

Government Adopts Belt-Tightening Budget for Fiscal 2003

The Japanese government has approved a belt-tightening ¥81.789 trillion general account budget for fiscal 2003 (April 1, 2003 to March 31, 2004) that features a record issuance of government bonds to make up for declines in tax revenue. The budget was submitted to the ordinary Diet session that opened on Jan. 20, along with a ¥2.460 trillion supplementary budget for fiscal 2002. Both budgets are expected to be approved without revision.

The fiscal 2003 budget marks a 0.7% increase from the initial budget for fiscal 2002, marking the first rise in three years. It is characterized by an increase in the issuance of new government bonds to cover falling tax revenues and by a cut in public works spending and other main expenditures.

Newly issued government bonds will come to ¥36.445 trillion, including ¥30.025 trillion of deficit-covering bonds, both record amounts on an initial budget basis. At the end of fiscal 2003 (March 31, 2004), the balance of the issuance of government bonds will reach a total of ¥450 trillion, 11 years' worth of tax revenues, while the balance of long-term national and local debts is expected to soar to ¥686 trillion, further deteriorating the nation's fiscal situation.

The government hopes the fiscal 2003 budget and the supplementary fiscal 2002 budget will help to under-

pin the economy, but cutbacks in expenditures in addition to reductions in pension payments and the burden of heavier medical costs could plunge the economy deeper into a deflationary spiral.

Prime Minister Koizumi Jun-ichiro refuted criticisms of his fiscal 2003 budget, saying, "The new budget is worthy of criticism if it is a free-spending budget. But criticism of a belt-tightening budget at this time is pointless."

General expenditures represent an expansion of 13% from what they were 10 years ago at the time of Miyazawa Kiichi's Cabinet, but tax revenues have fallen 32% since then, due to declining income and corporate tax revenues amidst the prolonged recession. The issuance of new government bonds to cover revenue shortfalls has expanded more than four-fold and the balance of the issuance of government bonds has ballooned 2.3 times as successive cabinets issued bonds to infuse more than ¥100 trillion into public works projects under the pretext of propping up the economy.

In the process of renegotiations between ministries and the Ministry of Finance (MOF) over an additional allocation of ¥50 billion in the fiscal 2003 budget, expenditures for the promotion of science and technology increased 3.9%, compared with a 2.2% increase incorporated in the original MOF budget.

General expenditures, or policy-related spending, rose 0.1% to ¥47.592 trillion, the first rise in two years due mainly to increased expenditures on social security which reflects the graying of the population, while expenditures for other major budget items such as public works and education were trimmed.

Subsidies for local governments, which annually total about ¥20 trillion,

were retrenched by about ¥560 billion, including those incorporated in the special account budget, of which ¥262.5 billion were related to public spending and ¥218.4 billion related to compulsory education. Subsidies aimed at encouraging local governments' policy planning were reduced by 7.9%, surpassing the 5% reduction target. The reduction in subsidies for local governments was a focal point of the Koizumi Cabinet's reform of the central government and local governments.

Officials at the MOF Budget Bureau say that in compiling the fiscal 2003 budget, they pushed for spending reform and allotted funds on a priority basis. Yet, scrutiny of public works spending in the fiscal 2003 budget reveals that spending has remained rigid as underscored by the fact that the project-by-project share such as road construction remains unchanged even though expenditures for urban projects have increased.

More Beggars at Toyota's Doorstep

Companies turn to Toyota when they are in trouble. This is what is happening lately to cash-rich Toyota Motor Corp., the top Japanese carmaker that boasts more than ¥1 trillion in group pretax profit.

Struggling trading house Tomen



Director Saito Hiroshi, President Tashiro Morihiko and Director Akatsuka Noriaki of Tomen Corp. (from left), speak at a press conference after the Toyota group agreed on a ¥10 billion capital injection for Tomen

COMING UP

The next issue of *JJTI* will feature Japan's advanced science and technology, which received a boost after two Japanese scientists won Nobel Prizes in physics and chemistry last year. Our writers will examine Japan's creative development of industrial technologies and other cutting-edge research and development, including next-generation robots for natural disasters.

Corp. turned to Toyota for money through the trading company Toyota Tsusho Corp., and last December, the Toyota group agreed to inject ¥10 billion in capital into Tomen following a series of tough negotiations. Debt-saddled UFJ Bank has also asked Toyota for money to recapitalize itself, while Toyota has agreed that one of its former executives will become a deputy president of the Postal Services Corp. that will be set up this spring.

But these moves do not have much to do with Toyota's mainline auto business, and the basis for its coming to their rescue seems to be weak. Commenting on this, a senior Toyota official said, "Everybody is coming to us for help, and so is the government."

Many industry analysts say that Toyota is normally willing to offer several tens of billions of yen if it benefits itself. But if not, Toyota is cold. "Toyota is a very severe company," one analyst said.

Before the news of Toyota's rescue of Tomen and UFJ Bank, the Japanese automaker applied for a banking license in the United States. This triggered speculation that Toyota is considering entering the financial business on a full-fledged basis along with its assistance for UFJ Bank. But Toyota executives dismissed such speculation, saying Toyota did so because fewer American states are offering banking licenses now.

Toyota announced on Jan. 8 that it will jointly set up a school in Aichi Prefecture to provide junior and senior high school education with Central Japan Railway Co. and Chubu Electric Power Co. The school is designed to place priority on nurturing students' creative thinking rather than on just preparing students to enter prestigious universities.

Speaking at a news conference, Toyoda Shoichiro, honorary chairman of Toyota, said, "The most important thing is education. We would like to nurture unique talents."

Against the backdrop of the gloomy economic outlook, the Japanese business community is becoming more concerned about education. Toyota is receiving an even greater amount of attention in every aspect.

Growing Calls for Consumption Tax Hike

An increasing number of senior officials in the government, ruling coalition and business community are beginning to call for consumption tax hikes in the future. Behind this is the growing perception that a rise in the consumption tax, now at 5%, may be unavoidable to ensure sufficient sources of revenues to deal with the pension reforms slated in 2004 and to cover ballooning social security costs due to the aging of the Japanese population and the declining birth rate.

Japan is facing a severe fiscal situation as the government's tax revenues remain sluggish due to the prolonged economic slump, while expenditures are growing due to increased pension and medical costs. With the outstanding government bond issues estimated to reach ¥450 trillion by the end of March 2004, the government may find it increasingly difficult to resort to any further borrowing. In addition, the government's burden of the financial sources for basic pension payments is expected to increase to one-half of the total cost from the current one-third under the 2004 pension reform plan. Thus, hopes for the consumption tax to become a stable source of revenues are growing.

In the business community, the Japan Business Federation (Nippon Keidanren) took the initiative in launching a campaign for consumption tax hikes. In late November last year, Nippon Keidanren Chairman Okuda Hiroshi proposed that the consumption tax rate be raised to 16% along with pension system reforms by fiscal 2014. The business world is generally in favor of a consumption tax hike because they want to win a corporate tax cut in exchange. "Unless Japan's corporations become stronger, neither people's lives nor the Japanese economy will improve," Okuda stressed.

In contrast to such a positive attitude by the business community, government ministries and agencies remain cautious. Immediately after a cabinet reshuffle in late September,

Minister for Health, Labour and Welfare Sakaguchi Chikara, who stayed in his post, referred to the need for consumption tax hikes as a source of revenues for basic pension payments. But he stopped talking about this as soon as the consumption tax issue began to be debated by political and business circles. Sakaguchi decided to keep silent as he probably thought it was an issue for the ruling coalition to decide on and was outside the scope of his ministry, a former welfare minister of the Liberal Democratic Party (LDP) said.

The Ministry of Health, Labour and Welfare itself is set to adopt a strategy of not directly referring to the need for consumption tax hikes but of warning that, based on the statistics published at the end of 2002, the public may suffer cuts in pension benefits or increases in premium payments unless the government secures sufficient revenues.

The Ministry of Finance welcomes the burgeoning debates on the consumption tax issue. But some ministry officials see the need to review pension benefits and income tax reductions first before discussing consumption tax hikes.

Late last year, Prime Minister Koizumi Jun-ichiro said he wanted to encourage a full-fledged debate on the consumption tax issue. But at a news conference on Jan. 7, Koizumi played down his remark, saying there will be no consumption tax hikes while he is in office.

The consumption tax is an unpopular issue among the public and has exacted a heavy political toll on former cabinets. Ohira Masayoshi, who tried to introduce the general consumption tax, died under the strain of worry during a general election, and Nakasone Yasuhiro also failed to introduce the sales tax. Hosokawa Morihiro was forced to resign in the wake of his botched attempt to introduce the national welfare tax, and Hashimoto Ryutaro, who raised the consumption tax rate from 3% to 5%, also had to step down after the LDP suffered heavy losses in the subsequent Upper House election.