

Economic and Fiscal Reform 2007("Basic Policies")

decided by the Cabinet on June 19, 2007

Summary by the Cabinet office

The Economic and Fiscal Reform 2007("Basic Policies") sets the agenda for the Abe cabinet and presents the direction of reform from the following three perspectives:

1. Realizing growth amid declining population

To realize growth under declining population as well as to keep the quality of living high, growth rate of productivity per man-hour should be increased by 50 % over the next five years.

2. Departure from the post-war regimes

Systems which used to support rapid economic growth after the war, but now are causing institutional fatigue will be reviewed from scratch. They should be made in line with the changes of the times.

3. Presenting a new national image

We must establish a new framework toward building economic society with the three factors: freedom, discipline and sustainability.

I . Enhancing Growth Potential

1. Strategy for Raising the Growth Potential of Individuals and SMEs

~Enhancing "basic capacity"

-Establishing a "JOB • CARD system" (Vocational Capacity Development System).

(Full-fledged implementation will start in FY 2008)

-A five-year program to promote the "From Welfare to Work" policy which incorporates specific goals to be achieved in five years for the transition from welfare to work for single-parent households, families on welfare, disabled persons and so on. (To be decided by the end of 2007)

-Promoting the "SME Productivity Improvement Project" and improving **minimum wage systems** (The minimum wage will be raised based on the government-labor-management roundtable consensus)

2. Strategy for Service Innovation ~Enhancing “efficiency”

- Improving productivity by IT utilization such as the development of common infrastructure for electronic commerce and so on (by FY 2010)**
- Enhancing international competitiveness of the ICT industry through “**Ubiquitous Special Zones**” (to be created **in FY 2007**), etc.
- Considering the establishment of the “**Regional Power Revitalization Corporation**” (tentative title), revising supervisory guidelines related to relationship banking (FY 2007), and integrated promotion of due diligence to third-sector entities based on market price
- The “Intensive Regulatory Reform Program” (A certain conclusion to be reached by the end of 2007 at the latest)
- Utilizing the “**Services Industry Productivity Council**” and promoting innovation in the service sector

3. Strategy for Expanding Growth Frontier -- Innovation, etc. ~ Enhancing “creativity”

- The five-year strategy for creating innovative drugs and medical equipment (Promotion of clinical trials and reform of the drug pricing system, etc.)
- Developing the world’s most advanced legislation for promoting distribution of digital contents (within the next two years)
- University and graduate school reforms**
 - Reforming the National University Administrative Expense Subsidies** (Setting out direction of review **in FY 2007**), increasing competitive funds, promoting September admissions (introducing flexibility into the principle of April admissions), and reforming administrative offices, etc.

4. Reforms Addressing Globalization ~Building an open country

- Taking positive approach toward the WTO Doha Round. Strengthening efforts in EPA negotiations according to the EPA timetable. Considering Japan-U.S EPA, Japan-EU EPA, etc. as future tasks and starting preparations for EPAs with countries and regions when the bar is cleared.
- “**The plan for enhancing competitiveness of financial and capital markets**” (to be decided **by the end of 2007**)
 - Realizing a comprehensive lineup of products at exchanges, and **reviewing the firewall regulation on banks and securities firms**, etc.
- Aviation liberalization (Asian Open Skies)**

-Deciding **the aviation liberalization timetable** for the “Asian Gateway Initiative,” and promoting international charter flights (including scheduled services) at Haneda Airport

5. Labor Market Reform ~Realizing multi-tracked and fair ways of working

-Compiling the “**Work-Life Balance Charter**” and the “**Action Guidelines for Changing the Way of Working, Changing Japan**” (by the end of 2007.)

6. Regional vitalization ~No national vitality without regional vitality”

-Compiling an **overall picture for agricultural reform** including that of **farmland, and a reform timetable** (in fall 2007)

II. Establishing an Administrative and Fiscal System Suitable for the 21st Century

1. The Integrated Reform of Expenditures and Revenues

-The five-year expenditure reform specified by the “**Basic Policies 2006**” will be steadily and systematically carried out while prioritizing the budget allocation to meet genuine needs.

-The FY 2008 budget is an extremely important budget for putting the expenditure reform on a steady path. The current expenditure reform efforts for the expenditure as a whole will not be relaxed, and maximum reductions will be achieved at the central and local governments in line with the “**Basic Policies 2006.**”

-Disciplined fiscal management will be conducted in line with the principles of budget formulation set by the “**Direction and Strategy for the Japanese Economy**” such as “a new expenditure increase should be financed by an expenditure cut in other areas in principle” and “an increase in tax revenue beyond prior estimation should not be allocated easily to expenditure, but instead should be allocated to reduction of taxpayers’ future burdens.”

-Shifting a burden onto future generations will be avoided by securing a stable supply of revenue source to cover the increase in burden caused by social security services and the declining birthrate that cannot be covered by thorough expenditure reform.

-Presenting the “**Basic Ideas on Public Investment**” (6 items), and expanding open and competitive bidding

- Promoting the “**Program for Improving Quality and Promoting Efficiency in**

the Medical and Nursing Care Services” (covering the five year period from FY 2008, setting a quantitative indicator and targeted year).Based on the program, showing a path for achieving the “Basic Policies 2006” (by the end of the year).

-Specifying reform measures to pursue further reduction of personnel cost of civil servants by a magnitude in excess of that shown in the “Basic Policies 2006” (approximately 2.6 trillion yen).

2. Tax Reform

- Full-fledged discussions on tax reform will be started from fall 2007, and endeavor to **realize fundamental reform of the taxation system**, including the consumption tax, from the viewpoint of being in line with the concept of sharing the burden equitably among all generations, while taking into account the forecast of the expenditures required for social security benefits and countermeasures for the declining birthrate, **with FY 2007 as a target**.

-Presenting six pillars to be realized

3. Budgetary System Reform

-Strengthening the strategy and comprehensiveness of budget formulation through making of the “Budget Overview,” etc.

- Securing the consistency between the budget of each fiscal year and medium-term targets of fiscal consolidation

4. Civil Servant System Reform

-**Banning the Government ministries’ job mediation for retiring officials** and unifying such mediation into a public-private personnel exchange center. The center is **to be established in 2008**. Unification will be implemented within **three years after the center is established**.

- Establishing a job appointment system based on competency and performance

-Submitting a “**basic bill on reforming national civil service system** (tentative title)” to **the next ordinary session of the Diet**

5. Independent Administrative Agencies Reform

-Considering privatization and other measures for all 101 independent administrative agencies and deciding the “**reorganization and rationalization plan for independent administrative agencies**,” possibly by the end of the year.

6. Reform of Assets and Debts

7. Market Testing

- Applying market testing to free-of-charge employment services at two sites of the “Hello Work” offices located in Tokyo's 23 wards (possibly in FY 2008)

8. Decentralization Reform

- The Committee for the Promotion of Decentralization Reform will advance deliberations on the role sharing between the central and local governments etc. and compile **an interim report in fall 2007**.
- Considerations will be made in pursuit of the integrated reform of central government subsidies, local allocation tax and tax sources allocation, which will include that on local bonds. Promoting measures to correct revenue gaps among local governments and drastic reform of the central government’s local offices (transfer to local governments and streamlining), etc.
- Considering “Hometown tax payment plan”

III. Realizing a Sustainable and Safe Society

1. Environmental Nation Strategy

- Reviewing the “Kyoto Protocol Target Achievement Plan” (in FY2007)
 - A national campaign aimed at reducing greenhouse gas emissions by “one kilogram per capita per day” (considering the introduction of summertime, etc.)
- Japan will take the initiative based on the three proposals and three principles shown in the “Cool Earth 50,” and aim to produce results in establishing a post-2013 framework for combating global warming at the G8 Hokkaido Toyako Summit in 2008.

2. Education Rebuilding

- Ensuring to all children opportunities for acquiring high academic abilities and social standards of good behavior
 - Increasing classroom hours by 10 percent, etc.
 - Implementing experiencing and other activities at elementary, junior high and high schools
(Revising the educational guidelines (Course of Study), etc. in FY 2007)
- Realizing a flexible pay structure to secure good teachers

(Amending the Special Measures Law on Educational Personnel Salaries around April 2008)

-In terms of budget, financial sources genuinely needed for education rebuilding will be ensured according to its priorities while thoroughly pursuing efficiency, in a manner consistent with the “Realization of the Integrated Reform of Expenditures and Revenues” as specified in section 1 of Chapter 3.

3. Measures against the Falling Birthrate, Challenge-Again Assistance

-In order to implement effective measures against the falling birthrate, it can be regarded necessary to consider effective allocation of a certain level of funds. In this respect, comprehensive study on how to finance the fostering of the next generation should be undertaken in the context of tax reform and social security system reform.

4. Building a High-Quality Social Security Services

-Promoting emergency measures to secure medical doctors, developing the “New Health Frontier Strategy,” and making comprehensive efforts to promote anti-cancer measures, etc.

-Abolishing the Social Insurance Agency and dividing it into six separate entities, and taking rapid and thorough measures to address the problems in the nation's pension records.

5. Strengthening Policies for Security, Disaster Prevention, Energy, etc.

6. Developing an Environment for Supporting Diverse Lifestyles

Note) This paper was prepared by the Cabinet Office as an explanatory material of the “Economic and Fiscal Reform 2007.” Please refer to the main text (Japanese only) for quotes.