

# Broad Fiscal Reform Plan Put in Place

– Specifics of Tax Hikes, Spending Cuts Left to Next Gov't –

Photo: Kyodo News

JAPAN'S fiscal deficit is the worst among the advanced countries. The Cabinet has decided on what government officials call a "broad policy platform" – the 2006 economic policy guidelines that will form the Japanese government's basic strategies for its economic and fiscal management in the next five years. The blueprint aims to achieve a surplus in the primary balance of the budget in FY 2011 so that expenditures aimed at realizing policy goals can be covered by tax revenues alone – without relying on borrowings – by that time. To achieve the target, the guidelines estimate Japan's revenue shortfalls over the next five years at ¥16.5 trillion and call for cutting spending by a minimum of ¥11.4 trillion and a maximum of ¥14.3 trillion to cover much of the shortfalls.

Many private-sector economists have pointed out several problems concerning the economic policy guidelines. First of all, they say the blueprint fails to spell out a clear road map toward revenue reforms. The program avoids referring to the size of a specific consumption tax increase, although the remaining shortages of several trillion yen are apparently to be covered by tax increases, including a hike in the consumption tax from the current 5%. This was because the governing Liberal Democratic Party wanted, ahead of next year's House of Councilors election, to carry over the issue of the consumption tax increase to the next government led by the successor to Prime Minister Koizumi Junichiro.

Secondly, many economists think that it may not be possible to achieve the target of covering 70-90% of the estimated revenue shortfalls only with spending cuts. Many European and North American countries restructured their deficit-ridden finances in the past by covering almost half of their revenue short-



Prime Minister Koizumi emphasizes the continuation of economic reforms at a meeting of the Council on Economic and Fiscal Policy

falls with spending cuts and the other half with tax increases almost equally. They argue that the blueprint puts too much weight on spending cuts. The government apparently hopes to deflect voters' criticism by putting the weight on spending cuts and by holding down revenue or tax increases. During the last five years under Koizumi, the Japanese government reduced the size of public works expenditures from ¥26 trillion to ¥19 trillion. The blueprint calls for further cutting public works spending by ¥3.9 trillion-¥5.6 trillion in the next five years. But some government officials say that even maintaining public facilities will be difficult if the spending is cut further. They say national lives and assets cannot be safeguarded in that event. The guidelines also contain austerity measures that could lead to a decline in administrative services including spending cuts on welfare benefits, employment insurance and the education budget.

Both tax increases and spending cuts are difficult to realize unless the govern-

ment can obtain understanding from the public. The next government is required to give more substance to the guidelines at an early stage and explain what kind of nation-building policies it will take.

## COMING UP

"Intellectual Property Rights (IPR) in Japan" will be the theme of the next issue of Japan Spotlight. IPR are becoming increasingly important in the economic world, and Japan hopes to play a key role in the development of this sector. Our writers will report on national IPR policies, IPR education, private-sector and the experiences of companies that have tried to establish patents in China.

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