

Minister's Summary by Minister Ota**25th Meeting (November 10, 2006)**

- (1) Intensive deliberation (3)
 1. Social security reform
 2. Public investment reform
- (2) On the Basic Principles of FY 2007 Budget Formulation (draft items)

Hiroko Ota here. Today, the Council on Economic and Fiscal Policy (CEFP) held its 25th meeting of the year and discussed social security and public investment reforms. Following this, we had deliberation on draft items of the Basic Principles of FY2007 Budget Formulation.

On social security reform, papers were submitted by expert members, temporary member Mr. Yanagisawa (Minister of Health, Labour and Welfare), Mr. Suga and Mr. Amari, respectively. Key points of the discussions are as follows:

In response to the proposal by the expert members, Mr. Yanagisawa made the following statements:

- (1) The creation of a realistic system is necessary, and it is very important to correct high costs.
- (2) But, as for the request to set a numerical target with regard to how many trillion yen should be reduced over the next five years under the “high-cost structure correction program” and to make that goal into each year’s target, as proposed by the expert members, it is not simply a matter of the amount of money but also requires understanding toward the system. Therefore, it is hard to present a numerical target, but what institutional reform is needed.
- (3) There is also a reform cycle that has been fixed.
- (4) There is political difficulty, too.
- (5) I would like to propose what specific items would be required to correct the high-cost structure.

Mr. Amari said that a mechanism to allow efforts to be rewarded is necessary; while Mr. Suga mentioned the necessity for a mechanism to take advantage of frontline knowledge and for the utilization of information and communication technologies (ICT)

Other remarks presented in the meeting were as follows:

Social security expenditures should be curbed as it accounts for 40% of general expenditures.

Response with the consideration of users' realities is required.

There seems to be more to be solved in terms of frontline management.

In response to Mr. Yanagisawa's statement that he can present restraint items for correcting high-cost structure, but that showing specific figure is difficult, expert members proposed as follows:

Contents of restraint items are still required.

For example, how will the prospective payment be conducted? Japan has a fixed daily payment system, but there are few different ways in the world. In this respect, contents showing how restraint items can be achieved are important, and setting numerical target is also needed. Without the numerical target, the PDCA cycle cannot be implemented. If such items are presented, expert members would like to estimate their effects based on certain preconditions. The Japanese policy lacks a numerical target for evaluation, so some numeric measurement is required.

There are other opinions as follows:

Medicalcare insurance cards should be made ICT-compatible as part of promoting IT. Although the people are opposed to cutting costs by reducing quality, there are ways to cut costs while maintaining quality. That is what the IT promotion is all about. IT promotion in which use of a common platform increases efficiency is important.

I made the following summary:

The CEFP members shared the basic viewpoints on tackling social security reform and had a common recognition that the high-cost structure should be corrected.

There was an opposition to setting a numerical target over five years. So we would request the Ministry of Health, Labour and Welfare to propose restraint items, based on which expert members will present certain estimates. I propose that discussions would be conducted in this manner.

As for the importance of the IT utilization, we would like to have the Minister of Health, Labour and Welfare give further considerations to ways to utilize IT.

The Prime Minister made the following conclusions:

In social security, both quality improvement and greater efficiency should be

achieved simultaneously. Quality is not a monetary question. So, even if monetary efficiency is increased, quality can be improved at the same time. The correction of high-cost structure is indispensable for balancing quality improvement and greater efficiency. There are various difficulties, but I would like to ask the Minister of Health, Labour and Welfare to do his best to develop the program and show us the reform path.

As for the question of the Social Insurance Agency, the interest of the people is so high. I intend to reorganize the SIA from scratch from the viewpoint of credibility of the pension system as well.

On the public investment reform, expert members, temporary member Mr. Fuyushiba (Minister of Land, Infrastructure and Transport), and Mr. Suga made briefings on their papers.

Main statements by Mr. Fuyushiba are as follows:

The 3% cut in the FY2007 budget is tough, but must be done. It is only natural that we will cooperate in achieving a surplus in the primary balance by FY2011. But there are many issues that must be challenged under public investment. For example, there are issues such as safety, security, international competitiveness and local autonomy. Therefore, it is difficult to accept expert members' proposal for continuing to cut public investment by 3% annually over four years after FY2008. Reform efforts will continue, but keeping the 3% reduction will be difficult if breakaway from deflation causes issues such as rise in materials price. When the government worked out the Basic Policies 2006, the reduction range from 1 to 3 % was determined following a heated debate.

As part of efforts to eliminate bid-rigging practices, the government has lowered the planned price of construction projects applicable to open bidding from over 720 million yen to over 200 million yen, and introduced bid bonds. Additional efforts will be considered. Since local governments confront many problems, I would like to propose the improvement plan within this fiscal year as proposed by expert members in cooperation with the Minister of Internal Affairs and Communications.

Regarding the PDCA cycle as proposed by expert members, the Ministry of Land, Infrastructure and Transport has made various efforts since FY1998. But calculating the cost-benefit ratio involves difficulty because monetary conversion cannot be applied to some aspects. I would like to present a report with description of past developments at the end of this fiscal year.

On division of roles between national and local governments as proposed by expert members, it will be quite difficult to eliminate government-subsidized projects because some local public works include interprefectural projects.

As for tax revenues earmarked for road projects, I will certainly take actions in line with the Prime Minister's policy speech. But the emphasis should be placed on taxpayers' understanding as well.

Main statements by Mr. Suga are as follows:

Local public works will be restrained in step with the national government. We will seek to restrain it with emphasis on the appropriate areas, but we also have to respond to international competition and regional gaps. To help eliminate bid-rigging practices, I would like to propose an improvement plan in cooperation with the Minister of Land, Infrastructure and Transport within this fiscal year.

Other remarks are as follows:

Public investment must be conducted with emphasis on the appropriate areas. Compared to other countries, Japan's public works share in expenditure is still high.

An opinion was expressed about the difficulty of continuing an annual 3% cut after FY2008, but I think there is still waste and inefficiency.

In some countries, benefits must be over three times as large as the planned cost, so it would be necessary for Japan, for example, to limit the cost-benefit ratio to 3 or above and prioritize public works projects.

Review of tax revenues earmarked for road projects is the promise to the people, so wisdom to produce easy-to-understand results is needed.

Bid-rigging practices seem to be deeply linked to the civil servant system reform.

I made the following summary:

A 3% cut in public investment under the FY2007 budget was agreed upon. As for the subsequent four years, I propose to leave the issue pending.

Temporary member Mr. Fuyushiba (Minister of Land, Infrastructure and Transport) and Mr. Suga are requested to consider a reform plan for the elimination of bid-rigging practices within this fiscal year and give reports to the CEFP.

I learned that the Ministry of Land, Infrastructure and Transport has been implementing the PDCA cycle regarding public investment. So, advanced proposals will be requested in response to expert members' proposal.

I would like to make issues of division of roles between national and local governments and tax revenues earmarked for road projects continued agenda for discussions.

The Prime Minister made the following conclusions:

Efforts to reduce public works expenditures continued under the Koizumi reform. Substantial reductions have been made, but we should hold on now to take over the Koizumi reform.

On public works expenditures, I have reiterated that what should be reduced would be reduced, but that needed projects will be steadily implemented. To this end, we should establish rules proposed by expert members. So, I request the Minister of Land, Infrastructure and Transport to work out advanced plans.

As for tax revenues earmarked for road projects, I would like the CEFP to continue discussions so that reform acceptable to the people can be implemented in line with the policy speech.

Then, we entered discussions on the Basic Principles of FY2007 Budget Formulation (draft items). But little time was left, so we only presented draft items without further discussions. The Basic Principles of FY2007 Budget Formulation will be discussed from now on.

The draft plan will be submitted at the next CEFP meeting so that the CEFP could adopt the policy for a Cabinet decision by the end of this month. Lastly, I made a request for cooperation to this end.