

December 24, 2010

**Statements by Masamitsu Sakurai, Chairman of Keizai Doyukai
“Cabinet Decision on the Fiscal 2011 State Budget Proposal”**

1. I would like to give credit to the cabinet decision on the fiscal 2011 state budget proposal for restraining the amount of government bond issuance and limiting the level of expenditure in accordance with the Medium-term Fiscal Framework set in Fiscal Management Strategy despite the fact that Japan is now in serious fiscal difficulties and faces a strong demand for fiscal spending due to situations such as the progress of ageing in our society.
2. However, it is very disappointing that the amount of the government bond issuance exceeds the revenue for two years in a row and as the result the government is covering the shortfalls with non-tax revenue such as special account revenue, a highly unusual circumstance. Another very disappointing point is the fact that the Kan administration avoided to discuss the consumption tax issue in the tax system revision process and thereby distorts the revenue structure of the government.
3. Without showing the policy priorities, the Kan administration ordered all ministries to make across-the-board cuts in spending, and therefore it did not lead to a bold change in the annual expenditure. Also, the payments in pension benefits and grants to local government were untouched. Furthermore, the setting up of the special budget for the revitalization of Japan, a new approach in the budgetary process, and the sorting out of the government projects were not fully utilized. These are some other regrettable points in this year’s budgetary process.
4. In the future, the prime minister needs to provide the outline of the national budget and specify the policy priorities at the early stage of the budgetary process. Then the annual budget should be compiled without relying on the non-tax revenue and the dependence on government bond should be lowered. Also the government and the ruling party are responsible for presenting the future vision of Japan to the Japanese people and carry out the comprehensive overhaul plan for annual revenue and expenditure as soon as possible.