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## Opinion Paper for the 185th Diet Session (Extraordinary Session)

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The Abe Cabinet sees the autumn's extraordinary Diet session as a forum to ensure implementation of measures envisaged under their growth strategy. The coming session will be the first full-fledged session of the Diet to be convened since the Abe government released the Japan Revitalization Strategy aimed at reviving the Japanese economy. In addition, the session will be convened at a time when two favorable conditions for implementing the growth strategy are ripening

The first condition is the ending of the divided Diet following a landslide victory by the ruling coalition of the Liberal Democratic Party (LDP) and the New Komeito Party in a House of Councilors election in July. The ruling coalition secured a stable majority in the upper house, which made it easier to enact government-sponsored bills and implement the Abe government's policy measures, covering a wide range of fields. The Abe government can no longer use the divided Diet or the Opposition's resistance as an excuse for delaying implementation of its policy. Without yielding to "resistance forces" within the LDP, the Abe government should firmly commit to implementing reform. People will lose confidence in Abenomics if an old-fashioned LDP, a group less enthusiastic about reform, emerges.

The second condition is the brightening environment surrounding the domestic economy supported by Abenomics and Tokyo being named the host city for the 2020 Olympics and Paralympics. Under such an environment, effects from economic policy measures tend to be felt more tangibly. Without doubt, Japan is facing its last big chance for economic revival. The Abe government should therefore carry out its policy measures as speedily as possible, unlike in the past.

The duration of the forthcoming extraordinary Diet session is short. Important bills were scrapped in the latest ordinary session because they failed to be enacted before the session expired. To avoid repeating this mistake, the Abe government should give the highest priority to the following measures.

## [Summary]

### I. Achieving the growth strategy

#### 1 Removing bedrock-like regulations

Whether or not the Abe government will break through bedrock-like regulations will test its seriousness about reform plans. We call for the government to steadily implement deregulatory measures in agriculture, medical services and employment system— areas regulated as solidly as bedrock – while utilizing the National Strategic Special Zones.

#### Policy measures with their bills to be enacted by extraordinary Diet session

- Establishment of intermediary institutions that manage and lease farmland (designing the institutional framework to ensure a truly functional organization)

#### Policy measures to be implemented under National Strategic Special Zones

- Review of conditions required for establishing agricultural production corporations
- Acceptance of exceptional cases under fixed-term labor contracts, and clarification of conditions and procedures in writing for terminating labor contracts

#### 2 Early implementation of economic stimulus measures not accompanied by fiscal spending and/or measures expected to produce immediate economic expansionary effects

In light of the fiscal standing of Japan, it is necessary to give priority to implementing economic stimulus measures not accompanied by fiscal spending (i.e., review of public and quasi-public funds management, review of competition policy, etc.). Among such stimulus measures, those expected to have immediate economic expansionary effects (i.e., relaxation of regulations on floor area ratios to promote residence in cities, measures aimed at expediting reconstruction of condominiums, etc.) should be swiftly implemented from the viewpoint of obtaining public support during the government’s reform implementation period.

#### Policy measures to be implemented under National Strategic Special Zones

- Relaxation of regulations on floor area ratios in urban areas

#### 3 Steady implementation of Japan Revitalization Strategy

The Industrial Competitiveness Enhancement Act and the National Strategic Special Zones Act constitute a major pillar of the “Japan Revitalization Strategy –

Japan is BACK” aimed at reviving the Japanese economy. These mark the first stage of the government’s reform plan. If Abe government stumbles in the first stage, the growth strategy will be difficult to implement. As for policy measures planned under the Japan Revitalization Strategy, a PDCA cycle should be established for their steady implementation.

#### **Policy measures with their bills to be enacted by extraordinary Diet session**

- Enactment of the Industrial Competitiveness Enhancement Act (especially the establishment of a PDCA cycle)
- Enactment of the National Strategic Special Zones Act (including enhanced support of the zones)
- Amendment to the Electricity Business Act (Electricity System Reform)

#### **4 Further issues to be tackled and possible formulation of further measures under growth strategy**

A number of policy measures not included in the Japan Revitalization Strategy need to be discussed further for economic revitalization (i.e., reconstruction of disaster-hit areas, introduction of the Doshu System Based on Regional Autonomy<sup>1</sup>, scattering of holidays to be taken by workers, etc.). Policy measures expected to have significant effects on economic growth should be discussed fully with a view toward their adoption.

#### **Policy measures with their bills to be enacted by extraordinary Diet session**

- Enactment of the Fundamentals of Doshu System Based on Regional Autonomy Act
- Enactment of the Ensuring Fair Competitive Conditions Act

### **II. Fiscal, tax and social security reforms**

#### **5 Making economic growth and the realization of fiscal soundness compatible**

The realization of fiscal soundness is a pressing issue for regaining trust in the Japanese economy. We call for integrated and drastic reform of Japan’s social security and taxation systems while seeking implementation of measures aimed at making economic growth and the realization of fiscal soundness compatible.

#### **Policy measures with their bills to be enacted by extraordinary Diet session**

- Revision to taxation system aimed at stimulating corporate capital spending, and promoting research and development

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<sup>1</sup> A regional system in which Japan is reorganized into Hokkaido ("do") and several states ("shu")

### **III. Reinforcement of system to promote reform**

#### **6 Establishment of system to implement growth strategy**

Japan's system for national public service should be reformed to smooth the way for ministry-to-ministry and agency-to-agency cooperation in implementing reform measures. Strong leadership is needed to keep a close watch on any moves to make policy measures toothless and to counter such moves.

### **Policy measures with their bills to be enacted by extraordinary Diet session**

- Amendment to the National Public Service Act

## [Full Text]

### I Achieving the growth strategy

#### 1 Removing bedrock-like regulations

Whether or not the Abe government will break through bedrock-like regulations will test its seriousness about reform plans. We call for the government to steadily implement deregulatory measures in agriculture, medical services and employment system – areas regulated as solidly as bedrock – while utilizing the National Strategic Special Zones.

##### (1) Agricultural reform

- To make agriculture an attractive business for young people and make Japan's agriculture internationally competitive, it is essential to adopt the eight proposals put forward by us in September 2013 to help revive Japan's agriculture sector.
  - Simplification of agriculture-related laws and making them more effective through drastic review of the laws
  - Establishment of an/the organization to guide Japan's agriculture policy to make Japanese agriculture business internationally competitive, and a review of the roles to be played by the state, prefectures and municipalities with regard to agriculture policy
  - Formation of the Golden Triangle through the creation of the Japanese version of the National Institute of Food and Agriculture (NIFA)
  - Reinforcement of the management foundation of the agricultural sector through cooperation between industry and people engaged in the agricultural business
  - Easing of a set of requirements relating to agricultural production corporations
  - Realization of the "right crop for the right land" policy through the phased abolition phase-out of rice production adjustments
  - Reduction of fragmented and dispersed farmlands (preferably none of them) and correction adjustment to use farmlands more appropriately
  - Review of the role and membership composition members of the agricultural committees
  - Review of the technical intern training program for foreigners based on the reality of Japanese agriculture
- The bill to establish intermediary institutions that manage and lease farmland is due to be submitted to the coming extraordinary Diet session. Regarding this issue, an institutional framework that makes the proposed institutions truly

functional should be designed through an overall review of existing measures aimed at promoting concentrated farming, such as reforming of entities in charge of rationalizing ownership of farmland and groups in charge of facilitating concentrated farming.

- Review of conditions required for launching agricultural production corporations should be urgently implemented at least within the National Strategic Special Zones.

## **(2) Reform of systems on medical services**

### **(a) Inauguration of a Japanese version of NIH – necessary to make the proposed agency truly functional through the appropriate membership and appropriate institutional framework**

- Efforts are under way to design an institutional framework for a Japanese version of the National Institute of Health (NIH). The leader of an independent administrative agency that is being newly created should be decided at the early stage. Also, the person who would head the agency should be involved in the establishment of the Japan NIH from the stage of designing the institutional framework.
- To make the Japanese version of the NIH truly guide Japan's medical community, it is important to consider how its institutional framework would be designed and who would take its main posts. We will compile specific proposals on how the Japanese version of the NIH should function.

### **(b) Reform of preventive care system – conducive to curbing social security costs and making medical service a growth industry**

- Stimulation of the preventive care market will play an important role in curbing social security costs in Japan and developing medical and health-related services into a growth industry. However, the Abe government's Japan Revitalization Strategy does not list specific measures for this field, instead simply referring to the significance of revitalizing the preventive care market and the broad policies being adopted. Therefore, the government should urgently work out specific measures, including business incentives for medical institutions and the correction of medical service charges, in line with "horizontal deployments" of advanced models.

### **(c) Japan as medical and health data superpower – necessary to create a vision and rules under the era of big data**

- The active use of medical and health data, ranging from genome to treatment results, will bring enormous social benefits, contributing to the country's economic growth. Establishing a legal framework and rules on medical and

health data including personal information is an urgent issue to be tackled.

- The government should urgently adopt a state vision and establish relevant rules as part of the Japan Revitalization Strategy so that Japan can become an advanced country in terms of collecting and utilizing medical and health data.

### **(3) Reform of employment system**

- It is necessary to maintain and expand sustainable economic growth, and to build a vibrant and stable society by creating a labor environment in which people can make a significant contribution regardless of their nationality, gender or etc. Based on this recognition, we call for active reform of the nation's employment system.
- Acceptance of exceptional cases under fixed-term labor contracts, and clarification of conditions and procedures under written contracts for terminating labor contracts are proposed under the National Strategic Special Zones. These proposals should be considered if the proposals are applied only to companies and people under certain conditions (start-up companies, globally operating companies, people with highly advanced professional licenses and higher academic backgrounds), and people eligible for these steps should be fully protected through the strengthening of the authority's supervisory function. Limited application makes it possible to smoothly adopt the proposals while minimizing possible negative effects from reforming the institutional framework, and to achieve the intended goal of creating the world's best business environment for companies through a top-down decision on setting up the National Strategic Special Zones.

## **2 Early implementation of economic stimulus measures not accompanied by fiscal spending and/or measures expected to produce immediate economic expansionary effects**

The Japan Revitalization Strategy contains a variety of policy measures, including large-scale fiscal programs and measures that will take a long time to generate economic expansionary effects. However, in light of Japan's fiscal debt and the necessity of quickly rebuilding the Japanese economy, stimulus measures not accompanied by fiscal spending and/ or measures expected to produce immediate economic expansionary effects should be implemented with priority. Listed below are such measures.

### **(1) Relaxation of regulations on floor area ratios in urban areas**

Further relaxation of regulations on floor area ratios in urban areas would lower rents for office buildings and raise the economy of concentration, eventually enhancing the corporate productivity and international competitiveness of Japanese

cities. In addition, people's lifestyles would change because they could buy houses near their workplaces. Below are specific measures regarding relaxation of regulations on floor area ratios in urban areas.

**a) Sale of surplus floor area rate in office district in urban area to encourage construction of condominium in the same district**

- The owner of a land plot in a commercial district in an urban area, where the regulation on the floor area ratio for office buildings is applied, should be permitted to sell a surplus floor area ratio on the plot, stemming from the owner's construction of a condominium, a residential facility, on the plot, to a third party. If this is permitted, the owner will be able to use the proceeds from the sale to construct the condominium, thus promoting the building of residential facilities in urban areas.

**b) Relaxation of regulation on floor area ratio when subway stations or childcare centers are built in a building in an urban area**

- If public facilities such as subway stations and childcare centers are established in a residential or commercial building in an urban area, the regulation on the floor area ratio should be eased in favor of the building. If this step is used, construction of new subway stations and childcare centers will be promoted.

**c) Relaxation of regulation on floor area ratio in housing district adjacent to commercial district through raising of maximum floor area ratio from 300% to 400%**

- If the regulation on floor area ratios is relaxed in an area with both a residential district and a commercial district such that the area is no longer covered by the sun shade rule applied to the residential district, the delayed redevelopment of the commercial district due to the sun shade rule may be solved.

**(2) Creation of condominium demand through promotion of reconstruction of old condominiums**

- Conditions for approving the reconstruction of a condominium, set under the Act on Building Unit Ownership, etc., should be relaxed to promote the reconstruction of old condominiums that have problems with disaster prevention (e.g., easing to a minimum two-thirds majority in support of reconstruction).

**(3) Promotion of global special zones in Tokyo**

- In light of the IOC decision to select Tokyo as the host city of the 2020 Olympics and Paralympics, and the intensifying rivalry between international cities, it is important to strengthen the functions of Japan's capital city. It is indispensable



to set up global special economic zones in Tokyo in line with our proposal released in April 2013, called “Strengthening the international competitiveness of regions and cities – toward 2020 when people and business corporations are expected to flock to Japan from around the world.”

- In addition to the above measures (1) and (2) for urban rejuvenation, the government should urgently discuss and implement measures aimed at reinforcing international transportation networks to Japan, including expansion of landing capacity at Haneda airport through the setting up of inland routes and the construction of a fifth runway, and strengthening of the transit function at Narita airport.

#### **(4) Promotion of deregulation aimed at expediting construction of power lines and gas pipelines**

- The government should expand the privileges which are granted to utilities in order to make underground areas below roads and rivers available for use, which promote construction of power lines and gas pipelines for stable power and gas supply and for ensuring safety and security in disasters.
- Use of areas below the ocean may be necessary for the construction of long-distance pipelines. It is necessary to review unclear standards used to calculate fishery compensation, and devise a system in which construction companies can calculate pipeline construction costs in advance.

#### **(5) Review of public and quasi-public pension funds management**

- We worry that the government is reluctant to review its rigid management of public and quasi-public pension funds, citing protection of pension subscribers’ interests. However, the government should recognize the fact that the portfolio excessively in favor of government bonds, which is producing low returns, does not serve the interests of the subscribers. Therefore, the government should switch its investment policy from investment safety to one aimed at high returns, while hedging risks through the diversification of investment destinations.
- Review of public and quasi-public pension funds management should be considered from the viewpoint of contributing to sustainable economic growth. Therefore, the government should pursue diversified investments, including alternative investments, with an eye toward contributing to the development of markets. If the government expands the funds’ investment into the stock market and exercises voting rights to fulfill its responsibility as trustee, shareholder corporate governance will be strengthened, and hence high-yielding, high-growth and competitive companies are likely to be fostered. If the funds are invested more in infrastructure-related investment projects and expected to produce stable returns, Japan’s public infrastructure will be upgraded toward

the 2020 Tokyo Olympics and Paralympics. Expanded investment in venture projects would raise the rate of startups of venture companies.

- For example, the government should make sweeping changes by establishing an organization in charge of managing funds deposited with the GPIF. The proposed organization should consist of investors with proven track records and should act as a specialized entity that is comparable to major public pension fund management organs in other countries.

#### **(6) Review of competition policy (Antimonopoly Act)**

- In view of the changing market structure amid technological progress, Japan's competition policy (Antimonopoly Act) should be reviewed to contribute to the development of the Japanese economy and strengthen Japan's international competitiveness.
- For example, the Guidelines Concerning Distribution Systems and Business Practices under the Antimonopoly Act regulates resale price maintenance and vertical non-price restraints. However, these regulations are hampering innovative deals between manufacturers and distributors, thus hurting consumers' interests.
- A review of regulations in response to recent trends should be conducted continuously. Institutional frameworks have been changed in the United States and Europe in line with the changing market structure. Unless similar reforms are made in Japan, the country may lose its international competitiveness.

### **3 Steady implementation of Japan Revitalization Strategy**

#### **(1) Early enactment of the Industrial Competitiveness Enhancement Act for implementation of Japan Revitalization Strategy**

- The Industrial Competitiveness Enhancement Act, being submitted to the coming extraordinary Diet session, should be enacted promptly because it would form the backbone of the implementation of the Japan Revitalization Strategy.
- Regarding measures that need to be backed by other bills and budgetary appropriations with respect to implementation of the Japan Revitalization Strategy, we want the government to disclose their implementation timing and the names of the ministers in charge of the measures through the Act. The government is also expected to establish a system aimed at achieving the growth strategy by the Act, including a mechanism for triggering corrective measures in the event of delay or failure through the launch of a PDCA cycle.

#### **(2) Enhanced support to promote the National Strategic Special Zones**

- Setting up the National Strategic Special Zones is one of the most important

measures provided by the Japan Revitalization Strategy, which is the first step to breaking through bedrock-like regulations in Japan. Under the leadership of Prime Minister Abe, the government has pledged to carry out drastic deregulation measures to make Japan the most business-friendly place in the world and the most favorable place in Asia for starting a business through the establishment of the National Strategic Special Zones qualitatively unseen in the past. The Abe government should quickly fulfill the pledge.

- It is indispensable to establish a system in which new ideas and proposals are accepted over the National Strategic Special Zones, and the second and third batches of measures for the zones can be discussed and implemented.
- For the measures under the National Strategic Special Zones to be effective, organizations in charge of promoting the zones (advisory council for the zones and the three-party integrated headquarters of the state, prefectures and the private sector) should have as much independence as that guaranteed for government ministries and agencies. In addition, these organizations should have the right to file recommendations to government ministries and agencies, with their members to be chosen from the heads of state, regional governments and the private sector.

### **(3) Implementation of the Electricity System Reform without delay**

- The bill to revise the Electricity Business Act, scrapped under the latest ordinary Diet session, should be enacted promptly at the forthcoming extraordinary session for implementation of the Electricity System Reform without delay.
- The nationwide system operation body is being established under the first stage of the Electricity System Reform (relevant bill to be revised by the next ordinary Diet session). The new body should work to increase access to power supply lines, ensure efficient supply-demand adjustment that is fair and neutral to all power companies, and change both power supply system infrastructure maintenance costs and power supply and distribution charges to adequate levels. From the perspective of achieving these tasks, its institutional framework should be designed to ensure that it fulfills its intended functions, while the body should be fully staffed.

### **(4) Remedying of inconsistent standards for approving small-scale childcare services**

- Standards for approving small-scale childcare services are being relaxed and the minimum number of nursery teachers required for starting the business will be lowered to half the total number of employees at the childcare centers being opened. This measure is commendable. However, under the new standards, the required number of employees and kitchen facilities will make it more

advantageous to open a new childcare centers as a branch of the existing childcare centers than to start a new business.

- As shown above, the standards being introduced will not ensure an equal footing between childcare service operators, thus hampering various parties from entering the childcare market. Maintaining service quality should be achieved by strengthening supervision on all service operators, including social welfare corporations, from the perspective of keeping service quality at certain levels to ensure effectiveness and fairness. The inconsistent approval standards should be remedied as soon as possible.

#### **4 Further challenges to be addressed and discuss of the new growth strategy**

##### **(1) Rebuilding of disaster-hit areas and redefining of responsibilities between state and nuclear plant operators over nuclear plant issues**

- To make its economic growth sustainable, Japan should accelerate efforts to rebuild the areas affected by the Great East Japan Earthquake.
- We call for the earliest possible resolution of the nuclear crisis at the Fukushima Daiichi plant. The government has clarified its determination to take responsibility for solving the contaminated water problem at the Fukushima plant. We call for the government to do its utmost to solve the problem with knowledge and expertise both at home and abroad.
- In light of the developments following the nuclear crisis, how the responsibility should be shared between the state and nuclear plant operators over the operations of nuclear power plants should be redefined as soon as possible, including compensation to affected people, decontamination, temporary stockpiling of contaminated soil and dismantling of nuclear plants.

##### **(2) Introduction of the Doshu System Based on Regional Autonomy as part of growth strategy**

- Realizing the proposal to introduce the Doshu System Based on Regional Autonomy is vital to revitalizing Japan's economy through the creation of new industries and businesses that can optimally use regional strengths and characteristics. We plan promptly to compile a set of proposals to realize the introduction.
- In particular, at the forthcoming extraordinary Diet session, the government should promptly enact the Fundamentals of Doshu System Based on Regional Autonomy Act, which would spell out the basic direction of the proposed system and procedures for establishing its institutional framework.

##### **(3) Early resumption of discussion on dispersing workers' days off**

- The government should swiftly reopen its discussion on the proposed

dispersion of days taken off by workers, as part of its growth strategy, and should realize this step, which has been studied in the past. Currently, the peak demand for domestic travel of Japanese is concentrated in particular seasons. If this concentration is eased, travel costs, which are currently high, will be lowered and traffic congestion during the peak travel seasons will be eased, producing significant merits to consumers and stimulating potential demand for tourism. If the travel demand is scattered throughout the year with workers taking days off more evenly through the year, and as a result overall travel demand expands, productivity will improve in the tourism industry, thus expanding its capital investments.

- There are some concerns that corporate activity would be affected by the proposed dispersion of days off, including a delay in fund settlement and companies being forced to change their supply chains. But such potential problems can be appropriately solved based on past cases in foreign countries. One solution is to disperse the holidays of elementary and junior high schools by rotating their holidays according to the regional bloc to which each school belongs. Under this system, business corporations would encourage their employees to take paid days off in line with their children's holiday schedule.

#### **(4) Review of environmental and energy policies following 2011 disaster**

##### **(a) Review of greenhouse gas reduction target**

- Prime Minister Abe will conduct a zero-based review concerning the 25% emission reduction target of the November COP19 meeting in Poland. However, the review has been stalled in view of the government's difficulty in harmonizing its environmental policy being considered for the COP 19 meeting with the government's basic energy plan, which is to be revised by this year. We are concerned that Japan may not be able to formulate the new CO<sub>2</sub> reduction policy in time for the international climate change conference. The government should do its utmost to set a unified policy direction on the matter promptly and Japan, as an advanced country, should take a leading role at the forthcoming meeting in Poland.
- In reviewing its environment policy, Japan should not focus only on reducing CO<sub>2</sub> through domestic emissions, which represents less than 3% of global CO<sub>2</sub> emissions. We propose that Japan formulate a strategy that can reduce CO<sub>2</sub> emissions on a global basis while promoting Japan's superior and advanced environmental technologies, such as actively using the Joint Crediting Mechanism (JCM). Japan should present such a strategy and try to make its convincing policy, views and ideas better known to other countries at international forums for negotiations.

### **(b) Constant review of feed-in-tariff system**

- Promotion of renewable energy will not only enhance Japan's energy self-sufficiency and reduce greenhouse gas emissions but also boost economic growth. Therefore, the government must promote renewable energy while setting clear goals.
- It is essential to constantly review the feed-in-tariff system, designed to accelerate investment in renewable energy technologies, from the viewpoint of curbing people's financial burden and promoting technological innovation, while assessing the system's effects and taking into account past examples both at home and abroad. Among others, it is important to introduce an incentive system that can promote the development and adoption of highly efficient power-generating technologies.

### **(5) Enactment of the Ensuring Fair Competitive Conditions Act**

- Based on the recognition that public support by the state should not hamper the market's ability to replace the old with the new, we released a proposal in November 2012 on how public funds should be used for rehabilitation of struggling companies. The Ensuring Fair Competitive Conditions Act, being submitted to the forthcoming extraordinary Diet session, is based on the same recognition and therefore should be enacted without fail.

## **II Fiscal, tax and social security reforms**

### **1 Tax reform**

#### **(1) Early reduction of effective corporate tax rates**

- The reduction of effective corporate tax rates will be a pillar of the Abe government's growth strategy and therefore the issue should be addressed promptly. It is crucial for Japan to lower its effective corporate tax rates at least to the level of other Asian countries in order to ensure that Japanese companies can compete with international rivals on an equal footing. As the tax cut would make business operations in Japan competitive, Japanese companies currently operating overseas would be encouraged to return to Japan while foreign companies would be encouraged to start a business in Japan. In addition, the tax cut, if implemented, would help boost the earnings of Japanese companies.
- The move would have significant effects on improving corporate capital investments, dividend payments, wages and employment, possibly leading to a favorable cycle of the economy growing through higher consumption. For these benefits to be realized, business corporations should effectively use surplus funds from the tax cut.
- On a detailed roadmap for the proposed corporate income tax cut, we want the

government to adopt a policy direction shown by our proposal released in July this year, which is called “Road to reduction of effective corporate tax rates to 25% – for a tax system aimed at strengthening the growth strategy”

## **(2) Early reforms regarding tax system aimed at promoting corporate capital investments, and corporate research and development**

- We call for early reform of the tax system aimed at promoting corporate capital spending, and corporate research and development to achieve the economic growth targets set under the Japan Revitalization Strategy.
- Drastic review of the taxation system is necessary to achieve ambitious goals set under the Japan Revitalization Strategy.
- For example, the steps listed below are necessary to upgrade the tax system aimed at promoting corporate capital spending.
  - Depreciation: Expansion of special depreciation (including immediate depreciation)
  - Tax deduction: Able to choose between tax deduction and special depreciation
  - Scope of tax coverage: Capital investments in many industrial sectors to be covered by the investment promotion tax
  - Retroactive application: Application retroactive to fiscal 2013
- The following steps are necessary to upgrade the tax system to encourage corporate research and development.
  - The ceiling on tax deduction should be permanently set at 30% of corporate income tax.
  - If research and development spending exceeds the amount where the maximum tax deduction is applied, a surplus over the amount can be currently carried over into the following year under a certain condition (when research spending is up from the preceding year). This condition should be scrapped. Also, at present, the surplus can be carried over only once (into the following year). This condition should be extended.

## **2 The realization of fiscal soundness**

### **(1) Early compilation of specific measures and detailed roadmap for achieving primary-balance goal**

- We call for early compilation by the government of specific measures and a detailed roadmap for achieving internationally pledged primary-balance goals
- Under the medium-term fiscal plan, the government pledged to halve Japan’s primary balance deficit by fiscal 2015 from fiscal 2010 and to achieve a primary-balance surplus by fiscal 2020. However, the fiscal plan is short on specifics, with the government citing uncertainty over the fate of a proposal to

increase the consumption tax, a pillar of the government's revenue-structure reform. The fiscal plan largely listed broad ideas and means not backed by specific numerical targets, which is very disappointing.

- The government makes a final decision on October 1 on increasing the consumption tax rate from 5% to 8% in April 2014. This decision has significantly reduced uncertain factors that may affect the government's task of compiling the economic outlook, paving the way for the government to develop its medium-term fiscal plan and devise a roadmap for its implementation. The government should present a specific roadmap toward fiscal 2020 for achieving a primary-balance surplus, and steadily rebuild Japan's fiscal standing by incorporating specific measures designed to improve the balance in the medium-term fiscal plan, including tax revenue increases backed by economic growth and spending cuts through drastic reform of the social security system.

## **(2) Consumption tax increase to 10%**

- The government is set to decide on a consumption tax increase to 8% after objectively weighing a possible decline in confidence in Japan by the global community if it postpones the step and the expected negative effects on the economy from the tax increase. We support this decision. However, in light of the very severe fiscal conditions in Japan and the impossibility of attaining the fiscal 2020 primary-balance goal under the Cabinet Office estimate despite the consumption tax being raised to 10%, the tax increase to 8% next April is only halfway to the goal. The public should continue being fully informed about this assessment. To obtain people's understanding of the eventual consumption tax increase to 10%, politicians should agree to take legislative reform measures that may affect themselves, including a cut in the number of Diet members.
- In addition, if the government's revenue expands following the planned consumption tax increase, people's trust in the state coffers will be lifted and their concerns over the outlook of the economy will be eased, eventually boosting consumption. The expected revenue increase would provide a financial basis for stable economic growth, enabling more flexible use of discretionary fiscal funds by the government.
- The planned consumption tax increase is expected to pave the way for solving problems gripping Japan through the following expected benefits.
  - Promotion of integrated reform of social security and tax systems
  - Correction of unfair gaps between generations (reduction of financial burden being carried over to future generations)
  - Stabilization of tax revenue due to correction of ratio between direct and indirect tax revenue



### **3 Reform toward establishing sustainable social security system**

- The government's National Council on Social Security System Reform compiled a report in August 2013, and a bill to realize measures proposed under the report was approved by the Cabinet. The report showed the general direction to be taken by Japan regarding social security reform, calling for social security benefits to be provided efficiently on a priority basis while proposing that social security costs be borne based on financial ability. We support the direction shown in the report to some extent, but the overall picture for the system is unclear with each proposal lacking detail.
- Discussion over social security reform should be continued at a conference, which is to inherit the philosophy of the National Council on Social Security System Reform, where it should present a conceptual framework and specific measures for realizing a sustainable social security system that can guarantee "national minimum" security. We released views on social security reform in March this year in a report entitled "Opinion paper for the National Council on Social Security System Reform – Increased social security cost shouldered by the people and a cut in benefits are an option to be presented to the people."
- We call for discussion on the overall institutional framework for social security reform while taking into account the following points.
  - Ceiling of tax and social security costs shouldered by the people
  - Clarification of relation between benefits and financial burden (including burden to be borne by next generations)
  - Ceiling of growth rates for spending on social security benefits (growth rates need to be controlled and curbed using indexes that take into account economic growth rates and aging-related factors)

## **III Enhanced efforts to promote reform**

### **1 Steady implementation of reform of National Public Service System**

- The headquarters aimed at promoting reform of the National Public Service System was established based on the Basic Act on Reform of National Public Service Systems, enacted in 2008. However, the headquarters' functional tenure expired without any tangible results. In order for Japan's important policy measures such as growth strategy to be implemented, it is essential to transform the current National Public Service System to enable cross-ministry and cross-agency policy planning and designing, and the use of diverse and excellent human resources. Therefore, the government should carry out drastic reform of the National Public Service System without backpedaling. As the first step of such reform, we call for the amendment to the National Public Service Act to be enacted at the autumn extraordinary Diet session, including the proposed establishment of the Bureau of Personnel within the Cabinet in

charge of personnel affairs involving posts of department director or higher.

## **2 Establishment of system to implement reform through unification of responsibility under one minister**

- Many councils covering similar areas have been established, such as the Industrial Competitiveness Council, the Council for Regulatory Reform and the Council on Economic and Fiscal Policy. Agricultural issues, for example, are discussed in such government bodies as the headquarters for promotion of active agriculture, forestry and fisheries policy (headed by Agriculture, Forestry and Fisheries Minister Hayashi), the regional vitality creation headquarters for agriculture, forestry and fisheries (headed by Prime Minister Abe, with Chief Cabinet Secretary Suga and Agriculture, Forestry and Fisheries Minister Hayashi serving as deputy head), the Industrial Competitiveness Council (chairman: Prime Minister Abe, acting chairman: Deputy Prime Minister Aso), and the Council for Regulatory Reform (chairman: Sumitomo Corp. adviser Oka).
- As shown in the examples above, multiple councils cover the same area while different ministers are in charge of the same area. This is very inefficient, and conflict is possible if different policies are pursued by the ministers. Who takes responsibility for the consequences is also unclear. The next time the Cabinet is reshuffled, which minister would be in charge should be clarified regarding the execution of important policies. The Abe government should take a strong initiative in implementing the proposed reform by unifying responsibility under one minister.

## **3 Monitoring of implementation process relating to growth strategy**

- Growth strategy-related policy measures and themes spelled out under the Japan Revitalization Strategy are to be concretized by designing institutional frameworks and formulating relevant bills. How these measures are implemented should be closely monitored so that they would not be made toothless in the process.
- The follow-up subpanel set up under the Industrial Competitiveness Council is to take charge of monitoring the implementation. To ensure continuity from the designing of institutional frameworks and writing of relevant bills to monitoring, the chairman or the acting chair of the Council for Regulatory Reform should attend the follow-up subpanel as the regulatory council takes charge of materializing many proposals for the growth strategy. There should be a clear mechanism for revising the direction of a policy through the instruction of the prime minister if any potential problems are detected through monitoring.
- It is necessary to establish a system where the progress of discussions can be

monitored by allowing meetings of experts and government councils being set up to outline institutional frameworks to be participated in by private-sector members of the Industrial Competitiveness Council who are tasked with dealing with particular topics.

- On key performance indicators (KPI) relating to policy goals set under the growth strategy, the progress of implementation should be monitored periodically and each policy should be improved based on the results of monitoring while establishing milestones and a PDCA cycle.