

Basic Principles of Fiscal Year 2009 Budget Formulation

December 3, 2008
Cabinet decision

I. Measures to safeguard people's daily lives and the Japanese economy

(Financial and economic situations and forecasts in Japan)

The global financial and capital markets are now experiencing a “once in a century” crisis, and radical financial changes have weakened the global economy. The Japanese economy has already entered a recession phase, and while Japan's export, industrial production and corporate profit have been on the decline, the number of bankrupt companies has been on the rise. Furthermore, the employment situation has been deteriorating and real wages have been on the decline. Though Japanese financial systems themselves are relatively stable compared to those in Europe and the United States, stock and foreign exchange markets have fluctuated largely, and enterprises' financial conditions have worsened. Regarding regional economy, business confidence is rapidly deteriorating even in the regions where the export has so far driven their economies and harsh conditions prevail further.

Our economy is increasingly likely to undergo a prolonged and serious downward phase, in the face of stagnant domestic demand as well as sluggish external demand following the global economic slowdown.

(Basic viewpoints of economic and fiscal policies)

From the viewpoint of safeguarding people's daily lives and the Japanese economy, the Government will push forward its three-stage economic and fiscal policies through “economic recovery” in the near term, “fiscal consolidation” in the mid-term, and “economic growth through reforms” in the mid to long-term. For this purpose, the Government will take all possible measures for “stabilization of financial and capital markets” as a matter of overriding concern. In addition, the Government will support three priority areas: “easing anxiety in people's daily lives,” “reinforcing financial and economic stability” and “realizing latent potential of regions,” and will transform the structure of the economy to achieve sustainable growth led by domestic private demand and to realize “latent potential” of the Japanese economy. Based on these perspectives, the Government will promptly implement “Economic policy package: Measures to support people's daily lives,” and will, in formulating the fiscal year 2009 budget, taking into account the outcomes of “Summit on Financial Markets and the World Economy” and in response to changing global economic and financial situations, seek to implement measures in a seamless and continuous manner.

From the viewpoint of complying with fiscal disciplines, the Government will seek to achieve both goals of economic growth and fiscal consolidation without passing fiscal burden easily on to future generations, based on the idea of realizing an efficient government that is kind to people. The Government will continue its reform of expenditures through a thorough review of government spending, for example, by cutting unnecessary or non-urgent costs. It will promptly formulate a Mid-term Program for establishing a sustainable social security system and for securing its stable revenue sources as soon as possible. In addition, the Government is still going to make efforts to meet the target of achieving a combined surplus of the primary balance of central and local governments by fiscal year 2011, which was stipulated in “The Basic Policies for Economic and Fiscal Management and Structural Reform 2006” (Cabinet decision on July 7, 2006, hereinafter referred to as “Basic Policies 2006”). Yet, taking into consideration a rapidly worsening revenue environment for the Government and taking into account the outcomes of “Summit on Financial Markets and the World Economy,” the Government will take necessary measures, giving top priority to safeguarding people’s daily lives and the Japanese economy.

II. Policies on fiscal year 2009 budget formulation for achieving both economic growth and financial consolidation

(Policies concerning annual expenditures)

In formulating the fiscal year 2009 budget, from the viewpoint of maintaining the basic direction toward financial consolidation based on “Basic Policies 2006” etc., the Government will comply with “Guidelines for FY2009 Budget Requests” (Cabinet Approval on July 29, 2008) and at the same time, considering the Declaration of “Summit on Financial Markets and the World Economy,”¹ will prioritize budget allocation for priority issues, for example, by utilizing “Framework for Addressing the Priority Challenges.” In order to safeguard people’s daily lives and the Japanese economy, the Government will also decisively respond to situations, as appropriate, in an agile and flexible manner, together with tax breaks designed to expand domestic demand and enhance growth potential, which are incorporated in “Economic Policy Package: Measures to Support People’s Daily Lives,” following changes in the global economic and financial situation. In addition, based on discussions among Council for Comprehensive Review of Administrative Expenditures and others, the Government will conduct a zero-based review of the necessity of policy measures and administrative expenditures and will thoroughly correct inappropriate expenditures as a whole to

¹ Excerpt from Declaration of “Summit on Financial Markets and the World Economy” on November 15, 2008: “(The leaders of the Group of Twenty will) use fiscal measures to stimulate domestic demand to rapid effect, as appropriate, while maintaining a policy framework conducive to fiscal sustainability.”

control government spending. The Government will consider how to secure new reliable resources to finance costs for pension systems, medical care and other special purposes.

In prioritizing budget allocation for urgent issues, the Government will focus its efforts on “easing anxiety in people’s daily lives,” “reinforcing financial and economic stability” and “realizing latent potential of regions economies,” which are described in Chapter III. Each ministry will present outcome objectives for each policy measure and will make a strict ex-post evaluation of each measure. The Government will streamline and rationalize its annual expenditures through policy evaluation and other measures, and will make stock taking of policies to boldly review existing obsolete policies that have been implemented over the years without being corrected.

(Formulation of the Mid-term Program)

The Government will formulate the Mid-term Program for establishing a sustainable social security system and for securing its stable revenue sources at the end of the year. The program includes the following as its basic pillars:

(1) Policy measures including tax cuts for economic recovery

In order to safeguard people’s daily lives from the global economic turmoil and give top priority to achieving economic recovery within three years, the Government will introduce tax cuts and provide the Fixed-sum cash benefits, both on a temporary basis, during such period, presupposing a fundamental reform of the tax system.

(2) Secure stable revenue sources for social security

It is necessary to reinforce and streamline social security systems, and it is also indispensable to secure stable revenue sources, including those necessary for raising the portion of the basic pension funded by the national government to 50%, in order to establish sustainable social security systems both for the central and local governments. For this purpose, after an upturn in the economy, the government will swiftly start the fundamental reform of the tax system, including the consumption tax, and implement it step by step by the mid-2010s, with consideration for economic conditions of the time. Here the government will consider projected expenses to be spent on social security benefits (pensions, medical care and long-term care) and measures addressing the declining birthrate. It is also necessary to take into account the balance between the burden and benefit and the viewpoint of broad and fair cost sharing across generations. In so doing, the government will continue its present efforts to eliminate wasteful spending and to reform the administrative system. The Government will also introduce a strict separate accounting between social security payment and other budgets, in order to gain more public support and understanding.

(3) The “overall picture” of the fundamental reform of the tax system

In order to consistently and systematically address various challenges, including securing stable revenue sources for social security systems, enhancing the growth potential of the Japanese

economy, and correcting disparities in society, the government will, at the end of this year, present “the overall picture of the fundamental reform of the tax system” that clearly shows basic directions of the tax reform for personal and corporate income taxes, taxes on assets, and consumption taxes in an easy-to-understand manner. The government will determinedly carry out the fundamental reform based on this “overall picture.”

(Administrative reform)

The Government will seek to improve its efficiency in order for the Government to meet public expectations. Taking the stance that “the Government will abolish what should be abolished and reform what should be reformed,” it will establish a compassionate and efficient government, by pushing forward bold administrative reforms of both central and local governments and by reducing the scale of government through the eradication of wasteful practices.

For this purpose, based on “Administrative Reform Promotion Act” (Act No. 47 of 2006), with a view to expanding the scope for private sector activities and to consolidating and streamlining the administrative system, the Government will further streamline the administration and improve its efficiency, through classifying and reviewing duties of central and local governments. The Government will properly incorporate and reflect, in the fiscal year 2009 budget, the requirements of the total personnel cost reform and the special account reform (including the utilization of reserves for interest rate fluctuations in the special account for investment) as well as those of the government assets and liabilities reform. The Government will also put into practice “Reorganization and Rationalization Plan for Independent Administrative Agencies” (Cabinet decision on December 24, 2007) without fail. At the same time, the Government will address civil service reform, regulatory reform, utilization of private-sector resources, the active implementation of the market testing and the review of public interest corporations, including a 30% reduction in spending for public interest corporations.

In order to establish a compassionate and efficient government, the Government will seek the realization of a smaller government organization through reviewing the organization of administrative bodies and significantly reducing the fixed number of staff of administrative bodies. The Government will assign personnel to necessary duties, through scrap and build across ministries, focusing on (1) the realization of the administration that supports people’s peace of mind in their daily lives and on (2) the establishment of the country’s diplomatic administrative structure commensurate with its international status, as two priority areas.

(Decentralization reform)

The Government will work toward decentralization reform based on “(the first) outline of the promotion of decentralization reform (Decided by Decentralization Reform Promotion Headquarters on June 20, 2008),” following “the first recommendation” of “the Committee for

the Promotion of Decentralization Reform.”

The Committee for the Promotion of Decentralization Reform will make “the second recommendation” by the end of 2008 concerning the fundamental reform of the central government’s local branch offices, including the transfer of their duties and following transfer of staff members, and concerning the review of requirements and frameworks for activities of local authorities that are traditionally stipulated by national legislation. The Government will formulate, within fiscal year 2008, a plan to realize the reform of the central government’s local branch offices.

Furthermore, the Committee is going to review the system of bonds issued by local governments and other issues, in preparation for comprehensively reviewing and reforming the allocation of tax sources, for example, by reviewing the national subsidy system, local allocation tax grants and the transfer of tax revenue sources, with financial conditions of central and local governments in mind, and will make relevant recommendations.

Based on the above recommendations, and in compliance with “the Decentralization Reform Promotion Act” (Act No. 111 of December 15, 2006), the Government will work out “the Plan for the Promotion of Decentralization Reform” and will submit “the new decentralization bill” to the Diet at the earliest possible date within fiscal year 2009.

After pushing forward the decentralization, the Government will eventually seek to establish the regional government system (doshu-sei) in which sovereignty rests with the regions.

III. National budget to protect people’s daily lives and the Japanese economy: Addressing priority issues and improving efficiency

1. Easing anxiety in people’s daily lives

(Employment and social security)

The global financial crisis has seriously affected the real economy, too. The number of bankruptcy filings in October 2008 reached a record high for the first time in five years and five months, the effective ratio of job offers to applicants has been on the decline for nine months in a row, and the employment situation has been deteriorating.

Under such circumstances, in recent months, the current business slump has led to termination of extendible employment contract, dismissal of dispatched workers and other irregular workers, cancellation of job offers to college students and other more serious problems, and there are concerns about a worsening employment outlook. Worried about these conditions, the Government will take every measure to expand employment and will strengthen measures to support employment maintenance for workers, promote re-employment and ensure workers’ stable livelihoods.

To be more concrete, the Government will functionally reinforce the safety net of unemployment insurance, enhance support to employment maintenance for small and medium-sized enterprises and non-regular employees, introduce subsidies for creation of community-based employment, comprehensively support vocational ability development (including the improvement of the “Job Card” system), review legislation on the worker dispatching system, painstakingly support re-employment of dispatched workers, carry out measures to secure accommodations for the needy, promote the permanent employment of non-student part-time workers (many of whom are younger people) through the establishment of special incentives given to employers hiring older temporary workers, and encourage the conversion of temporary workers to permanent employees. In addition, the Government will also expand employment opportunities for those willing to work, such as women as well as aged or handicapped persons.

To establish a social security system that is well-balanced with economic and fiscal management and is sustainable in the long run, in the face of the aging population and the declining birthrate, it is necessary to continue reform efforts in order to restore public confidence in social security. Regarding the portion funded from the Government’s budget to the basic pension which is to be raised to 50% in the future, in line with “the Pension Reform Act 2004” (Act No. 104 of 2004), the Government will achieve conclusions by the end of 2008, including how to secure reliable financial resources earmarked for social security. In addition, the Government is determined to squarely correct falsified pension records, abolish Social Insurance Agency and establish instead “Japan Pension Agency” for constructing an organization which is operated by highly-motivated, competent staff and is trustworthy enough for the Japanese people.

In responding to medical care-related challenges, in order to ease public concerns over medical care, the Government will strengthen its efforts to deal with the shortage of physicians, particularly of obstetricians and pediatricians (including financial support for medical institutions who dispatch physicians and for those who receive dispatched physicians), and will make additional efforts toward job assistance for female physicians, development and improvement of emergency medical care systems and perinatal medical care systems (including those in urban areas), promotion of healthcare for local people and of medical care for chronic conditions, and improvement of medical preparedness, including functional improvement of university hospitals and other medical institutions that should play leading roles in local medical care. The Government will also deliberate a revision of the new health insurance program for people aged 75 or older, which is nicknamed as “longevity health care program.” In addition, the Government will further promote intractable disease control measures and will also comprehensively promote support and care for atomic-bomb victims. The Government will strengthen its countermeasures against new types of influenza virus and will take preventative measures against drug-induced diseases. It will also encourage development and diffusion of innovative drug medicines and medical devices.

The Government will improve working conditions for nursing care workers through the nursing fee revision for fiscal year 2009, which raises payments for nursing care by 3.0%, and will take measures to secure sufficient manpower for elderly care and welfare services.

In parallel with the above efforts, 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" (formulated on May 15, 2007).

As countermeasures against the declining birthrate, the Government will accelerate the achievement of "the new zero-waiting lists for nursery schools" strategy (released on February 27, 2008) which places a special focus on the period from fiscal 2008 through fiscal 2010, and will expand public child-care services and after-school programs for children so that people can bear and raise children with a sense of security by successfully striking a balance between child-raising and work if they so wish. The Government will also make comprehensive efforts, improving the work-life balance, achieving work-life harmony among Japanese people and encouraging the provision of free-of-charge gynecological checkup for expectant mothers based on "Economic Policy Package: Measures to Support People's Daily Lives."

In order to enhance welfare for the disabled, in relation to "Services and Supports for Persons with Disabilities Act" (Act No.123 of 2005), the Government will drastically reexamine the entire welfare system for persons with disabilities, including the way the assistance for disabled kids should function, and in April 2009, will revise the compensation for those engaged in designated welfare service in order to improve their working conditions.

(Education)

Based on the "Basic Plan for the Promotion of Education" (Cabinet decision on July 1, 2008), the Government will promote education that opens the way to the future for the country. In so doing, the Government will proactively take various measures which can adapt to the new era, appropriately reflecting feedback, by making efforts toward smooth implementation of the new courses of study, promotion of special support education Division and of moral education, provision of experimental activity opportunities, creation of an environment that allows each teacher to give his or her full attention to every pupil, solutions to various children-related problems such as bullying and school refusal, introduction of more information and communication technology to schools and reduction of clerical burden for school staff, establishment of schools geographically effective from an educational standpoint, maintenance of adequate student numbers, enhancement of "regional centers to support schools," strengthening of research into advanced education, enhancement of international competitiveness, promotion of private schools, and upgrading of competitive funds.

In addition, the Government will push forward comprehensive measures directed toward sound upbringing of younger generations based on "Guidelines for Measures on the Cultivation of

Youth” formulated at the end of 2008, sport promotion, including development of international athletic capacity, strategic conveyance of Japanese culture to overseas, conservation and better use of cultural assets, promotion of culture and arts, including culture and arts experience programs for children, and realization of “300,000 International Students Plan.”

The Government will foster preschool education, with an eye toward providing free-of-charge early childhood education in the future, comprehensively examining financial resources and systems to support the education in parallel with reform of government revenues. For this purpose, for example, the Government will reduce parents’ financial burden for preschool education in the foreseeable future. Furthermore, based on “Basic Program for Shokuiku Promotion” (March 31, 2006), the Government will promote dietary education by encouraging grassroots movements.

(Safety and peace of mind)

In order to ease anxiety in people’s daily lives, the Government will promote fundamental reinforcement of consumer policy, through the establishment of the “Consumer Agency” (tentative name) and enhancement of food safety measures, and will upgrade systems for preservation of official documents.

On the basis of the spirit of the new action plan for achieving a lawful society, which is now being formulated and will be determined by the end of 2008, and other related plans, the Government will make efforts to protect children against delinquency and crimes by increasing communication among people in communities, and will take countermeasures against illegal activities and harmful information over the Internet as well as cyber-crimes. The Government will enhance information security, beef up surveillance and regulation of organized crimes’ money, seek the forfeiture of illegal profit, and further tighten firearms control. In addition, the Government will eradicate everyday crimes, such as “*furikome fraud*” (remittance-soliciting fraud) and underhanded business practices, take countermeasures against abuse of drugs and cannabis, take anti-terror measures, ensure maritime safety, interdict smuggling at the border, enforce speedy and strict immigration check, prevent illegal aliens’ activities, take measures to prevent repeat offenses of released prisoners and take preventive measures against crimes involving blades. Furthermore, the Government will make efforts to ensure safe and reliable traffic zones.

As part of reform of the judicial system, the Government will smoothly implement the citizen judge system which is to be introduced in May 2009, offer civil legal aid programs, secure state-appointed lawyers entitled to receive an appropriate reward, improve and expand efforts of “Japan Legal Support Center” to provide legal service in so-called “zero one areas”(i.e. a judicial district where there is one or no practicing attorney at all) and other areas which have a shortage of judicial services, and make victim support efforts based on “the system of state-appointed

lawyers for crime victims.”

In view of the national security, the Government will promote effective readiness necessary to deal with various situations, including new ballistic missile threats, and make consideration on increasingly internationalized missions while reforming defense procurement practices and promoting effective improvement of defense capabilities. In addition, the Government will steadily carry out the realignment of U.S. forces in Japan, in order to reduce the burden of residents in hosting municipalities while maintaining U.S. forces’ deterrence capacity in Japan. Furthermore, the Government will seek to strengthen its intelligence functions and will promote anti-piracy measures.

In addition, the Government will develop countermeasures against bird and animal damage to protect people’s daily lives in rural areas.

2. Reinforcing financial and economic stability

(Financial policies)

Based on the “Economic policy package,” the Government will enhance international cooperation for stabilizing international financial and capital markets, and will continue its support to efforts toward more appropriate accounting for financial instruments. The Government will take all necessary measures to ensure the stability of the Japanese financial system and to revitalize stock markets.

For this purpose, following the revision of “Act on Special Measures for Strengthening Financial Functions” (Act No. 128 of 2004), the Government will support the regional economy through the governmental capital participation in financial institutions so as to allow them to exercise their proper financial intermediary function. In addition, following the revision of “Insurance Business Act” (Act No. 105 of 1995), the Government will extend the period of government assistance to Life Insurance Policyholders Protection Corporation of Japan, to ensure safety net for policyholders, on the understanding that the Corporation should be basically financed by contributions from member insurance companies.

In addition, the Government will implement to consolidate the taxation on income from financial assets for establishing a simple system so as to create an environment which is friendly to personal investors. The Government will extend the application of the current reduced tax rate for dividends and capital gains on listed shares by three years and will create simple tax incentives to encourage small amount investments, within the framework of consolidation the taxation on income from financial assets and introduce individual contributions (matching contribution) in corporate defined contribution pension plans.

(Strategic international cooperation)

Based on the declaration of the recently held “Summit on Financial Markets and the World Economy,” in order to deal with the current crisis, the Government will push forward its initiative to forge strategic international partnership through international coordination and coalition.

For that purpose, too, the Government will enhance comprehensive diplomatic capacity with an emphasis on the diplomatic operation system such as overseas diplomatic establishments and manpower.

More specifically, from the viewpoint of securing a basis for Japan’s economic growth with the international community, the Government will closely monitor impact of the current crisis to emerging countries and developing countries, including impact in terms of trade and investment, promoting coordination and partnership with international organizations and individual countries. Furthermore, in order to ensure a precise response to various crises, whether they are global or regional, the Government will be engaged in further promotion of free trade and steady implementation of the existing international commitments while deepening international coordination, seeking adequate coordination with private-sector players. At the same time, the Government will strategically and proactively implement international cooperation, by timely using various policy instruments, where necessary, including strategic use of ODA and OOF.

(Support to small and medium-sized enterprises)

In response to funding difficulties experienced by small and medium-sized enterprises and other businesses, the Government will seek to ensure smooth funding for them from government-affiliated financial institutions and private financial institutions, for example, by taking advantage of the 30 trillion yen loan and credit guarantee special program serving as a safety net, which was recently expanded in compliance with “Economic Policy Package: Measures to Support People’s Daily Lives” and by reviewing loan terms. The Government will also seek to revitalize small and medium-sized enterprises through its fiscal year 2009 budget, by continuously offering tax breaks, including temporary cut in the reduced corporate tax rate and the restoration of the refund system of tax allowing net operating loss carryback, by supporting new business development taking advantage of “cooperation bases for coordinating regional power,” by supporting succession of enterprises for ensuring the development and continuation of businesses, and by ensuring appropriate subcontracting practices.

(Growth potential enhancement)

In order to enhance the country’s growth potential and expand domestic demand from a mid to long-term viewpoint, the Government will seek to dramatically unite “fundamental power” of the Japanese economy, by introducing “growth potential enhancing taxation” to expand corporate vitality, by promoting energy-saving measures and new energy measures in which Japan has had

an edge over other countries to establish a low carbon society, by encouraging the exploration, development and better use of metal resources, by enhancing resource diplomacy and science and technology diplomacy, by encouraging the world's most advanced research and development, and by improving employees' incentive to work that is the source of corporate growth.

More specifically, the Government will introduce taxation measures promoting investment in energy-saving and/or new energy facilities which permit immediate write-off on a temporary basis, as well as other taxation measures that encourage circulation of overseas subsidiaries' income back into Japan. The Government will also seek reinforced cooperation to encourage the introduction of energy-saving and new energy facilities, including those in public service sectors, through the use of the domestic emission credit system. In addition, the Government will promote basic research and facilitate "Nobel prize winning level" world-top research and development, and will establish "Innovation Creation Organization [a tentative name]" and "innovation special zones [a tentative name]" to facilitate innovation. In addition, the Government will continuously support productivity improvement efforts in service industries.

Furthermore, based on "Economic and Fiscal Reform 2008 ("Basic Policies") (Cabinet decision on June 27, 2008)," in order to allow economic growth to be felt by everyone, the Government will promote efforts to make the country the world's most advanced IT country, aiming to allow the Japanese economy to grow with the world economy, by actively introducing global dynamism to accelerate high-quality economic partnership. At the same time, based on "the 3rd Science and Technology Basic Plan" and "Research and Development Prowess Enhancement Act" etc., the Government will make efforts to upgrade relevant measures and to secure sufficient budgets, so as to maintain and develop Japanese soft power, including technical capabilities, contents and brands, as represented by Japanese manufacturing sectors that are the source of the strength of the Japanese economy. From the viewpoint of seeking "growth through reforms," the Government will also decisively push forward "New Economic Growth Strategy" (Cabinet decision on September 19, 2008).

Based on decisions made by the Strategic Headquarters for Space Development following "Basic Act on Use of Space" (Act No.43 of 2008), the Government will make efforts to upgrade relevant measures and to secure sufficient budgets for space development and will put the measures into practice in a comprehensive and well-planned manner.

Based on "Basic Act on Ocean Policy (Act No.33 of 2007)" and "Basic Plan on Ocean Policy" (Cabinet decision on March 18, 2008), the Government will seek to develop, use and preserve marine resources, push forward oceanographic investigation and enhance marine research and development at Japanese exclusive economic zones (EEZs) and other areas.

(Realization of low carbon society)

Based on "The Kyoto Protocol Target Achievement Plan (Cabinet decision on March 28, 2008)"

and “Action Plan for Achieving a Low Carbon Society” (Cabinet decision on July 29, 2008), in order to meet the goals of the Kyoto Protocol and to achieve long-term objectives for the global community and for Japan, the Government will foster Japanese environment technologies and energy technologies that will create demand and employment, so as to lead the world in realizing low carbon society that should be compatible with economic growth.

For this purpose, the Government will accelerate its efforts by applying non-overlapping effective measures combined with other regulations, to proceed with low-environmental-load town development through support for environmental model cities, promotion of wider use of energy-efficient housing, equipment and vehicles, introduction of renewable energy sources, including solar and biomass energy sources, “visualization” of CO₂ emission, promotion of environment-friendly business activities and of greening of financial services, development and promotion of environmental education and people’s movement for environmental protection, and efforts that foster changes in the way our society functions and we live our lives. For this purpose, the Government will also encourage technical innovation, implementation of emission trading in a domestic integrated market on a trial basis, promotion of nuclear energy, enhancement of carbon sinks in forests through forest preservation and better use of the Kyoto Mechanism.

In addition, as a world leading energy efficient, environment-friendly nation, in order to lead the creation of a fair and effective post-Kyoto framework in preparation for a Post-Kyoto Agreement to be concluded by the end of 2009, the Government will push forward technology transfer through the sector-specific approach and other cooperative efforts, assistance to developing countries through “cool earth partnership” and other schemes, international efforts and assistance to expand safe and peaceful use of nuclear power and to promote low-carbon, low-contamination economic activities in Asia, enhancement of research and observation facilities for climate change, efforts toward CO₂ emission reduction in international maritime transport, and countermeasures against illegal logging.

In addition, the Government will propel efforts toward the realization of a society which exists in harmony with nature and a recycling-oriented society both in Japan and abroad, in an integrated manner.

3. Realization of latent power and vitality of regions

(Regional vitalization)

While rural communities face impoverishment alongside rapidly aging population and dwindling birthrates, there has been an increasing disparity between urban areas and rural ones. In order to reach out to impoverished rural communities and allow them to realize their “latent power and vitality,” in parallel with the drastic reduction in expressway tolls and other measures to be made based on “Economic policy package: Measures to Support People’s Daily Lives,” the

Government will make efforts toward regional revitalization, as described below:

Based on “the Strategy for Regional Revitalization,” the Government will seek regional revitalization, including enhancement of regional growth potential and infrastructure ensured for people in rural areas. In order to revitalize rural businesses, the Government will promptly establish and take advantage of “Regional Revitalization Corporation of Japan,” and will promote reform of third sector corporations. The Government will also seek to revitalize local commerce including local shopping areas, develop and take advantage of ICT infrastructure, ensure a smooth transition to digital broadcasting, promote science and technology in regional areas through cooperation among industry, academia and government, revitalize local public transport, promote cooperation among agriculture, commerce and industry, revitalize under-populated areas and remote islands, and revitalize the regional economy by utilization of PFI. In order to achieve the goals for promoting tourism including attracting 10 million international visitors to Japan in 2010, following “the Tourism Nation Promotion Basic Plan” (Cabinet decision on June 29, 2007) and the inauguration of the Japan Tourism Agency, the Government will seek to transform Japan into a tourism nation. In addition, the Government will make efforts through cooperation across ministries to realize “the self-supporting zone concept,” where a central city and peripheral municipalities divide roles and responsibilities under an agreement.

(Enhancing competitiveness of agriculture, forestry and fisheries of Japan)

By implementing “New Agricultural Administration for the 21st Century–2008” (Approved on May 7, 2008 by Headquarters on the Promotion of the Policies for Food, Agriculture and Rural Area) without fail, and by securing farmlands, promoting the effective use of farmland, consolidating farmlands and expanding corporative management in agriculture, as well as by promoting wider use of rice flour and feed-use rice, the Government will reinforce Japan’s food supply capability. It will also enhance its support to farmers, including a small-scale farmers, willing to make better use of rice paddies. In addition, the Government will enhance measures toward better use of information technology and technologies that realize higher energy efficiency, and will facilitate the revitalization of rural areas through the promotion of co-existence and interactions with urban areas. The Government will also seek to promote the active utilization of domestic agricultural products through extension of markets for local agricultural products both in Japan and abroad.

In addition, the Government will revitalize forestry through expanding the use of domestic timbers for housing, and activate the fishing through enhanced marketing efforts for marine products, and more efficient and rationalized use of materials for fishing and fish feeding stuff.

Through the above mentioned efforts, the Government aims to realize “more competitive agriculture, forestry and fisheries of Japan” and to revitalize rural areas. For this purpose, the Government will work out a timetable for achieving its food self-sufficiency ratio of 50%.

(Housing and public investment)

The Government will encourage housing investment and revitalize the real-estate market through: (1) extension and expansion of housing loan-related tax breaks (individual income taxation), including the introduction of taxation systems that encourage housing investment, such as extension of the time period for providing preferential tax breaks for those who buy houses, the maximum deductible amount raised to the highest levels ever, and home improvement tax credits for energy-efficient or barrier-free upgrades that contribute to environment conservation or to the elderly people's well-being; (2) extension and expansion of various land taxation systems; (3) more support for the acquisition of high-quality houses, and (4) relaxation of the floor area ratio (for buildings with advanced environmental measures, excellent urban development projects etc.). In addition, the Government will, in order to provide a safe and secured affluent living environment to people, based on "Basic Plan for Housing Life" (Cabinet decision on September 19, 2006), seek to ensure residential stability for elderly people and for families with small children and to renovate aging condominiums. The Government will also promote barrier-free access to, and use of, housing and other buildings.

In view of changes in a natural environment, such as a potential increase in torrential rains due to the global warming, to enhance preparedness for major earthquakes, floods, landslides and other disasters, the Government will push forward disaster prevention measures and disaster reduction measures in a strategic and focused manner. In so doing, the Government will further accelerate reinforcement of school buildings and houses against earthquakes, implement earthquake countermeasures for public facilities and seek better coordination among know-how, equipment and facilities, for example, to help evacuate those who need assistance in case of disaster. The Government will also seek to enhance regional disaster prevention, including fire control services. The Government will continue public investment reforms while continually promoting expenditure reforms. In order to promote the independence and vitality of regional communities, establish international distribution networks to enhance Japan's growth potential, and ensure public safety and security through disaster prevention and disaster 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. Putting priority on ensuring fair price contracts, the Government 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 budgets to regions in consideration of actual conditions in local areas, such as development conditions and needs.

The Government will seek efficient implementation of public projects through, for example, effective use of existing stocks, efficient and well-planned maintenance, equipment life extension by replacing out-of-date components, use of private-sector vitality through PFI, and review of

existing specifications.

The Government will seek to reform bidding systems and government contract management, for example, by eradicating misconduct, such as bid-rigging, at both central and local governments, increasing the number of public competitive tenders for government contracts, upgrading and expanding the overall evaluation bidding method, and thoroughly taking anti-dumping measures. In addition, by fully carrying out PDCA based on the latest socioeconomic data, upgrading and expanding third-party organizations' functions concerning project evaluation, and adequately identifying case examples in which performance fell short of targets established by ex-ante evaluation, the Government will constantly review projects and put them into practice in a well planned manner, and 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.

The Government will review the revenues earmarked for road construction in line with "Basic Policy on Earmarked Revenue for Road Construction (Cabinet decision on May 13, 2008)" so as to reach an appropriate conclusion by the end of 2008 and shift the earmarked revenue for road construction into general revenues starting from fiscal year 2009.

(Local government finance)

In the fiscal year 2009 budget, the Government will tightly control local governments' expenditures, such as personnel expenses, investment-purpose expenses and general administrative expenses, in tandem with the central government's efforts to reform expenditures. The Government will secure the appropriate amount of local general revenues, such as local taxes and local allocation taxes, required for stable fiscal management.

In order to address fiscal disparity between regions, the Government will continue to push forward allocation of local grant taxes in a focused manner, in accordance with the concept of regional revitalization measures, and will prioritize allocation of financial resources to regions that are in financial difficulties.

The Government will establish a new mechanism which allows for spending of 1 trillion yen according to local circumstances, when the earmarked revenue for roads is shifted into general revenues.

The Government will deliberate the establishment of a common finance institution for local governments that can provide long-term, low-interest loans to local governments (general account).

The Government will take appropriate fiscal measures for local public governments to cope with a fall in local tax revenue and five national tax revenues that serve as resources for the local allocation tax due to the recession and the implementation of "Economic policy package: Measures to Support People's Daily Lives".

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).