

**Minister's Summary by Minister Yosano****3rd Meeting (February 15, 2006)**

- (1) Integrated Reform of Expenditures and Revenues
- (2) Strategy in the Globalizing Economy

Kaoru Yosano here. Today, the Council on Economic and Fiscal Policy (CEFP) held its third meeting this year. We first talked about the Integrated Reform of Expenditures and Revenues. Then, we discussed the Strategy in the Globalizing Economy, inviting Mr. Itoh, a Professor from the Graduate School of Economics at the University of Tokyo.

With regard to the Integrated Reform of Expenditures and Revenues, a private sector member first stated that the required amount of expenditure reduction or revenue increase to achieve a primary balance in FY2011 is approximately 20 trillion yen. Mechanical estimations for achieving such an amount solely through expenditure cuts were introduced as follows.

1. Cutting discretionary expenditures alone

→ Need to cut public investment by about 8 trillion yen and other expenditures by about 12 trillion yen

2. Cutting discretionary expenditures and personnel expenses

→ Need to cut discretionary expenditures by about 12 trillion yen (public investment by about 5 trillion yen and other expenditures by about 7 trillion yen) and personnel expenses by about 8 trillion yen

3. Cutting discretionary expenditures, personnel expenses and social security expenditures

→ Need to cut discretionary expenditures by about 9 trillion yen (public investment by about 3 trillion yen and other expenditures by about 5 trillion yen), personnel expenses by about 5 trillion yen and social security expenditures by about 6 trillion yen

This estimation process is considered necessary only for assessing the magnitude of the difficulty in cutting the expenditures. An opinion was expressed that, when actually cutting the expenditures, we need to consider the order of policy priorities and place emphasis on the appropriate areas. I summarized as follows.

Today's estimations were only mechanical calculations for providing the basis for discussions. The government's basic policy on achieving fiscal consolidation is not only to reform expenditures, but in the end to reform both expenditures and revenues in an integrated manner.

We would like to compile an interim report from the end of March to the beginning of April, so I asked Mr. Tanigaki, Minister of Finance, to examine the following points and report the results to the CEFP:

1. If fiscal consolidation were to be achieved solely through cutting expenditures, what specific cuts would be necessary? What kind of impact would this have on peoples' lives?
2. How can we reflect the various reform results to achieve fiscal consolidation in the future?

In addition, I requested Mr. Takenaka, Minister of Internal Affairs and Communications, to report the following points to the CEFP as early as possible:

1. How should local government expenditure reduction be promoted, including personnel expenses for local public employees and the expenditures for projects independently run by local governments?
2. In what way should local allocation tax be reviewed in that regard? In particular, what should be the scope of expenditure items that are financed by the central government?

In response, Mr. Tanigaki said that discussion is also under way in the Fiscal System Council, so he will report the results to the CEFP later. Additionally, Mr. Takenaka said that the Ministry of Internal Affairs and Communications is holding discussions on public finance, which could affect the core structure of our nation, so the ministry plans to cooperate closely with the CEFP. He also mentioned that he will report on the direction that should be taken in reform of local finance at a future date.

The shared understanding underlying today's CEFP meeting included the following points.

There is only one wallet in the sense that all expenditures are borne by the people.

With regard to achieving a primary surplus of the central and local governments

combined, it should be considered that there is a situation where the local governments' primary balance is already in surplus and their ratio of outstanding debts to GDP is declining, whereas the central government's primary balance is in the red and its outstanding debts are continuously increasing. One of the reasons for this is the transfer of an enormous amount of public funds, 33 trillion yen to be precise, from the central government to local governments.

In this way, the money that came from the single wallet of the people may be being used in an extremely unbalanced manner as a result, so the cooperation of the local governments is vital for the reconstruction of central government finances.

With respect to the Strategy in the Globalizing Economy, Professor Itoh and Mr. Nikai, Minister of Economy, Trade and Industry, provided respective explanations based on the materials, and opinions were exchanged. I made the following statement.

It is important to put measures to respond to globalization into action at the earliest possible opportunity, based on the opinions expressed today.

I ask Mr. Nikai to conduct further in-depth study on the matter. We will deliberate on the important issues proposed today with the participation of the relevant Cabinet members, and I request your cooperation in this regard.

Finally, the Prime Minister stated as follows.

Energy issues will become extremely important in the future. Even a resource-poor country can gain a position of vantage if it reduces its oil dependence. We must work on such an energy strategy.