

The Prime Minister made the following statement.

Some people oppose regulatory reform, blaming the reform for the recent Livedoor issue and other issues. However, these are completely different matters. We need to make concrete progress in carrying out regulatory reform and the opening-up of public service markets to the private sector.

Regarding the Integrated Reform of Expenditures and Revenues, the following arguments were made after some explanations based on the materials.

The New Economic Growth Strategy and the PDCA cycle are important.

The macroeconomic assumption should be prudent. We should take into account that if inflation occurs, this would increase interest payments and expenditures. The goal should be to reduce the enormous outstanding debts. Since the integrated reform of expenditures and revenues will lead to increased public confidence in the sustainability of public finances and social security, we will exert full effort into implement the reform.

Macroeconomic assumptions should not be made conservatively. Not only the flow-based targets, but also stock-based targets should be set. Outstanding debts of local governments are far greater than the OECD average on a stock basis.

Social security and local allocation tax should not be treated in the same manner. In-depth discussions should be held on allocation of tax sources.

The real growth rate and nominal growth rate should be clearly distinguished.

While certain arguments exist on long-term interest rates, these are ultimately set by the market.

A nominal growth rate of 4% is a prudent assumption.

If prices rise but the interest rate does not, the real interest rate will turn negative and cause a problem in income distribution.

If the nominal growth rate rises by 1%, the tax revenue will increase by nearly 12 trillion yen, but expenditures could increase by an even larger amount.

There seems to be confusion in various media articles on the issues of the nominal growth rate and long-term interest rate.

We would like to see the actual figures concerning interest rates and growth rates.

Amid accelerating population decline and an aging society with fewer children, the raising of potential economic growth is the most challenging issue, but also highly important.

Mr. Takenaka, Minister of Internal Affairs and Communications, provided various explanations based on the materials.

In response, I stated the following.

We will make calculations based on the assumptions proposed by Mr. Takenaka. However, the final plan needs to comply with the common sense held by public, and we may need to make drastic cuts in social security expenditures and local government finance in order to make the plan work out. In particular, local government finance will have to be cut very drastically.

In summary, I made the following statement.

We will carry out further study in the future regarding matters including the appropriate macroeconomic assumptions, the appropriate targets for achieving fiscal consolidation such as the primary balance and the ratio of outstanding debts to GDP, the method for promoting a fundamental streamlining of expenditures, and the indication of options for the people regarding the balance between the level of administrative service and the burden imposed on them.

We will hold discussions on each of these fields so as to indicate the options and reform schedule by June. I request your cooperation in this endeavor.

Finally, the Prime Minister stated as follows.

We have had a very lively discussion today. The content was very sophisticated.

However, we need to create and indicate options that are easy to understand for all people, so I ask you to make efforts regarding this point.