

Minister's Summary by Minister Yosano**5th Meeting (March 7, 2006)**

- (1) Appropriate overseas economic cooperation
- (2) Integrated Reform of Expenditures and Revenues
- (3) Energy issues

Kaoru Yosano here. Today, the Council on Economic and Fiscal Policy (CEFP) held its fifth meeting this year. First, we had report on the direction which overseas economic cooperation should take, and then we discussed the Integrated Reform of Expenditures and Revenues, as well as energy issues.

With regard to overseas economic cooperation, we invited Mr. Aso, Minister for Foreign Affairs, and Mr. Abe, Chief Cabinet Secretary reported on the Overseas Economic Cooperation Study Panel. I stated that, based on the report, we need to finalize a draft on the Law on Administrative Reform Promotion as soon as possible and make steady efforts to build a system for strategic and efficient implementation of overseas economic cooperation.

As for the Integrated Reform of Expenditures and Revenues, Mr. Tanigaki, Minister of Finance, first reported on the contributing factors to the increase in government bonds based on materials. After that, an expert member presented two papers, one on social security review, and the other on advancing fiscal consolidation of the central and local governments.

Regarding social security, the expert member pointed out issues of social security reform such as ensuring intergenerational equity. I summarized that I thought the idea was shared on the importance of presenting the nation several alternatives for the social security benefits and burdens and reaching a conclusion following a nationwide debate. Regarding social security, my idea is as follows.

It is necessary at first to promote information technology for high efficiency, to introduce individual social security accounts, and to ensure that the burden of social security is sustainable in the current state of the economy, and the CEFP needs to pursuit these points.

We must directly tackle the structural problem of public loans which increase by about

1 trillion yen each year due to the aging society.

Regarding the Integrated Reform of Expenditures and Revenues this time, I think

it is critical to give citizens concrete and easy-to-understand options with differing combinations of benefits and burdens, and discuss what kind of mechanism is necessary to make a reliable system through which the working generation will bear the burden without handing it down to their children or grandchildren.

An opinion was expressed that suggested the realization of a social security number system, and the Prime Minister made an instruction stating that the subject should be studied. Therefore, I would like to explain the social security number system by the time of the next meeting.

Regarding local finance, an expert member pointed out the following necessities.

Efforts by the central and local governments to bring structural stability of finance in accordance with the goals of advancing fiscal consolidation

Reform aimed at correcting the imbalance between the fiscal conditions of the central and local governments

I summarized that discussions were made about the local allocation tax reform and local administrative and fiscal reform to eliminate local governments' dependency on the central government, as well as discussions about its regional revitalization. Regarding local finance, a detailed explanation was made through a paper by Mr. Takenaka, Minister of Internal Affairs and Communications. However, the system is quite complicated and the point of contention is difficult to understand. What the Prime Minister instructed was the Integrated Reform of Expenditures and Revenues that is easy enough for the people to understand. Also on the subject of local finance reform, I think simple questions should be answered in an easy-to-understand manner. For example, the following should be kept in mind.

From the viewpoint of primary balance, how has the current imbalance between the central and local governments, which has produced the former's huge deficit and the latter's surplus, occurred?

Though there are municipalities that are working hard to reduce their expenditures,

people are very much dissatisfied with labor inefficiency and high personnel costs in some local governments. Why hasn't the incentive of cost reduction permeated local governance?

The Prime Minister stated as follows.

We need to clarify how the number of municipalities that require no local allocation tax can be increased, and how this can be achieved.

Isn't the calculation method for the standard financial requirements for local allocation tax overly complicated?

As stated in the meeting, I would like to engage in frequent and straightforward discussions with Minister Tanigaki and Minister Takenaka in order to achieve expenditure reduction.

At any rate, I think that all the CEFPP members are of one mind on the matter, in that the issues of social security and local finance will be unavoidable when the Integrated Reform of Expenditures and Revenues is implemented.

Lastly, regarding energy issues, Mr. Nikai, Minister of Economy, Trade and Industry reported on the New National Energy Strategy. The Prime Minister stated as follows.

Once energy issues are overcome, Japan will be a very strong country, especially if cars not dependent on oil are realized, something to which I would like both public and private sectors devote their efforts.