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Urgent Proposal

The "Sanmi-Ittai" Reforms Cannot Wait — The need for Prime Minister Koizumi to show leadership —

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Overview

Assessment of Progress to Date

The debate on the *sanmi-ittai kaikaku* ["three-in-one reforms"] is making little headway owing to the complex and conflicting interests of the Ministry of Finance, the Ministry of Public Management, Home Affairs, Posts and Telecommunications, and other ministries and agencies concerned. Moreover, three serious problems have emerged.

First, public investment has been excluded from the targets for the reduction of government subsidies. The proper purpose of reducing government subsidies is, surely, to reduce the volume of wasteful and inefficient (subsidized) public works projects undertaken in accordance with the government's uniform standards, and establish a system by which local government bodies are able to select projects that will truly benefit local inhabitants on their own judgment. So far, the debate has been stunted by being restricted to the cutting of central government subsidies relating to compulsory education and childcare, and the transfer of the corresponding sources of tax revenue.

Second, the arguments for transferring 70% of sources of tax revenue in conjunction with the reduction of subsidies relating to compulsory education and childcare are unconvincing and inappropriate. Central and local government should be making every effort to resolve the fiscal deficit as a matter of course. It is, therefore, a matter of urgency to decide which areas of government spending should be reduced first. To insist that expenditure relating to compulsory education and childcare be reduced first is putting the cart before the horse. Needless to say, there is room for further rationalization of compulsory education

and childcare-related projects, and every effort should be made to enhance their efficiency. The proper procedure is not to insist on 70% as the proportion of sources of tax revenue to be transferred but, first, to undertake a thorough investigation of the scope for rationalization and, then, transfer the entire amount of the sources of tax revenue for the final amount of funding required.

Third, the issue of the reform of the local allocation tax has not been debated in sufficient detail. The existing local allocation tax system embodies a number of serious problems: it lacks sustainability as a system, it parallels government subsidies, resulting in the allocation of too much income to local government and it tends to undermine the vitality and autonomy of local government. Accordingly, a fundamental reform of the local allocation tax system should be regarded as the keystone of the *sanmi-ittai* reforms.

Policy Proposals

The purpose of the *sanmi-ittai* reforms is to promote devolution in areas that contribute to the autonomy and vitality of local government and, at the same time, to restore fiscal balance at both central and local government level. With this in mind, The Japan Research Institute proposes the following reforms.

- **A reduction of government subsidies including those relating to public works projects**

The total amount (9.3 trillion) of the 11 subsidies whose review has been proposed by the Council for Decentralization Reform, ***should be abolished within five years. (Subsidies relating to public works to be abolished without transfer of sources of tax revenue. Entire amount of sources of tax revenue for subsidies***

relating to compulsory education, childcare, etc., to be abolished after exhaustive rationalization.)

- **The reconstruction of the local allocation tax system**

The excessive fund-securing functions should be abolished and the system should *specialize in income redistribution functions*. The system should be rebuilt on more flexible lines, *with the abolition of transfers that exceed the amount generated by legally specified tax rate* so that the amount of transfers matches varies in line with increases or decreases in tax revenue.

- **A reduction of central and local government expenditure and transfer of tax revenue sources of key taxes**

Central and local government expenditure should be kept to a national minimum and local optimum. The transfer of sources of tax revenue should then be accomplished using key taxes, e.g. transferring a part of income tax revenue, raising the local consumption tax, etc.

Amounts of Subsidies, etc. Relating to 11 Items for Review (Fiscal 2003 Budget Amounts)

(`100 million)

Social Security (Ministry of Health, Labour and Welfare)

Kindergarten system

Kindergarten operation cost-related

Abolition of medical qualification requirements for heads of public health centers

Review of public health system and level of service

Grants in respect of nursing care insurance administrative costs
Education & Culture (Ministry of Education, Culture, Sports, Science and
Technology)
System of state subsidies for compulsory education
Review of uniform benefits of teaching staff salaries
Transfer of authority to set standards on class composition from prefectural to
municipal governments
Public Works (Ministry of Land, Infrastructure and Transport)
Improved management of occasional grants for building and maintenance of local
roads
Abolition, in principle, of government subsidies of municipal projects
Clarification of division of responsibility for projects between central and local
government
Industrial Development (Ministry of Agriculture, Forestry and Fisheries)
Agricultural Committee & Improvement and Promotion Project
Other (National Police Agency)
Review of special grants in respect of road traffic safety measures
Total
Public Works (excluding occasional grants for building and maintenance of local
roads)
Other