

- Basic Policy No.3 -

# *Realize a “Revitalized Japanese economy”*

“Basic Policies for Economic and Fiscal  
Management and Structural Reform 2003”  
June 27, 2003 , Cabinet Decision  
Government of Japan

## Statement by Prime Minister Junichiro Koizumi

Based on the principles set out in the previous two editions of the “Basic Policies”, on the examination and assessment of the results of these reforms to date, and on the current economic and fiscal situation, I have clarified the goals to be pursued hereafter and the specific measures to achieve them.

In particular, the Government has decided on a broad framework for the “Three-Point Reform Package”, which is part of the “Reform of the Central and Local Governments”, and has resolved to take new steps in regulatory reform. Furthermore, the Government will take new measures regarding the budget, such as the introduction of a “model project” pilot program starting with the FY2004 budget, to establish a budget formulation process in line with the “Plan-Do-See” principle.

I believe that the only viable path for achieving economic growth that is sustained and not temporary and a long-term economic expansion is to promote structural reform and to realize a “revitalized Japanese economy” by improving the nature of the Japanese economy.

I firmly resolve to continue steadily promoting structural reforms for the economic revitalization of Japan pursuant to the “Basic Policies 2003.”

I sincerely ask the Japanese people for their understanding and cooperation.



# Basic Policies for Economic and Fiscal Management and Structural Reform 2003

- Further focus on structural reform to enhance quality of life
- Emphasize ideas that feature local considerations and regional points of view

## Basic Concepts

No growth without reforms

Leave to the private sector that which can be done by the private sector

Leave to local governments that which can be done by local governments

Goals to pursue (Declarations)

Examine and assess reforms

Overcoming Deflation (Next page)

## Economic Revitalization

Eliminate regulations, systems, and government intervention that constrain private sector vitality, and so generate private demand

## Providing a Sense of Security

Develop a sustainable social security system, to make a society in which the younger generation has a bright outlook and the older generation has a sense of security

## A Fiscal System Responsible to Future Generations

Generate trust in the fiscal system and focus on its results

Specific Measures

### Regulatory Reform and Special Structural Reform Zones

- ★ Open up the fields of medical services, welfare, education, and agriculture to the private sector, thereby creating new services and employment

#### Priority items for consideration:

- "Permit management of medical institutions by corporations (*kabushiki Kaisha*)"
- "Permit patients to seek treatment for items covered by and not covered by public medical insurance at the same medical examination"
- "Expand the sales system for pharmaceutical products"
- "Prepare a system for new child rearing"
- "Outsource management of public schools to the private sector"
- "Expand the acquisition of agricultural land by corporations (*kabushiki Kaisha*)" etc...

- ★ Promote special structural reform zones, and implement the successful programs nationwide.

### Employment and Human Resource Strategy

- ★ Expand employment opportunities, particularly in the service sector
- ★ Promote jobs for willing young workers that will enable them to achieve economic independence
- ★ Take measures to encourage women to fully exercise their abilities

- "Independence and Challenge Plan for Young Workers"
- "5.3 Million Job Creation Program"

- ★ Improve the quality of education at all levels

### Reform of Central and Local Governments

#### Promote the "Three-Point Reform Package"

- ★ Abolish or reduce central government subsidies to local governments
  - a target of roughly 4 trillion yen by FY2006
- ★ Transfer limited tax-raising authority from the central to local governments to finance those programs, subject to this subsidy elimination, that are implemented by the local governments
- ★ Scale down the central government guarantee of local government finances, and restrict the total amount of local allocation taxes

Basic Principles of the FY2004 Budget ( Next page )

### Flow of Funds and Financial and Industrial Revitalization

- ★ Shift the flow of funds from the "public sector back to the private sector"
- ★ Resolve the Non-Performing Loan Problem
  - Implement the "Program for Financial Revival"
- ★ Augment the use of direct financing by reforming and revitalizing the securities markets
- ★ Practice prudent risk management of public debt
- ★ Take steps toward industrial revitalization and regional reinvigoration

### Tax Reform

- ★ Continue comprehensive and fundamental tax reform
- ★ Ensure that tax reform is consistent with social security system reform
- ★ Ensure that tax reform is consistent with reform of the central and local governments

### Social Security System Reform

- ★ Restrict the increase of social security benefits
- ★ Reform the national pension system
  - Adjust benefits
  - Raise premiums in the short run
  - Consider the introduction of a system to automatically adjust benefits to a fixed premium
- ★ Reform the national medical and long-term care insurance systems

### Reform of the Budget Formulation Process

- ★ Prioritize expenditures through top-down decision-making.
- ★ Establish a new "Plan-Do-See" budget formulation process
  - Kick off "model project" pilot program in the FY2004

## Medium-Term Principles of Economic and Fiscal Policy Management (To Overcome Deflation)

### (1) Overcoming Deflation

- A deflationary trend has persisted, so overcoming deflation as soon as possible remains a pending issue
- To overcome deflation, the government and the Bank of Japan will vigorously and comprehensively tackle this problem together
- Deflation will be overcome after an intensive adjustment period, as suggested in the “Reform and Perspectives – FY2002 Revision”

### (2) Medium-term principles of economic and fiscal management

- Accelerate structural reforms, with emphasis on expanding private demand and employment
- Continue to implement reform of regulations, the financial system, the tax system, and government expenditures in an integrated and consistent manner
- Take bold and flexible policy measures, according to economic conditions
- Ensure that the size of government (i.e., the ratio of general government expenditures to GDP) in FY2006 does not exceed the FY2002 level
- Restrain the expansion of government to improve fiscal soundness so that the primary balance turns to surplus at the start of the 2010s – for example, by aiming to keep the potential national burden\* to around 50 percent

(\* potential national burden = total taxes, social security contributions, and fiscal deficit as a percentage of national income)

## Basic Principles of the FY2004 Budget

### (1) Stay firmly on the path of expenditure reform and ensure fiscal sustainability

- Keep to the path of reforming government expenditures, as in FY2003
- Limit the amount of government bonds issued
- Limit the size of government (i.e., the ratio of general government expenditures to GDP )

### (2) Principles of prioritization and restraint in budget formulation

#### (Prioritization)

- Give priority to policies that best utilize private sector potential
- Combine the budget with regulatory reform, PFI, and new business creation policies
- Concentrate on policies in the four priority areas (as set in “Basic Policies 2002”)

#### (Restraint)

- Reduce unit prices in response to trends in price levels and the streamlining of administrative services; Restrain total government personnel expenses; Eliminate and reduce subsidies to local governments

### (3) Reform of principal budget items

- Social security; Employment; Science and technology; Education and culture; Social infrastructure development; Agriculture, forestry and fisheries; Local finances; Environment; etc.