

Economic Policy Speech by Toshimitsu Motegi, Minister of State for Economic and Fiscal Policy, to the 196th Session of the Diet

January 22, 2018

1. Introduction

I would like to offer my views on the economic challenges facing Japan and the government's basic approach to the management of economic policies as the Cabinet Office Minister of State for Economic and Fiscal Policy.

2. Basic principles for economic and fiscal management

As a result of the implementation of Abenomics over the past five years, the Japanese economy has seen nominal GDP expand to an all-time high of 549 trillion yen, the real GDP growth rate increase for seven consecutive quarters, and corporate profits reach a record high of 75 trillion yen.

With regard to employments and incomes, the indicators that matter most to people's livelihoods, the most recent active job opening-to-applicants ratio reached 1.56 times, the highest level in forty years since the first half of the 1970s, and wages at small and medium-sized enterprises as well as large have increased substantially by about 2% annually for four consecutive years. As the employment and income conditions have thus improved, a positive economic cycle is being realized.

The government's economic outlook, decided at today's Cabinet meeting,

anticipates a recovery for the Japanese economy in the next fiscal year centered on private demand as the employment and income situation continue to improve, and the economy is expected to see approximately 1.8% real growth and 2.5% nominal growth.

In this context, the output gap has been shrinking and presently turned to positive. The most serious issues facing the Japanese economy now are overcoming the hurdles created by the falling birthrate and aging population and boosting potential growth through supply-side reforms.

To that end, our top priorities will be to undertake “Human Resources Development Revolution” to enhance the quality of individual human resources, as well as “Supply System Innovation” that will constitute the core of our growth strategy. Accordingly we will be steadily implementing the New Economic Policy Package decided by the Cabinet last December.

3. Human Resources Development Revolution

We will push ahead with “Human Resources Development Revolution” towards the 100-year life era.

Firstly, in this “Human Resources Development Revolution”, we will accelerate the provision of free early childhood education. We will provide free early childhood education for all children between the ages of 3 and 5 who attend kindergartens and nurseries. For infants up to two years old, together with the endeavor to eliminate the childcare placement waiting list, we will provide free childcare for households with exemptions from municipal residential tax.

Secondly, to eliminate the childcare placement waiting list, one of our highest priorities, we will be bringing forward the implementation of “Plan for Raising Children with Peace of Mind” and offer additional 320,000 childcare places by the end of fiscal 2020, as well as further improving the working conditions of childcare personnel.

Thirdly, we will provide free higher education to children of low-income households who truly need assistance. As for children in households with exemptions from municipal residence tax, national university students will be exempted from tuition fees and private university students will be exempted from portion of the tuition fees which equivalent to the amount of that of national university added by a certain amount considering the standard of the average tuition fees of private universities. We will also take steps to drastically enhance grant-

type scholarship to cover students' necessary living expenses. Additionally, we will be offering gradual support to children from households in similar circumstances to those with exemptions from municipal residential tax in order to avoid the support "cliff."

Fourthly, while the government overall securing stable financial resources, we will realize the substantive free education at private high schools targeted for the households with annual incomes of less than 5.9 million yen from the standpoint of providing wide range of educational opportunities for children regardless of their household's economic conditions.

Fifthly, we will seek further improvements in the working conditions of long-term care workers to address the serious challenge of securing workers in the nursing care sector.

By implementing these 2 trillion yen approach and boldly allocating policy resources to child-rearing generation, we will significantly establish a social security system that accommodates the needs of all generations.

4. Supply System Innovation

Another approach we will be taking is to position the next three years as a period for achieving “Supply System Innovation” and carrying out intensive investment, and then promote this “Supply System Innovation.” Looking toward 2020, we will seek to translate record-high corporate earnings into higher wage increases and greater capital investment.

To do this, we will be lowering to 25% the corporate tax burden of companies that raise wages by 3% or more and engage in active investment, and even cutting to 20% the corporate tax rate of companies striving to improve productivity through innovative technology. At the same time, we will require accountability to investors from companies dragging their feet in raising wages and investing, and we will institute tax incentives to encourage them to embark on more daring business decisions.

To small and medium-sized enterprises and small-scale entrepreneurs who actively venture to invest even in challenging business conditions, we will offer assistance such as “manufacturing, commercial and service-sector subsidies” and, with due consideration for the autonomy of local governments, we will create a groundbreaking system under which fixed asset taxes will be reduced to zero for a

period of three years.

In addition, we will be striving to realize “Society 5.0” through the social implementation of a Fourth Industrial Revolution via AI, robots, IoT and the like, and to make effective use of radio bands in keeping with innovations in technology, and we will be submitting bills during this Diet session on a “sandbox” regulatory scheme that will help turn innovative ideas into businesses.

5. Economic partnership

Last November the TPP11 came to an agreement in principle that holds great significance for Japan’s future growth strategy, as the worldwide uptrend in protectionism has made it extremely important to be the first to create new free and fair rules suited to the 21st century. We will continue to cooperate with the countries involved so that this agreement can be promptly signed and put into effect as soon as possible.

Negotiations on the Japan-EU EPA were concluded last December. In light of the progress made in the TPP and Japan-EU EPA negotiations, “Comprehensive TPP-related Policy Framework” was decided last November. This policy framework incorporates policies necessary to truly and directly tie the TPP and the Japan-EU

EPA to economic growth in Japan, including policies for supporting the overseas expansion of local small and medium-sized companies, bolstering the competitiveness of domestic industries, and improving our agricultural, forestry and fishery industries. We will be utilizing this policy framework in future to strengthen the agricultural, forestry and fishery industries and to implement other measures deemed necessary.

6. Fiscal consolidation

Without economic revitalization, there can be no fiscal consolidation. Under this basic policy, we will firmly observe our goal of achieving a primary surplus, aiming at the same time to steadily reduce the public debt to GDP ratio. To achieve this objective, we will have the Council on Economic and Fiscal Policy carefully review the Integrated Economic and Fiscal Reforms undertaken thus far, and we will then announce a timing of achieving a primary surplus as well as a concrete plan for meeting that timetable in this year's "Basic Policy on Economic and Fiscal Management and Reform."

Fiscal 2018 will be the final fiscal year of the intensive reform period stipulated in the "Plan to Advance Economic and Fiscal Revitalization," so we will be steadily promoting public expenditure reform. Along with making thoroughgoing efforts to

“visualize” economic, fiscal and standard-of-living information as well as comparative regional data, we will be promoting nationwide dissemination of excellent practice .

Furthermore, we will be continuing comprehensive reform of our social security and taxation systems to simultaneously ensure the sustainability of the social security system and achieve the goal of restoring our fiscal health.

7. Conclusion

In closing, I would like to discuss our responses to three changes as we work to revive the Japanese economy.

The first is the advance of technology. In this age of a Fourth Industrial Revolution and Society 5.0, Japan must execute a growth strategy ahead of the rest of the world.

The second is Japan’s declining birthrate and aging population and the coming 100-year life era. Japan need to create a new national system in which individuals can “redesign” their own lives and can play active roles regardless of their age.

The third is the globalization of economies and societies. Japan must respond to

this by taking the initiative in formulating new 21st-century rules such as the TPP and the Japan-EU EPA.

I am convinced that these efforts hold the key to Japan's economic revival, and I would greatly appreciate the understanding and cooperation of all members of the public and of the Diet.