

December 30, 2011

Statement by Yasuchika Hasegawa, Chairman of Keizai Doyukai

**On the Draft for the Comprehensive Reform of
Social Security and Tax Systems**

1. I appreciate the government and the ruling party, the Democratic Party of Japan, for presenting a concrete draft and schedule for raising the consumption tax rate to 8 percent by April 2014 and to 10 percent by October 2015. Given the severe conditions of Japan's public finances and social security expenditure (which is increasing by more than 1 trillion yen annually due to the aging and shrinking population), such an increase in the consumption tax is inevitable. The draft also mentions political and administrative reforms, namely legislative attempts to reduce wages for civil servants and reduce the number of seats in the Diet, as well as to reform the electoral system to ensure equality in the value of each vote. I sincerely hope the government will implement these reforms with unwavering resolve and without any further delays.
2. On the other hand, the draft has failed to fulfill its essential purpose of redressing intra- and inter-generational inequality in benefits and burdens (tax and social security premium) and establishing a sustainable social security system. The core of the problem is to address disparity between and within generations in order to prevent further hikes in social security expenditure. Without addressing this issue, Japan will not be able to realize a sustainable social security system. This also suggests that Japan will not be able to guarantee a sense of security to its citizens—the basis for building a stable society—or the formation of a “large middle class”. First, the government must look urgently into means to make the system streamlined and efficient with a mid- to long-term perspective. Second, the government has to present a comprehensive architecture and estimated level of benefits for the social security system comprised of pension, healthcare, long-term care and countermeasures against the declining birthrate. Finally, the government must show the level of taxes and social security premiums that match the

benefits. However, especially in regard to taxes, burdens should also be based on the taxation of assets, not only on incomes.

3. Overall social security expenditure remains around 100 trillion yen per year, creating a huge annual deficit of 40 trillion yen. In addition, long-term public debts from national and local governments exceed approximately 900 trillion yen in total (by the end of the 2011 fiscal year). It is clear that there is no time to waste in rehabilitating our public finances. I strongly urge the government to present an overall picture for achieving fiscal soundness without any delay by designing the best mix of i) “cuts in expenditures” by implementing reforms of social security, political and administrative systems, ii) “revenue reform” by thorough realignment of the current tax system, and iii) “growth strategy” aimed at bringing our economy out of its deflationary spiral.

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