

Basic Principles of FY2008 Budget Formulation

December 4, 2007

Cabinet Decision

I Stable Economic Growth and Promotion of Reform

1. Toward enhancing growth potential

(The current state and outlook for the Japanese economy)

The economy is recovering, despite some recently observed weakness. On the other hand, there are imbalances in the recovery between regions, and for many small and medium sized enterprises (SMEs), recovery has yet to be reached.

The Japanese economy is hereafter expected to achieve growth led by private demand as continuous high corporate performance feed into households by way of accelerating and deepening reform efforts based on the principle of “self-reliance and mutual cooperation” in accordance with the “Economic and Fiscal Reform 2007” (cabinet decision on June 19, 2007, hereinafter referred to as “Basic Policies 2007”).

Close attention should be given to the effects of fluctuations in financial and capital markets incurred primarily by the subprime mortgage loan problem, economic trends in the United States and soaring crude oil prices on the Japanese economy.

(Enhancing growth potential)

Currently, Japan is at a critical stage wherein it is emerging from a long period of stagnation following the burst of the bubble economy and is establishing the shape of its new growth. However, Japanese economic systems and structures, which are based on the premise of a sustained post-war population increase and a high level of economic growth, have failed to fully address the issues of an aging population, rapid globalization and the world-wide promotion of IT.

In order for Japan to maintain economic growth and improve its quality of life under unprecedented circumstances characterized by a decreasing population, it is necessary to reform those economic structures and substantially increase labor productivity, which experienced a decline in the 1990s.

To this end, the Government as a whole will make a united effort to enhance growth potential, based on the “Basic Policies 2007,” etc.

(Regional independence and revitalization)

The vitality of Japan lies in the vitality of its regions. The Government will strive for regional revitalization while sincerely listening to the voices of people in the local regions based on the concept of “mutual cooperation,” in which the local regions and the cities support each other, and promote measures based on the “strategy for regional revitalization” (approved by the Unified Headquarters for Regional Revitalization on November 30, 2007) and the establishment of the “Regional Power Revitalization Corporation.”

The Government will further transfer power to local governments so that a system will be developed that enables local regions to explore ideas on their own and implement them.

Based on the “law for the promotion of decentralization reform,” the Government will formulate a “plan for the promotion of decentralization reform” that sets out required legislative and fiscal measures, and submit a “new decentralization package law” to the Diet within the next three years.

The Committee for the Promotion of Decentralization Reform will continue to deliberate on a review of the division of roles between the central and local governments and state

involvement, based on the committee's "Basic idea" and "Interim report," and issue recommendations on a step-by-step basis.

With a view toward a thorough review of local branch offices of the central government, the Committee for the Promotion of Decentralization Reform will also continue deliberations on the transfer of duties to local governments as well as rationalization.

Deliberations toward realizing the system of a broader regional government (Doshu-sei) will be conducted upon the promotion thereof.

2 Promoting the reform with a clear vision for the future

(Promoting the Integrated Reform of Expenditures and Revenues)

Toward advancing fiscal consolidation, the Government will further advance the Integrated Reform of Expenditures and Revenues, including definitely achieving a surplus in the primary balance of the central and local governments combined by FY 2011 by promoting stable growth and firmly maintaining the "Basic Policies for Economic and Fiscal Management and Structural Reforms 2006" (cabinet decision on July 7, 2006, hereinafter referred to as "Basic Policies 2006") and the "Basic Policies 2007."

The expenditure reform specified by the "Basic Policies 2006" will be steadily and systematically carried out while prioritizing the budget allocation to meet genuine needs. Disciplined fiscal management will be conducted in line with the "principles of budget formulation" such as "a new expenditure increase should be financed by an expenditure cut in other areas in principle."

In line with the "Direction and Strategy for the Japanese Economy" (the cabinet decision on January 25, 2007, hereinafter referred to as "Direction and Strategy"), each year's budget will be checked to see whether it is consistent with the medium-term target toward fiscal consolidation at pivotal points during budget formulation.

Furthermore, given the fact that the aging of the population and the decrease in the number of children is rapidly progresses, it is necessary to reform the social security and tax system in an integrated manner. In doing so, the Government will continue discussions with the aim of designing the most suitable form for social security system in terms of both benefits and burdens and securing a stable supply of revenue, in line with the "Five Principles for Reassurance and Sustainability:" (1) enhancing economic vitality, (2) correcting the discrepancy between generations regarding benefits and burdens, (3) integrated and consistent review of social security and tax system, (4) trustworthiness and transparency of the systems, and (5) maintaining a balance with medium-term fiscal consolidation.

(Continuing to advance reform)

Reform and stable economic growth are two wheels on the same axle, and the Government has to promote both of them.

Through structural reform in all areas of its economy and society, a certain degree of success has been achieved, such as the recovery of the Japanese economy and an expansion of employment. Still, Japan is facing difficult issues such as the arrival of a society with full-fledged population decline; increasing expenses for social security services caused by falling birth rates and aging society; structural changes in domestic and overseas economy; and global environmental issues. In order to overcome these challenges and create a more mature society, the Government must advance reforms including a revision of systems and organizations that are no longer befitting the present times, with our eyes fixed on the future with a view to realizing a society based on self-reliance and mutual cooperation.

Japan is facing an extremely severe fiscal situation. It is clear that if the population decline continues with the ageing population and the declining birthrate, an even heavier burden will be placed on future generations. The Government cannot ask the people to bear an increased burden, with administrative waste and inefficiency being left without redress. Therefore, the Government must continue to advance administrative reforms vigorously in order to create a simple yet efficient government that befits the 21st Century.

To this end, based on the Administrative Reform Promotion Law, the Government will promote overall personnel expenditure reform in accordance with the review of independent administrative agencies and policy of net personnel reduction for both the central and local governments, with a view to expanding the scope for private sector activities and to consolidating and streamlining the administrative system. At the same time, the Government will address civil service reform, regulatory reform, utilization of private-sector resources, the active implementation of market testing and reform systems pertaining to public-interest corporations. In order to thoroughly reject expenditure wastes, classifications and reviews of government duties will be conducted from the basic standpoint of ascertaining whether or not such duties should be implemented by private-sector organizations.

II Basic Concept of the FY2008 Budget

(Promoting expenditure reform)

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" and the "Basic Policies 2007." At the same time, budgetary prioritization and streamlining will be conducted with a view to realizing a country of "hope and reassurance," where the young people have hope for the future and the elderly people have a sense of reassurance.

To this end, the Government will also thoroughly review overall expenditures and strictly curb the general expenditures and general account expenditures. Based on the present economic situation and tax revenue trend, the Government will restrain new government bond issues to the maximum extent possible. In allocating expenditures, the Government will strictly curb "public works related expenditures" and "other expenditures". Basically, both expenditures will be limited to the aggregate of the amount of "public works related expenditures" decreased by 3% from the level in the previous year's budget, "other expenditures" decreased by 3% in principle from the level in the previous year's budget and additional expenditures for promotion of priority projects. "Non-discretionary expenditures" must not be left to automatically increase. But non-discretionary expenditure systems and measures should be fundamentally reviewed to curb expenditures. In continuous terms, the budget must be based accurately on actual budget implementation.

In prioritizing the budget allocation and increasing the efficiency of the allocation, the Government will concentrate on measures aimed at "Realizing vibrant economic society," "Regional independence and revitalization" and "Realizing a society in which people can live safely and free from anxiety" in the third chapter. All government agencies will set goals for their measures and conduct strict follow-up evaluations of said measures. Policy evaluations will be utilized in order to increase the efficiency of expenditures and streamline spending. Based on the Administrative Reform Promotion Law, the Government will streamline and improve the efficiency of administration in a more thorough fashion and, in accordance with net personnel reduction for both the central and local governments, tackle fiscal consolidation by way of promoting reforms of the overall personnel expenditure, special accounts, assets and debts, appropriately reflecting all of these in the budget. Furthermore, the Government will endeavor to improve efficiency through the

utilization of private-sector vitality, while ensuring thoroughgoing legal compliance. It will also lower unit service costs and overall expenses on the basis of the rationalization and increased efficiency of public services. It will also strive for the promotion of proper private contracts, including the establishment of third-party organizations at all government agencies.

(Area-by-area expenditure reforms)

In the first year of the five-year expenditure reform program, the Government will review systems and measures in the following three areas in line with the “Basic Policies 2006” and the “Basic Policies 2007.” Similarly, the Government will tackle expenditure reforms in other areas as well.

(1) Public Investment

The Government will continue public investment reforms while continually promoting expenditure reforms. In order to promote the independence and vitality of regional communities in line with the concept of “self-reliance and mutual cooperation” between cities and regions, establish international distribution networks to enhance Japan’s growth potential, and ensure safety and security through disaster prevention and reduction measures, the Government will prioritize public investment projects based on social capital development levels and utilization of facilities with a view to selecting truly essential public investment. It will also advance cost reduction measures and bidding reforms aimed at further promoting the prioritization and rationalization of public investment. The Government will flexibly allocate the budget to regions in consideration of actual conditions in local areas, such as development conditions and needs.

Furthermore, the Government will efficiently implement public works through the effective utilization of existing stock, lengthening the lifespan of facilities by way of efficient and systematic implementation of maintenance and renewal, the enhanced utilization of private sector resources through private finance initiatives (PFIs) and the reform of standards in order to promote cost reduction in a forceful manner through the formulation of a new cost reduction plan, which, beyond FY2008 is to be as strict as the existing plans.

The Government will thoroughly eliminate bid-rigging and expand open and competitive bidding and a comprehensive evaluation system so as to reform bidding and contract systems at both the central and local government levels. At the same time, it will expand ex-ante and ex-post evaluations of public works projects and strictly implement both by way of thorough reflection upon evaluation results in the budget.

As for Earmarked Revenue Sources for Roads, the Government will steadily implement reforms based on the “Specific Measures regarding Earmarked Revenue Sources for Roads” (cabinet decision on December 25, 2006).

(2) Social security

In order to create an economically and fiscally well-balanced system that will be sustainable in the future with the ageing population and the declining birthrate, the Government will continue to make reform efforts.

Regarding medical care services, the Government will take measures required for the FY2008 budget, such as reviewing medical fees and drug prices, promoting the spread of generic drugs, and other necessary measures, with a view to putting forth the effort towards reducing total medical costs through the promotion of efficiency while maintaining and improving the quality of services such as measures for hospital doctors and assurances of local medical care.

As for medical and nursing care, the Government will work on effective reform to realize targets specified by the “Program for Improving Quality and Promoting Efficiency in the Medical

and Nursing Care Services.”

(3) Local finance

Also in the FY2008 budget, local government expenditures including personnel costs, construction and general administrative expenditures will be strictly reduced at the same reduction pace as that of the central government in line with the “Basic Policies 2006” and the “Basic Policies 2007.” At the same time, the total general revenues required for stable fiscal management such as local tax and local allocation tax will be ensured.

The Government will strive for local tax and financial reforms so that the local regions can become financially independent as well.

In the light of the fiscal conditions of the central and local governments, considerations will be made in pursuit of the integrated reform in regards to the review of tax sources allocation, including national treasury subsidies, local allocation tax, and tax sources transfer as well as local bonds.

Considering local governments’ gaps in financial power as seen in uneven tax revenue distributions which mainly consist of local corporate taxes, the Government will formulate specific measures to correct uneven tax revenue distributions between regions, and seek to narrow regional financial gaps. Considerations will also be made in pursuit of realizing tax measures that will enable taxpayers to make contributions to their hometowns or provide support to regions in which they are deeply involved. Local governments will tackle administrative reform more proactively in line with the guideline for further promotion of administrative reform at local governments (August 31, 2006).

(Tax reform)

As for tax reform, despite facing an aging population, the Government will enhance growth potential and establish the tax system best suited to Japan in the 21st century based on the “Basic Policies 2007.” Even after implementing expenditure and other reforms, for any possible increases in burden caused by social security services and the declining birthrate, the Government will secure a stable supply of revenue sources, and avoid any shift of the burden onto the shoulders of future generations. It will proceed with full-fledged discussions aiming at a national consensus, and endeavor to realize fundamental reform of the taxation system, including the consumption tax.

(Budget system reform)

The Government will deal with expenditures and revenues in an integrated manner and strategically and effectively formulate budget in line with the “Basic Policies 2007.” It will also secure the consistency between the budget of each fiscal year and medium-term targets of fiscal consolidation based on the “Direction and Strategy.” The Government will endeavor to improve and expand policy evaluations, and make account items correspond, in principle, with policy evaluation indicators so as to further enhance the link between policy evaluations and the budget and final accounts. Furthermore, the Government will promote the utilization of the financial information provided by all government agencies.

III Budgetary Prioritization and Streamlining toward a Country of “Hope and Reassurance”

From the perspective of realizing a country of “hope and reassurance,” the Government will conduct prioritized budget allocation based on the “Requests for the Promotion of Priority Measures” and give priority to and efficiently promote measures that have conspicuous policy

effects for matters shown below. In order to resolutely reject wasteful spending, the Government will promote policies by way of specifying performance targets and policy tools, and steadily implement the PDCA (Plan, Do, Check and Act) Cycle, while further rationalizing Governments' expenditures as a whole.

1 Realizing vibrant economic society

(Efforts to enhance growth potential)

Based on the "Basic Policies 2007," the following measures will be promoted from the standpoint of improving labor productivity, which can be a key to enhancing growth potential.

(1) Strategies to enhance basic economic capacity of human resources and SMEs (Introducing a "JOB • CARD" system with the aim of formulating vocational skills; promoting the Five-Year Program to Promote the "From Welfare to Work" Policy; improving productivity of SMEs through the "SME Productivity Improvement Project" and raising the minimum wages; holding national and local round-table conferences; and so on)

(2) Strategies to innovate service industries whose productivity levels are low and revitalize regional economies (IT innovation such as improving productivity through IT utilization and enhancing international competitiveness of the ICT industry; enhancing growth potential of regional economies; reforms based on the "Three-Year Program for Promoting Regulatory Reform," which will be revised based on the "Intensive Regulatory Reform Program;" promoting innovation in the service sector by way of utilizing the "Services Industry Productivity Council"; and so on)

(3) Strategies to advance high-growth sectors and enhance creativity (Introducing a new SBIR system¹ on a step-by-step basis; implementing the "Five-Year Strategy for Creating Innovative Drugs and Medical Equipment;" developing the world's most advanced legislation for promoting distribution of digital contents; reforming university curricula (including graduate schools); expanding sound scholarship programs; promoting international coordination between universities; promoting foreign student policies and September admissions; establishing graduate schools of the highest global standard; formulating "Regional University Consortiums", securing basic expenses and competitive funds of higher education and investing them by way of pursuing prioritization and streamlining; considering a review of contributions to defined-contribution pension plans; considering measures to create an environment, including a tax system that encourages the supplying of funding to venture companies; promoting industry-academia-government collaboration; and so on)

In addition, the Government will promote the "Economic Growth Initiative" through measures such as accelerating private investment in research and development, human resource development and information technology. With the aim of developing science and technology, the Government will encourage investment in next-generation technology, projects that accelerate returns from research to society, sector-specific strategic research and development, and diverse basic research, by taking into account "The 3rd Science and Technology Basic Plan" and the "Innovation 25."The Government will also develop highly reliable industries and advance an intellectual property strategy that will aim to place Japan at the cutting-edge in the world.

(Promoting measures to address globalization)

In order to materialize the "Asia Gateway Initiative," the Government will steadily promote measures such as aviation liberalization (Asian Open Skies) in accordance with the "Basic Policies

¹ SBIR (Small Business Innovation Research)

2007.” With the aim of transforming Japan into a country with a strong tourism base, the Government as a whole will endeavor to promote measures based on a basic program aimed at converting Japan to a country built on tourism (adopted by the Cabinet on June 29, 2007). Competitiveness of financial and capital markets will be enhanced in accordance with the "Plan for Enhancing Competitiveness of Financial and Capital Markets (tentative title)," which will be established by the end of 2007. The Government will enhance WTO and EPA efforts. The Government will enhance comprehensive diplomatic capacity with an emphasis on the diplomatic operation system such as overseas diplomatic establishments and manpower.

(Developing an environment in which every citizen can work demonstrating his or her abilities)

The Government will seek to realize a society in which every worker can demonstrate his or her own abilities, obtain stable employment, and live with hope for the future. Specifically, it will promote the permanent worker status of “freeters” (job-hopping part-time workers) by way of providing comprehensive support for enhancing vocational skills, while providing support to young people, including “NEETs” (Not in Education, Employment or Training) in the region, who need supports for their vocational self-reliance. Also, the Government will actively provide job assistance for people who face various difficulties, such as elderly workers, women, and the disabled. Furthermore, the Government will pursue equal treatment in wages and other working conditions between non-regular workers (part-time workers, etc.) and regular workers, and implement measures to promote a shift from non-regular to regular employment.

2 Regional independence and revitalization

(Regional revitalization)

Based on the Strategy for Regional Revitalization, cross-sector comprehensive support beyond ministerial boundaries will be promoted, primarily within the context of the meeting of the Regional Revitalization Headquarters within the Cabinet. To this end, Regional Revitalization Bureau Cabinet Secretariat will introduce a system that would provide each set of regions with consistent follow-up services from the consultation stage to that of the implementation. In conducting support, the Government will create the Program for Regional Revitalization with the aim of supporting said regions in their initiation of unrestricted action based on ingenuity and ideas of their own. In taking this opportunity, support measures by all ministries will be linked in a coordinated manner so as to promote comprehensive support. Specifically, from an on-site perspective, the Government will classify regional issues into three categories, namely “local cities,” “farming, forestry and fishing villages,” and “villages facing difficult basic conditions,” and focus on the following three main sectors: (1) protecting the lives of residents (through medical care, social security, housing, security, environmental preservation, public transport and information communication infrastructure); (2) developing industries capable of serving as original sources of power enabling regions to maintain economic and social activities (through the utilization of local resources, the creation of new industries, the promotion of new firm locations, coordination among the agricultural, commercial and manufacturing industries, revitalization of agriculture, forestry and fisheries industries, the construction industry and SMEs); (3) regional development through intra-and inter-regional exchanges (through tourism, provision of opportunities for people to reside in both urban and rural areas, and arterial traffic) In addition to these three areas, the Government will develop an integrated plan by way of organizing measures for employment, education, urban function, local communities, etc.

In coordination with comprehensive strategies for regional revitalization, the Government

will take concrete steps to establish the Regional Power Revitalization Corporation, which will support restructuring of medium-sized regional companies and semi-public joint venture companies and promote “areal revitalization”, with the understanding and cooperation of regional financial institutions and local governments. As for measures in terms of local tax and finance, under the concept of “mutual cooperation between local regions and cities,” special reserves of local allocation tax that is necessary for voluntary and proactive actions for revitalization by local governments will be secured so that allocation be conducted with consideration of self-efforts for the administrative reform and situations of regions suffering from adverse conditions. As for revenue sources, the Government will utilize the revenue source generated by correction of tax revenue gaps.

(Improving productivity of SMEs)

In order to allow many of the SMEs that provide the driving force of Japan’s economic growth to receive the benefits of economic recovery, the Government will vigorously promote measures aimed at ensuring fairness in business with subcontractors, facilitating business succession and enhancing the productivity of small and medium enterprises, while efficiently utilizing policy resources.

(Vibrant agriculture, forestry and fisheries industries)

Based on the “agricultural policies on the offensive,” the Government will continue to set priorities in selecting projects that are eligible for support and strengthen “selection and concentration” in promoting measures. It will steadily implement the “New Agricultural Administration for the 21st Century-2006” so as to continue to nurture competent farmers with incentive and ability while aiming at developing an environment in which elderly people and small-scale farmers can engage in agriculture without anxiety. With the aim of reducing abandoned arable land to zero, the Government will realize the fundamental reform of farmland on a step-by-step basis with a view to shifting from ownership to utilization, so as to promote efficient use of farmland. With the aim of establishing vibrant fisheries industry, the Basic Plan for Fisheries (adopted by the Cabinet on March 20, 2007) will be steadily implemented. The Government will promote the revitalization of the forestry and timber industries.

3 Realizing a society in which people can live safely and free from anxiety

(Developing a reliable and sustainable social security system)

The Government will establish a social security system based on the principle of self-reliance and mutual cooperation that remains sustainable into the future and that gives everyone, including the elderly and the young, a sense of reassurance.

As for pensions, the Government will faithfully address the pension record issue from the perspective of those who receive pensions and strive to resolve the various issues that relate to the pension system by conducting a review of the organization and its management. Based on the revised national pension law in 2004, the Government share of contributions to the basic pension scheme will be raised to one-half by FY2009, after conducting the necessary fundamental tax reform for securing stable financial resources.

As for medical and nursing care, in order to ensure the availability to the public of reliable medical and nursing care systems, the Government will take measures to address the shortage of doctors, especially pediatricians and obstetrician-gynecologists, ensuring nursing care personnel, and striving to enhance emergency medical care by creating systems that will ensure that patients needing emergency treatment can be admitted. The Government will promote new comprehensive

measures against hepatitis to establish seamless structures extending from medical examination to treatment, including subsidies for medical expenses pertaining to interferon treatment. The Government will promote comprehensive measures for atomic bomb victims. The Government will also implement necessary measures aimed at fundamentally reviewing the Law to Assist Self-Reliance of Disabled Persons and promote measures for disabled persons based on a new priority measures outlined in the Basic Plan for Persons with Disabilities.

(Creating an environment for future generations)

(1) Education rebuilding

Education rebuilding should be tackled through efforts not only by schools but also by families, local communities and the administration jointly.

From this perspective, the Government will strive to: improve the curriculum for Japanese language, science, mathematics and English classes so as to enhance scholastic ability; introduce a renewal system of teachers' licenses; examine and utilize the results of nationwide surveys on academic achievement and learning contexts; promote special needs education; set proper teachers and non-teaching staff quotas, etc. In order to achieve the formation of good character with well-balanced mind and body, the Government will also strive to: promote measures to give children a strong sense of discipline; promote hands-on activities; enhance support for education at home and parenting counseling; implement the "After School Hours Plan for Children" across Japan; promote the establishment of school management councils, etc. It will encourage teachers to increase significantly the hours spent for communicating and interacting with children and institute a flexible pay structure based on teachers' efforts.

In doing so, the Government will steadily implement those measures that are truly necessary for education rebuilding in accordance with their priorities, while advancing the Integrated Reform of Expenditures and Revenues and strictly pursuing prioritization and streamlining.

(2) Developing an environment where people can bear and raise children without anxiety

In order to make Japan a society where the people can realize their marriage, childbirth and child-raising aspirations, the Government will formulate the "Key Strategies for Japan in Support of Children and Families," the "Work-Life Balance Charter (tentative title)," and the "Action Guidelines (tentative title)" by the end of this year and implement the two measures as "two wheels on the same axle" by way of the following approaches: ensuring that both males and females can realize a balance between work and personal life through changes to ways of working; the development of child-raising support infrastructure such as childcare services responding to diverse ways of working.

In order to secure revenue sources required at present and to avoid passing the burden on to the next generation, the Government will continue its deliberations together with discussions on tax reform and will promptly begin considering institutional frameworks in relation to the burdens borne by society as a whole (national and local governments, enterprises and individuals) so as to foster the coming generation in a comprehensive manner.

(Converting to a society that consists with the global environment)

As the first commitment period under the Kyoto Protocol starts in FY2008, in order to ensure that Japan's reduction targets be achieved without fail based on the "Kyoto Protocol Target Achievement Plan," which is scheduled to be revised within FY2007, the Government will step up its efforts in an effective manner so as to: promote measures for the business and household sectors

by way of the diffusion of houses, buildings and equipment with high energy-conserving characteristics; develop national movements such as a campaign for reducing carbon dioxide with the motto of “one person, one day, one kilogram”, promote emissions-reduction of SMEs; utilize biomass and other new energy sources; promote nuclear energy; promote forest sink measures such as the management and conservation of forests; utilize the Kyoto Mechanism, etc.

In order to realize the long-term target presented in the “Cool Earth 50” (May 24, 2007) aimed at cutting the earth’s greenhouse gas emissions by half by 2050, and with the G8 Hokkaido Toyako Summit also in mind, the Government will promote “innovative technology development” and the creation of a vision of a “low carbon society” so as to encourage the rest of the world to join in such efforts. With the aim of creating effective frameworks for 2013 and beyond, the Government will also promote efforts aimed at establishing a new “financial mechanism” for supporting developing countries, as well as international efforts aimed at improving energy efficiency, expanding the safe and peaceful use of nuclear power, and implementing an integrated approach to fight pollution and global warming in developing countries. And the Government will study emissions trading and economic incentives from wide aspects, including the effectiveness of measures and impact thereof on the economy.

Furthermore, the Government will promote the strategies presented in “Becoming an Environmental Nation in the 21st Century: Japan’s Strategy for a Sustainable Society” (adopted by the Cabinet on June 1, 2007), which include conservation of biodiversity and the creation of sustainable material cycles through the “3Rs” (reduce, reuse and recycle). In order to reduce wastes, conserve resources and reduce the burden borne by the people for housing, the endeavors toward the “200 Year Housing,” which aims to extend the life of our homes will be promoted.

(Ensuring public safety and security in daily life)

Recognizing that ensuring national safety and security is a basic responsibility of government and a basis for stable economic growth, the Government will transform the perspective of administration into one from the standpoint of the consumer and the people and implement the following measures:

These concrete measures whose implementation is urgently required in order to ensure security in people’s lives will be finalized by the end of the year.

The Government will endeavor to ensure the safety of houses, local public facilities and products, establish safe and secure transportation, and promote barrier-free infrastructure. The Government will ensure food safety and gain consumer confidence by way of thoroughly enforcing correct food labeling and strengthening our monitoring system for imported food product, maintain and improve the food supply capability, and address measures against new infectious diseases.

In cooperation with communities, the Government will strive to protect children from delinquency and crime and expand support to crime victims. It will also strengthen measures against firearms, and promote measures against organized crime, international crime and cybercrime. For the preparation of the G8 Hokkaido Toyako Summit, the Government will implement thoroughgoing safety measures aimed at preventing terrorism and respond to the occurrence of extraordinary events. It will continuously promote judicial reform and enhance information security measures.

Taking into account changes in the natural environment, such as heavy rains linked to global warming, the Government will make preparations for large earthquakes, floods and landslides and promote disaster prevention and reduction measures in a strategic and prioritized way, with “zero fatalities” as its goal. In doing so, the Government will strengthen the functions of disaster-prevention facilities by way of promoting their resistance to earthquakes and promote coordination between hardware and software, such as prompt provision of disaster information

through the utilization of space-related technology, etc. It will also enhance regions' capacities to respond to disasters, such as firefighting services.

With an eye to changes in both domestic and foreign conditions such as surging crude oil prices, strategic resource and energy policies will be promoted from the standpoints of security, environmental preservation and economic growth.

With an eye to Japan's circumstances in relation to security, the Government will conduct rationalization in procurement of defense equipment by way of comprehensive acquisition reform and promote the build-up of efficient defense systems while taking effective measures against diverse situations as well as new threats including ballistic missiles. Also, Government intelligence functions will be strengthened.

With a view to realizing a new oceanic State, the Government will formulate the basic plan on maritime policy and address measures concerning the oceans in a comprehensive manner. It will also promote the exploitation of outer space, etc.

(Developing an environment which supports diverse lifestyles)

While respecting voluntary activities by private sector and communities, the Government will develop an environment conducive to the pursuit of diverse lifestyles so that every citizen can enjoy a high quality of life.

The Government will promote early childhood education by enhancing measures to reduce the preschool education-related burden on parents and guardians while comprehensively considering financial, institutional and other problems with early childhood education free of charge in the future in step with the revenue reform. It will implement measures against bullying, truancy and child abuse and promote the sound upbringing of the youth that will lead the next generation.

The Government will implement the measures necessary for the enhancement of Japan's cultural vigor through the handing down of traditions, the conservation of cultural assets, and the strategic dissemination of information pertaining to Japanese culture. The Government will also strive to promote lifelong sports, improve Japan's performance in international sporting events, and enhance the athletic ability and physical prowess of school children. Furthermore, it will promote dietary education as a national movement. The availability of housing for senior citizens will be consistently assured. Measures against harmful animals and birds will be implemented so as to protect lives in local regions.

The Government will develop an environment to promote activities and networking by those public service providers that conduct activities to the benefit of communities such as non-profit organizations (NPOs), social entrepreneurs and regional residents' associations.