

# **On Decision concerning and Release of “Second Report – Priority Regulatory Reform Measures to Promote Economic Vitalization”**

## **1. Introduction**

Japan has been in a prolonged recession since the 1990s. The nation is now in a serious situation where employment conditions have persistently worsened in conjunction with declining room for fiscal and monetary policies to work effectively. A major factor behind these problems is that various institutions and practices that helped define the high growth period that lasted until the 1980s can no longer meet the significant economic and social changes that have occurred since then. The highest of expectations are now placed on regulatory reform among major structural reforms to make a breakthrough in such situations. Regulatory reform is designed to create new demand and jobs and bring about increased affluence.

For example, the “Basic Policies for Economic and Fiscal Policy Management and Structural Reform 2002” (as adopted by the Cabinet on June 25, 2002) put forward the “Expansion of Private Businesses via Regulatory Reform” as one of the strategies for vitalizing the economy. The “Comprehensive Measures to Accelerate Reforms” (as adopted by the Council on Economic and Fiscal Policy on October 20, 2002) positioned regulatory reform as one of the four pillars to accelerate structural reforms. In order to build an affluent economic and social system with a diversity of options for consumers and achieve economic growth that is sustainable in the medium or long run, increased aggressive promotion of regulatory reform is more important for the government than other strategies.

Under these circumstances, the Council for Regulatory Reform (hereinafter referred to as the Council) has undertaken aggressive research and deliberations on the unified theme of “economic revitalization” in view of the difficult economic situation in the current fiscal year, in response to a request by the prime minister. Since the first meeting for the current fiscal year on April 15, the Council has held 13 plenary sessions and 134 working group meetings to hear opinions from various relevant organizations including government agencies.

This report has integrated the Council’s research and deliberations as “Priority Regulatory Reform Measures to Promote Economic Vitalization” for presentation to the prime minister today.

## **2. Introduction of Cross-Sectoral or Cross-Agency Approach Including Special Regulatory Reform Zone Initiative**

Upon making this report, we would like to discuss some major points the Council has tackled.

Let's start by discussing the viewpoint and approach we have adopted for our deliberations. Beyond the traditional sector-by-sector and business-by-business viewpoint and approach, the Council selected five cross-sectoral or cross-agency themes at the beginning of the current fiscal year. They are (1) creating new businesses, (2) reforming government-made markets through increased participation by and business transfers to the private sector, (3) developing business and social infrastructure contributing to economic revitalization, (4) developing *ex post facto* checking rules, and (5) developing special regulatory reform zones. By comparing and considering institutions and measures regarding the five themes in a cross-sectoral manner, the Council stepped up discussions on the further promotion of regulatory reform toward the release of an interim report on July 24. Chapter 1 of this report discusses details of these themes.

As for the "special regulatory reform zones," the government launched full-fledged, unified efforts by setting up the "Headquarters for Promotion of Special Structural Reform Zones" promptly in response to the interim report. Additionally, the government has enacted the "Special Structural Reform Zone Law" that is a Council initiative reflecting all of the Council's recommendations regarding the basic philosophy and design of such zones.

Preparations are underway for the implementation of the Special Structural Reform Zone Law in April 2003. The government is now receiving the second round of proposals for such zones with the deadline set for mid-January. In a bid to further expand the special structural reform zone system, the Council in future would like to continue positive cooperation with and support for the Headquarters for Promotion of Special Structural Reform Zones. The Council expects that the special structural reform zone system will lead to an acceleration of nationwide reforms in order to powerfully stimulate economic vitalization and the improvement of living conditions.

## **3. Government-Made Markets Should Be Comprehensively Opened to the Private Sector through Private Firms' Participation**

We have undertaken energetic and intensive research and deliberations

mainly in the second half of the current fiscal year on medical care, welfare, manpower, education and other “people-oriented service sectors (social sectors)” that we focused on in the previous fiscal year, as well as on “economic sectors” that are linked directly to industrial activity, based on cross-sectoral considerations in the interim report. The results are compiled in Chapter 2 of this report.

Private companies are barred in principle from participating in the medical care, welfare, education and agricultural industries. These and other business sectors where the government has had strong influence have been called “government-made markets.” The Council conducted deliberations on private companies’ participation and burden-sharing between central and local governments and private entities in these sectors on a cross-sectoral basis toward presentation of the interim report and later on a sector-by-sector basis. As for the welfare and agriculture sectors, the previously mentioned special structural reform zone system is set to allow private companies’ participation only within such zones. In the education sector, the Council recommends that the government consider what vocational education should be for adults especially at graduate school levels. The Council has made certain progress in this regard, asserting that a conclusion should be reached in FY 2003. However, for all government-made markets including the medical care sector where no measures have been taken we must acknowledge that market-opening efforts have been very slow.

With a view to transforming “government-made markets” into a healthy market economy to explore potentially huge demand as well as employment opportunities, the Council is willing to go beyond the partial and limited measures considered in the past and to continue positive considerations from various angles toward the authorization and promotion of private companies’ participation in the four sectors.

#### **4. On Future Promotion of Regulatory Reform**

##### **– Further Enhancement of Collaboration with Council on Economic and Fiscal Policy –**

In the current fiscal year, the Council, while proceeding with research and deliberations, occasionally exchanged opinions with the Council on Economic and Fiscal Policy (hereinafter referred to as CEFP) in the presence of Council Chairman Yoshio Miyauchi and Regulatory Reform Minister Nobuteru Ishihara. Such collaboration between the Council and CEFP is highly significant in terms of faster and more thorough implementation of regulatory reform. Therefore, the collaboration should continue to be positively enhanced. In this respect, CEFP at its 37<sup>th</sup> meeting

reached broad agreement that a “new initiative” including the following three points should be considered for the greater promotion of regulatory reform:

- (1) In cooperation with CEFP, the Council will introduce a system to set goals every six months and assess them every three months.
- (2) The Council will establish an action plan for implementing certain measures, including the “comprehensive opening of government-made markets (medical care, welfare, education, agriculture, etc.) to private companies,” by the end of FY 2003, when the existing three-year regulatory reform promotion plan will be completed.
- (3) The regulatory reform promotion setup should be thoroughly enhanced through the introduction of the Council’s right to make recommendations to relevant government agencies and of the results-oriented approach.

CEFP is set to give consideration to the new initiative again early next year. While ensuring continued close collaboration with CEFP, the Council is willing to take advantage of the special structural reform zones to further accelerate regulatory reform measures, especially the “opening of government-made markets to private companies” including private firms’ participation in the previously mentioned four sectors.

## **5. Conclusion**

Finally, the Council strongly requests that the government implement regulatory reform measures put forward in this report promptly, accurately and surely. The Council asks the people and relevant parties for further support and cooperation.